Core 1 Self-Assessed Entrance Exam - Questions

1. FR035: 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 amount of net cash flow from the operations section is different under both methods.
   b. The amount of net cash flow from the operations and investing sections is different under each method.
   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.
2. FR036:
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:

<table>
<thead>
<tr>
<th></th>
<th>20X6</th>
<th>20X5</th>
</tr>
</thead>
<tbody>
<tr>
<td>PP&amp;E, net of accumulated amortization</td>
<td>$825,000</td>
<td>$756,000</td>
</tr>
</tbody>
</table>

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. FR197:
The following accounts were taken from Blue Monkey Inc.’s unadjusted trial balance at December 31, 20X6:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$850,000</td>
</tr>
<tr>
<td>Opening allowance for doubtful accounts (AFDA) January 1, 20X6</td>
<td>($11,000)</td>
</tr>
<tr>
<td>Net credit sales</td>
<td>$2,950,000</td>
</tr>
</tbody>
</table>

Blue Monkey estimates that 1.5% of the gross accounts receivable will become uncollectable. At December 31, 20X6, AFDA should have a credit balance of what amount?

a. $1,750  
b. $11,000  
c. $12,750  
d. $44,250
4. FR196:
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 (AFDA) has a current credit balance of $2,600. Based on an aging analysis, Kima has estimated that the allowance for doubtful accounts is 4% of the gross amount of outstanding receivables. What is the bad debt expense for the year?

a. $4,400
b. $6,000
c. $7,000
d. $9,600
5. FR089:
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. FR090:
Under IFRS, assets are considered 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. FR166:
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. FR314:
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 consolidation 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. FR309:
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. FR310:
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 preliminary finding.
11. FR199:
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 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 cash and cash equivalents.
d. Under ASPE, minimum balance requirements in bank accounts are considered cash and cash equivalents.
12. FR256:
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. FR080:
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. FR294:
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. FR067:
You, CPA, are the audit senior on the Louise’s Landscaping (Louise’s) file. 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 35% 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. FR069:
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. FR108:
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. FR290:
Stampede Inc. (SI) is a public company.

On January 1, 20X1, 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 20X1 year end?

a. $22.75  
b. $25.00  
c. $25.70  
d. $26.23
19. FR289:
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. FR283:
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. FR132:
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:

<table>
<thead>
<tr>
<th>DR</th>
<th>Accounts receivable</th>
<th>$156,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>Sales</td>
<td>$156,000</td>
</tr>
</tbody>
</table>

To record the collection of a portion of the receivable:

<table>
<thead>
<tr>
<th>DR</th>
<th>Cash (USD)</th>
<th>$90,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>Accounts receivable</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>DR</th>
<th>Cash (CDN)</th>
<th>$78,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>Sales</td>
<td>$18,000</td>
</tr>
<tr>
<td>CR</td>
<td>Cash (USD)</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

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. FR258: 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 its head office located at the end of the year
d. In which it operates day to day
23. FR272:
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. FR273:
When discussing an integrated operation for a Canadian company, 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. FR098:
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. FR045:
Carson Inc. spent $25,000 to develop a new open office concept expected to improve efficiency. Carson Inc. has patented the concept and plans to implement it in its own office before licensing it out to other companies. 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. FR214:
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. FR215:
The following case facts pertain to Bok Choy Inc. (BCI) and a grant received from the Ontario government:

- On January 1 of the December 31, 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 January 1, 20X7, was $25,000,000.
- The building is to be depreciated on a straight-line basis over its useful life, 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 transactions?

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. FR238:
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. Determining if impairment exists under the ASPE model compares the carrying
amount to the higher of the value in use and the fair value less costs of disposal. The
IFRS model compares the carrying amount to the undiscounted future net cash flows
from use and disposal.
30. FR239:
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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of equipment</td>
<td>$200,000</td>
</tr>
<tr>
<td>Accumulated depreciation — equipment</td>
<td>$40,000</td>
</tr>
<tr>
<td>Undiscounted future net cash flows associated with the equipment (estimated)</td>
<td>$120,000</td>
</tr>
<tr>
<td>Fair value of equipment</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

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. FR056:
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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>$20,000</td>
</tr>
<tr>
<td>Meals and entertainment</td>
<td>$2,000</td>
</tr>
<tr>
<td>Maximum possible capital cost allowance (CCA) claim</td>
<td>$25,000</td>
</tr>
<tr>
<td>Applicable tax rate</td>
<td>20%</td>
</tr>
</tbody>
</table>

