CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

**CFE CANDIDATE NUMBER:**

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |

# Common Final Examination
# September 8, 2022 – Day 2
# (Booklet #1 – Case)

**Total examination time: 5 hours.**
**Further details on the examination can be found on the next page.**

**GENERAL INSTRUCTIONS BEFORE THE EXAMINATION**

1. Fill in your 7-digit candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the writing centre.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

**Policy Statement and Agreement Regarding Examination Confidentiality**

I understand that all examination materials are the property of CPA Canada and are under the exclusive custody and control of CPA Canada. CPA Canada has the exclusive authority over examination materials to determine the content, use, retention, disposition and disclosure of this material. Candidates will not have access to their examination response, the examination marking keys or any other marking materials. The examination questions and marking guides will only be publicly available when published by CPA Canada.

I hereby agree that I will not:

- Obtain or use answers or information from, or give answers or information to, another candidate or person during the sitting of the examination;
- Refer to unauthorized material or use unauthorized equipment during testing;
- Remove or attempt to remove any CPA Canada Examination materials, notes or any other items from the writing centre.

I further agree to report to CPA Canada any situations where there is a material risk of compromising the integrity of the examination.

I affirm that I have had the opportunity to read the *CPA Examination Regulations* and I agree to all of its terms and conditions.

In addition, I understand that failure to comply with this Policy Statement and Agreement will result in the invalidation of my results, and may result in my disqualification from future examinations, expulsion from the profession and possible legal action.

CANDIDATE NAME (Please print) ______________________

SIGNATURE ______________________

## Examination Details

**The examination consists of:**

**Booklet #1 – Case (this booklet)**
**Booklet #2 – Rough notes**

Candidates are allowed **five (5) hours** to respond.

The case should be answered using the software provided, which includes a word processor and spreadsheet for inputting your response. The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded using anything other than the software provided.

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

The CPA Canada Handbooks, the *Income Tax Act* and the *Excise Tax Act* are available in *Folio Views* throughout the entire examination. *Folio Views* provides the standards in effect and tax laws substantively enacted as at December 31, 2021.

A tax shield formula and other relevant tax information are available at the end of this booklet.

| |
|---|
| Candidates are instructed to consider and respond to the case as presented and ignore the potential impacts of COVID-19. |


Common Final Examination, September 2022

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

## Case

**Assume the pre-selected role in which you will be formulating your response. Answer all requireds as specifically directed in your role. Within the requireds for each role, candidates are directed to look at specific additional appendices, which are unique to each role. Use only the information you have been directed to refer to.**

**Information that is shared by all roles is presented in the "Common Information" section. Additional information, customized to each role, is presented in the "Specific Information" section.**

## INDEX




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## BACKGROUND
## COMMON INFORMATION FOR ALL ROLES

Tasty Meal Baskets Limited (TMB) was started in Montreal fifteen years ago by Chef Rita Bisset and her husband, Conrad Desjardins. Ever since TMB went public in 2018, Rita and Conrad have owned 40% of the 10 million common shares outstanding. The remainder are widely held.

TMB sells meal kits directly to consumers and holds about 21% of the Canadian meal-kit market. TMB also owns and operates eight restaurants.

In 2019, analysts reacted favourably when TMB announced its plans to grow over the next six years through acquisitions. In May 2020, TMB completed its first acquisition, purchasing the net assets of Paeks Vegetarian Meals Limited (PVM). PVM was owned by Chef Dashim Paek, who is well known for creating unique vegetarian dishes, and his wife Ara Paek, CPA. PVM owned four vegetarian restaurants in Vancouver and a vegetarian meal-kit business serving large urban centres in British Columbia and Alberta. TMB now sells under the Chef Dashim brand in Western Canada and the Chef Rita brand in Eastern Canada.

TMB's management team consists of the following:

- Rita Bisset, chief executive officer
- Conrad Desjardins, chief operating officer
- Ara Paek, chief financial officer
- Bradley Gosling (the former CEO of PVM), VP procurement and fulfillment
- Fatima Rabbani, VP marketing

It is now February 14, 2022, and the draft December 31, 2021, year-end financial statements have been prepared in accordance with IFRS. TMB's share price is currently $4.20 per share.

Additional information, customized to your role, is presented in your role package.


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**REQUIREMENTS FOR YOUR ROLE**
**(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)**

## ASSURANCE REQUIREMENTS

You, CPA, work as a manager in TMB's internal audit department. Frances O'Brien, chief internal auditor, would like you to discuss the financial reporting issues associated with the new discount offer, the Chef Arlene contract, and the renovation of the fulfillment centre. Ara also wants assistance with the requests from Bradley and Fatima. Frances asks you to perform these additional tasks and has confirmed that internal audit will not be auditing Bradley's and Fatima's departments for the next 12 to 18 months.

TMB disclosed its operating segment information by line of business (restaurants and meal kits) in its 2020 financial statements. Given TMB's growth-by-acquisition strategy, Rita now thinks it is more beneficial to disclose information by geographic region, consistent with how she normally assesses financial performance. Frances asks you to discuss which geographic regions should be disclosed separately by TMB in 2021.

In preparation for TMB's external audit, Frances also asks you to recommend audit procedures to be performed for the financial reporting issues you have been asked to discuss, including the disclosure by geographic region.

TMB has recently converted PVM to TMB's sales system. Frances asks you to provide recommendations that can be implemented for similar system conversions in the future and to discuss any issues you identify in the converted sales system data.

As the next step in its acquisition plan, TMB plans to acquire Sweet Tooth Ltd. (STL). Frances asks you to recommend due diligence procedures to minimize the risks related to the proposed acquisition. Frances also asks that you review STL's production processes, discuss any weaknesses, and recommend any additional controls that TMB should implement to ensure that STL's nut-free products are nut-free.

Effective January 1, 2021, TMB has entered into a supplier contract with All Things Green Inc. (ATG). Frances asks you to recommend audit procedures to ensure compliance with the requirements set out in the contract.

Finally, in planning for TMB's year-end external audit, Frances asks you to identify which material account balances would likely be included in the key audit matters section of the auditor's report and to explain why.

In addition to the common appendices (I to VII), information provided in Appendix VIII (Assurance) is relevant for your analysis.


(CONTINUED ON PAGE 5)

**REQUIREMENTS FOR YOUR ROLE**
**(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)**

## FINANCE REQUIREMENTS

You, CPA, work as a financial analyst for TMB and report directly to Ara. Ara would like you to discuss the financial reporting issues associated with the new discount offer, the Chef Arlene contract, and the renovation of the fulfillment centre. Ara also wants assistance with the requests from Bradley and Fatima.

Management is considering acquiring new packaging equipment to replace existing equipment in the Montreal fulfillment centre. Ara asks you to provide an analysis of this project and make a recommendation.

Shelly Kopp, the sole shareholder of Desserts Inc. (DI), has approached TMB with a proposal to sell her shares in DI. DI bakes and sells vegan desserts to various customers. As TMB's customers have been asking for desserts as an add-on to the meal kits, TMB is excited about the opportunities DI could provide. Ara asks you to value DI on a standalone basis using the capitalized cash flow method. Next, based on the industry benchmark ratios provided, Ara asks that you assess DI's financial performance, discuss areas where DI could improve its operations, and describe synergies that TMB could generate from this acquisition. Separately, assuming that TMB will proceed with the acquisition, Ara asks you to analyze the financing options Shelly has offered.

Because of delays in receiving their cheques due to postal issues, TMB's suppliers have asked to be paid electronically. For example, cheques were sometimes lost in the postal system and needed to be replaced. Further, the accounting group has complained about the time required to complete monthly bank reconciliations. Ara has gathered information on an electronic payment system and wants you to recommend whether TMB should adopt it.

Many companies in this industry pay annual dividends, with an average dividend yield of 3%. TMB's current market capitalization is $42 million, and management believes that the shares are undervalued. Some of TMB's shareholders would like a dividend from TMB's excess cash. Management indicates that they could use up to $3 million in excess cash to pay shareholders a regular dividend, a special dividend, or to execute a share buy back. Ara asks you to discuss each option and provide a recommendation.

TMB's acquisition strategy is to acquire companies (generally through a share exchange) that improve its earnings per share and return-on-assets ratio and that increase net earnings by at least $800,000. TMB recently received a list of potential acquisition targets. Ara asks you to review the information provided and identify the companies that TMB should target.

