

ACAF National Examination – Sample Examination

Sample Examination Details

The examination consists of:

Section I: Constructed-Response Questions (3 questions — 120 minutes)

Section II: Multiple-Choice Questions (50 questions — 120 minutes)

Students are allowed four (4) hours to write. Times noted above are guidelines. Students are responsible for managing the time allocation and may choose to start with any part of the examination.

Section I: Constructed-Response Questions (3 questions — 120 minutes)

Question 1 (6.5 marks)

Gary Trales, an ACAF holder, is participating in the external audit of Kalipso Ltd. (KL). KL's president asked Gary to go to KL's strategic planning conference, which its Board of Directors and senior management will be attending. The strategic planning conference is held at a different five-star vacation resort each year. KL's president tells Gary that it is particularly important to attend the conference so that Gary can advise KL on the accounting implications of any strategic options KL might consider.

Required:

Explain whether Gary should attend KL's strategic planning conference. Support your recommendation. **(5 marks)**

An additional **1.5 marks** may be awarded based on the quality of your writing.

Question 2 (8.5 marks)

California Co. (CC), a public company, recently hired a new accountant, Olive Jones. Olive is working on the year-end financial statements for CC and has noted a few items that she does **NOT** think have been appropriately recorded in CC's records for the year ended June 30, 2017.

CC purchased a new fruit processing machine on July 1, 2013, for \$350,000 and had been depreciating this machine on a straight-line basis over 10 years with **NO** residual value. The notes on the invoice indicate that the machine has an eight-year life with a \$50,000 residual value. Olive believes this is simply a change in an accounting estimate and will revise the depreciation going forward. **NO** depreciation has been recorded on the fruit processing machine for the year ended June 30, 2017.

Olive noted that the accounts payable clerk had posted an entry to capitalize the annual repairs on the fruit processing equipment for \$8,500 and had **NOT** adjusted for the year-end supplies inventory, which showed a count of \$7,350 in inventory remaining while the current balance in the records showed \$9,640. Olive is unsure whether there is a significant difference if these items are shown as an expense or an asset.

Required:

Prepare a memo to Olive addressing the items noted and advising her of any significant differences between her assumptions and what is required by accounting standards. Prepare all adjusting journal entries required to correct CC's books for the June 30, 2017, year end. **(7 marks)**

An additional **1.5 marks** may be awarded based on the quality of your writing.

Question 3 (35 marks)

Pierre Richet, an ACAF holder, has just met with his friend Nancy Nickerson, a paramedic. Nancy is trying to decide whether to proceed with a new business venture and would like Pierre's input. Hangla Shoes Inc. (HSI) has approached Nancy to open a women's shoe store. Nancy has provided information from the franchisor (Appendix I) and other information (Appendix II). Nancy sees this as an opportunity to quit her job and satisfy her interest in managing her own business and increasing her income.

As a paramedic, Nancy earns \$50,000 a year. Nancy is concerned that she will not be able to replace her earnings with income from the franchise. Nancy also questions whether she will have enough funds to make the required initial investment or if she needs to obtain additional financing.

Nancy has no prior business experience and has engaged a lawyer to review the draft franchise agreement before she signs it, if she decides to proceed.

Nancy will be doing the franchise's bookkeeping in her spare time using an Excel spreadsheet. Pierre has offered to compile the financial statements. Nancy wonders if a compilation will be enough for the franchise agreement.

Nancy also has some concerns over internal controls, which are detailed in Appendix II.

Required:

Prepare a memo to Nancy that answers the following requests:

- a) Prepare an earnings projection for the franchise (ignore interest, income tax and inflation). **(10 marks)**
- b) Determine the amount of sales required to break even. **(5 marks)**
- c) Determine whether Nancy has enough funds to make the initial investment or if additional financing is required. **(5 marks)**
- d) Discuss Nancy's comments regarding using Excel for the bookkeeping of the franchise. **(2 marks)**
- e) Explain to Nancy whether a compilation will be enough to satisfy the franchise agreement, and contrast audits and reviews. **(6 marks)**
- f) Address Nancy's concerns over internal controls. **(4 marks)**

An additional **3 marks** may be awarded based on the quality of your writing.