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 $19,200  
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. FR059:
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 taxes payable 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. FR295:
Which of the following describes a change in an estimate?

a. A company changes the presentation of operating expenses from “by function” to “by nature.”
b. An enterprise switches from the gross method to the net method of presenting government grants.
c. A temporary difference was treated as a permanent difference when calculating deferred taxes (IFRS)/future taxes (ASPE).
d. The useful life of a building was originally estimated to be 20 years but, based on new information available, it was changed to 15 years as at the beginning of the year.
34. FR081:
Which of the following circumstances requires prospective treatment?

a. Your client amortizes computer hardware over four years and computer software over two years. While preparing the current-year financial statements, it is discovered that all computer hardware and software were amortized over two years.
b. Your client purchased some new equipment last year and determined that it should be amortized over five years. In the current year, a new model of the equipment was announced and your client plans on replacing the equipment next year. Your client has revised the amortization period of the existing equipment to the two remaining years.
c. In the current period, your client decided to switch from a straight-line method to a declining-balance method of amortization for a building your client owns because it determined that a competitor uses the declining-balance method of amortization for its buildings.
d. In reviewing the amortization schedule for last year, an adding error was found, which resulted in an overstatement of prior-year amortization expense of $10,000.
35. FR042:
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:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Boxes</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 10</td>
<td>Purchase 700</td>
<td>$7</td>
</tr>
<tr>
<td>March 20</td>
<td>Sale 500</td>
<td></td>
</tr>
<tr>
<td>October 30</td>
<td>Purchase 100</td>
<td>$12</td>
</tr>
<tr>
<td>November 15</td>
<td>Sale 400</td>
<td></td>
</tr>
</tbody>
</table>

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. FR020:
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. FR050: 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. FR048:
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 at the inception date?

a. $95,907  
b. $94,356  
c. $104,247  
d. $102,561
39. FR083:
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 yet complete.
d. MNR should record $120,000 as revenue because that is the amount of cash received.
40. FR010:
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. FR202:
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. FR177:
John Book, a designated accountant with Books Accounting (Books), offers to prepare the first-year tax return for New Web Design (New Web), a start-up company. In exchange for Book’s services to file New Web’s tax return, New Web will design its first trial cloud-based service application for John’s accounting business. How should this transaction be recorded, as per ASPE?

a. Neither company is required to record this transaction.
b. Only New Web should record this transaction at the fair value of the service given up.
c. Both New Web and Books should record this transaction at the fair value of the asset given up.
d. Both New Web and Books should record this transaction at an amount equal to the fair value of the tax return filing service.
43. FR261:
Which of the following statements about fund accounting under accounting standards for not-for-profit organizations (ASPNO) is true?

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. FR262:
Under ASNPO, which of the following statements is true?

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. FR206:
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. FR207:
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. FR227:
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. FR230:
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. FR178:
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 IFRS.

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. FR222:
Which of the following is a required disclosure under IFRS, but not ASPE?

a. Nature of transactions
b. Amounts
c. Key management compensation
d. Obligations
51. FR298:
Ninja Frog Inc., a publicly traded company, has seven operating segments all producing different products with the following results:

<table>
<thead>
<tr>
<th>Segments</th>
<th>Sales</th>
<th>Profit (Loss)</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orange</td>
<td>$100</td>
<td>$50</td>
<td>$500</td>
</tr>
<tr>
<td>Yellow</td>
<td>15</td>
<td>(50)</td>
<td>60</td>
</tr>
<tr>
<td>Purple</td>
<td>200</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>Blue</td>
<td>125</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Red</td>
<td>65</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Pink</td>
<td>200</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>White</td>
<td>65</td>
<td>20</td>
<td>50</td>
</tr>
</tbody>
</table>

| Total    | $770  | $120          | $825   |

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

a. 3
b. 4
c. 5
d. 6
52. FR299:
Each reportable segment must have which of the following disclosed?

a. Net earnings
b. Gross revenues
c. Related parties
d. Earnings per share
53. FR002:
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. FR120:
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. FR180:
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 is required, as long as the company is a going concern.
d. Both options a) and b) above
56. FR145:
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 at year end
d. Commencement of litigation where the customer slipped on ice and fell after year end
57. FR211:
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. FR212:
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. FR025:
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.