In addition to the common appendices (I to VII), information provided in Appendix VIII (Finance) is relevant for your analysis.


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**REQUIREMENTS FOR YOUR ROLE**
**(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)**

## PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, work as a financial analyst for TMB and report directly to Ara. Ara would like you to discuss the financial reporting issues associated with the new discount offer, the Chef Arlene contract, and the renovation of the fulfillment centre. Ara also wants assistance with the requests from Bradley and Fatima.

Ara would like to know the impact of reducing the number of new recipes introduced per week for Chef Rita's casual meal kits from four to three, from both a quantitative and a qualitative perspective, and would like your recommendation.

Ara would also like a quantitative and qualitative analysis of three alternatives being considered for delivering meal kits, along with a recommendation on which one to pursue.

Customers often ask to purchase the secret sauces that TMB uses in its meals, and TMB has decided to sell bottles of the secret sauces separately. TMB can either continue to make the sauces in-house on a larger scale or use an outside supplier to produce and ship the bottled sauces to TMB, who will then resell them. Ara would like you to perform a quantitative and qualitative analysis of the two options and make a recommendation.

Ara is concerned with the significant decline of Chef Dashim's meal-kit sales in 2021. She has provided detailed information regarding pricing and customer orders. She asks that you analyze this information and provide her with advice on the best ways for TMB to differentiate itself in Western Canada, as well as any other advice on how to attract more customers.

Candy Circus Limited (CC) has made a preliminary offer to sell the assets of its division, Vegan Sweets Inc. (VS), to TMB. Ara wants to know how the cash flow forecast provided by VS would change if TMB became the owner. She would also like your views on the advantages and disadvantages of TMB acquiring VS and whether this acquisition is a good strategic fit.

In 2019, TMB had strategically prioritized growth through acquisitions. For the PVM acquisition, Ara asks you to comment on the relative success of the original objectives. She is wondering what could have been improved in implementing and integrating the newly acquired business. She also wants to know what avenues for growth other than acquisitions might be considered in the future.

In addition to the common appendices (I to VII), information provided in Appendix VIII (Performance Management) is relevant for your analysis.


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## REQUIREMENTS FOR YOUR ROLE
## (READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

### TAXATION REQUIREMENTS

You, CPA, work as a tax consultant for Ellsworth and Company (EC) and report directly to Samra, CPA, a senior manager at EC. Samra would like you to discuss the financial reporting issues associated with the new discount offer, the Chef Arlene contract, and the renovation of the fulfillment centre. Samra also wants assistance with the requests from Bradley and Fatima.

Samra would also like you to discuss the tax treatment of the three financial reporting issues, as well as the disposition of the vacant land in Vancouver. Samra asks you to calculate federal taxes payable for 2021.

TMB is negotiating to purchase the assets or shares of Desserts Inc. (DI). DI produces vegan desserts for the restaurant industry, which aligns with TMB's strategy to grow through acquisitions, since the desserts could be sold with the meal kits. Samra asks you to analyze the income tax and GST/HST implications of the purchase of DI, from both an asset purchase and share purchase perspective.

TMB has asked Krzysztof Broughton, an employee, to move to Atlantic Canada for two to three years to conduct market research and identify possible acquisition targets. Krzysztof will be given several employee benefits related to the potential relocation, and Samra asks you to evaluate the income tax and GST/HST consequences for both Krzysztof and TMB.

EC is also engaged to assist Rita and Conrad (who are both 53) with their family's tax issues. BD Family Holdings Limited (BDFH) is owned jointly by Rita and Conrad, and they want you to help them understand the implications of the shareholder loans.

Rita and Conrad also want your advice on how to structure future cash distributions from BDFH. If they made their children (Justine, age 21; Jules, age 18; and Brice, age 15) shareholders of BDFH, they wonder whether dividends or salaries could be paid to them. They would like to distribute $2 million from BDFH over the next three years.

Rita and Conrad are considering gifting shares of TMB to their children. They are also leaving shares of TMB, and other assets, to their children in their wills. They would like a summary of the tax consequences of their proposed plans.

In addition to the common appendices (I to VII), information provided in Appendix VIII (Taxation) is relevant for your analysis.


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## APPENDIX I – COMMON
## EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

*Tasty Meal Baskets Limited*
*Statement of Comprehensive Income*
*For the years ended December 31*
*(in thousands of Canadian dollars)*

| | 2021<br>Draft | 2020<br>Audited |
|---|---|---|
| Revenue | | |
| Meal kits | $ 84,716 | $ 69,343 |
| Restaurants | 9,215 | 7,783 |
| Total revenue | 93,931 | 77,126 |
| | | |
| Expenses | | |
| Cost of products sold | 33,644 | 25,912 |
| Salaries and wages | 34,974 | 27,291 |
| Advertising and promotion | 4,800 | 5,760 |
| Depreciation and amortization | 3,017 | 2,383 |
| Other expenses | 10,786 | 8,208 |
| Total expenses | 87,221 | 69,554 |
| | | |
| Operating income | 6,710 | 7,572 |
| PVM integration costs | (1,400) | (3,500) |
| Financing costs | (750) | (612) |
| Income before taxes | 4,560 | 3,460 |
| Income taxes | (1,230) | (933) |
| | | |
| Net and comprehensive income | $ 3,330 | $ 2,527 |


(CONTINUED ON PAGE 9)

## APPENDIX I – COMMON (continued)
## EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

*Tasty Meal Baskets Limited*
*Statement of Financial Position*
*As at December 31*
*(in thousands of Canadian dollars)*

| | 2021 Draft | 2020 Audited |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 4,996 | $ 5,166 |
| Inventories | 1,180 | 980 |
| Prepaid supplies and expenses | 840 | 690 |
| Total current assets | 7,016 | 6,836 |
| | | |
| Property, plant, and equipment – net | 18,330 | 15,296 |
| Intangible assets (computer software, brand and customer lists, Chef Arlene contract) | 2,651 | 2,482 |
| Goodwill | 580 | 580 |
| | | |
| Total assets | $ 28,577 | $ 25,194 |
| | | |
| **Liabilities** | | |
| Current liabilities | | |
| Trade payables and accrued liabilities | $ 4,648 | $ 4,263 |
| Contract liabilities | 410 | 350 |
| Income taxes payable | 481 | 150 |
| Current portion – mortgage payable | 500 | 500 |
| Current portion – lease obligations | 1,042 | 983 |
| Total current liabilities | 7,081 | 6,246 |
| | | |
| Mortgage payable | 5,000 | 5,500 |
| Lease obligations | 1,462 | 2,504 |
| Deferred tax liability | 1,682 | 922 |
| Total liabilities | 15,225 | 15,172 |
| | | |
| **Shareholders' equity** | | |
| Share capital – common shares | 6,800 | 6,800 |
| Retained earnings | 6,552 | 3,222 |
| Total shareholders' equity | 13,352 | 10,022 |
| | | |
| Total liabilities and shareholders' equity | $ 28,577 | $ 25,194 |


(CONTINUED ON PAGE 10)

## APPENDIX II – COMMON INDUSTRY AND TMB INFORMATION

**Meal-Kit Industry**

Meal kits are a form of food delivery where customers are provided with recipes and all the ingredients to make meals at home. Competition is from other meal-kit delivery services, supermarkets, and restaurants, and it is expected to increase. While competition is primarily based on price, other considerations include product quality, unique flavours and ingredients, flexibility of product offerings, and reliable delivery. The industry growth rate is 10% annually.

A key success factor is customer retention. Because higher discounts are being given to attract new customers and more dollars are being spent on marketing, customer acquisition costs are increasing. A new global competitor entered the Vancouver and Calgary markets in the third quarter of 2021, enticing new customers with large discounts on initial orders.

The industry's annual subscription cancellation rate is very high because the cost of switching providers is minimal: of the customers who cancel, 30% do so in the first month; 30% between two and three months; and 25% between four and six months.

**TMB Meal-Kit Product Lines**

TMB uses a subscription model to sell two lines of meal kits, which contain ingredients for four meals: a gourmet line and a casual line. The subscription plan is flexible, allowing customers to skip deliveries or cancel their subscription at any time. In line with industry practice, customers' credit cards are charged the same day as delivery. The day before delivery is the last day a customer can modify or skip their order for that week.

