CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER: | | | | | | | |

Common Final Examination
Day 1
(Booklet #1 – DHC Version 1)

Total examination time: 4 hours.
Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your 7-digit candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the writing centre.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

Policy Statement and Agreement Regarding Examination Confidentiality

I understand that all examination materials are the property of CPA Canada and are under the exclusive custody and control of CPA Canada. CPA Canada has the exclusive authority over examination materials to determine the contents, use, retention, disposition and disclosure of this material. Candidates do not have access to the examination questions, examination marking keys or any other marking materials for a non-disclosed examination. For disclosed examination questions, access to questions, marking keys and other marking materials is only available when published by CPA Canada.

I hereby agree that I will not:

- Obtain or use answers or information from, or give answers or information to, another candidate or person during the sitting of the examination;
- Refer to unauthorized material or use unauthorized equipment during testing; or
- Remove or attempt to remove any CPA Canada Examination materials, notes or any other items from the examination room.

I further agree to report to CPA Canada any situations where there is a material risk of compromising the integrity of the examination.

I affirm that I have had the opportunity to read the *CPA Examination Regulations* and I agree to all of its terms and conditions.

In addition, I understand that failure to comply with this Policy Statement and Agreement will result in the invalidation of my results, and may result in my disqualification from future examinations, expulsion from the profession and possible legal action.

_____ _____

CANDIDATE NAME (Please print) SIGNATURE

Examination Details

The examination consists of:

Booklet #1 – Linked Case (240 minutes) (this booklet)
Booklet #2 – Capstone 1 case and rough notes

The case should be answered using the software provided, which includes a word processor and spreadsheet for inputting your response. The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded on anything other than on the computer or the CPA Canada writing paper provided. Rough-note paper is available in the second booklet, which also includes a copy of the Capstone 1 case. Rough notes, and any other notations made in the examination booklets will not be evaluated.

The CPA Canada Handbooks and the *Income Tax Act* are available in *Folio Views* throughout the entire examination. *Folio Views* provides the standards in effect and tax laws substantively enacted as at December 31, 2019.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Candidates are instructed to consider and respond to the case as presented even though the macro-economic circumstances described may not be reflective of the current environment.

Chartered Professional Accountants of Canada, CPA Canada, CPA
are trademarks and/or certification marks of the Chartered Professional Accountants of Canada.
Copyright © 2020, Chartered Professional Accountants of Canada. All Rights Reserved.
Common Final Examination

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case **(Suggested time: 240 minutes)**

It is April 2023, and Irene Mallik, your boss at Wilson Consulting Group, assigns you to another engagement with Distinct Hotels Corporation (DHC).

Canada was recently ranked as the fifth best tourist destination. Domestic travel within Canada is increasing due to increases in per capita disposable income and a high-level of consumer confidence. International visitors to Canada have also increased due to the decline in the Canadian dollar relative to other currencies.

With this favourable outlook, many international chains are expanding into the Canadian boutique hotel segment. Because these chains primarily use the franchise business model, the number of independently owned hotel operators has declined.

In 2021 and 2022, the boutique hotel industry achieved higher-than-expected annual growth rates. Beginning in 2023 and for the next four years, a higher than originally anticipated annual growth rate of 4% is expected.

Although many travellers choose short-term rentals through sites such as Airbnb and VRBO, the boutique hotel segment continues to appeal to travellers who want access to premium amenities or unique experiences, both inside and outside the hotel. These travellers are typically between 35 and 45 years old, fairly affluent, and willing to pay a premium for new experiences. Growth has already been seen in the sale of high-end ski and golf packages, and significantly more growth is predicted for at least five years. Increasingly, hotel operators are offering all-inclusive vacation packages that include activities such as painting, cooking and photography.

Larger hotel operators are vertically integrating either through the acquisition of suppliers or of intermediaries, such as travel agents. This allows for better cost control and improved margins, as well as diversification of revenue sources.

