Core 1 Self-Assessed Entrance Exam — Questions

Financial Reporting

1. Explain the difference between a cash flow statement prepared using the indirect method versus the direct method

Catherine, your audit manager, has asked you to explain to your client, Michael, the difference between a cash flow statement prepared using the indirect method and a cash flow statement prepared using the direct method. How would you explain this to him?

a. The presentation and the amount of net cash flow from the operations section is different under both methods. The presentation and the amount of net cash flow from the investing and the financing sections is the same under both methods.

b. The presentation and the amount of net cash flow from the operations and investing sections are different under each method. The presentation and the amount of net cash flow from the financing section is the same under both methods.

c. The presentation of the operations, investing, and financing sections are different under both methods but the amount of net cash flow from the operations, investing, and financing sections under both methods are the same.

d. The amount of net cash flow from the operations, investing, and financing sections is the same under both methods. The presentation of the operations section is different under both methods. The presentation of the investing and financing sections is the same under both methods.

2. Calculate the impact of transactions on the cash account

Judy is preparing the cash flow statement for a client, AAA Moving and Storage. The company has several trucks as well as its own warehouse. The balance for property, plant, and equipment (PP&E) is as follows:

	20X6	20X5
PP&E, net of accumulated amortization	$825,000	$756,000

Other information available:

- Amortization expense is $79,000.
- A delivery van with a cost of $64,000 and accumulated amortization of $40,000 was sold. The sale took place halfway through the year.

What are the additions for PP&E for the year?

a. $ 69,000

b. $ 93,000

c. $148,000

d. $172,000

3. Analyze accounts receivable

The entry to write off a previously allowed-for uncollectable account does which of the following?

a. It increases the allowance for doubtful accounts (AFDA).

b. It has no effect on the allowance for doubtful accounts (AFDA).

c. It has no effect on net income.

d. It decreases net income.

4. Analyze accounts receivable

Kima Inc. had credit sales of $600,000 and cash collections of $450,000 last year. The ending balance in accounts receivable was $175,000. The allowance for doubtful accounts has a balance of $2,600. Bad debt expense is estimated at 1% of credit sales.

What was the bad debt expense for the year?

a. $1,500

b. $1,750

c. $6,000

d. $8,600

5. Analyze the component of an entity

In order to qualify for separate presentation on the income statement, a discontinued operation must be considered a component of an entity.

Which of the following would be considered a component of an entity?

a. A hotel in a hotel chain

b. The administration building of a large manufacturing company

c. A truck stop for a national trucking company

d. The warehouse of a communications company

6. Discuss the criteria that define held-for-sale assets

Assets are considered to be held for sale when several criteria have been met. Which of the following criteria must be met in order to define an asset as held for sale?

a. The asset is available for immediate sale in its present condition.

b. There is an authorized plan to sell the asset.

c. The asset is actively marketed and expected to be sold within two years.

d. Both a) and b) above.

7. Evaluate required adjustments to consolidated retained earnings

Which of the following statements is false?

a. Consolidated ending retained earnings is impacted by amortization to date of fair value differentials that arose at acquisition.

b. Consolidated retained earnings is impacted by unrealized profit in closing inventory on intercompany inventory sales.

c. Consolidated retained earnings is impacted by intercompany management fees recognized in the current year.

d. Consolidated retained earnings is impacted by an unrealized loss on an intercompany sale of equipment.

8. Evaluate the impact of a transaction on the consolidated financial statements

On November 1 of the current year, Bait Co. sold inventory to its wholly owned subsidiary, Tackle Ltd.; 80% of these goods were then sold by Tackle to customers of Tackle prior to the December 31 year end. What are all of the adjustments required for the preparation of the consolidated financial statements related to this transaction? (Ignore the effects of income taxes.)

a. Decrease sales and cost of sales by the intercompany selling price, and increase cost of sales and decrease inventory by the unrealized profit in ending inventory.

b. Decrease cost of sales by the unrealized profit in ending inventory and increase inventory by the same amount.

c. Increase cost of sales by the unrealized profit in ending inventory and decrease inventory by the same amount.

d. Decrease sales and cost of sales by the intercompany selling price of the inventory.

9. Consolidation at acquisition — Acquisition-related costs

How should acquisition-related costs, such as due diligence and legal costs, be accounted for?

a. Expensed as incurred

b. As part of the total consideration

c. As a reduction in equity

d. As a deferred asset

10. Consolidation at acquisition — Bargain purchase

A bargain purchase arises when the price paid to acquire a controlling interest in another company is less than the acquirer's share of the fair value of net assets of the company being acquired. At the end of your preliminary analysis, you believe that a business combination results in a bargain purchase. What is your next step?

a. Recognize an immediate gain in the consolidated statement of profit and loss without any further analysis.

b. Recognize a liability in the consolidated balance sheet.

c. Contact the acquiree to confirm its intention.

d. Reassess each step of your analysis to confirm your finding.

11. Analyze cash and cash equivalents

Which of the following statements is true?

a. Under IFRS, publicly traded bonds with a maturity less than or equal to three months are considered to be cash and cash equivalents.

b. There are no significant differences between IFRS and ASPE in the treatment of cash and cash equivalents.

c. Under ASPE, publicly traded bonds with a maturity less than or equal to three months are considered to be cash and cash equivalents.

d. Under ASPE, minimum balance requirements in bank accounts are considered to be cash and cash equivalents.

12. Analyze cash and cash equivalents

Which of the following is considered restricted cash?

a. Foreign currency where there is a limited market for exchange into the company's operating currency

b. Minimum balance requirements in bank accounts

c. Donations provided for a specific purpose in a not-for-profit organization

d. Both b) and c)

13. Analyze changes in accounting policies, estimates, and errors

Kevin, an audit associate at your firm, Stanford and Poor LLP, is reviewing accounting changes. Which of the following statements is correct?

a. If a company decides to change the amortization period of kitchen equipment from three years to five years because the equipment is lasting longer than originally intended, this change should be accounted for retrospectively.

b. If a company changes any of its accounting policies, it should include a note to the financial statements indicating the effect of the change on the current period and prior periods, but a description of the change is not required.

c. A company can account for changes in accounting policies prospectively if the change is required by a primary source of GAAP that permits or requires prospective application.

d. Under ASPE, a company may account for a change in its revenue recognition policy prospectively if the financial data needed to determine the impact on previous periods is readily available.

14. Analyze changes in accounting policies, estimates, and errors

Which of the following describes a change in accounting policy?

a. Inventory was sold below its carrying amount even though the inventory had been previously written down to what was believed to be the net realizable value.

b. A public company changes from the cost model to the revaluation model for measuring the value of land.

c. Development costs were capitalized when only five of six criteria for capitalization had been satisfied.

d. The company miscalculated the weighted average number of ordinary shares outstanding because it used the wrong date for a share issuance.