In addition to the recipes and ingredients, the gourmet kits include access to videos showing the chef preparing the meals. The gourmet kits are more expensive than the casual kits because they include high-cost ingredients and teach different cooking techniques.

The casual kits are competitively priced, and TMB offers two price levels: basic and organic. The organic meals contain certified organic products, which are more expensive and are, therefore, priced higher.

Customers can also pay more to add extra protein (e.g., fish, poultry, tofu) to their meal kit, even to vegetarian kits. Although this requires more preparation and packaging, such as ice packs, extra protein sales provide a higher markup than other sales. Starting in the third quarter of 2021, more orders of Chef Dashim's meal-kits included extra protein purchases.


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## APPENDIX II – COMMON (continued)
## INDUSTRY AND TMB INFORMATION

**TMB Meal-Kit Production**

Within one day of receiving the ingredients, TMB prepares, packages, and ships the meal kits. TMB's production workforce is composed of full-time (salary or hourly) employees and part-time, hourly employees who work when there is increased volume. TMB has two fulfillment centres: one in Vancouver and one in Montreal, which has just been renovated. Although the meal-kit preparation process is largely automated, some manual preparation is required. This is especially true for protein ingredients.

More maintenance work was completed at both locations in the third quarter than normal. In addition, some of the automated equipment in Vancouver was out of operation for three weeks during the fourth quarter while waiting for a replacement part. This resulted in more manual labour to prepare ingredients, and less equipment usage.

TMB uses sustainable packaging materials where possible, which are more expensive.

New recipe development is overseen by Rita and Dashim. To remain competitive, TMB must constantly develop new and creative recipes.

**TMB Strategy**

TMB has differentiated itself by developing recipes with unique ingredients and spices. In June 2021, TMB developed secret sauces in house and includes them in its meal kits. During 2021, TMB also launched Celebrity Chef meal kits within the gourmet line, featuring recipes purchased from well-known chefs.


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## APPENDIX III – COMMON
## NEW DISCOUNT OFFER

The following new offer was on TMB's website for the month of December 2021:

*Special deal for new customers! Order two meal kits now to be delivered on separate weeks, pay full price on your first meal kit, and save $31.68 on your next meal kit!!! Your credit card will only be charged for each meal kit on the day it is delivered. The delivery date for the second meal kit must be no later than 30 days following the first. No cancellations are allowed.*

| | ***Meal Kit #1*** | ***Meal Kit #2*** |
|---|---|---|
| *Regular price* | *$ 62.80* | *$ 62.80* |
| *You pay only* | *$ 62.80* | *$ 31.12* |
| *Your savings* | | *$ 31.68* |

A total of 10,000 new customers placed orders in December under this offer. At the end of December, all first meal kits had been delivered and 3,000 of the second meal kits had been delivered. The remaining 7,000 second meal kits has been delivered and charged to customers in January 2022.

TMB has recognized revenue of $721,360 in December 2021 based on the following:

| **Delivery** | **Quantity** | **Price** | **Revenue Recognized** |
|---|---|---|---|
| Meal Kit #1 | 10,000 | $ 62.80 | $ 628,000 |
| Meal Kit #2 | 3,000 | $ 31.12 | $ 93,360 |
| Total | | | $ 721,360 |


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## APPENDIX IV – COMMON
## CHEF ARLENE CONTRACT

TMB entered into a contract with Chef Arlene, a well-known chef in Toronto, for the rights to use her brand name and her recipes for TMB's new Celebrity Chef meal kits. Recipes cannot be patented and are not protected by copyright laws. The payment to Chef Arlene has been capitalized as an intangible asset.

**Excerpts from the contract between Arlene and TMB**

Dated: June 1, 2021

For $400,000, Arlene agrees to the following for a five-year period:

1. TMB has the right to use the "Chef Arlene" brand name to market and promote TMB meal kits. Arlene agrees not to sell the right to use her brand name to any other meal-kit company.

2. TMB has the right to use all of Arlene's recipes, subject to the following conditions:
   a) Arlene retains ownership of the recipes, which she can continue to use in her restaurant.
   b) Neither TMB nor Arlene may sell the rights to the recipes to any other party.
   c) TMB agrees not to alter the recipes in any way without the express consent of Arlene.
   d) TMB must credit the recipes as "created by Chef Arlene."


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## APPENDIX V – COMMON
## RENOVATION OF THE FULFILLMENT CENTRE

The building and equipment at the fulfillment centre in Montreal were outdated and have been upgraded. With these renovations, utility costs and ongoing maintenance costs are expected to decline. Construction started in February 2021 and finished on November 1, 2021. During this time, TMB continued to use the parts of the building that were not under renovation.

The following 2021 additions have been capitalized:

| | Carrying Amount at Dec. 31, 2020 | 2021 Additions | Note |
|---|---|---|---|
| Outside structure of the building | $ 2,271,000 | $ 250,000 | Replaced missing or damaged bricks |
| Heating and cooling system, and roof | 120,000 | 1,300,000 | Complete replacement |
| Air filtration system | 0 | 240,000 | New system added to the building |
| Internal walls and floors | 340,000 | 2,010,000 | Complete replacement with environmentally friendly materials |
| Total | $ 2,731,000 | $ 3,800,000 | |

After the new internal walls and floors were installed, a flood occurred that damaged the new flooring. TMB incurred $350,000 to replace the floor that had just been installed. This cost is included in internal walls and floors listed above. Insurance proceeds received of $120,000 are netted against other expenses.

In addition, the following costs were included in other expenses, along with other repairs and maintenance costs:

- For six months, some employees worked on the construction of the internal walls and floors, and their wages and benefits for that period totalled $600,000.
- TMB incurred $60,000 to relocate equipment during the renovation process to the parts of the building that were not under construction.
- Costs to dispose of the old wall and floor materials totalled $150,000.


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## APPENDIX VI – COMMON
## EMAIL FROM BRADLEY

From: Bradley
To: Ara and CPA
Subject: Production costs and budgets

We have calculated the cost variances for the Chef Dashim meal kits.

The flexible budget is based on the original budget, adjusted for the actual volumes of all meal kits. Extra protein is considered an addition to existing meal kits, and not an additional product line.

Please explain the possible causes for these significant flexible budget variances for the fourth quarter of 2021 for the Chef Dashim meal kits:

| | **Flexible Budget** | **Actual** | **Variance Favourable/ (Unfavourable)** | **Variance (% of Budget)** |
|---|---|---|---|---|
| Food costs | $ 2,778,564 | $ 2,897,472 | $ (118,908) | -4.3% |
| Packaging costs | $ 905,460 | $ 985,140 | $ (79,680) | -8.8% |
| Direct labour | $ 543,276 | $ 693,120 | $ (149,844) | -27.6% |
| Maintenance and repairs | $ 319,560 | $ 202,150 | $ 117,410 | 36.7% |
| Marketing costs | $ 532,600 | $ 470,000 | $ 62,600 | 11.8% |


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**APPENDIX VI – COMMON (continued)**
**EMAIL FROM BRADLEY**

Next, I would like you to finalize the spending budgets for April, May, and June 2022 for the Chef Rita meals. I am hopeful that, once the budgets have been updated, we will be in line with our production-related spending target of $1.8 million per month. Please explain what factors impact whether we are likely to meet our target.

The ingredient budget has been prepared, but I still need the packaging purchases, direct labour, and overhead amounts. With increased volumes resulting from the PVM acquisition, we finally renegotiated some supplier contracts to lower our costs.

| | April | May | June | July | August |
|---|---|---|---|---|---|
| Number of sales of Chef Rita meals (based on four meals per kit) – as projected by marketing | 260,000 | 270,000 | 250,000 | 210,000 | 190,000 |
| Monthly ingredient budget | $1,339,974 | $1,463,843 | $1,410,860 | | |
| Beginning inventory – packaging, in kilograms (kg) | 240,000 | | | | |

During 2021, the Vancouver fulfillment centre used a U.S.-based packaging supplier, whereas Montreal used a local supplier. During the fourth quarter of 2021, the USD to CAD exchange rate worsened, causing higher packaging costs for the Vancouver fulfillment centre. Effective January 1, 2022, we negotiated a new contract with a Canadian supplier to supply both fulfillment centres at a price of $2.78 per kilogram of packaging materials. However, at that price, they will only ship monthly and suggested that we keep a two-month supply of packaging inventory.