Business travel is forecast to increase by 2% annually, which compares to a 5% increase in leisure travel. Conference revenue has historically been 10% of room revenues. Although conference attendees increase occupancy rates, the group room rates provided are generally lower than the average daily rate (ADR).

Due to Doug Mallette's unethical behaviour, DHC lost its gold rating in March 2020 and was ineligible for the Travellers' Choice Awards from First Canadian Hotel Reviews for two years. Room revenues in 2020 and 2021 were consequently lower than forecast. Sarah MacAllister replaced Doug, who was fired. In 2022, room revenues increased, and DHC had an overall ADR of $420 with a 72% occupancy rate. The mix of business and leisure travellers has stayed consistent.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 3)

To reflect its involvement in ski and golf resorts, DHC's Board of Directors (board) updated its vision statement:

"*We make guests feel special by providing exceptional services and experiences at our hotels and resorts.*"

The mission statement was also updated:

"*We operate unique luxury hotels and resorts, providing each guest with attentive service and experiences beyond expectations*."

DHC's core values remain unchanged.

Interest rates have been increasing. DHC reached the limit on its line of credit in December 2022. The primary objectives for 2023 are to concentrate on the core hotel business and achieve a minimum occupancy rate at each hotel of 75% and an overall ADR of $430. DHC only wants to invest in projects that will earn a minimum of 12%. The board would eventually like to have enough cash available to resume paying dividends.

DHC is in the process of making more changes and has some major decisions to make. Irene asks you to review the information she has gathered, and to draft a report for her to present to DHC's board. The report should highlight significant changes in DHC's situation and analyze the alternatives presented, focusing on the strategic considerations. If there are other significant issues that should be addressed, she asks that you let her know.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 4)

INDEX OF APPENDICES

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 5)

APPENDIX I
TRANSCRIPT OF PREVIOUS BOARD MEETING

Derek: Thank you for attending our board meeting, Irene.

Here is a summary of the events that have occurred since early 2020:

April 1, 2020	Announced that our golf course would be semi-private.
April 1, 2020	Signed a management contract with Huron Heights Hotel (HHH), which corresponds with the original proposal except for the: • addition of penalties of $50,000 per year remaining on the contract, for cancellation with cause, to be paid by the party in breach. • removal of the clause requiring DHC to share in any losses with HHH.
May 1, 2020	Patrick Kuzoff invested $20 million in DHC in return for a convertible bond, with terms and conditions as originally outlined. He is now a director of DHC.
July 1, 2020	Purchased 20% investment in Topomo Mountain Ski Resort (TMSR), with the same terms as originally proposed.
October 19, 2020	Completed renovations of $11 million to the Nova Scotia hotel and total renovations of $4 million to the other three hotels.
November 2, 2020	Finalized new loan arrangements with Northern Land Loans. The new loan for $39 million is repayable in annual payments of $2 million on June 30, bears interest at 7.2% and matures in 13 years.
May 3, 2022	Completed renovations and repairs of $10 million to the Kelowna hotel.
July 2, 2022	Renewed line of credit, with the same terms and conditions except that payment of any dividends now requires prior approval by the lender.

Derek: We have decided not to take the company public. The past two years have strained DHC's resources, primarily because TMSR's upgrades required significantly more than was budgeted. The upgrades are now complete. We need to keep in mind that our account manager at H&A Bank is monitoring our account closely as we are close to our maximum borrowing capacity.

Patrick, please start with the first proposal.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 6)

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Patrick: DHC has been working with Holiday Tours Inc. (Holiday), which offers vacation packages with skiing, meals, and accommodation at the Canmore hotel, and golfing, meals, and accommodation at the Kelowna hotel. Holiday is being sold and the likely buyer plans to decrease room rates from $395 to $310 on average next year. The sale is still in the negotiation stage and Derek and I have discussed the option of DHC making an offer.

Kelvin: Why hasn't the board heard this before? Doesn't buying Holiday take us away from our core business?

