CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

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

Common Final Examination
September 14, 2023 – Day 3
(Booklet #1 – Cases)

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 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 content, use, retention, disposition and disclosure of this material. Candidates will not have access to their examination response, the examination marking keys or any other marking materials. The examination questions and marking guides will only be publicly 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 the examination including but not limited to generative artificial intelligence and similar technologies (for example, ChatGPT, Grammarly, ChatBots etc.); or
- Remove or attempt to remove any CPA Canada Examination materials, notes or any other items from the writing centre.

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 – (this booklet)
Case #1 (75 minutes)
Case #2 (80 minutes)
Case #3 (85 minutes)
Booklet #2 – Rough notes

Times noted above are guidelines. Candidates are responsible for managing the time allocation.

The cases should be answered using the examination software provided, which includes a word processor and spreadsheet for inputting your response. Make sure that you indicate the case number before your answer to each case in the word processor and the spreadsheet. 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**. All financial tables in the case with ten lines or more have been preloaded into the spreadsheets that follow Sheet 1. Those spreadsheets are in read-only mode. You must copy and paste the financial information into your Sheet 1, where you can then do all your calculations. 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 the examination software or, in the event of computer failure, the CPA Canada writing paper provided.

Rough-note paper is available in a separate booklet. Rough notes, and any other notations made in the examination booklets, will not be evaluated.

The CPA Canada Handbooks, the *Income Tax Act* and the *Excise Tax Act* are available in the examination software throughout the entire examination. These materials provide the standards in effect and tax laws substantively enacted as at December 31, 2022.

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 examination questions as presented even though the circumstances described in the examination questions may not be reflective of the current environment.

Common Final Examination, 2023

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

Case #1 **(Suggested time: 75 minutes)**

Inspired by the positive environmental impact of community repair workshops in other cities, Sami Hussein incorporated Do-It-Yourself with Help Inc. (DH) on December 1, 2021, in Wellyton, SK. He wanted to enable customers to repair household items so they could prevent these items from ending up in the landfill and avoid new purchases, while also saving customers the cost of purchasing the necessary repair tools. DH has three revenue streams:

- In-store use of DH's equipment, so customers can repair or build something themselves. Well-trained staff circulate to help customers with projects.
- Tool rental for at-home use.
- Classes on various do-it-yourself skills.

Today is January 30, 2023. DH had a good first full year of business, and Sami recently hired you, CPA, as an external advisor.

Sami starts: "I want to expand the size of our shop. However, before extending further financing, our lender requires DH's audited financial statements in accordance with ASPE for the year ended December 31, 2022. The audit starts next week.

"My niece, Lily, a university business student, handles the bookkeeping and administrative duties, and she has prepared draft financial statements (Appendix I). I did not oversee her work. She mentioned that she doesn't know how to account for our new arrangement with ToolMania. While it's important to me that DH provides quality tools, they're very expensive. To solve this, I approached ToolMania, a reputable tool manufacturer. In January 2022, they agreed to give us small tools in return for us hanging a large sign advertising their brand in the shop for the next three years (Appendix II).

"Please calculate our federal corporate income taxes payable. Speaking of taxes, our external payroll provider has asked us for the amount of taxable benefits to include on each employee's T4. We treat our employees well, since attracting and retaining knowledgeable and friendly staff is critical for our business. Of the benefits we provide, which ones are taxable?

"I talked to the auditors about our first audit, and summarized my notes (Appendix III). I need your help in understanding their audit plan. DH is profitable, I'm the only shareholder, and Lily has everything under control, so what risks could they have identified and why do they need to perform a significant amount of audit procedures to respond to them? Where is this materiality figure coming from, and how is it determined? And audit approach? Please explain all of this to me and suggest ways we can lower our audit fee in the future.

(CONTINUED ON PAGE 3)

“To increase our positive environmental impact, we are converting DH’s facility to be solar powered (Appendix IV). Please assess the options quantitatively and qualitatively, and recommend one.