Appendix I: Information from HSI (the franchisor) and Nancy (the franchisee)

1. *Premises* — A five-year lease is available, renewable for another five years at the franchisee's option. Leasehold improvements will cost \$40,000. The base rent is \$50,000 per year. In addition, 2% of total sales must be added to the rent when sales volumes exceed \$400,000.
1. *Initial franchise fee* — \$60,000 payable over five years in equal annual instalments.
2. *Inventory* — \$110,000 is to be paid for initial inventory. The monthly inventory required is seldom below \$130,000.
3. *Royalty (continuing franchise fee)* — The franchisee is to pay a monthly royalty of 5% of total sales.
4. *Accounting* — The franchisee is responsible for organizing and maintaining an accounting system and for providing financial information on which the lease and royalty payments will be based. Reviewed or audited financial statements must be provided to the franchisor no later than three months subsequent to year end.
5. *Advertising* — The franchisee must spend 1% of total sales on local advertising.
6. *Advice and purchasing* — During the first year, the franchise contract requires the franchisor to give the franchisee advice on purchasing (for example, recommended styles and sizes) and inventory levels. The franchisee must sell only women's shoes and related products. Except for the initial inventory, purchases do not have to be made from HSI. Shoe purchases average \$32 per pair, and the average retail price is \$64 per pair.
7. *Sales* — The franchisor has suggested that sales in Year 1 will be \$300,000, building steadily up to \$700,000 in Year 5.
8. *Wages* — The franchisee should expect to hire one employee in Year 1 at a wage of \$36,000 a year. By Year 3, the franchisee should expect to hire an additional employee.
9. *Other operating costs* — The franchisee should expect that utilities and other operating costs will approximate \$14,000 a year.

Appendix II: Other information

Nancy's concerns

Nancy's biggest concerns are that employees do not provide discounts to their friends and family, as well as theft by employees and customers.

Nancy is not sure how to track inventory or how to determine which type of shoes to order and when.

Nancy is also unsure how to determine if any cash has gone missing. She plans to have an employee deposit the cash from sales to her personal bank account each night.

Financing

Nancy has cash available to pay the initial franchise fee of \$60,000 when she signs the contract, and she will still have another \$50,000 of savings available outside of her RRSPs. However, Nancy thinks that she might require even more financing. Nancy discussed the franchise contract with her bank manager, who told her that there should be no problem in lending her the funds she may require. Nancy has an excellent credit rating; she owns a home that was originally purchased with a mortgage of \$240,000, and the remaining mortgage on her home is \$120,000.

Section II: Multiple-Choice Questions (50 questions — 120 minutes)

1. J&L Shoe Company (J&L) has been an audit client of KY LLP for a number of years. J&L has an October 31 year end. It is now November 20, and J&L must submit its financial statements to the bank by December 31. In a recent interview with the procurement manager, the audit staff at KY LLP learn that just before year end, J&L acquired a large amount of summer inventory at an auction and stored it at a third-party storage facility. The auction was held on behalf of a competitor that was going out of business due to low sales. While J&L has **NOT** yet had time to carefully inspect the goods, J&L's management is certain that it got an outstanding deal. J&L plans to distribute this new inventory to retail locations in early spring.

Which one of the following assertions is KY LLP most concerned with regarding the summer inventory, and how should KY LLP test this assertion?

- a) Valuation — inspect the inventory to assess its general condition and saleability
 - b) Valuation — review subsequent sales of the inventory to ensure net realizable value exceeds cost
 - c) Existence — attend and observe the year-end inventory count
 - d) Existence — inspect items in stock and trace them to the general ledger
2. An auditor is required to obtain an understanding of an entity and its environment in order to assess the risk of material misstatement at the financial statement and assertion levels. As part of obtaining that understanding, the auditor must evaluate the design and implementation of the entity's internal controls.

Which one of the following evidence-gathering techniques would likely be used to gain an understanding of the entity's internal controls?