15. Analyze the accounting treatment for contingent losses and gains — ASPE

You, CPA, are the audit senior on the Louise's Landscaping (Louise's) file. in The year-end financial statements of Louise's were prepared in accordance with ASPE. Which of the following items has been reported correctly?

a. Louise's has been sued by a customer to whom Louise inadvertently sold poison ivy instead of Virginia creeper. The lawsuit is for $500,000. A liability for $500,000 has been recognized. Louise's legal counsel believes that Louise's is liable, but is unable to estimate the amount.

b. Louise's has been sued by a supplier for a disputed payment of $280,000. Louise's legal counsel believes that there is a 55% probability that she will have to pay. There is no liability recognized on the statements, but a description of the lawsuit and an estimate of the amount of loss is disclosed.

c. Louise's has sued Bruce's Manure, a supplier of bovine manure, for defamation. Louise's legal counsel has advised that Louise's is 95% certain to win the lawsuit and estimates the amount of the proceeds to be between $300,000 and $350,000. A receivable for $300,000 has been recognized.

d. Louise's has sued Rimmer's Reeds, a supplier of water flowers for $400,000. Louise's legal counsel has advised that Louise's is 90% certain to win, but cannot accurately estimate the amount that Louise's will collect. A receivable for $400,000 has been recognized.

16. Analyze the accounting treatment of a contingent liability — ASPE

Academy Vending Machines Inc. (Academy), along with several other parties, is being sued for $500,000 by a man who was badly burned when he spilled a cup of hot chocolate on himself at a skating rink.

Academy sold the hot chocolate machine to the rink during the year. At year end, Academy's lawyer and management team were unable to estimate the probability of a loss or the amount of the loss.

If Academy reports in accordance with ASPE, what is the appropriate treatment for the lawsuit in Academy's financial statements?

a. Accrue $500,000 and disclose that the outcome of the lawsuit is not determinable.

b. Disclose $500,000 and that the occurrence of the future event is unlikely.

c. Accrue only a portion of the $500,000, based on management's best estimate.

d. Disclose $500,000 and indicate that the result of the lawsuit is not determinable.

17. Calculate diluted earnings per share

Company A is a public company. They have:

- a total of 100,000 common shares outstanding.
- Six months before year end, Company A issued 20,000 debentures that are convertible into a total of 10,000 common shares.
- All of these debentures are outstanding at year end.

In computing diluted earnings per share calculation, the following would apply:

a. The common shares arising from the convertible debenture issued during the period would be included from the date the current fiscal period began.

b. Only the current common shares outstanding would be included in the denominator of the calculation.

c. The common shares arising from the dilutive convertible debenture issued during the period would be included from the date of issuance of the debenture.

d. The common shares arising from the convertible debenture issued during the period would only be included once converted.

18. EPS — basic

Stampede Inc. (SI) is a public company.

On January 1, Year 1, 65,000 common shares were issued and outstanding. During the year:

- 15,000 additional common shares were issued on April 1
- 20,000 preferred shares were issued on June 1
- these shares are non-cumulative and carry an annual dividend entitlement of $2 per share.
- no dividends were declared
- net income was $2,000,000

What is the basic EPS for SI for its fiscal Year 1 year end?

a. $24.50

b. $25

c. $25.70

d. $26.23

19. Defined contribution pension plan

Savon Inc. has a defined contribution plan. During 20X6, its current service cost was $350,000 and Savon paid this amount by the end of 20X6.

In 20X5, Savon had amended its plan for past services. The amendment required $890,000 to be paid into the plan. Savon paid this amount in two equal instalments of $445,000 in 20X5 and $445,000 in 20X6. The plan amendment related to past services provided by employees in 20X2, 20X3, and 20X4.

What is the amount of the pension expense for 20X6?

a. $350,000

b. $528,000

c. $795,000

d. $1,240,000

20. Defined contribution pension plan

Jeff has just joined a company that provides a defined contribution pension plan as a benefit for its employees. Jeff has come to you, CPA, to understand this pension plan and the obligations of the employer and employee.

Which of the following statements represents a defined contribution pension plan?

a. The employer has an obligation to ensure that the plan assets are sufficient to pay for the employee's pension benefit.

b. The pension expense includes the current service cost, interest costs, and any returns on the plan assets.

c. Annually, the employer pays fixed amounts that have been defined by the plan.

d. The employer guarantees a set amount to be paid on the employee's retirement.

21. Discuss foreign currency gains or losses

Angela's Artwork Inc. (Angela's) recently entered into a contract to supply artwork to a U.S. company. The controller of Angela's is not experienced with translation of foreign currency transactions and has made the following entries to record sales to the U.S. company without factoring in the impact of foreign currency on the transactions:

To record sales in USD dollars:

DR		Accounts receivable	$156,000	
	CR	Sales		$156,000

To record the collection of a portion of the receivable:

DR		Cash (USD)	$90,000	
	CR	Accounts receivable		$90,000

To record the conversion of a portion of USD cash to CDN cash:

DR		Cash (CDN)	$78,000	
	CR	Sales		$18,000
	CR	Cash (USD)		$60,000

Sales were made evenly over a period when the exchange rate was US$1.00 = C$1.33, and the exchange rate at the end of the fiscal year was US$1.00 = C$1.25.

The foreign exchange gain or loss to be reported on these transactions is determined as follows:

a. By comparing translated year-end receivables to translated sales

b. By comparing the sum of Canadian cash, translated year-end receivables, and translated U.S. cash to translated sales

c. By comparing the sum of translated year-end receivables and translated U.S. cash to translated sales.

d. There would be no foreign exchange gain or loss because the difference is an adjustment to sales

22. Analyze foreign currency transactions

An entity's functional currency is the dollar (or equivalent) in the environment:

a. Where the largest purchases occurred

b. In which its CEO resides

c. Where it has disclosed in the notes at the end of the year

d. In which it operates day to day

23. Analyze foreign operations

Which of the following statements regarding functional currency is true?

a. It is the currency that a company reports its financial results in.

b. It is the currency that a company primarily uses in its daily operations.

c. It is the currency that a company's key management receives remuneration in.

d. It is the currency that a company primarily invests in.

24. Analyze foreign operations

When discussing an integrated operation, which of the following statements is true?

a. Its functional currency is the same as in a self-sustaining operation.

b. Its functional currency can vary depending on the presentation currency

c. Its functional currency is the Canadian dollar.

d. Its functional currency can vary depending on the company’s reporting framework.