“And finally, since I want the business to grow quickly, I think it is important to have formal vision, mission, and value statements going forward. I tried drafting them, based on some examples I found on hardware stores’ websites (Appendix V). Do you think they are appropriate for DH?”

(CONTINUED ON PAGE 4)

APPENDIX I
EXCERPTS FROM DRAFT DH FINANCIAL STATEMENTS

Balance Sheet
As at December 31, 2022

		Note
Assets		
Cash	$ 39,000	
Supplies	6,000	
Prepaid expenses	2,000	
Property, plant, and equipment	1,082,800	1
Loans receivable	30,000	2
Total assets	$ 1,159,800	
Liabilities		
Accounts payable	$ 22,000	
Due to shareholder	91,800	
Current portion of mortgage	36,000	
Mortgage	828,000	3
Shareholder's equity		
Common shares	10,000	
Retained earnings	172,000	4
Total liabilities and shareholder's equity	$ 1,159,800	

Income Statement
For the year ended December 31, 2022

		Note
Revenue	$ 1,586,000	
Expenses		
Compensation	1,160,000	5
Office	100,000	6
Advertising	55,000	7
Depreciation	34,000	1
Utilities	30,000	
Interest on mortgage	20,000	
Total expenses	1,399,000	
Net income	$ 187,000	

(CONTINUED ON PAGE 5)

APPENDIX I (CONTINUED)
EXCERPTS FROM DRAFT DH FINANCIAL STATEMENTS

Notes:

1. DH recorded no additions or disposals during the year. Depreciation relates to Property, Plant, and Equipment. The following table has the opening undepreciated capital cost (UCC) balances:

Item	2022 Opening UCC
Land	N/A
Building	$796,000
Tools (each over $500)	97,500
Computer equipment	18,600

2. DH offers $5,000 interest-free loans to employees, to purchase an e-bike. Six employees took DH up on this offer on July 1, 2022, when the policy was first introduced. The loans will be repaid in $1,000 increments over five years.

3. The cost of $1,000 to secure this financing was expensed in 2021. The building and land are collateral for the mortgage.

4. At the end of 2021, the non-capital loss carryover balance was $14,200.

5. In addition to wages, the compensation expense includes the following:

   <u>Training</u>

   Each employee is trained to be an expert in their specialty. This training normally costs $2,000 per employee.

   <u>Public transit passes</u>

   As part of DH's commitment to the environment, employees are provided with a $90 public transit pass each month.

   <u>Uniforms and safety wear</u>

   Each employee is provided with a uniform and the necessary safety equipment, which cost about $250 per employee.

(CONTINUED ON PAGE 6)

APPENDIX I (CONTINUED)
EXCERPTS FROM DRAFT DH FINANCIAL STATEMENTS

Notes (continued):

Childcare

We fully subsidize childcare costs incurred by our employees during work hours. This has attracted a more diverse workforce, which is great because that helps our diverse customer base feel more at ease. It's important to DH to have an inclusive workplace.

6. This includes $5,100 for two all-staff parties: one winter party (costing $200 per employee) and one summer barbecue (costing $55 per employee). It also includes the business insurance cost of $15,000 and a cost of $2,500 for a life insurance policy on Sami, where DH is the beneficiary.

7. Advertising includes a donation to an environmentally-focused registered charity of $4,000.

(CONTINUED ON PAGE 7)

APPENDIX II
NOTES ON ARRANGEMENT WITH TOOLMANIA

Sami has provided you with a list of the tools DH received from ToolMania. Using that list, you researched the price of the items on several local home hardware retailers' websites. The total retail value of the tools, each priced at less than $500, is $50,000.

You also called DH's contact at ToolMania, Tony, to better understand the arrangement.

Tony: We sell our tools to construction companies, independent contractors, and retailers. The retailers mark up our price by 25% when selling to the general public.

You: And how long before these tools typically need replacement?

Tony: If used daily, like at DH, they should last about three years.