Fixed costs related to fulfillment overhead are $400,000 per month.

Our estimates, per meal, are as follows:

| | |
|---|---|
| Amount of packaging materials | 0.46 kg |
| Direct labour cost | $0.80 |
| Variable overhead cost | $1.19 |


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**APPENDIX VII – COMMON**
**EMAIL FROM FATIMA**

From: Fatima
To: CPA
Subject: Marketing information

I would like you to comment on the sales per customer, customer retention, and the marketing initiatives that have been used.

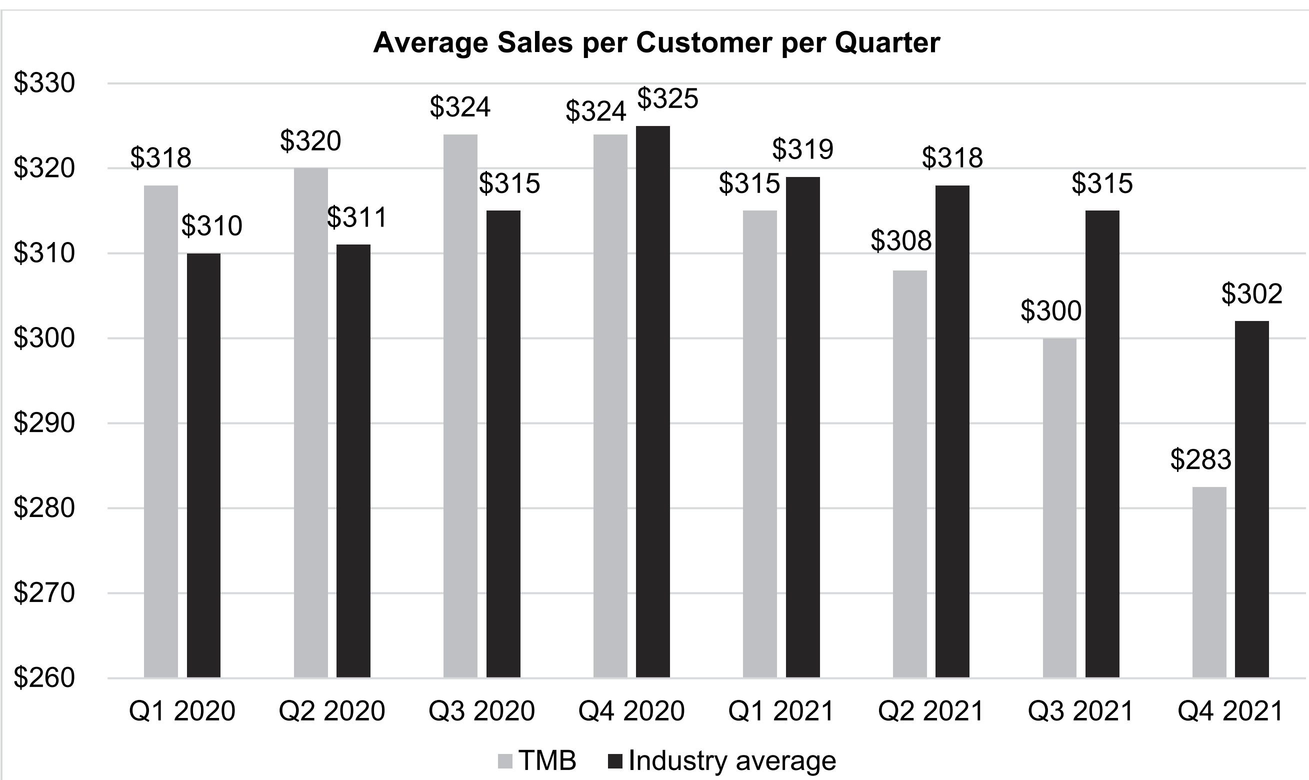
During 2021, we incurred the following amounts for marketing initiatives:

- $2.3 million on television ads
- $1.5 million on podcast ads
- $650,000 on social media
- $350,000 on a referral program for new customers

We also provided $1.5 million in discounts to new customers during 2021.

During the first three quarters of 2021, TMB spent the same amount on television advertising as in the past. In the fourth quarter of 2021, these costs were cut by 50%, and TMB focused on promoting the new discount program to attract new customers. All other marketing costs remained the same as in previous quarters.

Some quarterly information from our marketing dashboard is as follows:





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## APPENDIX VII – COMMON (continued)
## EMAIL FROM FATIMA

**TMB Data**

| | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|---|---|---|---|---|
| Active customers – beginning | 65,000 | 68,400 | 70,800 | 69,400 |
| New customers | 9,400 | 10,400 | 10,600 | 20,700 |
| Lost customers (Note 1) | (6,000) | (8,000) | (12,000) | (16,000) |
| Active customers – ending | 68,400 | 70,800 | 69,400 | 74,100 |
| Orders per customer | 4.6 | 5.1 | 5.3 | 5.7 |
| Trend for sales of casual meal kits – basic | ↓ | ↑ | ↑ | ↑ |
| Trend for sales of casual meal kits – organic | ↑ | ↓ | ↓ | ↓ |
| Trend for sales of gourmet meal kits, including Celebrity Chef | ↓ | ↓ | ↑ | ↑ |

Note 1 – The following table shows the percentage of customers lost for each quarter based on the number of months they were clients before cancelling their subscription:

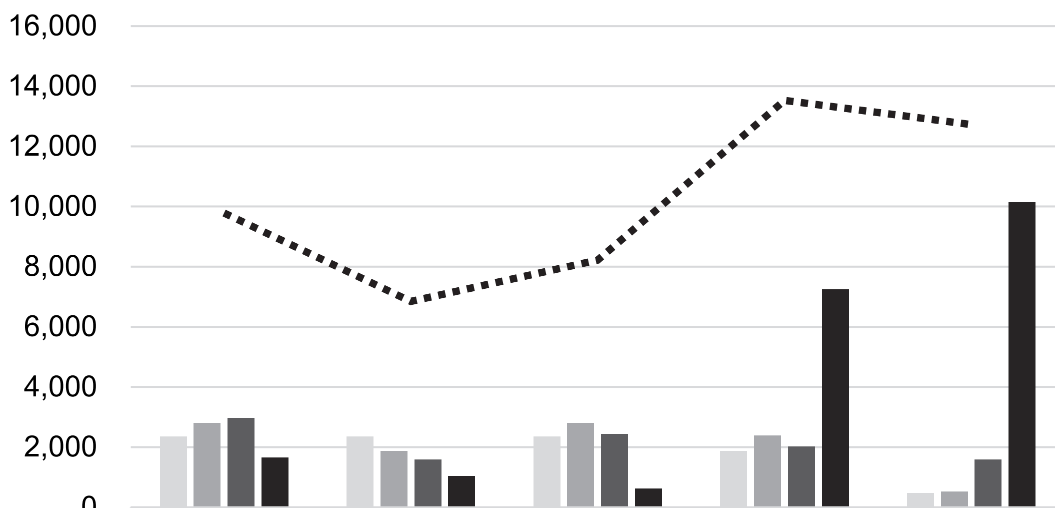
| Number of Months | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 |
|---|---|---|---|---|
| 1 or less | 15% | 25% | 30% | 35% |
| 2 to 3 | 30% | 32% | 35% | 40% |
| 4 to 5 | 30% | 25% | 23% | 15% |
| 6 or more | 25% | 18% | 12% | 10% |


(CONTINUED ON PAGE 19)

**APPENDIX VII – COMMON (continued)**
**EMAIL FROM FATIMA**

**TMB Data (continued)**

**Number of New Customers by Marketing Initiative**




| | Television | Podcasts | Social media | Referrals | Discounts to new customers |
|---|---|---|---|---|---|
| Q1 2021 | 2,350 | 2,350 | 2,350 | 1,880 | 470 |
| Q2 2021 | 2,808 | 1,872 | 2,808 | 2,392 | 520 |
| Q3 2021 | 2,968 | 1,590 | 2,438 | 2,014 | 1,590 |
| Q4 2021 | 1,656 | 1,035 | 621 | 7,245 | 10,143 |
| Total | 9,782 | 6,847 | 8,217 | 13,531 | 12,723 |




(CONTINUED ON PAGE 20)

# *ASSURANCE ROLE*
# *ADDITIONAL INFORMATION*


(CONTINUED ON PAGE 21)