25. Discuss the capitalization of intangible assets

Under IFRS, intangible assets that may be capitalized include:

a. Internally generated goodwill

b. Internally developed brands

c. Overhead costs directly related to development activities

d. Borrowing costs related to research activities

26. Analyze development costs

Carson Inc. spent $25,000 to redesign the layout of its offices to improve efficiency. No new equipment or other expenditures were incurred. Carson Inc.’s CFO, Jim Peltice, reviewed all costs and noted no research amounts. Jim believes that all costs incurred are development costs per IAS 38 Intangible Assets.

How should Carson Inc. record the $25,000 redesign cost?

a. Add the $25,000 redesign cost to the cost of the office building as a betterment and amortize it over the remaining life of the building.

b. Record the $25,000 redesign cost as a specifically identifiable intangible asset if future benefit is likely and amortize it over the estimated period of benefit.

c. Expense the $25,000 redesign cost as a period cost.

d. Record the $25,000 redesign cost as goodwill since it improves the efficiency of the business.

27. Accounting for government grants

J1 Inc. (J1) received a government grant of $100,000 in fiscal 20X7. The purpose of the grant was to enable J1 to replace manufacturing equipment with “greener” options. The new equipment cost $800,000 and has an estimated useful life of five years. J1 applies IFRS. Which of the following is true about how to account for the government grant?

a. It must be recognized in income on a systematic basis over the life of the manufacturing equipment.

b. It must be recognized in income evenly over the life of the manufacturing equipment, which equals $20,000 per year.

c. It must be deducted from the cost of the manufacturing equipment in calculating the carrying amount of the asset, which equals a net carrying amount of $700,000.

d. It must be recognized as deferred income and recognized on a systematic basis over the useful life of the asset.

28. Accounting for government grants

The following case facts pertain to Bok Choy Inc. (BCI) and a grant received from the Ontario government:

- On day 1 of the 20X7 fiscal year, BCI received a grant for $5,000,000 toward the construction of a new building.
- The total construction cost of the building, which was completed on day 1 of the 20X7 fiscal year, was $25,000,000.
- The building is to be depreciated on a straight-line basis over the useful life of the building, which is expected to be 25 years.
- The grant does not have to be repaid unless BCI fails to meet certain conditions imposed by the Ontario government.
- Management has assessed that it is likely that BCI will meet all conditions of the grant.

What is the impact on income in 20X7 as a result of the above transaction?

a. Income will increase by $200,000.

b. Income will decrease by $800,000.

c. Income will decrease by $1,000,000.

d. It is not possible to calculate the impact on income without knowing which method BCI will use to account for the grant.

29. Impairment — ASPE and IFRS differences

Which of the following is a difference in impairment between IFRS and ASPE?

a. IFRS requires an assessment of indicators of impairment at least every reporting date, while ASPE requires assessment only when events or a change in circumstances require it.

b. Reversals of impairment losses are permitted under ASPE up to the original cost of the asset, while reversals are not permitted under IFRS.

c. ASPE uses discounted cash flows in assessing the recoverable amount, while IFRS uses the undiscounted cash flows.

d. Recognition of impairment under the ASPE model compares the carrying amount to the higher of the value in use and the fair value less costs to sell. The IFRS model compares the carrying amount to the undiscounted future net cash flows from use and disposal.

30. Impairment — ASPE

Nuts and Bolts Inc. (NBI) reports its financial statements in accordance with ASPE. Manufacturing equipment used to manufacture products that have not been selling as well as expected has been identified as potentially impaired. Relevant information to assist management in accounting for the equipment properly is as follows:

Cost of equipment	$200,000
Accumulated depreciation — equipment	$40,000
Undiscounted future net cash flows associated with the equipment (estimated)	$120,000
Fair value of equipment	$100,000

What is the impairment loss to be reported by NBI with respect to this equipment?

a. $40,000

b. $60,000

c. $80,000

d. $100,000

31. Prepare the journal entry to record income tax expense

ABC Co. is a privately owned company that reports under ASPE. For the year ending December 31, 20X6, the company reported earnings before tax of $100,000. The following additional information is available:

Depreciation	$20,000
Meals and entertainment	$2,000
Maximum possible capital cost allowance (CCA) claim	$25,000
Applicable tax rate	20%

What is the journal entry to record the total income tax expense for the year, assuming the company uses the taxes payable method and wishes to minimize taxes?

a. Dr. Income tax expense $20,000; Cr. Income taxes payable $20,000

b. Dr. Income tax expense $19,200; Cr. Income taxes payable $19,20

c. Dr. Income tax expense $20,200; Cr. Income taxes payable $19,200, Cr. Future income tax liability $1,000

d. Dr. Income tax expense $19,000, Cr. Income taxes payable $19,000

32. Which of the following statements is true with respect to accounting for income taxes?

a. Under IFRS, companies may choose to use either the deferred method or the future income tax method.

b. Under ASPE, companies must use the taxes payable method.

c. Under IFRS, the deferred income tax asset and the deferred income tax liability accounts are classified as current or noncurrent, according to the type of asset or liability that created them.

d. Under ASPE, companies choosing to use the future income tax method are not allowed to discount future income tax assets and liabilities.

33. Interim reporting — comparatives

Sammy Ltd. is a public company. Sammy is preparing its statement of comprehensive income for quarter 2, which ended on June 30, Year 2. What periods must be presented on the statement of comprehensive income?

a. Quarter 2, Year 2, and quarter 2, Year 1

b. Quarter 2, Year 2, quarter 2, Year 1, year-to-date, Year 2, and year-to-date, Year 1

c. Quarter 2, Year 2, and year-to-date Year 2

d. Quarter 2, Year 2, year-to-date Year 2, and year-to-date Year 1

34. Interim reporting — accounting policies

Isla Inc.'s controller is new and is preparing interim financial statements for the first time. At the year-end date, she spends a significant amount of time updating estimates for items like allowance for doubtful accounts. She is wondering about the work required to complete the interim statements, and has asked you, CPA, for guidance.

Which of the following statements is true?

a. The allowance for doubtful accounts remains the same as it will be updated at year end.

b. The allowance for doubtful accounts should be updated based on the same bad debt rates as the prior year.

c. The allowance for doubtful accounts should follow the same policies as at year end and be updated to reflect the appropriate measurement of accounts receivable.

d. The allowance for doubtful accounts is **NOT** disclosed in the interim financial statements; therefore, an adjustment is unnecessary.

35. Calculate the ending balance in inventory

Red Rocket Inc. had a beginning inventory on January 1 of 300 boxes of fuses at a cost of $9 per box. During the year, the following transactions occurred:

	Transaction	Boxes	Cost
February 10	Purchase	700	$ 7
March 20	Sale	500	
October 30	Purchase	100	$12
November 15	Sale	400	

Determine ending inventory using the FIFO (first in, first out) cost formula.

a. $1,900

b. $1,800

c. $1,666

d. $1,600

36. Identify costs to be included in the value of the finished goods inventory

Kaltech manufactures toolboxes for trucks in Sudbury, and maintains a head office in Toronto. The toolboxes are painted in a paint booth that requires Kaltech to adhere to strict safety standards, including always having a safety supervisor on site. Kaltech has a manufacturing facility and a separate sales and administration building.