You: How much are you saving by not paying for this advertising?

Tony: The annual cost to have a sign displayed depends significantly on the location and type of business. We pay retailers $12,000 annually to display a sign in their tool aisle.

(CONTINUED ON PAGE 8)

APPENDIX III
SAMI'S NOTES ON DISCUSSION WITH THE AUDITORS

Risks

The auditors identified many risks, which will require a significant amount of audit procedures, resulting in a high audit cost.

Preliminary Materiality

- $7,500

Audit Approach

- Combined approach for payroll
- Substantive approach for all other cycles

Prior Year

- Comparative figures are not part of this engagement.

(CONTINUED ON PAGE 9)

APPENDIX IV
SOLAR POWER PROJECT

Electricity is currently sourced from the City of Wellyton's electricity provider, HydroW. HydroW's price is set by the government annually and is currently $0.20 per kWh, but prices have been increasing. DH paid $12,000 for electricity in 2022. DH is considering entering into a five-year arrangement with StarPower, an energy company. Solar panels would be installed on DH's entire roof. The panels would produce 70,000 kWh per year. The following options are available:

Option 1

- StarPower rents DH's roof space and installs solar panels owned by StarPower, paying DH $5,000 annually for the roof rental.
- The electricity produced goes to StarPower.
- StarPower will sell DH all of the electricity it needs at 80% of HydroW's price.
- StarPower sells the rest of the electricity to HydroW.

Option 2

- DH rents panels from StarPower for $5,000 annually, under an operating lease.
- DH keeps the electricity it needs for its own purposes and sells the excess to StarPower, at the market rate for electricity at time of sale. The rate fluctuated between $0.14 and $0.25 per kWh in the past year.
- If additional electricity is needed, it would be purchased from StarPower, and a $10,000 annual fee would need to be paid.
- DH would have to rent a battery for $100 per month to store the electricity produced on sunny days, for use at night and when cloudy.

Note:

The government is considering providing an incentive to businesses that own or rent solar panels, based on the electricity produced.

(CONTINUED ON PAGE 10)

APPENDIX V
DH'S VISION, MISSION, AND VALUES

Vision

To be the top earning company in the home repair industry.

Mission

To provide the broadest range of tools at competitive prices.

Values

- Respect
- Teamwork
- Fast and low-cost service
- Ingenuity

(CONTINUED ON PAGE 11)

Case #2 **(Suggested time: 80 minutes)**

In June 2023, residents of Freemont, Nova Scotia, were happy that a new community health centre, Freemont Community Health Centre (the Centre), opened in their area. The Centre's mission is "to provide quality health care using highly-skilled employees." Its vision is "to provide quality and compassionate care while staying abreast of medical and technological breakthroughs." As part of its long-term vision, the Centre plans to help developing countries with their medical equipment. Today is September 25, 2023, and Tamar Hoffman, the CEO of the Centre, has hired you, CPA, as a consultant until the Centre recruits a CFO.

The accounting department consists of Neesha and Yan. To cover each other's duties when one of them is unavailable, they share a common login to the accounting system. Neesha is currently responsible for performing CFO duties but is not qualified to be the permanent CFO. She needs your help with the accounting treatment for the $1 million grant the Nova Scotia Ministry of Health (Ministry) paid to the Centre in June 2023, which is required to go toward the cost of acquisition of the building. Neesha has recorded the entire grant in revenue. The building is capitalized and amortized over 40 years, and amortization started in June 2023. The Centre follows Accounting Standards for Not-for-Profit Organizations (ASNPO), uses the deferral method, and has a May 31 year end. Although Tamar does not review Neesha's work, she is happy with the first-quarter results.

On September 15, 2023, the Centre received a $500,000 donation. The donor advised that the money could be used for anything at the Centre. The Board of Directors (the board) decided to use these funds to buy equipment for the new rehabilitation facility, which is set to open in September 2025, and to invest the funds until then. Neesha wants your advice on the accounting treatment for this donation. In addition, Tamar wants you to analyze the investment options (Appendix I). She would like the investment return to cover the rehabilitation facility's budgeted marketing costs of $70,000 for its first year of operations.