- a) Observation
 - b) Confirmation
 - c) Analytical review
 - d) Performance
3. Which one of the following methods of sample selection is acceptable when selecting items for a statistical sample?
- a) Cluster sampling
 - b) Systematic selection
 - c) Haphazard selection
 - d) Block sampling

4. A client has accrued a contingent gain of a material amount in its financial statements, related to a legal claim that has an uncertain outcome. The auditor is satisfied with the financial statements in all other respects.

Which one of the following audit reports should the auditor issue?

- a) Unmodified auditors' report
- b) Adverse auditors' report
- c) Unmodified auditors' report with an emphasis of matter paragraph
- d) Qualified auditors' report due to a violation of generally accepted accounting principles

5. A public accounting firm is auditing the December 31, 2016, financial statements of XYZ Services Inc. The Board of Directors approved the financial statements on March 3, 2017, and the financial statements were issued one week later, on March 10, 2017. The audit evidence found by the auditor noted only one subsequent event, the issuance of common shares, which occurred on February 15, 2017.

Which one of the following dates should be the audit report date for this audit engagement?

- a) December 31, 2016
- b) February 15, 2017
- c) March 3, 2017
- d) March 10, 2017

6. Jack James is completing the audit of the purchases payables payments cycle.

Which one of the following procedures that Jack is performing would test payables for completeness?

- a) Select a sample of journal entries, match to a purchase and check to see if there is a corresponding purchase invoice for each.
- b) Review the cash receipts journal subsequent to year end for unusual amounts and look for the date on the related invoice.
- c) Select a sample of journal entries, match to a purchase and verify that there is a receiving document.
- d) Review the cash disbursements journal subsequent to year end for large disbursements and look for the date on the related invoice.

7. Materiality for an audit was set at \$60,000, identified misstatements were \$45,000 and likely misstatements were estimated to be \$75,000.

Which one of the following audit opinions should be recommended for this engagement?

- a) Unmodified opinion
- b) Qualified or adverse opinion
- c) Adverse or disclaimer of opinion
- d) Disclaimer of opinion only

8. Which one of the following is a weakness of the test data approach?

- a) A computer program tends to process each transaction of the same type in the same manner.
- b) Some incompatible functions of a computerized system may not be adequately segregated.
- c) A computer system may contain offsetting errors in its programming.
- d) Basic technical knowledge of the computer system is required in order to design the test data.

9. Which one of the following is correct when using confirmations as an audit procedure?

- a) Confirmation letters should be printed on the audit firm's letterhead and returned directly to the auditor.
- b) Confirmation letters should be mailed by the company being audited.
- c) Confirmation letters should be signed by an officer of the company being audited.
- d) Confirmation letters should be dated on the day they are supposed to be mailed.

10. The following information relates to Bella Manufacturing Inc. (BMI) for the month of June. The selling price per unit is \$160.

Variable overhead per unit	\$10
Direct labour per unit	\$40
Direct materials per unit	\$27
Total fixed costs	\$500,000
Pre-tax income	\$100,000
Sales commission	5%

Which one of the following is BMI's unit sales for the month of June?

- a) 6,024
- b) 6,667
- c) 7,229
- d) 8,000

11. Which one of the following statements is correct with respect to opportunity costs?

- a) In a make-or-buy decision, idle facility space that has no alternative use would have an opportunity cost of zero.
- b) When making decisions, managers should ignore opportunity costs because they do not result in expenditures of cash.
- c) Opportunity costs represent economic benefits received from pursuing a specific course of action.
- d) The *CPA Canada Handbooks* require opportunity costs related to asset acquisitions to be added to the cost of property, plant and equipment.

12. Bloomer Co. has reported an operating loss of \$40,000 this year, based on \$30,000 of sales. Total variable costs during the year were \$40,000. Management has proposed purchasing a new machine. Once purchased, fixed costs are expected to increase by \$10,000 per year, and variable costs are predicted to fall. For a sales level of \$30,000, the variable costs are expected to be \$17,500 lower than what they were last year.