Which of the following would be included in the value of finished goods inventory?

a. Safety supervisor’s wages

b. Amortization on the corporate headquarters

c. Storage costs, once production is complete

d. CEO’s wages

37. Discuss classification of leases under ASPE

You are discussing the classification of leases with Howie, a fellow associate at Burns and Pickle LLP. Which one of Howie's statements regarding leases for a company reporting under ASPE is correct?

a. A lease is a capital lease if the present value of the minimum lease payments is 75% or more of the fair market value of the property at the inception of the lease.

b. If a lease has no bargain purchase option, it must be classified as an operating lease.

c. From a lessee's perspective, when determining the present value of the minimum lease payments, you only include annual lease payments.

d. When calculating the interest rate implicit in the lease, you include the minimum lease payments plus the unguaranteed residual value of the leased property.

38. Calculate the present value of the minimum lease payments

On January 1, 20X6, Beatty Inc. entered into a five-year lease to acquire some machinery. Beatty reports under ASPE and is the lessee. The terms of the lease are as follows:

- Lease payments of $25,000 are made annually on the first day of the year.
- Included in the annual lease payments are maintenance fees of $2,000 per year.
- The machinery reverts to the lessor at the end of the lease and the lease contains no renewal options.
- Beatty uses straight-line depreciation for the machinery that it owns.
- The machinery has a fair value of $100,000 on January 1, 20X6, and has an estimated economic life of five years with no residual value.
- Beatty's incremental borrowing rate is 11% per year.
- The lease's implicit interest rate is 10%.

What is the present value of the minimum lease payments?

a. $95,907

b. $94,356

c. $104,247

d. $102,561

39. Analyze deferred revenue

During the year, MNR Ltd. entered into a contract to provide monthly consulting services to XYZ Inc. The contract is expected to last for 12 months. It commenced on March 1 and MNR's year end is October 31. The total value of the contract is $120,000. XYZ paid the full amount on July 11.

Which of the following statements is correct with respect to MNR's October 31 financial statements?

a. MNR should record $40,000 as deferred revenue because the contract is not complete.

b. MNR should record $80,000 as deferred revenue because that is the amount earned.

c. MNR should record $120,000 as deferred revenue because the contract is not complete.

d. MNR should record $120,000 as revenue because that is the amount of cash received.

40. Analyze the timing of revenue recognition

Amaris Corp. manufactures and installs air conditioning systems. It recently signed a contract with Barkley Inc. to provide 10 custom-built air conditioning units, including installation, for total consideration of $250,000. Of this amount, $50,000 is non-refundable and is due in advance; the balance is due after all 10 units have been installed. The units will be manufactured and shipped over a one-month period, and the full installation will occur the following month. Amaris also sells air conditioning units without installation because several of its customers hire independent installers that they have used for other projects.

Which of the following statements is true?

a. Amaris should recognize $250,000 as revenue only when all installations are complete.

b. The non-refundable deposit should be recognized in revenue at the beginning of the contract.

c. The revenue related to the sale of air conditioning units cannot be recognized separately because the Barkley contract specifies that the installation must be completed.

d. The revenue related to the installation of air conditioning units can be recognized separately because there is evidence of a fair market value for the air conditioners.

41. Non-monetary transactions (NMTs) — ASPE and IFRS differences

You, CPA, are preparing a comparison of ASPE versus IFRS for a professional development session. You are looking at how ASPE and IFRS account for non-monetary transactions (NMTs). Which of the statements below is true?

a. IFRS and ASPE standards are completely converged in terms of NMTs; there are no differences.

b. IFRS requires non-monetary, revenue-generating transactions to be recorded at the fair value of the asset received when known.

c. IFRS does not provide guidance on measurement of NMTs and ASPE does.

d. ASPE does not provide guidance on measurement of NMTs and IFRS does.

42. Non-monetary transactions (NMTs) — Analyze the appropriate accounting treatment

Sunnybrae Inc. agrees to exchange inventory with a cost of $10,000 and a fair value of $14,000 for paving services from Tar Ltd. The paving has a cost of $8,000 and a fair value of $16,000. Sunnybrae compensates Tar with an additional $1,000 in cash. Sunnybrae reports under ASPE. At what value should Sunnybrae record the paving services?

a. The transaction should be measured at the $1,000 cash given up.

b. The transaction should be measured at $14,000.

c. The transaction should be measured at $15,000.

d. The transaction should be measured at $16,000.

43. Analyze not-for-profit accounting

Under accounting standards for not-for-profit organizations (ASPNO), fund accounting is:

a. A self-balancing set of accounts for each fund

b. Required for each fund

c. Typically shown as a row for each fund in the financial statements

d. Made up of net asset funds

44. Analyze not-for-profit accounting

Under ASNPO:

a. The deferral method facilitates tracking externally restricted contributions.

b. The NPO may have one bank account that includes the balances of several funds.

c. The statement of operations helps users understand which funds are available for use.

d. The fund method tracks all contributions separately in their own fund.

45. Passive investments — ASPE and IFRS differences

You, CPA, are teaching your firm's co-op student about passive investments. You decide to compare how ASPE and IFRS account for passive investments. Which of the following statements is true?

a. IFRS reports all passive investments at fair value, and ASPE reports passive investments at any of cost, fair value, or amortized cost.

b. Under both ASPE and IFRS, investments adjusted to fair value at each reporting date require the changes in fair value to be reported in net income.

c. For amortized cost investments, IFRS requires the use of the effective interest method, and ASPE permits a choice between the straight-line and effective interest methods.

d. Accounting is the same under IFRS and ASPE for passive investments.

46. Passive investments

Brown Inc. (BI) reports an investment in bonds using the amortized cost method. The bonds have a face value of $1,000,000 and were purchased on January 1, 20X7. The market interest rate is 8% and the bonds pay interest at a rate of 6%. Interest payments are made every June 30 and December 31. The bonds mature 10 years from the date of purchase, on December 31.

What journal entry records the acquisition of the bonds on January 1, 20X7?

a.

Dr. Investment in bonds	$864,100	
Cr. Cash		$864,100

b.

Dr. Cash	$864,100	
Cr. Bonds payable		$864,100

c.

Dr. Investment in bonds	$1,000,000	
Cr. Cash		$1,000,000

d.