On August 15, 20X6, the goods were shipped and invoiced. On this date the exchange rate is US$1 = C$1.20. The customer has agreed to pay on October 15, 20X6, two months from the date of sale and shipment. 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. FR024:
On February 1, 20X6, Nickel Mining Co. (NMC) decided to use a forward contract to hedge the price of nickel on 150,000 pounds of nickel, which represents 30% of its annual sales. Currently, the spot price is $6 per pound. NMC will settle the contract on July 31, 20X6. The company has entered into a forward contract to deliver 150,000 pounds of nickel on July 31, 20X6, at a forward price of $7 per pound.

Which of the following statements BEST describes what this contract means for NMC?

a. NMC will purchase 150,000 pounds of nickel on July 31, 20X6, and will have to pay $1,050,000.
b. NMC will deliver 150,000 pounds of nickel on July 31, 20X6, and receive cash of $900,000 on delivery.
c. NMC will deliver 150,000 pounds of nickel on July 31, 20X6, and receive the higher of the $7 per pound or the spot price on that date per pound.
d. NMC will deliver 150,000 pounds of nickel on July 31, 20X6, and receive $1,050,000 on delivery.
61. FR003: 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:

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Cash</td>
<td>$200</td>
</tr>
<tr>
<td>Dr. Accounts receivable</td>
<td>$3,300</td>
</tr>
<tr>
<td>Cr. Sales</td>
<td>$3,500</td>
</tr>
</tbody>
</table>

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

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
62. A195:
You, CPA, are conducting an audit of your client, Georgetown Plastic Corp. (GPC). Early in the fiscal year, GPC suffered a gas explosion, which had a significant impact on its results and will continue to have a significant effect on its financial position. The gas explosion has been properly recognized and disclosed in the financial statements. You were able to obtain sufficient appropriate audit evidence to ensure that the financial statements at year end are free of material misstatements.

As part of your auditor's report, which of the following must be included?

a. An emphasis of matter paragraph
b. A scope limitation
c. A qualified opinion
d. An adverse opinion
63. A005:
Which of the following statements regarding an audit of financial statements is true?

a. They increase agency costs  
b. They increase agency risk  
c. They increase information risk  
d. They decrease information costs
64. A068: Why are substantive procedures required in both a purely substantive audit approach and a combined audit approach?

a. Control testing alone does not sufficiently address the risk of material misstatement.
b. Tests of controls alone are too costly.
c. It is more effective to audit a large number of transactions using substantive procedures.
d. Substantive procedures can be performed after year end.
65. A069:
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. A127:
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. Use a combined audit approach
d. Rely on management’s statements as fact
67. A128:
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 of evidence, the lower the quality of results
c. The higher the quality of evidence, the less evidence may be required.
d. Reliability refers to the connection between audit procedures and assertions.
68. A161:
When a sample is stratified, which items would the practitioner judgmentally select from the population for testing?

a. High-value items only
b. High-risk items only
c. Various representative items
d. High-risk items and high-value items
69. A154:
Obtaining written communication from a third party and footing a 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. A194:
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 a material but not pervasive impact 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. A173:
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. A070:
Which of the following options supports a practitioner using a combined approach instead of a purely substantive approach when planning the audit?

a. The company has an employee code of conduct manual.
b. The company has few transactions.
c. The company does not have an internal audit department.
d. The company has many foreign-currency transactions.
73. A085:
Which of the following would improve the quick ratio?

a. Sell fixed assets to reduce accounts payable.
b. Increase bank indebtedness to purchase equipment.
c. Issue common stock to purchase inventory.
d. Aggressively collect accounts receivable.
74. A084: 
During the year, LMN Inc. had:

- sales of $2,500,000
- gross profit of $1,000,000
- net income of $125,000

Inventory was $275,000 at the beginning of the year and $300,000 at the end of the year. Assume the company used average balances when measuring its performance. What is the inventory turnover for the year?

a. 5 times  
b. 5.22 times  
c. 5.45 times  
d. 8.70 times
75. A071:
Audit, inherent, and control risk are all assessed as low; detection risk is assessed as high. Therefore, which of the following statements is true?

a. Risk of material misstatement is assessed as high.
b. The number of substantive tests is low.
c. Controls cannot be relied on.
d. Fraud risk is assessed as high.
76. A081: You, CPA, are concerned about one of your firm’s clients, Farm Acre Foods Inc. (Farm). Although very profitable, you suspect that Farm may be experiencing problems paying off short-term debt. Which one of the following analytical review calculations will highlight this concern?