The board approved a motion to finance an additional ambulance for patient transfers. Tamar asks you to analyze the financing options and recommend one (Appendix II).

Tamar would like to improve internal controls, and she asks you to discuss the control weaknesses you identify, and recommend improvements (Appendix III).

Neesha is unsure of which basis to use for the allocation of common costs to each department. She wonders if she should use the departmental payroll costs as a basis, since she has easy access to that information. She prepared information on the departments and their common costs so you can perform the allocations for the first quarter in the way you consider the most appropriate (Appendix IV).

Finally, Neesha needs help measuring the performance of two departments: Urgent Care and Family Health. In particular, she would like you to recommend and explain key performance indicators (KPIs) that could be used to measure their performance. She also wants you to suggest actions that these departments could take to improve their performance on those KPIs.

(CONTINUED ON PAGE 12)

APPENDIX I
INVESTMENT OPTIONS

Option 1

- A three-year non-redeemable guaranteed investment certificate (GIC) at 6% annual fixed interest.

Option 2

- Actively managed equity mutual funds. The funds averaged an annual return of 10% before management fees of 3% for the past two years.

Option 3

- A savings account with a return of prime minus 2%. Prime is currently 6.5%.

Option 4

- Neesha's friend, a certified financial planner, manages his own investments online and has offered to show Neesha how it works. He made a 10% return last year.

(CONTINUED ON PAGE 13)

APPENDIX II
FINANCING OPTIONS FOR NEW AMBULANCE

The ambulance and related equipment will cost $180,000. It will likely last 14 years, but the Centre expects to replace it after 10 years to keep up with technology. Board approval will be required if the total annual payments are above $60,000.

Option 1

- Three-year bank loan from Freemont County Bank
- Interest: Variable rate of prime (currently 6.5%) plus 3%, payable monthly
- Monthly principal payments: $5,000
- Secured by the assets financed

Option 2

- Five-year bank loan with Nova Scotia International Bank
- Monthly blended payments: $4,100
- Secured by all of the Centre's assets

Option 3

- Five-year lease of ambulance and equipment from Medi-Lease Inc.
- Monthly payments: $2,800
- The assets are returned to Medi-Lease at the end of the operating lease. Medi-Lease then sells them to developing countries at an affordable price.

(CONTINUED ON PAGE 14)

APPENDIX III
MAIN PROCESSES

Yan prepares the bank reconciliation. Neesha reviews it if Yan runs into problems. Yan also prepares the account coding and enters all supplier invoices in the accounting system when he receives them from the various departments. Yan pays the suppliers every two weeks, and Neesha signs off on the total disbursement after asking Yan if all is good with the payments.

Neesha prepares the budget, financial statements, payroll for the whole Centre (which is the biggest cost of each department), and reports for the Ministry. Neesha also supervises other department managers.

Timesheets are maintained by each employee and sent to Neesha once every two weeks on the same day that payroll is processed. Neesha approves the timesheets after quickly glancing at them to ensure that they look reasonable.

Department managers are given a spending budget by general ledger line item, and Yan provides them with a monthly income statement so they can review their department's performance. The managers told Neesha that they often have to ask Yan to reallocate several items to the appropriate account.

The managers use a program called Scheduling Plus to create everyone's schedules. All schedule changes go through this program, including last-minute changes for sick time, overtime, etc. This program is only used for scheduling purposes. Managers are encouraged to keep overtime to a minimum.

Each department manager has a credit card for routine purchases for their department. As part of Yan's monthly bank reconciliation, he checks their monthly credit card statements against the invoices. Managers provide invoices for purchases above $1,000. Yan codes all other expenses based on the vendor's name.