Dr. Investment in bonds	$664,496	
Cr. Cash		$664,496

47. Property, plant, and equipment

Under IFRS, which of the following can be capitalized to the cost of land?

a. CEO's salary

b. Construction materials

c. Utilities

d. Title search

48. Property, plant, and equipment

The units of production method of depreciation:

a. Assumes that the benefit derived from the asset is higher in its initial years

b. Is the cost of the asset, net of the residual value, divided by the estimated useful life

c. Is based on allocating the cost in proportion to the fraction of capacity used

d. Is the book value of the asset multiplied by the depreciation rate

49. Determine whether an entity is a related party to the reporting entity using IAS 24

Flowers International Ltd. (Flowers), a wholesaler of plants, is a subsidiary of Blooms Inc. Flowers has a 25% ownership interest in Blooms Inc. Blooms Inc. sells floral bouquets nationwide and applies ASPE.

Which one of the following parties would be a related party to Blooms Inc.?

a. The sister to the spouse of Blooms' CEO

b. National Delivery Service, a company owned 15% by Flowers

c. CostGo, the largest customer of Blooms Inc.

d. The minority shareholder of Bloom, who accounts for the investment using the equity method

50. Related-party transactions — ASPE and IFRS differences

Which of the following is a required disclosure under IFRS but not ASPE?

a. Transactions

b. Amounts

c. Key management compensation

d. Obligations

51. Operating segments

Ninja Frog Inc., a publicly traded company, has seven operating segments all producing different products with the following results:

Segments	Sales	Profit (Loss)	Assets
Orange	$100	$50	$500
Yellow	15	(50)	60
Purple	200	25	100
Blue	125	10	10
Red	65	15	5
Pink	200	50	100
White	65	20	50
	$770	$120	$825

Based on the quantitative thresholds, how many reportable segments are there?

a. 3

b. 4

c. 5

d. 6

52. Operating segments

Each reportable segment must have which of the following disclosed?

a. Net earnings

b. Gross revenues

c. Related parties

d. Earnings per share

53. Analyze the timing of revenue recognition

Kingsmere Properties (Kingsmere) has just commenced construction on a multi-unit townhome development. Although construction will not be completed for another 12 months, some units have been pre-sold, and the future homeowners have made a down payment for homes in this popular new development. Payments are refundable if the development is not completed. The homes are a standard construction, and the future homeowners are not involved in the decision-making. Kingsmere is anxious to record this revenue as soon as possible in order to secure the necessary financing.

What would be the most appropriate accounting policy recommendation?

a. Recognize revenue when the home is completed and legal title transfers, because the performance obligation will not be satisfied until this time.

b. Recognize revenue when payments are received, because the amount to be recognized is measurable and collectable, and the performance obligation has been satisfied.

c. Recognize payments into revenue when the related operating expenses are recorded, because this will ensure that revenues match their related expenses.

d. Recognize revenue for the payments in accordance with the owners' wishes, because there appears to be uncertainty and, as such, the policy can match user objectives.

54. Evaluate a wholesale inventory transaction using revenue recognition criteria

A company sells clothes wholesale from its factories overseas to department stores in Canada. The shipping terms are FOB Shipping. Under ASPE, at what point are revenues generally recognized in the financial statements?

a. When the return period has expired

b. When the clothes are shipped to the customer

c. When future benefits of an asset expire

d. When contracts/invoices are prepared

55. Evaluate the treatment of subsequent events under their appropriate treatment — adjustment or disclosure

ASPE identifies two types of subsequent events:

i) those that provide further evidence of conditions that existed at the financial statement date; and

ii) those that are indicative of conditions that arose subsequent to the financial statement date.

How should event ii) be treated?

a. Adjust the financial statements

b. Disclose within the notes to financial statements

c. No action required, as the company is a going concern

d. Both options a) and b) above

56. Analyze the appropriate treatment of a subsequent event

Which of the following subsequent events would require an adjustment to the company's financial statements?

a. Purchase of a business by the company subsequent to the financial statement date

b. Change in foreign currency exchange rates subsequent to the financial statement date

c. Initiation of bankruptcy proceedings subsequent to the financial statement date against a customer with a large accounts receivable balance

d. Commencement of litigation where the cause of action arose subsequent to the date of the financial statements

57. Significant influence — equity

Bedford Inc. (BI) acquired 25% of the shares of Red Inc. (RI) in the current fiscal year for $150,000 with no fair value differentials. It was determined that BI's investment in RI should be accounted for using the equity method.

During the year:

- RI paid $100,000 in dividends.
- RI reported net income of $500,000, which included $20,000 (in profits) that resulted from sales of inventory to BI.

BI has yet to process the inventory it purchased from RI. This inventory will be processed next year and the resulting product will be sold to one of BI's customers.

What should be reported as "investment in RI" on BI's current-year statement of financial position? Ignore any potential tax consequences.

a. $150,000

b. $170,000

c. $245,000

d. $250,000

58. Significant influence — equity

Company A has significant influence over Company B. Under IFRS, which one of the following factors could cause Company A's investment account to decrease?

a. Purchase price

b. Goodwill

c. Net income

d. Unrealized profit in inventory

59. Describe the possible outcomes related to a sale to a foreign customer

Recently, Claries Clothing Inc. (CCI), a Canadian company, received an order to sell to a new customer in the United States. The invoice is for US$300,000. The customer has agreed to pay on October 15, 20X6, two months from the date of sale and shipment.

It is now the date of sale and shipment, and the exchange rate is US$1 = C$1.20. The company has taken no action to offset its foreign exchange risk at this point.

Which of the following statements BEST describes possible outcomes related to this sale?

a. If the customer pays the invoice immediately, at the date of sale, there is foreign exchange risk associated with the amount of the sale and an exchange gain of $60,000 is recorded [$300,000 × ($1.00 – $1.20)].

b. If CCI enters into a forward contract on the date of sale and shipment, based on a two-month forward rate of US$1 = C$1.23, CCI will record an exchange loss of $9,000 on the date the customer pays.

c. If the customer pays in two months, and if the exchange rate is US$1 = C$1.25 at that time, CCI will realize an exchange loss of $15,000.

d. If the customer pays in two months, and if the exchange rate is US$1 = C$1.25 at that time, CCI will realize an exchange gain of $15,000.

60. Describe the difference between a forward contract and options used to hedge a sale

With respect to the differences between a forward contract and options when used to hedge, which of the following statements is correct?

a. One drawback of a forward contract is that there is very little flexibility in the amounts that can be agreed upon for the notional amount of currency to be contracted.

b. One advantage of an option is that the company is not obligated to fulfil the contract.

c. One disadvantage of an option is that there is a margin account that must be maintained with the broker and settled with cash on a daily basis.

d. One advantage of a forward contract is that there is counterparty risk requiring each party to comply with the contract.