If costs behave as predicted and the new machine is purchased, which one of the following will be the sales break-even point in dollars?

- a) \$ 40,000
- b) \$ 80,000
- c) \$160,000
- d) \$200,000

Use the following information to answer questions 13 and 14.

On September 1, Harvest Dairy Inc. (HDI) put 200,000 litres of milk into production. There were 50,000 litres in process on August 31, which were 40% complete with respect to conversion costs and 90% complete with respect to direct materials. A total of 175,000 litres were transferred out to finished goods during September. Litres in inventory on September 30 were 85% complete with respect to conversion and 100% complete with respect to direct materials. There was no spoilage for September.

13. Assume that HDI uses the weighted-average method for costing inventory.

Which one of the following represents the equivalent units of production for conversion costs (CC) and direct materials (DM) for September?

- a) CC 155,000; DM 130,000
- b) CC 218,750, DM 205,000
- c) CC 238,750, DM 250,000
- d) CC 250,000, DM 238,750

14. Assume that HDI uses the first-in, first-out method for costing inventory.

Which one of the following represents the equivalent units of production for CC and DM for September?

- a) CC 155,000; DM 130,000
- b) CC 218,750, DM 205,000
- c) CC 238,750, DM 250,000
- d) CC 250,000, DM 238,750

15. Which one of the following statements reflects the strong form of the efficient market hypothesis?

- a) Only historical earnings information of a company is reflected in its current share price.
- b) Only announcements by a company are reflected in its current share price.
- c) All public and private information is reflected in a company's current share price.
- d) Only public information is reflected in a company's current share price.

16. Which one of the following is correct with respect to the internal rate of return (IRR) method of capital budgeting analysis?

- a) IRR is not easily understood by non-accountants, as it provides a relative measure rather than a dollar value.
- b) IRR may be used to measure the sensitivity of a project's value to changes in discount rates.
- c) IRR provides the most accurate estimate of the increase in shareholder wealth if the project is undertaken.
- d) The timing and magnitude of the cash flows are not taken into consideration under IRR.

17. A company has \$32 million in total assets, \$22.5 million in total debt (including \$3.7 million in accounts payable and \$1 million in accrued liabilities) and \$6 million in common shares.

Which one of the following is the company's debt-to-equity ratio?

- a) 1.8737
- b) 2.3684
- c) 2.9667
- d) 3.7500

18. Which one of the following is an appropriate method of recognizing project risk in capital budgeting decisions?

- a) Performing sensitivity analysis
- b) Decreasing the required rate of return
- c) Increasing the required payback time
- d) Increasing estimated cash inflows

19. Which one of the following is included when performing a net present value (that is, discounted cash flow) analysis in a capital budgeting decision?

- a) Tax effect of capital cost allowance
- b) Amortization on old equipment
- c) Amortization on new equipment
- d) Net book value of old equipment

20. When determining the cost of capital for a new project, which one of the following should a company consider?

- a) Cost of capital for a project of similar risk
- b) Discounted rate that makes the net present value equal to zero
- c) IRR of the project
- d) Cost of capital for the company

21. Which one of the following is correct with respect to sales forecasting?

- a) Sales forecasts should include estimates by department managers adjusted downward for conservatism.
- b) Sales forecasts should include an analysis of the general economic environment and the particular industry under consideration.
- c) All costs can be estimated fairly accurately by simply taking an average historical amount of sales.
- d) Detailed breakdowns based on monthly sales forecasts should be prepared except when a firm's sales are seasonal.

22. Which one of the following is the ethically acceptable way of managing a conflict of interest?

- a) Concealing the conflict of interest from affected parties
- b) Revealing the conflict of interest after being asked about it
- c) Giving up the interest in conflict
- d) Involving a related person as an overseer

23. Under accounting standards for private enterprises, which one of the following statements is correct with respect to accounting for a business combination?

- a) A gain from a bargain purchase is credited directly to retained earnings.
- b) A gain from a bargain purchase is credited to net income.
- c) A gain from a bargain purchase is credited to goodwill.
- d) A gain from a bargain purchase is credited to identifiable net assets.