Jessica: Holiday sold approximately 10,000 room nights for us last year and we expect to do the same or better this year. The number of travellers using vacation packages has been increasing annually, as has the length of stays. Without them, DHC's revenues from both hotels would have declined during the past three years.

Patrick: Holiday's coordinator anticipates that the market of young and affluent travellers will continue to grow. With the expected decrease in rates and, based on inquiries and reservations for 2024, the coordinator predicts a 25% increase in the number of room reservations for these packages. DHC should benefit directly from this growth. I did a rough calculation that factored in the reduced room rates and increase in occupancy, and estimate that our room revenue, net of operating costs, will decrease by about $40,000 for the year.

Derek: Holiday has the expertise and acquiring it is the way to grow DHC. With 15 years of experience, Holiday has an excellent reputation and is good at selling its packages to both international and domestic travellers. Holiday not only provides accommodations and lift tickets or green fees but also transportation, meals, and other services, tailoring them to the travellers. Holiday could develop and sell packages for our other hotels.

Alyson: Maybe we could take our chances with the new owners and re-evaluate our relationship after a year or two.

Patrick: I have a better idea. My company, Kuzoff Golf Inc. (KGI), has been putting golf packages together for years. We could make an offer where KGI takes a 60% ownership in Holiday, and DHC gets 40%. I believe it would be positive for both companies. I already use Holiday for some of my golf course packages.

Derek: You have my full support, Patrick. A 60/40 split will allow DHC to invest at a lower initial cost.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 7)

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Kelvin: Who decided that we invest with KGI, or that 40% is acceptable to us? Derek, don't you own a percentage of KGI?

Derek: Yes, but it is small. It doesn't influence our decision to accept Patrick's offer to invest in Holiday with DHC. He has already invested in DHC and our interests are aligned.

Kelvin: We need to discuss the ownership split.

Derek: We can do that later. Patrick and I are comfortable with a 60/40 split.

Alyson: But we haven't even decided to make an offer! We first need to understand the impact of investing in Holiday compared to continuing our relationship with a new owner.

Patrick: I obtained some information from the current owners of Holiday. Irene, can you estimate what the shares will cost and calculate the expected rate of return?

Derek: Let's move on to the Northern Ontario hotel, which continues to struggle. Its ADR and occupancy rate are well below DHC's other locations, reducing our corporate-wide metrics. In fact, the occupancy rate has been at 60% since 2020, although the ADR has increased to $350. And, as we feared, the spa is not doing well. Yesterday, I received a phone call from Global Stay N Play Corp. (Global), asking if DHC would be interested in becoming a franchisee. They are looking for a resort in Northern Ontario.

Alyson: Global has ten different brands of hotels in countries all over North and South America, Europe and Asia, ranging from three to five stars. What are they proposing for the Northern Ontario hotel?

Derek: The hotel would be rebranded and called "FitzGeralds North." It would fit into Global's five-star category of boutique hotels, called "FitzGeralds," which targets leisure travellers. Global proposes to provide an interest-free loan for the necessary upgrades. We were expecting to make some major renovations to this hotel in 2024 anyway. I see this as a good move.

Jessica: Last year, DHC spent over one million dollars on marketing, website costs and promotions for this hotel with no noticeable improvements. Perhaps becoming a franchisee benefits us. However, it would mean giving up our autonomy. I am not sure I support this change.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 8)

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Alyson: Will the hotel retain its key managers?

Jessica: DHC would keep its own staff but Global would assist with future recruitment, which might be helpful. DHC has struggled to keep managers at this location, with most leaving after approximately eight months. Since they could potentially work for other Global hotels, it might help attract managers.

Alyson: Will customers think that DHC's other hotels might also be franchised? While Global has a good reputation, that can quickly change and DHC's other hotels might suffer.