61. Analyze the timing of revenue recognition

Joe's Cycling Shop (Joe's), a private company selling both road and leisure bicycles, held a year-end sale. On December 31, Joe's year end, a customer wanted to purchase a road bike with a cost of $3,000 and a sales price of $3,500. The customer decided to pay $200 to put the bike on hold under the agreement that he could walk away from the purchase within seven days and still have his money refunded. The accountant for Joe's recorded the following entry to recognize the arrangement on December 31:

Dr. Cash	$200	
Dr. Accounts receivable	$3,300	
Cr. Sales		$3,500

You are performing the review engagement of Joe's. What adjusting entry, if any, would be required to properly account for this arrangement?

a. Dr. Cost of goods sold $3,000; Cr. Inventory $3,000

b. Dr. Sales $3,300; Cr. Accounts receivable $3,300

c. Dr. Sales $3,500; Cr. Accounts receivable $3,300, Cr. Deferred revenue $200

d. Dr. Sales $200; Cr. Deferred revenue $200

Assurance

62. Assesses the risks of the project

P&M Ltd. is a property development company. Lately, it has been struggling, as the turmoil in the economy has caused the real estate market and P&L's assets to decline in value. P&M has debt coming due in the current year and the covenants are only marginally being met at this time. P&M has also just reported operating losses and was forced to cancel its dividend. You have assessed and performed audit procedures on management's action plan and found that the plan appropriately supports that the company will be able to renegotiate terms of the maturing debt.

Which issue exists?

a. No issue exists.

b. A going-concern issue exists.

c. A material uncertainty exists.

d. A going-concern issue and a material uncertainty exist.

63. Analyze client acceptance considerations

Which of the following is true regarding an engagement letter?

a. It describes the responsibilities of management, but does not describe the responsibilities of the practitioner.

b. It identifies the applicable financial reporting framework for the preparation of the financial statements.

c. It outlines any new or emerging risks that could have an impact on the engagement.

d. It is prepared by the auditor prior to the start of the audit and is acknowledged by the client at the end of the audit.

64. Analyze audit planning stages

Which of the following statements regarding testing is true?

a. Tests of controls are always performed.

b. Test of controls and substantive tests are always performed.

c. Test of controls and analytics are always performed.

d. Detailed substantive tests are always performed.

65. Analyze audit approach

In which of the following situations would a practitioner use a purely substantive approach instead of a combined approach when planning the audit?

a. The company's chief financial officer is a CPA.

b. The company has many transactions.

c. The company has controls that can be relied on.

d. The company has few transactions.

66. Analyze audit evidence

If the practitioner is unable to obtain sufficient appropriate audit evidence related to all accounts, classes of transactions, and disclosures in the financial statements, then the practitioner is unable to:

a. Continue with the engagement

b. Issue an unqualified opinion

c. Perform a combined audit

d. Rely on management's statements as fact

67. Analyze audit evidence

Which of the following statements regarding audit evidence is true?

a. Sufficiency is the measure of the quality of audit evidence.

b. The higher the relevance and reliability, the lower the quality of results

c. The higher the quality, the less evidence may be required.

d. Reliability refers to the connection between audit procedures and assertions.

68. Analyze sampling

When a sample is stratified, which items would the practitioner judgmentally select from the population for testing?

a. High-value items

b. High-risk items

c. Representative items

d. Both a) and b) above

69. Analyze substantive procedures

Obtaining written communication from a third party and footing subledger are examples of which two types of substantive procedures, respectively?

a. Inspection and observation

b. Confirmation and recalculation

c. Analytical reviews and reperformance

d. Inquiry and reperformance

70. Auditor's report

Steven, CPA, has completed his audit of Abbots Machining Inc. (AMI). The confirmation of accounts receivable did not go well, and the majority of AMI's customers were unresponsive to the confirmations and follow up requests. Steven is now preparing the auditor's report.

This failure to be able to obtain external confirmation of customers' outstanding balances was determined to potentially have material and pervasive impacts on the financial statements.

As a result, the auditor's report will have:

a. A qualified opinion

b. A disclaimer of opinion

c. An emphasis of matter paragraph

d. An adverse opinion

71. Types of misstatements found in audits

You, CPA, are conducting an audit of your client, Window Installers Inc. You have just completed your audit of the inventory and found that the opening inventory had incorrectly included the inventory at an off-site storage facility twice, causing the opening inventory to be overstated by $135,000.

What type of misstatement does this represent?

a. Fraud

b. Factual

c. Projected

d. Judgmental

72. Analyze a breach of the rules of professional conduct

Bartle and Nibson LLP (BN) accepted the audit engagement of Austin Design Ltd. (Austin) from one of its competitors:

- Austin indicated it chose BN after seeing BN's advertisement in the yellow pages.
- Austin is going public and has agreed to compensate BN for its services at a rate of 1% of the funds raised from the public offering.
- Austin is BN's largest client.

Which of the following represents a breach of the rules of professional conduct regarding BN's relationship with Austin?

a. Association with a disreputable client

b. Accepting a contingent fee for consideration

c. Soliciting another firm's client

d. Being economically dependent on a client

73. Assess the risk of material misstatement (OFSL)

You, CPA, work for the public accounting firm Dickson and Doerksen LLP. You are the senior auditor of Aero Corp Inc. (Aero), a new client. While reviewing your notes from a meeting with the client for this year's upcoming audit, you note the following information related to Aero's risk assessment:

This is the first year the company is being audited by Dickson and Doerksen LLP.

- The company has generated stable profits for the last 10 years.
- The company is looking to issue an initial public offering (IPO) next year.
- The company lacks an internal audit function.
- The company's accounting department is stable.

Which of the following statements is true?

a. Aero is being audited by Dickson and Doerksen LLP for this first time this year. This factor has no impact on overall financial statement level risk.

b. Aero's ability to generate stable profits for the last 10 years increases risk at the overall financial statement level.

c. Aero's plan to issue an IPO next year has no impact on overall financial statement level risk.

d. The company lacks an internal audit function. This factor has an impact on overall financial statement risk.

74. Assess the risk of material misstatement (specific account)

You are planning the audit engagement of a new client, Campbell's Collectibles Ltd. (Campbell), a retailer of movie memorabilia. Which one of the following represents an inherent risk factor at the account level for sales?

a. The majority of Campbell's sales are made to the U.S. and France. These sales are made in U.S. dollars.

b. Campbell has been experiencing poor financial health over the past five years, and revenues have declined dramatically in the current year.

c. In an attempt to improve the financial results of Campbell, management has implemented a new employee bonus plan based on net income.

d. Campbell is a new audit client for our firm.

75. Analyze the materiality threshold

You are planning a continuing audit engagement. Several new events and factors have been identified in the planning stage. Which of the following would prompt you to consider reducing materiality from the prior year?

a. The client laid off 50% of the accounting department staff during the year.

b. The client is currently negotiating the issuance of a new class of preferred shares to a potential investor.

c. The client is in the process of renegotiating its operating line of credit with the bank. The client has used this bank for several years, and the bank's policy is to renegotiate every two years.

d. The client introduced a new line of products that have a high risk of obsolescence.