## APPENDIX VIII – ASSURANCE
## ADDITIONAL INFORMATION

**Geographical Regions**

The following summary is available from TMB's accounting software for 2021 (*in thousands of Canadian dollars*):

| | **BC** | **AB** | **SK and MB** | **ON** | **QC** | **Atlantic** | **Total** |
|---|---|---|---|---|---|---|---|
| Assets | $ 13,700 | $ 1,536 | $ 430 | $ 2,225 | $ 10,185 | $ 501 | $ 28,577 |
| Liabilities | $ 4,553 | $ 2,897 | $ 828 | $ 2,735 | $ 3,760 | $ 545 | $ 15,318 |
| Revenue | $ 28,294 | $ 18,006 | $ 5,144 | $ 16,995 | $ 23,368 | $ 2,124 | $ 93,931 |
| Expenses | $ 25,695 | $ 16,988 | $ 4,554 | $ 16,034 | $ 22,047 | $ 1,903 | $ 87,221 |
| Net and comprehensive income (loss) | $ 2,386 | $ (668) | $ 191 | $ 631 | $ 1,025 | $ (235) | $ 3,330 |

There are no inter-regional sales or transfers.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## APPENDIX VIII – ASSURANCE (continued)
## ADDITIONAL INFORMATION

**PVM Sales System Conversion**

Following the acquisition, TMB continued to use PVM's sales system for PVM's customers until 12:00 am on December 25, 2021, when it was converted to TMB's sales system. Rather than transferring only summary data, TMB also transferred PVM's historical transaction data, to facilitate historical comparisons for future decision-making. TMB agreed the total number of customer accounts and sales transferred into its system to PVM's former system. Since no exceptions were noted, the PVM system was shut down immediately, and any new transactions were then processed by TMB's system. TMB's IT manager was relieved, as he was too busy to complete additional detailed testing.

Since the conversion, TMB has received many complaints from customers experiencing issues with the system. Therefore, Frances has requested a daily sales report for December 24, 2021, from TMB's system for Nanaimo, BC, as a starting point, to further investigate the converted historical data. An excerpt from the report is below:

**Daily Sales Report**
**Location: Nanaimo**
**Date: 12/24/2021**

| Surname | First Name | Address 1 | City & Province | Credit Card | Expiry | Status | Sale |
|---|---|---|---|---|---|---|---|
| Barnes | Jillian | 920 Tamama Drive | Nanaimo, BC | ****1488 | 08/2024 | Active | 79.20 |
| Chen | Yazhu | 110-751 Ptarmigan Way | Nanaimo, BC | ****5267 | 10/2021 | Active | 79.20 |
| Denver | Chris | 7879 Coal Place | Nanaimo, BC | ****6798 | 01/2025 | Active | 79.20 |
| Denver | Chris | 7879 Coal Place | Nanaimo, BC | ****6798 | 01/2025 | Active | (79.20) |
| Ellison | Fred | 6048 Departure Bay | Nanaimo, BC | ****6681 | 01/2023 | Active | 79.20 |
| Fujiwara | Yoko | 14 Brechin Place | Nanaimo, BC | ****3816 | 11/2024 | Active | 105.60 |
| Hodges | Rebecca | 3306 Black Bear Ridge | Nanaimo, BC | ****7552 | 07/2025 | Active | 79.20 |
| Hodges | Rebecca | 25-221 Commercial St | Nanaimo, BC | ****7552 | 07/2025 | Active | 79.20 |
| Izumi | Tohru | 110-751 Ptarmigan Way | Nanaimo, BC | ****5403 | 06/2024 | Active | 79.20 |
| Jain | Deepa | 555 Bobolink Way | Nanaimo, BC | ****4371 | | Active | 79.20 |
| Jeong | Sung | 2040 Arnhem Terrace | Nanaimo, BC | ****6639 | 06/2023 | Inactive | 79.20 |
| Kwok | Ling | 804-351 Arnhem Place | Salmon Arm, BC | ****8624 | 01/2023 | Active | 105.60 |
| Misra | Anup | | Nanaimo, BC | ****1223 | 07/2024 | Active | 79.20 |
| Patal | Darshana | 908-2340 Albatross Way | Nanaimo, BC | ****4422 | 09/2023 | Active | 105.60 |
| Simons | Drew | 776 Blue Jay Trail | Nanaimo, BC | ****1997 | 03/2024 | Active | 105.60 |
| Yang | Jung | 511 Harbour Road | Kelowna, BC | ****8850 | 12/2023 | Active | 79.20 |


(CONTINUED ON PAGE 23)

## APPENDIX VIII – ASSURANCE (continued)
## ADDITIONAL INFORMATION

**Sweet Tooth Ltd.**

Background

Sweet Tooth Ltd. (STL), a privately owned corporation, bakes and sells desserts to restaurants. TMB has agreed to purchase 100% of the common shares of STL effective March 15, 2022, subject to due diligence procedures being performed. STL's CFO has provided the following unaudited condensed financial statements, which will determine the basis for the purchase price. There is no plan to audit these financial statements.

*Sweet Tooth Ltd.*
*Balance Sheet*
*As at December 31, 2021*
*(Unaudited – in thousands of Canadian dollars)*

| | | |
|---|---|---|
| Cash | $ | 360 |
| Accounts receivable | | 910 |
| Inventories | | 1,590 |
| Property, plant, and equipment – net | | 4,250 |
| | $ | 7,110 |
| Accounts payable | $ | 2,770 |
| Income taxes payable | | 110 |
| Bank loan payable, due December 31, 2026 | | 4,040 |
| Common shares | | 100 |
| Retained earnings | | 90 |
| | $ | 7,110 |


(CONTINUED ON PAGE 24)

## APPENDIX VIII – ASSURANCE (continued)
## ADDITIONAL INFORMATION

**Sweet Tooth Ltd. (continued)**

*Sweet Tooth Ltd.*
*Income Statement*
*For the year ended December 31, 2021*
*(Unaudited – in thousands of Canadian dollars)*

| | | |
|---|---|---|
| Revenue | $ | 29,650 |
| Cost of goods sold | | 23,720 |
| Gross profit | | 5,930 |
| | | |
| Operating expenses | | |
| Amortization | | 320 |
| Other | | 3,070 |
| Selling and administration | | 1,480 |
| | | 4,870 |
| Income before taxes | | 1,060 |
| Income tax expense | | 210 |
| | | |
| Net income | $ | 850 |


(CONTINUED ON PAGE 25)

**APPENDIX VIII - ASSURANCE (continued)**
**ADDITIONAL INFORMATION**

**Sweet Tooth Ltd. (continued)**

Production process

Rita met with STL's head baker, who informed her that they will soon introduce a new production line. The existing production line will be used to bake desserts that include nuts, and the new one will be for desserts that are nut-free. The head baker was pleased with how STL arranged for the lines to be beside each other, to minimize the space used. As STL expects the volume of desserts that include nuts to be approximately double that of desserts that are nut-free, baking staff will move back and forth between the production lines as needed. The same thing will be done for baking equipment and utensils.

The head baker explained the processes he has planned to ensure that the nut-free desserts are, in fact, nut-free, as he understands the significant impact an error in this area can have on the company:

- New suppliers of nut-free ingredients will be required to provide written confirmation to STL that their products are nut-free before their first delivery. No additional verification will be performed.
- As ingredients are received from suppliers, they will be placed into STL's ingredient storage room and walk-in refrigerator. The packaging minimizes the risk of cross contamination; therefore, ingredients containing nuts and ingredients that are nut-free will be grouped together for storage. Other than a symbol denoting "nut-free," the packaging used for nut-free ingredients and those that contain nuts is identical.
- The desserts will be labelled as containing nuts or being nut-free after they have cooled down and are packaged.
- Baking staff will work 7.5-hour shifts, with a 30-minute break between shifts; during that break, the production lines will be cleaned, using high-pressure spray washers.
- At their employee orientation, baking staff will be educated about the seriousness of the reactions that people with nut allergies can have (anaphylactic shock that could cause death) and the importance of keeping ingredients and desserts containing nuts separate from those that are nut-free.


