

SAMPLE REVIEW QUESTIONS

QUESTION 1

The following information for 2013 has been presented to you by Susie, the new salesperson for Peter Productions Inc. (a Canadian public company). Susie travels extensively across Canada. Susie began her employment on January 1, 2013

Receipts and Fringe Benefits— 2013

Salary all in commissions — net of payroll deductions	\$63,090	
Travel allowances (Note 1):		
Accommodation@ \$400 per day for 50 days.....	20,000	
Meals allowance	10,000	
Car operating cost allowance paid was based on 36¢ per km plus \$10 per day of travelling for business travel only- for the year, 6,250 business km were driven for 150 days	3,750	
Items paid by the corporation:		
Registered pension plan	\$ 4,000	
Extended health care— Group plan	125	
Group disability insurance premiums	210	
Membership fee in a Montreal business club	1,500	
Group term life insurance (coverage is \$300,000).....	600	
Loan by company (Note (3) below).....	150,000	<u>\$156,435</u>

Payroll deductions and selected disbursements— 2013

Payroll deductions:		
Income taxes withheld	\$ 30,000	
Registered pension plan (defined benefit)		
— current contribution	4,000	
Canada Pension Plan contributions.....	1,880	
Employment insurance contributions.....	820	
Group income protection (disability)premiums	210	<u>\$36,910</u>

Purchased 5,000 common shares under a stock option plan at a price of \$25 per share. Fair market value of shares at the date of purchase was \$35. Fair market value of the shares was \$25 per share on the date when the option was granted	125,000
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Notes and Additional Information:

(1) Susie's actual travelling and car expenses, which she is required to pay according to the terms of her employment contract and vouched by a T2200 form, are as follows:		
Meals(while travelling).....	\$11,250	
Accommodation.....	23,750	
Other travel costs (other than car see below) all reimbursed by the company	6,000	

In order to be able to carry the company's brochures and convention display materials, in 2013 Suzie purchased an SUV costing \$65,000. Suzie drove 9,000 kilometers for business purposes out of total kilometers of 16,000. The actual car operating expenses were as follows :

Gasoline	\$1,000
Maintenance	500
Auto accident repair costs (on business travel)	1,600
Insurance	1,000
Licence	60
	<u>\$4,160</u>

(2) As the employer does not provide her an office, Suzie uses a spare bedroom in her apartment as an office to do work every night and to schedules all her upcoming business meetings. Her rent is \$12,000 per year and her heating and electricity is \$2,000. Her apartment is 1,000 square feet of which her office represents 100 sq feet.

(3) Susie obtained a loan from her employer on July 1, 2013, to acquire a new home in Calgary of \$150,000 at 4% to be paid over a twenty-five year period payable in equal annual installments on the anniversary date of July 1. Interest is payable on the same date. (NOTE: For simplicity you may assume that the prescribed interest rate is a constant 7% for all quarters.)

(4) As the result of a car accident, she was off work for 45 days. During this time, the insurance company paid her \$15,000

(5) Suzie also served as a Director on the Board of her local Credit Union and received fees of \$5,000

Required:

Prepare a schedule that calculated Susie's minimum net employment income for 2013.

QUESTION 2

The *unaudited* income statement for Lomas & Sons Limited for its year ended December 31, 2013:

Sales		\$ 795,000
Cost of sales	\$ 350,000	
General and administrative expenses.....	225,000	
Research and development expenditures....	<u>76,700</u>	<u>(651,700)</u>
Operating income		\$ 143,300
Other income		<u>20,000</u>
Net income before taxes		\$ 163,300
Provision for income taxes:		
current		(42,000)
deferred		(10,000)
Net income after income taxes		<u>\$ 111,300</u>

The information in the following notes has already been reflected in the above income statement.

(1) Increase in warranty reserve on company's product (net of expense incurred; based on <u>self-insurance</u> warranty program)	16,000
(2) Depreciation expense recorded in the financial statements	30,000
(3) Landscaping costs paid re: factory premises	2,500
(4) Interest on bank loan obtained for the purpose of purchasing common shares in Advanco Ltd., a dividend-paying Canadian corporation	6,300
(5) Legal and accounting fees related to issue of shares	12,700
(6) Interest on municipal real estate taxes paid late in error	1,000
(7) Golf club membership fees	2,200
(8) Donation to United Way	3,000
(9) Meals and entertainment for clients	4,000
(10) Appraisal fees to determine selling price of fixed assets.....	6,200
(11) Premium on term insurance on life of president with the corporation as beneficiary; policy was not required to be assigned as collateral for corporate borrowing from the bank	2,800
(12) Management bonuses (\$20,000 of the bonuses expensed in 2013), and shown as "Bonus Payable" on the Balance Sheet as at December 31, 2013 has not been paid at the time of filing the corporate tax return on June 30, 2014)	40,000
(13) Interest and penalties on income tax assessments, expensed for accounting purposes	1,250
(14) Items included in the financial accounting statements in arriving at the net income:	
Amount paid by an insurance company on its business interruption insurance to compensate for loss of profits when company was closed down for a month during the year because of a fire.....	26,800
Dividends received	1,700
Volume rebates and purchase discount	16,000

The accountants capitalized the following amounts to the Land and building account:

- Utilities services connection fees paid \$5,000
- Soil tests carried out to check for contamination issues \$3,000

REQUIRED:

Prepare a schedule that calculates the **minimum net income for tax purposes (Division B income)**, ignoring tax deductions in respect of depreciable capital or eligible capital property for Lomas and Sons Limited regarding its 2013 fiscal year.

QUESTION 3

On January 1, 2013, Jonny Cars began operating a business, a sole proprietorship, to manufacture a cheap replicate version of the Lamborgini Testa Rossa.

During 2013, he acquired the following assets:

Manufacturing equipment	\$ 20,000
Tools (each costing under \$500)	16,000
Dies and moulds.....	8,000
Computer equipment and systems software	12,000
Photocopier	6,000
Office furnishings	15,000
Delivery van.....	40,000
Chairs and tables (for the employee eating area)	2,500
Cutlery and dishes (for the employee eating area)	2,000
Table linens (for the employee eating area)	1,200
Automobile (for use by sales personnel visiting clients)	38,000

Jonny leased on February 1, 2013 a building to operate his business; the lease was for 3 years with two successive options to renew for another 3 years and then another 4 years. He made improvements on the building costing

.....	9,000
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On March 1, 2013 the following was acquired:

Patented licence to manufacture` the replicate cars for a 3 year period	30,000
Customer lists (expected to be used indefinitely)	4,000

During 2014, only the following purchases and disposals were made:

Bought a new brick building and land in May to be used 95% for manufacturing; an appraisal indicated that the building represented 45% of the total cost of the property	\$ 200,000
Sold the photocopier	(4,000)
Sold the automobile.....	(23,000)
Sold some of the tools (costing less than \$500 each)	(5,000)

REQUIRED

Using all possible elections, prepare a schedule to show the **maximum capital cost allowance** and if applicable, terminal losses, recapture income, for the years ended December 31, 2013 **and December 31, 2014.**