Derek: Global provided me with the names of some of its franchisees as references. When I contacted them to ask about their experiences, I got glowing reports. They all said that Global's targets are achievable. I have summarized the terms of the franchise proposal and I had our accounting department prepare some estimates. If we continue to operate as is, we can expect room revenue net of room operating costs and marketing costs to be $6.7 million. If we operate as a franchisee, room revenue net of room operating costs, franchisee fees and marketing, reservation, and technology fees should be around $9.2 million. Provided that the hotel meets the targets and standards that Global has set, it appears that DHC would be ahead financially and still have a lot of autonomy.

Patrick: This sounds like a great opportunity.

Kelvin: I have another proposal. The chef at our Northern Ontario hotel, Chef Norman, wants to offer cooking retreats. He thinks this would attract travellers interested in experiences while on vacation and help fill our empty rooms. As you know, he is a renowned chef who operated a successful restaurant in Toronto, Ontario, before joining DHC. Over the years, he has visited culinary schools around the world.

Alyson: This might improve the hotel's metrics. DHC could offer cooking classes in a luxury setting while maintaining an exceptional and unique atmosphere.

Kelvin: I could design a state-of-the-art facility in which travellers would enjoy cooking. It might even be recognized by other designers if we do it right.

Jessica: Are there enough travellers who would be interested to make this viable? The attraction might be short-lived.

Derek: I am also wary of this idea. Who would want to travel to Northern Ontario to cook?

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 9)

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Alyson: The draw would be Chef Norman. He has an excellent reputation, everyone loves his food, and he is very personable. It would help build DHC's reputation.

Patrick: I agree with Derek. It's too risky.

Derek: Let's have Irene take a look, just to be sure. Next is the management contract with HHH.

Alyson: As you know, HHH's revenue has been falling because competitors have entered into franchise agreements with, or been bought by, international hotel chains. Since it is having difficulty competing for leisure travellers, Martha thinks adding a conference facility to the hotel would attract more business travellers. She wants DHC to manage the conference centre as part of its management contract.

Jessica: Martha did not renovate the rooms and lobby when DHC previously asked. And she recently stopped contributing the 4% to the reserve fund for renovations. Is Martha now willing to add money to the reserve fund and do the renovations, in addition to a new conference centre?

Alyson: She says renovating was delayed on purpose until a decision was made on the conference centre. She plans to complete the work at the same time.

Kelvin: Unless the number of rooms is reduced, I don't see where there is room for a conference centre.

Alyson: Martha plans to reduce the size of the lobby and use other available space instead of reducing the number of rooms. Since the conference centre will be relatively small, the number of rooms will remain the same.

Kelvin: If I can participate in its design, I could make it unique and appealing, to help attract our loyal DHC customers. For example, it could appeal to leisure travellers for weddings.

Derek: The Rev/PAR target was not met last year for the first time. Based on our analysis, this was due to increased price competition from chain hotels and the related loss of leisure travellers.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 10)

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Jessica: I think it was also due to the hotel's outdated appearance because Martha did not do any renovations. I worry that it reflects poorly on DHC.

Alyson: Actually, Martha thinks building the conference centre and targeting business travellers will improve the Rev/PAR, and I agree.

Martha has proposed revising the existing contract to include management of the conference centre, and a revised fee structure that is more favourable to DHC. We need to understand her reasoning.

Jessica: It is becoming very difficult to work with HHH. For the past year, HHH has not given final approval of the managers we selected. I am not sure why this is happening, but I suspect it will cause problems in the long run, since the right people aren't being hired.

Derek: Given the problems with HHH, perhaps we should refuse the modified contract.

Patrick: Good point, Derek. I agree.

Kelvin: It would be helpful to hear why you agree with Derek, not just that you agree!

Derek: In the interest of saving time, that's not necessary. Irene, please critically review Martha's proposal and forecast and advise whether DHC should accept the proposed modifications. I think that is all for now. Do you have everything you need, Irene?

Irene: Yes. My staff and I will start on this immediately and prepare a report for the board.