(CONTINUED ON PAGE 26)

## APPENDIX VIII - ASSURANCE (continued)
## ADDITIONAL INFORMATION

**Supplier Contract**

All Things Green Inc. (ATG) is TMB's major supplier of leafy greens, such as kale and spinach, that are used in its meal kits. According to the contract, ATG must comply with the following requirements:

- Greens must be grown on ATG's farm and cannot be purchased from other farms.
- Universal bar codes must be attached to packaged greens. When scanned, the bar code must indicate that the greens were grown by ATG and provide the date and time harvested and best-before date.
- Greens must be certified to Canadian Organic Standards by a verification body designated by the Canadian Food Inspection Agency.
- To remove contaminants and insects after harvest, greens must be pre-washed in chlorinated water.
- Bar-coded greens must be placed into temperature-controlled storage until they are shipped to TMB. The storage must be equipped with a system that maintains a record of any instances of temperatures that fall outside the range of 1°C to 4°C.

To demonstrate compliance with these requirements, ATG agrees to maintain detailed records, grants TMB the right to have its internal auditor assess compliance, and agrees to provide TMB with unrestricted access to its farm, records, management, and staff.


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## *FINANCE ROLE*
## *ADDITIONAL INFORMATION*


(CONTINUED ON PAGE 29)

## APPENDIX VIII – FINANCE
## ADDITIONAL INFORMATION

**General Information**

Ara likes to maintain a cash balance of at least $2 million. TMB has a $5 million line of credit, which bears interest at prime (currently 2.17%) plus 2.5%. TMB is not currently using this line of credit but, during 2021, TMB used the maximum amount for nine months. TMB has a mortgage on the Montreal property, which bears interest at 7% and has a maximum debt-to-equity covenant of 2.5.

**New Packaging Equipment**

A manufacturer has offered TMB new packaging equipment, which will speed up packaging of meal kits, reduce paper and plastic consumption, and generate labour savings. With a better sealed package, there will be improved freshness benefits to the customer.

TMB would be the manufacturer's first customer in the meal-kit industry. The manufacturer has offered TMB a promotion, in which the manufacturer will pay for all customization, setup, and training costs. The manufacturer has also offered TMB a referral bonus of $30,000 for every successful referral. To date, TMB has spent $11,200 on travel to meet with the manufacturer.

The total cost of the equipment (Class 53) is $1,312,000, including customization, setup, and training costs. The manufacturer estimates a five-year useful life, at which time the equipment could be sold for $250,000 net of selling costs. TMB's existing equipment can be sold immediately for $42,000 net of selling costs.

The government has proposed a carbon emissions reduction incentive that will be voted on in four months' time. The manufacturer believes this equipment will qualify for this rebate, equal to 4% of the acquisition cost.

Based on current volumes, the equipment will generate the following annual cost savings:

- Plastic and paper materials: $260,000
- Labour: $ 50,000
- Maintenance: $ 70,000

There will be an initial inventory reduction of $75,000 related to packaging materials. The new machine will use $15,000 of additional electricity per year. Overhead of $85,300 will continue to be allocated to this cost centre.

TMB's after-tax cost of capital for this project is 15% and its income tax rate is 27%.


(CONTINUED ON PAGE 30)

**APPENDIX VIII – FINANCE (continued)**
**ADDITIONAL INFORMATION**

**Acquisition of Desserts Inc.**

Dear Rita,

I am looking to sell my shares of Desserts Inc. (DI) for $18 million, and then retire. In exchange, I would consider either a note payable or TMB shares.

Key terms for the note payable:

- TMB would make a 5% cash down-payment, with the remainder being financed through the note payable
- Security on all property, plant, and equipment of DI
- Annual interest of 5% on the outstanding balance, payable quarterly
- Equal annual principal payments for ten years, payable on the anniversary date of the purchase
- Events of default that would require full and immediate repayment of the outstanding amount:
  - filing for bankruptcy; or
  - forced or voluntary de-listing of TMB from the Toronto Stock Exchange.

Key terms for share exchange:

- I will have one seat on TMB's Board of Directors, to be filled by me or my designate, provided that I continue to own at least 5% of TMB's outstanding shares.
- For each of the next two years, 2022 and 2023, TMB will pay me a cash earnout calculated as: 3% × (DI's fiscal year EBIT - $2.7 million). If negative, no amount will be paid by either me or TMB.
- There will be no restrictions on the sale of my TMB shares.

Yours sincerely,
Shelly Kopp


(CONTINUED ON PAGE 31)

**APPENDIX VIII – FINANCE (continued)**
**ADDITIONAL INFORMATION**

*Desserts Inc.*
*Balance Sheet*
*As at December 31, 2021*
*(Prepared under ASPE – in thousands of Canadian dollars)*

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ | 2,844 |
| Accounts receivable | | 1,072 |
| Inventory | | 995 |
| Prepaids | | 52 |
| Total current assets | | 4,963 |
| Property, plant, and equipment | | 2,322 |
| Total assets | $ | 7,285 |
| **Liabilities** | | |
| Current liabilities | | |
| Trade payables and accrued liabilities | $ | 1,190 |
| Income taxes payable | | 21 |
| Current portion – long-term debt | | 195 |
| Total current liabilities | | 1,406 |
| Long-term debt | | 802 |
| Total liabilities | | 2,208 |
| **Shareholder's equity** | | |
| Common shares | | 1,000 |
| Retained earnings | | 4,077 |
| Total shareholder's equity | | 5,077 |
| Total liabilities and shareholder's equity | $ | 7,285 |


(CONTINUED ON PAGE 32)

## APPENDIX VIII – FINANCE (continued)
## ADDITIONAL INFORMATION

*Desserts Inc.*
*Income Statement*
*For the year ended December 31, 2021*
*(Prepared under ASPE – in thousands of Canadian dollars)*

| | | |
|---|---|---|
| Revenue | $ | 12,010 |
| Cost of goods sold | | 6,870 |
| Gross profit | | 5,140 |
| | | |
| Marketing | | 1,210 |
| General and administration | | 1,002 |
| Interest | | 42 |
| Amortization | | 128 |
| Total expenses | | 2,382 |
| | | |
| Income before taxes | | 2,758 |
| Income taxes | | (509) |
| Net income | | 2,249 |
| Retained earnings – opening | | 7,769 |
| Dividends | | (1,941) |
| | | |
| Retained earnings – closing | $ | 8,077 |


(CONTINUED ON PAGE 33)

## APPENDIX VIII – FINANCE (continued)
## ADDITIONAL INFORMATION

**Key Information about DI**

- DI was founded by Shelly 18 years ago; its customers include restaurants, bakeries, supermarkets, and other commercial establishments.
- DI's headquarters and sole production facility is in Montreal, about 20 kilometres from TMB's Montreal facility. Long-term debt was used to finance the purchase of DI's production facility. The current market value of this debt is $1,030,000. In 2021, DI paid $42,000 of interest on this debt.
- Shelly's annual compensation is $380,000; her son is paid $80,000 per year but is not involved in DI's operations. Shelly could be replaced with an executive at an annual cost of $250,000.
- In summer 2021, DI speculated on some foreign exchange options that resulted in a net realized gain of $113,444 (which is netted against general and administration costs).
- Shelly is a generous philanthropist; 2% of cost of goods sold represents desserts given to kids' camps and charity events.
- DI has historically underinvested in equipment; Shelly estimates that a one-time capital expenditure of $350,000 (net of tax benefits) is required to bring its equipment up to industry standards. DI requires annual capital investments of $110,000 (net of tax benefits) to sustain its operations.
- DI requires $2 million in cash on hand to support its operations.
- DI's expected long-term growth rate is 3%.
- DI's income tax rate is 18%.

TMB evaluates acquisitions using a discount rate of 17%.

**Specialty Food Manufacturing Industry Benchmarks**

| | |
|---|---|
| Average annual revenue of a company in this industry | $100 million |
| Gross profit margin | 50% |
| Marketing expenses as a percentage of revenues | 14% |
| General & administration expenses as a percentage of revenues | 6% |
| EBITDA as a percentage of revenues | 30% |


(CONTINUED ON PAGE 34)

## APPENDIX VIII – FINANCE (continued)
## ADDITIONAL INFORMATION

**Electronic Payment System**

TMB pays its suppliers using cheques, which cost $1 per cheque (excluding postage and handling fees). All cheques are hand signed by two of TMB's six signing officers. During 2021, TMB issued 5,100 cheques. As it takes up to five days for cheques to clear the banking systems, suppliers want cheques issued at least ten days prior to the due date, to ensure that funds are available to them by the due date.