76. Calculate materiality

You, CPA, are provided with the following financial information of your audit client Green Tee Ltd:

- Net income before tax is $200,000.
- Net income after tax (20%) is $160,000.
- The sale of public company shares resulted in a $50,000 gain.
- There was a one-time bonus paid to the production manager for $75,000.
- Green Tee paid severance of $25,000 to the production manager.
- Green Tee's assets include the purchase of a new chocolate mould for $25,000.
- Liabilities include a new bank loan to cover the cost of the new mould.

Using normalized net income before tax as a base and 5% as a threshold, what is the estimated materiality for Green Tee?

a. $7,500

b. $8,000

c. $10,000

d. $12,500

77. Financial statement analysis

Financial statement analysis:

a. consists solely of ratio analysis and interpretation including current, quick, and debt ratios

b. focuses on comparisons within a company, such as business units, departments, product lines, or employees

c. requires analysis on the full balance sheet and income statement

d. relates to several competency areas including financial reporting and strategy governance

78. Financial statement analysis

Which of the following statements for financial statement analysis is true?

a. A high debt-to-equity ratio is a negative qualitative factor.

b. A high gross-margin-percentage ratio is a negative qualitative factor.

c. A high dividend-payout ratio is positive qualitative factor.

d. A high days-payable-outstanding ratio is a positive qualitative factor.

79. Discuss assertions — Cash

A bank confirmation tests which of the following assertions?

a. Existence

b. Rights and obligations, and existence

c. Accuracy

d. Rights and obligations

80. Discuss assertions — Inventory

You are auditing the inventory of International Potash. The company stores a significant amount of potash inventory off-site at third-party warehouses. The audit manager would like you to send inventory confirmations to a sample of these off-site, third-party warehouses. The confirmation requests that the third-party warehouse indicate the quantity of inventory held. For the inventory account, which of the following assertions would be covered by this procedure?

a. Existence

b. Accuracy and existence

c. Valuation and allocation, and existence

d. Rights and obligations, and existence

81. Evaluate internal controls — IT controls

Nabors Enterprises has 14 desktop computers in its accounting department, as well as six laptop computers. All the computers are password protected and connected by a secured wireless network. Staff can use the computers for personal use outside of working hours.

What should Nabors do to prevent a possible loss of information?

a. Nabors should ensure the computers have up-to-date virus and spyware protection.

b. Nabors should monitor the personal use of the computers at work.

c. Nabors should perform regular backup procedures.

d. Nabors should eliminate the use of laptop computers.

82. Evaluate internal controls — Sales and collection cycle

Denver Company has an online, real-time order entry system. Denver Company has two key business objectives:

- Ensure products are shipped only to good credit risk customers.
- Minimize any undue shipping delays.

Which one of the following controls would best contribute to meeting both of these key business objectives?

a. All orders that cause the customer’s accounts receivable balance to exceed the credit limit are printed on an exception report for followup after the goods are shipped.

b. All orders that cause the customer’s accounts receivable balance to exceed the credit limit are printed on an exception report and are reviewed by the credit manager on a daily basis before the shipment is released.

c. Orders will not be accepted by the system once the customer’s accounts receivable balance is greater than the customer’s credit limit.

d. All orders that cause the customer’s accounts receivable balance to exceed the credit limit are printed on an exception report and are reviewed by the credit manager on a weekly basis before the shipment is released.

Taxation

83. Assesses general tax issues for an individual

Which of the following statements is true?

a. Where a tax-planning arrangement involves a series of transactions and most of those transactions are for bona fide non-tax purposes, the GAAR cannot be applied to the tax-planning arrangement.

b. If the first two conditions under the GAAR are met (the planning arrangement resulted in a tax benefit and there was no bona fide non-tax purpose to the transactions in the planning arrangement), it is up to the taxpayer to prove a transaction or series of transactions in a tax-planning arrangement is not an abusive avoidance arrangement.

c. Generally, all tax-planning arrangements result in a tax benefit to the taxpayer engaging in the transaction or series of transactions

d. The CRA will attempt to assess a taxpayer under the GAAR in any situation where a tax-planning arrangement results in a tax benefit to the taxpayer.

84. Advise taxpayers with respect to assessment, notice of objection, and appeals

Telco Inc., a public corporation, received a notice of reassessment for its 2012 taxation year. The notice was dated July 27, 2016. Telco has a November 30 year end. The original assessment for 2012 was dated March 31, 2013.

Telco does not agree with the reassessment. By what date does Telco need to file the notice of objection?

a. May 31, 2016

b. August 27, 2016

c. October 25, 2016

d. November 30, 2016

85. Analysis of employee versus contractor

Which of the following additional case facts would indicate an assessment that the individual is a contractor?

a. The individual registers for a GST account.

b. The individual is not permitted to work for other catering business.

c. The individual receives a set monthly schedule.

d. The individual receives remuneration as a percentage of total clients served.

86. Identify a taxable benefit

Which of the following is a taxable benefit to an employee?

a. Payments made for a private health services plan

b. Payment for a $400 gold watch to commemorate six years of service

c. Payment for tuition for a course on “building good relationships with clients”

d. Payment of an employee’s spouse’s travelling expenses incurred while accompanying the employee on a business trip

87. Calculation of rental income or loss

Matilda owns two rental properties, both of which were acquired in 2010. You have been provided with the following information for the two properties for the current year:

	Property I	Property II
Undepreciated capital cost	$160,000	$190,000
Revenue	$ 33,000	$ 26,200
Expenses (1)	24,600	29,100
Net rental income	$ 8,400	$ (2,900)

Note 1: Expenses include property taxes, insurance, interest, and maintenance and repairs. The tenants pay the utilities.

What amount of net rental income or loss will be included in Matilda’s personal tax return for the current year?

a. $(900)

b. $0

c. $(8,500)

d. $2,000

88. Discuss principal residence exemption

In Year 1, John purchased a house in the city. In Year 6, he purchased a cottage at the lake. In Year 13, he sold both the house and the cottage and realized capital gains of $195,000 and $168,000 on the house and cottage, respectively. John wishes to minimize the taxable capital gain to be included in his income as a result of the disposal of these two properties by claiming the principal residence exemption.

How many years should John designate each property as his principal residence to maximize the principal residence exemption and minimize his taxable capital gain?

a. House in city, 12 years; cottage, 1 year

b. House in city, 5 years; cottage, 8 years

c. House in city, 6 years; cottage, 7 years

d. House in city, 12 years; cottage, 0 years (not considered a principal residence)

89. Determines income taxes payable for an individual in routine situations

During the year, Ken and Barbie were divorced. The divorce agreement states Ken is to pay Barbie $2,000 per month in spousal support and $2,500 per month in child support beginning April 1 of the current year. Which of the following statements is true?

a. Ken’s current-year deduction from net income as a result of the payment of spousal and child support is $nil.

b. Ken’s current-year deduction from net income as a result of the payment of spousal and child support is $18,000.

c. Barbie will include $22,500 in her net income as a result of receiving spousal and child support.

d. Barbie will include $40,500 in her net income as a result of receiving spousal and child support.