Derek: Thank you. Meeting adjourned.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 11)

APPENDIX II
INTERNAL FINANCIAL STATEMENTS

Distinct Hotels Corporation
Statement of Comprehensive Income
For the year ended December 31, 2022
(in thousands of Canadian dollars)

Revenues		
Rooms	$	83,886
Food and beverage		48,654
Spa services		1,500
Golf – annual membership fees		365
Golf – green fees		1,630
Management fees from HHH		1,426
		137,461
Expenses		
Rooms		44,460
Food and beverage		33,085
Golf services		1,523
Spa services		1,050
Management salaries and benefits related to HHH contract		898
Depreciation and amortization		11,500
Marketing and sales		4,124
Property tax, utilities and insurance		9,622
Administrative and general		20,341
		126,603
Operating income		10,858
Equity income from TMSR		356
Interest on the line of credit		(120)
Interest on the long-term debt		(5,000)
Income before taxes		6,094
Income taxes (27%)		1,645
Net income and comprehensive income	$	4,449

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 12)

APPENDIX II (continued)
INTERNAL FINANCIAL STATEMENTS

Distinct Hotels Corporation
Statement of Financial Position
As at December 31, 2022
(in thousands of Canadian dollars)

Assets		
Cash and cash equivalents	$	560
Trade receivables		1,030
Inventories		1,760
Prepaid expenses		1,490
		4,840
Property, plant and equipment, net		153,820
Equity investment in TMSR		5,459
Interest-free loan to TMSR		8,617
Intangible assets		1,300
Total assets	$	174,036
Liabilities		
Line of credit	$	4,000
Trade payables and accrued liabilities		6,950
Income taxes payable		114
Contract liability – revenue		5,420
Current portion – Nova Scotia loan		3,000
Current portion – Ontario loan		2,000
		21,484
Long-term portion – Nova Scotia loan		30,000
Long-term portion – Ontario loan		33,000
Convertible bond		1,938
Deferred tax liability		6,810
Total liabilities		93,232
Shareholders' equity		
Share capital (4,000,000 shares outstanding)		10,175
Contributed surplus – conversion option		17,252
Retained earnings		53,377
Total shareholders’ equity		80,804
Total liabilities and shareholders’ equity	$	174,036

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 13)

APPENDIX III
COMPARISON TO INDUSTRY BENCHMARKS

For the year ended December 31, 2022

Boutique Hotel Industry

	DHC		Industry Benchmarks	
	2022	2019	2022	2019
Rev/PAR (Occupancy rate × ADR)	$302	$280	$328	$262
Occupancy rate	72%	70%	80%	78%
ADR	$420	$400	$410	$335
Current ratio	0.2	0.2	0.8	0.8
Debt to equity	1.2	2.1	1.9	2.6
Total debt to assets	0.5	0.7	0.6	0.7
Return on equity	6%	8%	12%	11%
Operating margin	8%	9%	17%	16%
Profit margin	3%	3%	9%	8%

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 14)

APPENDIX IV
HOLIDAY TOURS INC.

The following information has been gathered regarding Holiday:

- Holiday has historically achieved operating margins of 20%.
- For the year ended December 31, 2022, Holiday reported EBITDA of $2.25 million.
- Holiday's share capital has not changed since its incorporation; it has two million common shares outstanding.
- The standard industry valuation of private companies specializing in vacation packages is six times EBITDA.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 15)

APPENDIX V
FRANCHISE PROPOSAL SUMMARY FROM GLOBAL STAY N PLAY CORP.

Terms

- The contract will take effect on June 1, 2023, for a 20-year term.
- On each five-year anniversary, either party can terminate the contract without penalty.
- If DHC's responsibilities, as set out below, are not met, Global can terminate the contract at any time.

Fees

- DHC will pay a franchise fee of $200,000 upfront.
- DHC will pay a monthly franchise fee of 10% of room revenue plus a yearly marketing, reservation and technology fee of 3.5% of room revenue.