For an initial fee of $2,000, the bank will set up an automatic clearing house electronic funds transfer system. The bank charges a monthly fee of $600 to process up to 500 payments per month. The bank obtains and stores suppliers' banking information through secure portals. Transfers are initiated through the bank's secure website. Any number of approvers can be configured through the website, and payment authorizations can be provided electronically.

Once the transfer has been authorized, the amount is withdrawn immediately from TMB's account and deposited in the supplier's account. TMB expects to authorize payments as they come due.

**Acquisition Targets**

The following potential acquisition targets have been identified:

| Company | Type | Sales | Net Earnings | TMB Shares (Note 1) | Return on Assets |
|---|---|---|---|---|---|
| Home Food | Meal-kit | $ 3,500,000 | $ 175,000 | 530,000 | 4.8% |
| Easy Meals | Meal-kit | $ 46,000,000 | $ 2,622,000 | 7,300,000 | 16.9% |
| Chef Home Meals | Meal-kit | $ 21,500,000 | $ 1,333,000 | 4,200,000 | 12.8% |
| Food2Home | Meal-kit | $ 8,800,000 | $ 378,400 | 900,000 | 14.3% |
| Nutri Food | Meal-kit | $ 11,600,000 | $ 1,055,600 | 2,700,000 | 18.2% |
| Sweets Galore | Dessert | $ 12,400,000 | $ 892,800 | 2,300,000 | 10.4% |
| Pie Experts | Dessert | $ 16,300,000 | $ 1,401,800 | 3,600,000 | 12.1% |
| Desserts@Home | Dessert | $ 2,300,000 | $ 133,400 | 540,000 | 7.0% |

Note 1 – Represents number of shares that would be issued by TMB in exchange for shares of the target. TMB currently has 10 million shares outstanding.


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# *PERFORMANCE MANAGEMENT ROLE ADDITIONAL INFORMATION*


(CONTINUED ON PAGE 37)

## APPENDIX VIII – PERFORMANCE MANAGEMENT ADDITIONAL INFORMATION

**Recipe Development for Casual Meal Kits**

Eastern Canada customers opting for Chef Rita's casual meal kits select from a list of 20 recipes each week.

In 2021, the research and development costs incurred to develop four new casual recipes per week totalled $2.6 million. In addition, there is a one-time, upfront cost of $3,000 for the graphic design and pictures of each new recipe created. On average, a new recipe is offered for six consecutive weeks. Afterwards, there is no discernible pattern to a recipe being subsequently offered; recipes will periodically be put in rotation based on customer requests or historical order rates. Recipes may also be slightly modified and reintroduced at a later date at little additional cost.

The total number of Chef Rita meals sold, related to the new recipes introduced over the six-week period, is as follows:

| | Week 1 | Week 2 | Week 3 | Week 4 | Week 5 | Week 6 |
|---|---|---|---|---|---|---|
| Total number of new-recipe meals sold (with four new recipes) | 10,800 | 8,200 | 1,800 | 1,200 | 800 | 540 |
| Total number of new-recipe meals sold (with three new recipes) | 8,208 | 6,232 | 1,368 | 912 | 608 | 410 |

During 2021, the average contribution margin per meal was $8.50.

If no new recipes were available, 40% of the number of meals shown in the table above would still have been purchased from existing recipes instead.

Customers in the West are offered new recipes less frequently, since it was decided that Chef Dashim's efforts would be directed towards reducing recipe costs, to be more price competitive.


(CONTINUED ON PAGE 38)

## APPENDIX VIII – PERFORMANCE MANAGEMENT (continued)
## ADDITIONAL INFORMATION

**Delivery Costs**

A third party delivers TMB's meal kits on its behalf. Consistent with its competitors, TMB charges its customers a flat rate of $10.00 per delivery, regardless of the actual delivery costs incurred. In 2021, the total number of deliveries was 1,361,600. TMB is charged an average fee of $8.25 for a delivery within city limits. For deliveries outside city limits, the fee charged to TMB varies depending on the destination but averages $21.50 per delivery, as it might include air shipment and/or long-distance trucking. In 2021, TMB deliveries within and outside city limits were 83% and 17%, respectively. It is anticipated that the percentage of shipments outside city limits will continue to increase. Therefore, Ara is considering three alternatives: keep the current delivery charge, increase it to $11.00 per delivery, or charge the actual delivery cost to those customers outside city limits.

**Secret Sauces**

Annual projections indicate that TMB's existing meal-kit customers would purchase 161,000 bottles of the secret sauces. An additional 200,000 bottles could be sold to local pubs.

Based on competitors' comparable sauces and the planned bottle size, TMB will sell its sauces for $16.00 per bottle. If the sauces are made in-house, the following costs are projected per bottle:

| | |
|---|---|
| Food ingredients | $ 10.87 |
| Labour | $ 1.50 |
| Packaging | $ 0.60 |
| Variable overhead | $ 0.75 |

If the sauces are made in-house, TMB's existing puree machine will be used. It is currently used to puree ingredients required for all of TMB's meal kits. In 2022, TMB expects to puree 2.2 million kilograms of ingredients for its meal kits. A bottle of sauce will require 1.5 kilograms of ingredients to be pureed.

The machine purees a maximum of 550 kilograms of ingredients per hour and operates a maximum of 13 hours per day, 365 days a year. TMB will also have to spend $125,000 on a bottling machine, which is expected to last five years. Maintenance and utilities for the bottling machine will cost approximately $55,000 per year.

Delicious Sauces Inc. (DS) is a potential supplier that specializes in sauces and could produce and bottle the sauces for TMB. DS would ship the finished, bottled products in cases of 1,000 bottles for a total price of $14,000, plus a delivery charge of $250 per case.

To ensure consistent quality, TMB does not want to divide production between in-house and DS.


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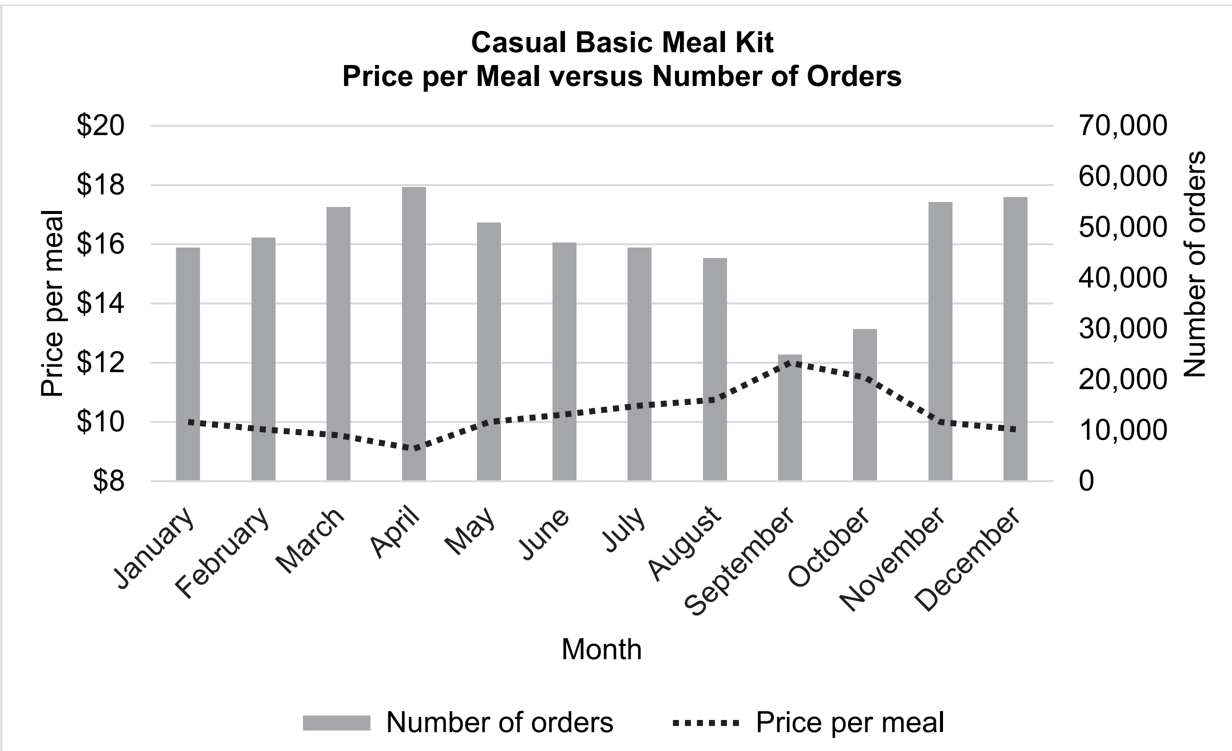
**APPENDIX VIII – PERFORMANCE MANAGEMENT (continued)**
**ADDITIONAL INFORMATION**

**Chef Dashim Sales Data**

Below is a detailed breakdown of the 2021 sales data for the vegetarian-only, Chef Dashim meal kits, which had a significant drop in sales from prior years. All meal kits within each product line (casual basic, casual organic, and gourmet) have the same selling price, but TMB can change these prices during the year, depending on the meals being offered. The data presented is the meal-kit revenue prior to personalization or any protein add-ons purchased by the customer. Starting with the casual basic, then casual organic, and finally gourmet product lines, the quality and uniqueness of the ingredients increase as the price of the meal kits increases.