24. Hot Inc. owns 80% of the common shares of Cold Ltd. Hot Inc. uses the cost method to account for its investment in Cold Ltd. during the year and consolidates its investment in Cold Ltd. at year end. Cold Ltd. has declared \$80,000 of dividends. Only \$30,000 of dividends have been paid.

Which one of the following should be included in the consolidation elimination entries?

- a) A credit to dividends declared of \$50,000
- b) A debit to non-controlling interest of \$10,000
- c) A debit to dividends receivable of \$40,000
- d) A debit to dividend income of \$64,000

25. On December 31, 2016, Duck Inc. sold some of its shares in Squad Ltd. for \$100,000, reducing its proportion of ownership from 75% to 60%. Duck Inc. uses the equity method to record its investment in Squad Ltd. The balance in the investment account on December 31, 2016, prior to the sale was \$537,000. The cost of these shares was \$375,000.

Which one of the following is the adjustment on this ownership disposal?

- a) \$7,400 loss as a direct adjustment to retained earnings
- b) \$19,450 gain on the statement of comprehensive income
- c) \$25,000 gain as a direct adjustment to retained earnings
- d) \$34,250 loss in other comprehensive income

26. On October 1, GER Inc. ordered a piece of equipment from a German company for €100,000. The transaction was **NOT** hedged. The equipment was delivered on November 1, and payment was made in full on December 31. The relevant exchange rates were as follows:

	Spot rate
October 1	€1 = C\$2.05
November 1	€1 = C\$2.15
December 31	€1 = C\$2.25

Which one of the following should GER Inc. record as the exchange gain or loss in earnings during the period of October 1 to December 31?

- a) \$20,000 loss
- b) \$10,000 loss
- c) \$10,000 gain
- d) \$20,000 gain

Use the following information to answer questions 27 and 28.

April Co. and Bright Co. have the following information related to their respective statements of financial position at December 31:

	April Co.	Bright Co.
Assets (book value)	\$5,000,000	\$4,000,000
Liabilities (book value)	\$2,000,000	\$1,500,000
Number of shares outstanding	50,000	200,000

The assets and liabilities listed above have a fair value that is very close to book value.

27. Assume that April Co. and Bright Co. come together and form one company, Cherry Ltd., which will have 70,000 shares. April Co. shareholders will receive 50,000 of the Cherry Ltd. shares and Bright Co. shareholders will receive 20,000 of the Cherry Ltd. shares.

In this situation, which one of the following is designated as the acquirer for accounting purposes?

- a) April Co.
- b) Bright Co.
- c) Cherry Ltd.
- d) Neither April Co. nor Bright Co. alone; this is a joint venture

28. Assume that April Co. issues 20,000 shares to Bright Co. in exchange for the net assets (assets and liabilities) of Bright Co. The newly issued April Co. shares have been valued at \$4,200,000.

In this situation, which one of the following should April Co. record as goodwill?

- a) \$ Nil
- b) \$ 200,000
- c) \$1,700,000
- d) \$4,200,000

29. When Maximus Corp. acquired 75% of the common shares of Connect Inc. on January 1, 2017, the fair market values of Connect Inc.'s machinery were \$50,000 higher than their book values. The machinery has a remaining useful life of five years.

Which one of the following statements is correct?

- a) Net income from Connect Inc. to be included on the 2017 to 2021 consolidated income statement will be reduced by \$7,500 per year
- b) Net income from Connect Inc. to be included on the 2017 to 2021 consolidated income statement will be reduced by \$10,000 per year.
- c) Net income from Connect Inc. to be included on the 2017 to 2021 consolidated income statement will be increased by \$10,000 per year.
- d) There would not be any effect on the 2017 consolidated income statement as a result of the fair value difference.