90. Deductible moving expenses

Early in the current year, Ed found a new job that required him to relocate from Saskatoon to Edmonton. He incurred the following costs with respect to the move:

Cost of flight and cab fare for house-hunting trip to Edmonton (1)	$ 545
Lease cancellation costs on Saskatoon home	590
Cost of moving household effects	2,180
Legal fees and title transfer fees on Edmonton home	1,860

(1) Ed made a one-day trip to Edmonton to find a new home. He had done significant research prior to the trip, so with the help of a realtor, it took only one day to finalize the purchase of a home.

Assuming Ed earned sufficient employment income after the move, what is the maximum claim Ed may make for moving expenses?

a. $3,315

b. $4,040

c. $5,175

d. $2,770

91. Advises on specific tax-planning opportunities for individuals

Jack has $20,000 pre-tax income to invest in a plan. He will use the money to buy his first house in five years. Jack's current marginal tax rate is 35% and it will be 45% in five years. He expects a 4% rate of return on his investments. Which of the following statements is correct?

a. The TFSA is a better investment because the earnings on the investment will be tax-free.

b. The RRSP is a better investment because he can withdraw the money tax-free but the funds will need to be repaid.

c. The amount withdrawn in five years will be higher for the TFSA than for the RRSP.

d. The amount withdrawn in five years will be the same for both TFSAs and RRSPs.

92. Discuss deductibility of charitable donations

A personal tax client, Juliet, has asked you to explain the tax rules related to charitable donations made by her and her spouse, Ellis. Which one of the following statements is *false*?

a. Juliet and Ellis can include the total of their charitable donations on either of their tax returns.

b. The lower-income spouse, Ellis, must claim the charitable donations.

c. Either Juliet or Ellis can claim the charitable donations.

d. Any unclaimed charitable donations can be carried forward for a period of up to five years.

93. Identify qualified small business corporation share criteria

Which of the following statements is *false* when determining if shares are considered to be qualified small business corporation shares?

a. The corporation is a Canadian-controlled private corporation (CCPC).

b. Shares were owned by the taxpayer for 24 months before being sold.

c. Over the 24 months preceding the sale, more than 50% of the fair value of the assets of the corporation must be used in an active business.

d. At the time the shares are sold, 90% of the book value of the assets must be used in an active business carried on primarily in Canada.

94. Calculate taxable income for a corporation

Evergreen Co. has computed its net income for tax purposes for 2017 as follows:

Income from business	$200,000
Dividends from taxable Canadian corporations	30,000
Dividends from foreign corporations	15,000
Taxable capital gains	10,000
Net income for tax purposes	$255,000

Evergreen made charitable donations of $5,000 to registered charities in the year. In addition, the company has the following carryover balances at the beginning of the year:

Net capital loss (2013)	$12,000
Non-capital loss (2014)	13,000
Charitable donations (2016)	2,000

What is Evergreen's taxable income?

a. $180,000

b. $178,000

c. $195,000

d. $197,000

95. Discuss employee taxable benefits

An employee will be required to include a taxable benefit in his return if:

a. The employee uses a company car for business purposes.

b. The employee is a senior accountant with a public accounting firm, and the firm pays for the employee's CPA membership dues.

c. The employee has a loan from his employer at a rate that is below the prescribed rate but pays the interest within 30 days of the end of the calendar year.

d. The employee uses his own automobile for company business, and the company reimburses him at a reasonable rate acceptable to the Canada Revenue Agency (CRA).

96. Discuss taxation of employee benefits

Cleanco Supply Ltd. sells cleaning supplies. The company is considering implementing new employee benefits. Which of the following statements about the taxation of the proposed benefits to the employees is true?

a. If Cleanco Supply paid premiums under a private health services plan for the employee, a taxable benefit would result.

b. Cleanco Supply could supply a built-in vacuum system worth $400 to an employee in recognition of a five-year term of service every five years without this being considered a taxable benefit.

c. Cleanco Supply could supply a fitness club membership worth $600 to all employees without this being considered a taxable benefit.

d. If Cleanco Supply offers loans at rates below the CRA's prescribed rates, the loans are not considered a taxable benefit to the employee.

97. Determine the optimal allocation of the medical expense credit

Harry and Vera are married. Harry's net income for the year was $65,000 and Vera's net income was $10,500. Assume the maximum threshold for medical expenses for 2017 is the lesser of 3% of net income and $2,268. Both Harry and Vera had a significant amount of dental work completed in 2017, with receipts totalling $2,300 for Harry and $1,100 for Vera.

Based on the information provided, on whose tax return would you include the medical expenses in order to optimize the tax benefit for Harry and Vera?

a. Both Harry's and Vera's medical expenses should be claimed on Harry's tax return.

b. Both Harry's and Vera's medical expenses should be claimed on Vera's tax return.

c. Harry's medical expenses should be claimed on Harry's return and Vera's medical expenses should be claimed on her return.

d. Harry and Vera will be indifferent between including the total of the medical expenses on either taxpayer's return.

98. Inputs into determining cash requirements

SunnyBrook Inc. is currently reviewing its cash balance and making plans for how much of this amount will be required in the next six months for transactions.

Which of the following planned transactions should **NOT** be taken into consideration in determining the amount of the cash on hand?

a. The delivery of a large piece of equipment which will be paid for on delivery

b. Annual dividends declared at the end of last month to be paid within 30 days of declaration

c. The granting of stock options to the CEO of the organization

d. Payment for the government-regulated inspection completed every five years for the elevators

99. Source of financing — Leasing

Which of the following is a disadvantage of leasing for the lessee?

a. The implied lease interest rate is less than the lessee's incremental borrowing rate.

b. The lessee will have to pay the unguaranteed residual value of the asset at the end of the lease term.

c. The lessee loses the tax savings associated with the capital cost allowance deductions allowed for the asset.

d. The lessee takes on the risk of selling or disposing of the asset at the end of the lease.

100. Capitalized cash flow approach — Equity value

You are calculating the value of a company using the capitalized cash flow approach. You have determined the following:

- The capitalized value of operations is $1,000,000.
- The current cash balance is $300,000 (management has informed you that it typically requires $100,000 to run the business).
- Other working capital is $200,000.
- Long-term debt is $300,000.

What is the equity value of the company?

a. $700,000

b. $900,000

c. $1,000,000

d. $1,100,000