As part of its responsibilities, Global will:

- pay all marketing, reservation and technology costs, including upgrade and website maintenance costs, and provide signage, materials and supplies with the FitzGeralds logo.
- spend 50% of the 3.5% marketing, reservation and technology fee specifically on this hotel.
- provide an interest-free loan to DHC for required capital expenditures up to $8 million (subject to Global's approval), due in 10 years' time or due upon termination of the agreement.
- provide the lead in hiring management for the hotel.

As part of its responsibilities, DHC will:

- renovate and maintain the hotel to Global's standards; any future changes to the property will require Global's approval.
- permit property inspections by Global without advance notice.
- purchase all room supplies and amenities from Global.
- assist with the hiring of management for the hotel.
- implement appropriate internal controls, including providing training for all employees.
- attend hotel management conferences on industry trends and issues, as Global directs.
- set room rates, subject to Global's approval, and use Global's central reservation system for all reservations, including group reservations.
- participate in Global's customer loyalty program.
- prepare and deliver quarterly financial statements for the Northern Ontario hotel within 30 days of the end of each quarter.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 16)

APPENDIX V (continued)
FRANCHISE PROPOSAL SUMMARY FROM GLOBAL STAY N PLAY CORP.

By the end of 2024, Global requires its franchisees to meet the following targets and expects the ADR and occupancy rate targets to increase each year thereafter.

ADR	$420
Occupancy rate	70%
Room operating costs as a maximum percentage of gross room revenues	50%

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 17)

APPENDIX VI
PROPOSAL AND FORECAST FOR COOKING RETREATS

After conducting considerable research on cooking retreats, Chef Norman provided the necessary information to the accounting department, for it to prepare the following forecast.

	June to Dec. 2023 (7 months)	Jan. to Dec. 2024 (12 months)
Revenues	$ 504,000	$ 864,000
Incremental costs for food and room cleaning	(56,000)	(96,000)
Additional costs for kitchen staff	(70,000)	(120,000)
Marketing costs	(40,000)	(40,000)
Depreciation	(58,000)	(100,000)
Additional operating profit	280,000	508,000
Less taxes (27%)	(75,600)	(137,160)
Additional net (after-tax) profit	204,400	370,840
Add back depreciation	58,000	100,000
Net cash flow	$ 262,400	$ 470,840
Operating margin	56%	59%
Profit margin	41%	43%

- DHC will offer a one-week cooking retreat each month, with a maximum of 20 participants per retreat.
- Each participant will pay an all-inclusive price of $3,600.
- Cooking will focus on the use of natural and local ingredients.
- The costs for accommodations and meals are estimated to be $400 per person.
- Additional cooking staff will be required, at a cost of $120,000 per year.
- Additional marketing costs of $40,000 will be spent in 2023 to launch the program, and the same amount will be spent in 2024.
- The necessary kitchen renovations are estimated to cost $1 million and could be completed by May 2023, with the first retreat held in June 2023.
- The renovations will have an expected life of 10 years.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 18)

APPENDIX VII
PROPOSAL AND FORECAST FOR HURON HEIGHTS HOTEL CONFERENCE CENTRE

Construction of the conference centre and the renovations will be completed by no later than January 1, 2024. Martha prepared the following forecast.

The proposed new rates, and the fees for management of the conference centre, are shown below. All other terms would remain as per the current agreement[1], except that there will be no Rev/PAR targets for DHC to meet.

Distinct Hotels Corporation

	2024	2025	2026
Management fees – 7% of gross room revenue[2]	$ 938,196	$ 955,570	$ 1,033,753
Management fees – 10% of gross conference revenue[3]	402,084	409,530	443,037
Licensing fee – 4% of gross room revenue[2]	536,112	546,040	590,716
Total gross revenue	1,876,392	1,911,140	2,067,506
Less: management salaries and benefits	(950,000)	(978,500)	(1,007,855)
Net operating income	$ 926,392	$ 932,640	$ 1,059,651
Operating margin	49%	49%	51%

[1] The current agreement rates are: management fees of 5% of gross room revenue and 8% of gross operating profit, and a licensing fee of 3% of gross room revenue.