30. Which one of the following describes multiprocessing with respect to a computer operating system?

- a) The capability to supplement random access memory (RAM) by swapping program segments stored on hard disk into RAM
- b) The capability to install many microprocessors onto the system
- c) The capability to allow the system to run more than one application at a time
- d) The capability to add more memory to the system

31. Which one of the following methods is **NOT** effective in protecting a network from computer viruses?

- a) Implementing robust password protocols
- b) Training all personnel to browse only reputable Internet webpages
- c) Using up-to-date virus-protection software
- d) Scanning all USB drives before allowing data to be transferred to or from them

32. Which one of the following represents a record in the hierarchy of data elements?

- a) A collection of characters
- b) A collection of data for all columns
- c) A characteristic of a logical file
- d) A characteristic of an entity

33. Which one of the following statements describes information technology (IT)?
- a) The systems designed to create, capture, process, store and disseminate information
 - b) A system of hardware, software, data, procedures and people who produce information
 - c) The methods, inventions, standards and products, and how they are all networked together
 - d) The technologies in an organization used only for communications and Internet connectivity
34. Data that is stored in the form of tables that represent relationships using foreign keys is called which one of the following?
- a) A relational database
 - b) A non-relational database
 - c) A Structured Query Language
 - d) A self-describing collection of records
35. Which one of the following represents the two basic ways an online transaction processing system processes transactions?
- a) Multiuser processing and real-time processing
 - b) Batch-processing and real-time processing
 - c) Batch-processing and data processing
 - d) Data processing and real-time processing
36. Which one of the following describes the interconnection of computers in a single area, such as an office building, a school or a laboratory?
- a) The Internet
 - b) A local area network (LAN)
 - c) A wide area network
 - d) A wireless wide area network

37. Which one of the following is correct with respect to switches?

- a) Managed switches connect all devices through a single Ethernet cable.
- b) Switches connect a device's circuitry to the network cable.
- c) Switches are resistant to signal interference.
- d) Switches receive and transmit messages on the LAN.

38. Which one of the following types of malware is specifically programmed to spread using the Internet or other computer network?

- a) Worms
- b) Viruses
- c) Zombies
- d) Spyware

39. A virtual private network (VPN) is typically used to connect a corporate network and an individual computer over the Internet. Security is the key benefit of a VPN connection.

Which one of the following is the security advantage of a VPN over a common non-VPN connection?

- a) Port numbers
- b) Encrypted messages
- c) Remote access login
- d) Password-protected login

40. The following information pertains to Deepak Design Inc.:

Opening undepreciated capital cost balances	
Class 8 (20%)	\$12,000
Class 10 (30%)	\$10,000
Additions during the year	
Automobile	\$24,000

Which one of the following is the maximum capital cost allowance claim that Deepak Design Inc. may make for its current taxation year?

- a) \$ 7,800
- b) \$ 9,000
- c) \$10,200
- d) \$12,600

41. When calculating income from a business for tax purposes, which one of the following statements is correct?

- a) Meals and entertainment expenses are fully deductible if incurred for the purpose of earning income from the taxpayer's business.
- b) Meals and entertainment expenses are fully deductible, regardless of the purpose for which they are incurred.
- c) Meals and entertainment expenses are always 50% deductible.
- d) Meals and entertainment expenses are 50% deductible, with the exception of some specific expenses (such as staff parties, which are fully deductible under certain circumstances).

42. Phoenix Inc. (Phoenix) has a December 31 year end for tax purposes. Sunrise Inc. (Sunrise) has a March 31 year end for tax purposes. Phoenix acquired control of 100% of the shares of Sunrise on September 1.

Which one of the following statements is correct?

- a) Phoenix has a deemed year end for tax purposes immediately prior to the acquisition of control.
- b) Sunrise has a deemed year end for tax purposes immediately prior to the acquisition of control.
- c) Both Phoenix and Sunrise have deemed year ends immediately prior to the acquisition of control.
- d) Sunrise has to change its year end for tax purposes to December 31 to correspond with the year end of Phoenix.

43. Chen Industries Ltd. (CIL) is a Canadian-controlled private corporation that has a May 31 year end for tax purposes.

Which one of the following is the date by which CIL must it file its corporate income tax return?