(CONTINUED ON PAGE 15)

APPENDIX IV
INFORMATION ON THE CENTRE'S DEPARTMENTS AND COMMON COSTS

The Centre has four departments that share costs: Urgent Care, Inpatient, Family Health (outpatient medical clinic), and Long-term Care. The common costs to be allocated among the departments come from three cost centres: IT Support Desk, Cleaning, and Kitchen.

First Quarter Common Costs

Cost Centre	Total Costs
IT Support Desk	$14,250
Cleaning	$36,432
Kitchen	$32,715

Various Department Statistics – First Quarter (92 days)

Item	Urgent Care	Inpatient	Family Health	Long-term Care
Revenue	$320,000	$275,000	$350,000	$180,000
Payroll costs	$230,000	$170,000	$245,000	$105,000
Square footage	5,000	15,000	8,000	18,000
Number of sick days used	50	10	15	5
Number of IT support tickets	5	10	20	15
Average time per IT support ticket (in hours)	7	2	1.25	1
Number of employees	40	30	10	15
Meals delivered to patients	295	1,210	0	2,130
Cleanings per day	5	1	2	3
Hours per cleaning	2	1.5	1.5	2.5
Employee hours spent on training	0	10	40	50
Capital assets purchased	2	1	2	4
Overtime hours worked	180	100	50	75
Average patient wait time (in hours)	8	N/A	1	N/A

(CONTINUED ON PAGE 16)

Case #3 **(Suggested time: 85 minutes)**

It is March 15, 2023. You, CPA, work in the accounting department of Paradise Resorts Inc. (Paradise), reporting to Cara Ooi. Paradise is a large private corporation that builds, owns, and operates rental resorts. Paradise recently adopted a more aggressive growth strategy by purchasing already operational resorts.

You and Cara meet with Paradise's operations manager, Bhavna Sood, who explains, "Paradise acquired 100% of the shares of The Winnington Chalets Inc. (Winnington) on February 1, 2023 (Appendix I).

"The chalets and visitors' centre were in poor condition. The previous owner-manager, Jakob, kept costs low for short-term profit rather than investing for the long term. Despite this, Winnington experienced losses for the last three years. I think Paradise will get to use those tax loss carryforwards this year! Our effective tax rate is 26.5%. Renovations are underway, and we still have $300,000 available for other potential upgrades (Appendix II).

"I met Winnington's staff recently. Can you please help Felix address the issues he's running into as the new restaurant manager (Appendix III)? I also had a discussion with other staff (Appendix IV). The bookkeeper's point about taxes worries me. Are we liable if the Canada Revenue Agency (CRA) discovers these things now? How far back can they look?

"The purchase agreement permits us to hire a new manager or to keep Jakob. What would you recommend and why? It might be difficult for Jakob to be managed since he has always made decisions unilaterally. We hope Winnington will operate independently, but Paradise should oversee the operations somehow. What do you suggest the governance structure be? As well, how can we ease the concerns of Winnington's staff, related to the acquisition?"

After the meeting, Cara asks you to draft a response to Bhavna. In addition to addressing Bhavna's tax concerns, Cara asks you to explain the tax implications of the acquisition of control. Winnington followed ASPE but will now report under IFRS for consolidation purposes. Cara would like you to explain the differences between ASPE and IFRS for property, plant, and equipment, taxes, and for its lease, and to ignore IFRS 1 for the purpose of this report. She provided you with Winnington's financial statements (Appendix V). Cara explains that Paradise's year end is March 31, and Winnington will need a review engagement for the two months of operations since the acquisition, which is new for Winnington. To help Winnington prepare, Cara suggests that you draft a list of review procedures the practitioner will likely perform on Winnington's income statement.

(CONTINUED ON PAGE 17)

APPENDIX I
BACKGROUND INFORMATION ON WINNINGTON

Tourists frequent the area to visit wineries, cycle, and enjoy beautiful lakes for swimming in the summer and ice fishing in the winter.