[2] Room revenue estimates are based on an ADR of $270, $275 and $280 and an occupancy rate of 80%, 80% and 85% for 2024, 2025 and 2026, respectively.

[3] Gross conference revenue includes room rental and food and beverage from conferences, which is estimated to total 30% of gross room revenue.

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 19)

End of Exam

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 20)

CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

1. PRESENT VALUE OF TAX SHIELD FOR AMORTIZABLE ASSETS

Present value of total tax shield from CCA for a new asset acquired before November 21, 2018

$$= \frac{CTd}{(d+k)}\left(\frac{2+k}{2(1+k)}\right) = \frac{CdT}{(d+k)}\left(\frac{1+0.5k}{1+k}\right)$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:
C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

2. SELECTED PRESCRIBED AUTOMOBILE AMOUNTS

	2019	**2020**
Maximum depreciable cost — Class 10.1	$30,000 + sales tax	$30,000 + sales tax
Maximum depreciable cost — Class 54	$55,000 + sales tax	$55,000 + sales tax
Maximum monthly deductible lease cost	$800 + sales tax	$800 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	28¢ per km of personal use	28¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	58¢ per km	59¢ per km
— balance	52¢ per km	53¢ per km

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONTINUED ON PAGE 21)

3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2019

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$47,630	$0	15%
$47,631	and	$95,259	$7,145	20.5%
$95,260	and	$147,667	$16,908	26%
$147,668	and	$210,371	$30,534	29%
$210,372	and	any amount	$48,718	33%

For 2020

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$48,535	$0	15%
$48,536	and	$97,069	$7,280	20.5%
$97,070	and	$150,473	$17,230	26%
$150,474	and	$214,368	$31,115	29%
$214,369	and	any amount	$49,644	33%

4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

Personal tax credits are a maximum of 15% of the following amounts:

	2019	**2020**
Basic personal amount	$12,069	$12,298
Spouse, common-law partner, or eligible dependant amount	12,069	12,298
Age amount if 65 or over in the year	7,494	7,637
Net income threshold for age amount	37,790	38,508
Canada employment amount	1,222	1,245
Disability amount	8,416	8,576
Canada caregiver amount for children under age 18	2,230	2,273
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,140	7,276
Net income threshold for Canada caregiver amount	16,766	17,085
Adoption expense credit limit	16,255	16,563

Other indexed amounts are as follows:

	2019	**2020**
Medical expense tax credit — 3% of net income ceiling	$2,352	$2,397
Annual TFSA dollar limit	6,000	6,000
RRSP dollar limit	26,500	27,230
Lifetime capital gains exemption on qualified small business corporation shares	866,912	883,384

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
(CONCLUDED ON PAGE 22)

5. PRESCRIBED INTEREST RATES (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2020	2	2		
2019	2	2	2	2
2018	1	2	2	2

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

Class 1……	4%	for all buildings except those below
Class 1……	6%	for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for non-residential activities
Class 1……	10%	for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8……	20%	
Class 10……..	30%	
Class 10.1……...	30%	
Class 12……..	100%	
Class 13……..	Original lease period plus one renewal period (minimum 5 years and maximum 40 years)	
Class 14……..	Length of life of property	
Class 14.1……...	5%	For property acquired after December 31, 2016
Class 17……..	8%	
Class 29……..	50%	Straight-line
Class 43……..	30%	
Class 44……..	25%	
Class 45……..	45%	
Class 50……..	55%	
Class 53……..	50%	
Class 54……..	30%	

Copyright © 2020 Chartered Professional Accountants of Canada. All rights reserved.
****

(THIS PAGE INTENTIONALLY LEFT BLANK)