- a) No later than November 30
- b) No later than June 30
- c) No later than July 31 if it has a balance of taxes owing
- d) No later than August 31 if it has a balance of taxes owing

44. Anna Galbraith owned residential land north of Edmonton until February 28, 2016. Anna purchased the land five years ago for \$100,000. On March 1, 2016, Anna sold the land (capital property) to Ramal Fala for \$500,000. Ramal gave Anna an initial down payment of \$50,000 on March 1, 2016, with the balance payable in three equal annual instalments commencing two years later, on March 1, 2018. When filing her tax return for 2016, Anna claimed the maximum allowable reserve in order to declare the minimum amount of taxable capital gain from this transaction.

Anna is now filing her 2017 income tax return and would like to claim the maximum allowable reserve in order to declare the minimum amount of taxable capital gain for 2017.

Anna can achieve this by doing which one of the following?

- a) Claiming a capital gains reserve of \$240,000 and declaring a taxable capital gain of \$40,000
 - b) Claiming a capital gains reserve of \$240,000 and declaring a taxable capital gain of \$80,000
 - c) Claiming a capital gains reserve of \$360,000 and declaring a taxable capital gain of \$0
 - d) Claiming a capital gains reserve of \$360,000 and declaring a taxable capital gain of \$40,000
45. Music Light Inc. is an online retailer and a Nova Scotia (HST of 15%) GST/HST registrant. Music Light Inc. sells a piano light to be delivered to a recipient in Ontario (HST of 13%).

Which one of the following is correct?

- a) GST of 5% must be charged.
- b) HST of 13% must be charged.
- c) HST of 15% must be charged.
- d) GST/HST of 15% must be charged and a rebate of 2% will be refunded.

46. Which one of the following statements is correct with respect to the requirement for a taxpayer to file an income tax return in a particular year?

- a) A corporation is not required to file a return for a taxation year if it only has capital gains in the year that are reduced to nil by capital losses.
- b) A corporation is not required to file a return for a taxation year if it is inactive and has no source of income and no expenses.
- c) Individuals are not required to file a return for a taxation year only if they have no taxable income.
- d) Individuals are not required to file a return for a taxation year if they have no taxable income and have not disposed of capital property in the year.

47. Samantha Worth works as a nurse. Samantha acquired a 20-unit rental apartment building, and soon after its acquisition, she applied and received approval to convert the property into 20 condominium units to sell. The 20 units were sold within a year, resulting in an overall loss of \$10,000.

Which one of the following describes the tax treatment of this transaction?

- a) The loss is a capital loss that can be offset against any source of income.
- b) The loss is a capital loss that can be offset only against taxable capital gains.
- c) The loss is a property loss that can be offset only against property income.
- d) The loss is a business loss that can be offset against any source of income.

48. Cameron McKenzie is an employee and shareholder of Oak Ltd., a Canadian-controlled private corporation. Oak Ltd. routinely offers its employees loans for certain specific purposes. Cameron borrowed \$20,000 from Oak Ltd., repayable in five equal annual instalments plus interest at a rate prescribed by the Canada Revenue Agency.

Which one of the following reasons for the loan would result in an increase to Cameron's taxable income?

- a) To assist in acquiring a personal residence
- b) To assist in acquiring treasury shares of Oak Ltd.
- c) To assist in acquiring an automobile to be used in performing employment duties
- d) To assist in acquiring shares of Oak Ltd. from the other shareholders

49. Which one of the following describes the refundable dividend tax on hand account?

- a) An amount of taxes that a corporation can recover if it pays a dividend
- b) Dividend income a corporation can earn if it pays taxes
- c) Taxes paid to connected corporations
- d) Dividends received from related corporations

50. Which one of the following is the main tax advantage of incorporating a business?

- a) To clearly separate the business from other businesses the taxpayer controls
- b) To avoid having to guarantee loans of the business
- c) To have the possibility of deferring part of the tax on the income that remains in the corporation
- d) To reduce the amount of work that needs to be performed at year end and when the tax return must be filed