Winnington owns land with 150 chalets. Chalet occupancy rates average 60% annually. The three-month summer season and the three-month winter season are the busiest, with each of these seasons accounting for 33% of total rental revenue. The current renovations, before the other potential upgrades, are expected to increase chalet rental revenue by 9%. The gross margin of the rental activities is 62%.

The visitors' centre contains the reception area, restaurant, and the indoor pool and hot tub.

(CONTINUED ON PAGE 18)

APPENDIX II
POTENTIAL UPGRADES

We are considering the following upgrades, which should last 15 years. Please recommend which upgrade(s) we should pursue, ignoring taxes for now, given that our budget is limited. Winnington's hurdle rate is 10%.

Restaurant Patio

The restaurant currently offers indoor dining only, but a patio could be installed on the adjacent unused outdoor space for $75,000. Despite the fluctuating chalet occupancy rates, the restaurant's sales are steady year-round. The restaurant has a 15% gross margin. A patio would increase restaurant sales from May to September by 50%.

Outdoor Pool

Instead of a patio, an outdoor pool could be built in the unused outdoor space. This pool would cost $100,000 to build and increase summer rental revenue by 2%.

Café

The reception area has space to install a café, at a cost of $30,000. Annual profit would be $20,000 in Year 1, with annual increases of 15% and 25% in Years 2 and 3, respectively, and then would hold steady after that.

Wine-tasting Room

An old clubhouse could be repurposed into a wine-tasting room for $200,000. The tasting room would earn a profit of $75,000 annually, and would help visitors decide which local wineries to visit.

(CONTINUED ON PAGE 19)

APPENDIX III
NOTES FROM MEETING WITH FELIX

Felix was promoted to restaurant manager last year when Jakob fired the previous manager for donating unsold food that was still consumable to a charity. Felix explained that the restaurant sales system collects the data listed below for each sale:

- Date
- Time
- Server name
- Table number
- Invoice number
- Category (e.g., appetizer, entrée, alcoholic beverage)
- Item (e.g., daily soup, fish and chips, coffee)
- Pre-tax amount
- Sales tax amount

Data from the last three years is available. Felix would like to know how to use the current data, and what other data could be useful to collect, to help him address the following issues:

- The schedule has always been based on how busy management thinks the restaurant will be, but this sometimes results in too few or too many servers. Felix doesn't have a sense of how many tables a server can reasonably handle, nor which servers are best.
- Weekly food orders to suppliers are based on previously set minimum inventory levels, but this sometimes results in food being thrown out because it has expired, whereas other menu items sell out. Felix wonders whether the menu should be changed to better reflect what customers want.
- There is often a wait list in the summer and winter months, especially on Fridays, which may be due to a coupon given to each guest upon check-in that is redeemable on Friday nights. Fridays are normally the restaurant's busiest night, even without the coupon.

(CONTINUED ON PAGE 20)

APPENDIX IV
NOTES FROM BHAVNA'S DISCUSSION WITH STAFF

Staff	Comment
Receptionist	Is my job at risk?
Maintenance staff	Will there be changes to my job requirements? Will you offer training?
Bookkeeper	Jakob often put personal items through as "office expenses" in profitable years to reduce taxes. He also hired family members and paid them much more than market rates, which angered the staff. I didn't know what to do, who to tell, or if anything could be done about it.
Senior accountant	Will I have to learn to use Paradise's accounting software? Will we need to report to Paradise's Board of Directors? Winnington never had one.
Server	I'm glad you bought Winnington. Jakob didn't care much, and the work ethic around here isn't great. There aren't as many policies here as I'm used to.