a. Gross profit percentage  
b. Inventory turnover ratio  
c. Quick ratio  
d. Times interest earned
77. A080:
Why is conducting an analysis of a company’s financial ratios beneficial?

a. It is a central component of value-chain analysis.
b. It identifies external opportunities for the company to pursue.
c. It uncovers critical industry trends.
d. It provides insights into a company’s financial state.
78. A082:
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. A152: Which one of the following statements describes analytical procedures?

a. Analytical procedures are only used in the planning stage of an engagement.
b. Analytical procedures help to identify unusual or unexpected balances that require further assurance work.
c. Analytical procedures are not used in the planning stage of an engagement.
d. Analytical procedures are used exclusively on the income statement to analyze the reasonability of accounts as compared to plan and prior year.
80. A153:
Substantive procedures are designed to:

a. Detect material misstatements at the account level
b. Detect material misstatements at the overall financial statement level
c. Detect all misstatements.
d. Detect changes from the prior year’s financial statements.
81. A172:
You, CPA, are conducting an audit of your client, Bread Baker Corp. You have just completed your audit of the accounts receivable and found that the company has recorded an allowance for doubtful accounts of $560,000. Based on your audit, you have determined the allowance for doubtful accounts should be $970,000. The difference arises due to disagreement on what assumptions have been used to recognize the allowance. Thus, there is a misstatement of $410,000 in Bread Baker’s year-end statements.

What type of misstatement does this represent?

a. Factual
b. Projected
c. Judgmental
d. Fraud
82. A175:
Sarah, CPA, is conducting an audit for her client, Jimmy’s Trattoria Restaurants (JTR). After gathering sufficient and appropriate audit evidence, Sarah is faced with the following misstatements that JTR refuses to adjust:

- marketing expenses of $150,000 that relate to next year and should not have been accrued at year end
- a provision for warranty costs in the amount of $280,000 that was not recognized
- a purchase of land for $125,000 that was incorrectly recorded as an intangible asset

The total impact of JTR’s uncorrected misstatements is that pre-tax income is:

a. Understated by $430,000
b. Understated by $5,000
c. Overstated by $130,000
d. Overstated by $555,000
83. T029:
Assume the following for Mark's Warehouse Ltd. (Mark's):

Net income for tax purposes $530,200
Less
Net capital losses of other years (5,000)
Charitable donations (50,000)
Taxable income $475,200

During the year, Mark’s sold some shares in a public company for $100,000. The shares cost $60,000. This was the only sale of assets in the year. Mark’s did not earn any interest or dividend income during the year.

What is the correct amount of active business income (ABI) to be used for determining one of the lesser of amounts for the small business deduction for Mark’s for the year?

a. $460,200  
b. $510,200  
c. $515,200  
d. $475,200
84. T094:
Telco Inc., a public corporation, received a notice of reassessment for its Year 5 taxation year. The notice was dated July 27, Year 9. Telco has a November 30 year end. The original assessment for Year 5 was dated March 31, Year 6.

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

a. May 31, Year 9
b. August 27, Year 9
c. October 25, Year 9
d. November 30, Year 9
85. T100:
Which of the following additional case facts would indicate an assessment that the
individual is a contractor?

a. The individual registers for a goods and services tax (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. T066:
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. T120:
Matilda owns two rental properties, both of which were acquired three years ago. You have been provided with the following information for the two properties for the current year:

<table>
<thead>
<tr>
<th></th>
<th>Property I</th>
<th>Property II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undepreciated capital cost</td>
<td>$160,000</td>
<td>$190,000</td>
</tr>
<tr>
<td>Revenue</td>
<td>$33,000</td>
<td>$26,200</td>
</tr>
<tr>
<td>Expenses (1)</td>
<td>24,600</td>
<td>29,100</td>
</tr>
<tr>
<td>Net rental income</td>
<td>$ 8,400</td>
<td>$(2,900)</td>
</tr>
</tbody>
</table>