(CONTINUED ON PAGE 21)

APPENDIX V
EXCERPTS FROM WINNINGTON'S FINANCIAL STATEMENTS

Balance Sheet
As at December 31, 2022

Assets	
Current assets:	
Cash	$ 93,000
Inventory (restaurant)	24,400
Prepaid expenses	8,000
Total current assets	125,400
Land	3,000,000
Plant and equipment (net)	10,675,000
Total assets	$ 13,800,400
Liabilities	
Current liabilities:	
Accounts payable	$ 62,000
Deferred revenue – deposits	429,000
Current portion of mortgage	369,400
Total current liabilities	860,400
Mortgage	6,047,000
Total liabilities	6,907,400
Shareholder's equity	
Common shares	100
Retained earnings	6,892,900
Total shareholder's equity	6,893,000
Total liabilities and shareholder's equity	$ 13,800,400

(CONTINUED ON PAGE 22)

APPENDIX V (CONTINUED)
EXCERPTS FROM WINNINGTON'S FINANCIAL STATEMENTS

Income Statement
For the year ended December 31, 2022

		Note
Revenue		
Rental revenue	$ 8,580,000	
Restaurant sales	936,000	
	9,516,000	
Operating expenses		
Advertising	469,000	
Bank charges and interest	6,000	
Depreciation	2,174,000	
Insurance	356,000	
Interest on mortgage	321,000	
Landscaping, gardening, and snow removal	350,000	
Office	605,900	
Lease	30,000	1
Professional fees	60,000	
Property tax	400,000	
Restaurant food, beverages, and supplies	374,400	
Repairs and maintenance	75,000	
Salaries and wages	2,468,000	
Telecommunications	571,000	
Utilities	1,326,000	
	9,586,300	
Loss before taxes	(70,300)	
Taxes recoverable	0	2
Net loss	$ (70,300)	

Notes:

1. This is related to a three-year operating lease for a boat used to transport guests across the lake to visit tourist sites. The lease cost is expensed as incurred.

2. Winnington uses the taxes payable method and has a tax rate of 12.2% due to the small business deduction. Non-capital loss carryforwards are as follows:
   - 2020: $0 (carried back)
   - 2021: $116,000
   - 2022: $142,000

(CONTINUED ON PAGE 23)

End of Examination

(CONTINUED ON PAGE 24)

CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, other than those eligible for immediate expensing.

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

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

Selected Prescribed Automobile Amounts

Item	2022	2023
Maximum depreciable cost — Class 10.1	$34,000 + sales tax	$36,000 + sales tax
Maximum depreciable cost — Class 54	$59,000 + sales tax	$61,000 + sales tax
Maximum monthly deductible lease cost	$900 + sales tax	$950 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	29¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	61¢ per km	68¢ per km
— balance	55¢ per km	62¢ per km

Individual Federal Income Tax Rates

For 2022:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $50,197	$0	15%
$50,198 and $100,392	$7,530	20.5%
$100,393 and $155,625	$17,820	26%
$155,626 and $221,708	$32,180	29%
$221,709 and any amount	$51,344	33%

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $53,359	$0	15%
$53,360 and $106,717	$8,004	20.5%
$106,718 and $165,430	$18,942	26%
$165,431 and $235,675	$34,208	29%
$235,676 and any amount	$54,579	33%

(CONTINUED ON PAGE 25)

Selected indexed amounts for purposes of computing income tax

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

Item	2022	2023
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	$12,719	$13,521
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	14,398	15,000
Age amount if 65 or over in the year	7,898	8,396
Net income threshold for age amount	39,826	42,335
Canada employment amount	1,287	1,368
Disability amount	8,870	9,428
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,350	2,499
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,525	7,999
Net income threshold for Canada caregiver amount	17,670	18,783
Adoption expense credit limit	17,131	18,210

Other indexed amounts are as follows:

Item	2022	2023
Medical expense tax credit — 3% of net income ceiling	$2,479	$2,635
Old age security repayment threshold	81,761	86,912
Annual TFSA dollar limit	6,000	6,500
RRSP dollar limit	29,210	30,780
Lifetime capital gains exemption on qualified small business corporation shares	913,630	971,190

(CONCLUDED ON PAGE 26)

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2023	4	5	5	
2022	1	1	2	3
2021	1	1	1	1

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.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
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	N/A	Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight line over 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%	

(THIS PAGE INTENTIONALLY LEFT BLANK)