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. T123:
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. T262:
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. T447:
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:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of flight and cab fare for house-hunting trip to Edmonton (1)</td>
<td>$545</td>
</tr>
<tr>
<td>Lease cancellation costs on Saskatoon home</td>
<td>$590</td>
</tr>
<tr>
<td>Cost of moving household effects</td>
<td>$2,180</td>
</tr>
<tr>
<td>Legal fees and title transfer fees on Edmonton home</td>
<td>$1,860</td>
</tr>
</tbody>
</table>

(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. T265:
Maurizio is a full-time student enrolled in doctoral studies at an accredited university in Canada studying chemistry. During the year, he received a scholarship of $8,000 and a research grant of $7,000. Which of the following is true with respect to Maurizio’s income inclusion for the scholarship and research grant?

a. Maurizio is not required to include either the scholarship or the research grant in his net income for the year.
b. Maurizio is required to include the $8,000 scholarship in his net income.
c. Maurizio is required to include $15,000 in his net income, the total of the scholarship and the research grant.
d. Maurizio is required to include the $7,000 research grant in his net income.
92. T067:
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. T443:
Which of the following statements regarding the death of a taxpayer is true?

a. Charitable donations, including amounts carried forward from the preceding five years, of up to 100% of taxable income are eligible for credit in the year a taxpayer dies.
b. In the year of death, medical expenses incurred by the taxpayer within any 36-month period which includes the date of death may be claimed as a basis for the medical expense tax credit.
c. In the year of death, net capital loss carryovers of the deceased individual may be claimed against any source of income included in the taxpayer's terminal tax return.
d. In the year a taxpayer dies, if he owns an investment on which dividends have been declared but not paid at the date of his death, he is required to include the dividends in his terminal return.
94. T448:
Evergreen Co. has computed its net income for tax purposes for Year 7 as follows:

<table>
<thead>
<tr>
<th>Income from business</th>
<th>$200,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends from taxable Canadian corporations</td>
<td>30,000</td>
</tr>
<tr>
<td>Dividends from foreign corporations</td>
<td>15,000</td>
</tr>
<tr>
<td>Taxable capital gains</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Net income for tax purposes</strong></td>
<td><strong>$255,000</strong></td>
</tr>
</tbody>
</table>

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 (Year 3) $12,000
- Non-capital loss (Year 4) 13,000
- Charitable donations (Year 6) 2,000

What is Evergreen’s taxable income?

a. $180,000  
b. $178,000  
c. $195,000  
d. $197,000
95. T059:
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. T061:
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. T068:
Harry and Vera are married. Harry’s net income for the year was $65,000 and Vera’s net income was $10,500. Both Harry and Vera had a significant amount of dental work completed in the year, 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.
SunnyBrook Inc. is currently reviewing its cash balance and making plans for how much cash will be required to cover 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 required?

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. F2025:
You, a CPA, and the chief financial officer of Invest Inc. have been meeting regularly to analyze last year’s financial results. Today you are reviewing the company’s cash flow. Pertinent information is as follows:

<table>
<thead>
<tr>
<th>#</th>
<th>Item</th>
<th>Action</th>
<th>Book value or maturity value</th>
<th>Transaction value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Investment in FVTPL that are held for trading (HFT)</td>
<td>Sold</td>
<td>$13,000</td>
<td>$16,000</td>
</tr>
<tr>
<td>2</td>
<td>Shares in an associate</td>
<td>Bought</td>
<td>$21,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>3</td>
<td>Equipment (owned)</td>
<td>Sold</td>
<td>$25,000</td>
<td>$21,000</td>
</tr>
<tr>
<td>4</td>
<td>Equipment (leased)</td>
<td></td>
<td></td>
<td>$50,000</td>
</tr>
<tr>
<td>5</td>
<td>Investment in bonds</td>
<td>Purchased</td>
<td>$300,000</td>
<td>$285,000</td>
</tr>
</tbody>
</table>

Assuming that Invest Inc. prepares its financial statements in accordance with IFRS, what is the amount that the company should report as cash flows arising from investing activities?

- a. $268,000 cash outflow
- b. $284,000 cash outflow
- c. $299,000 cash outflow
- d. $334,000 cash outflow
100. F1038:
Which of the following is a disadvantage of informal negotiations with creditors?

a. The process of informal negotiations is lengthy and expensive for the entity.
b. Individual creditors have little say or control over what terms and conditions can be renegotiated, since the entire class of creditors has to agree.
c. Individual creditors may refuse to negotiate, jeopardizing the entire restructuring plan for the company.
d. The entity is required to provide cash flow forecasts to the creditors.