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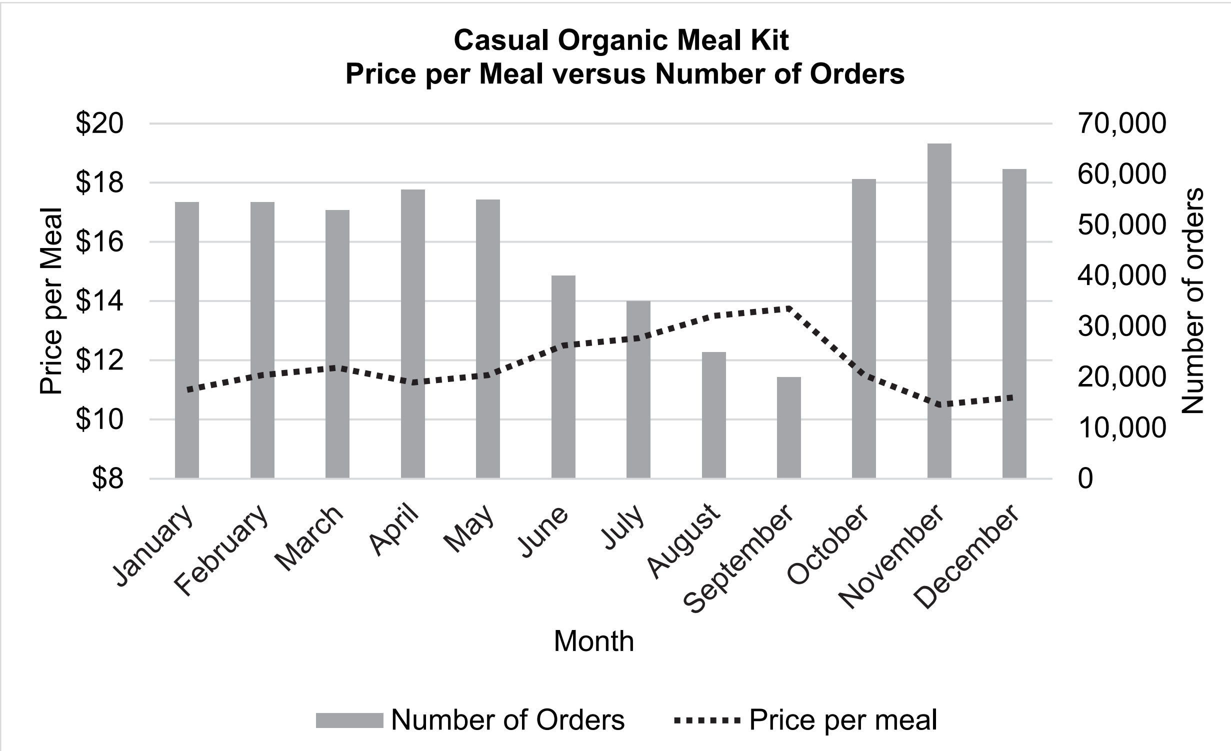
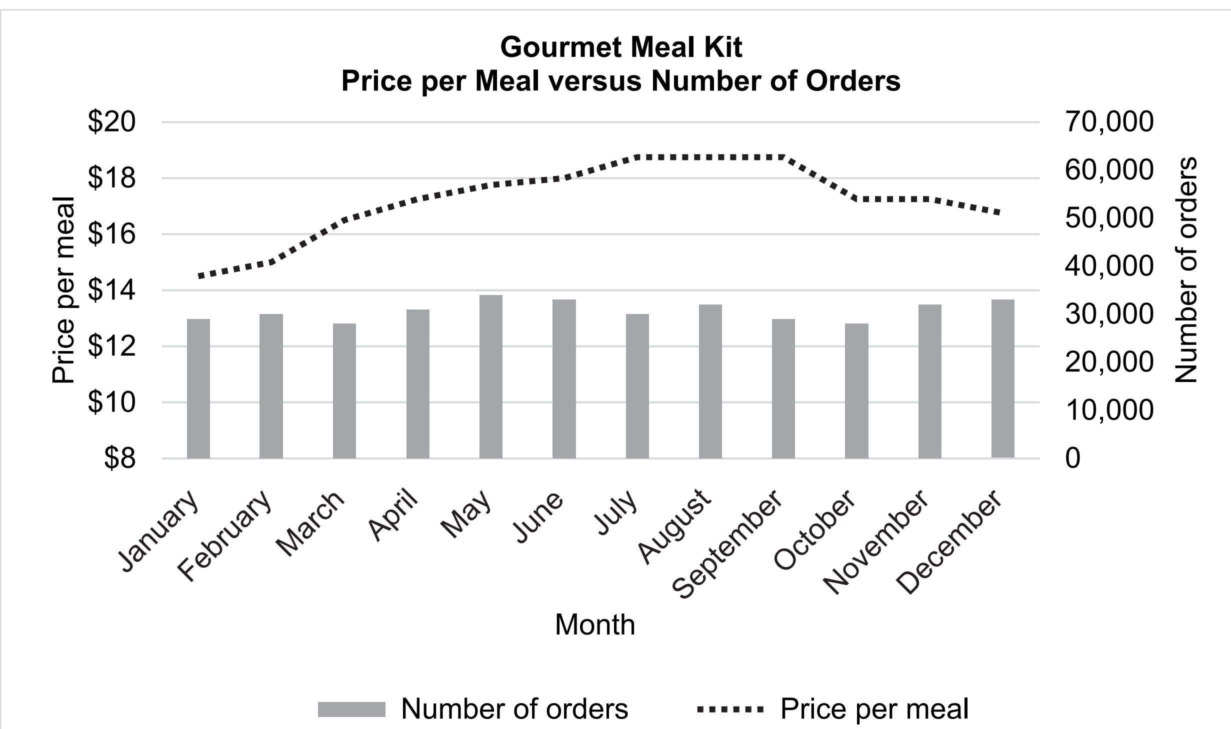
**APPENDIX VIII – PERFORMANCE MANAGEMENT (continued)**
**ADDITIONAL INFORMATION**

**Chef Dashim Sales Data (continued)**





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**APPENDIX VIII – PERFORMANCE MANAGEMENT (continued)**
**ADDITIONAL INFORMATION**

**Candy Circus Limited's (CC) Offer to Sell Vegan Sweets Inc.'s (VS) Assets**

VS is a small company that sells vegan desserts, including cakes and pies, to supermarkets and restaurants in Western Canada. Each product comes in various flavours, but the base recipe for each product line is the same. TMB is considering the benefits of the acquisition, including selling desserts to VS's existing customers (supermarkets and restaurants) and the potential to sell ready-to-eat desserts as an add-on to its meal kits.

To help TMB estimate the impact on its cash flows from operations once VS is acquired, VS has provided the following cash flow forecast:

| | 2021 Actual | 2022 Forecast | 2023 Forecast | 2024 Forecast | 2025 Forecast |
|---|---|---|---|---|---|
| Units sold | 1,050,000 | 1,071,000 | 1,124,550 | 1,180,778 | 1,239,816 |
| Cash collections from sales | $8,400,000 | $8,568,000 | $8,996,400 | $9,446,220 | $9,918,531 |
| Cash outflows from product costs: | | | | | |
| Direct materials | 3,500,000 | 3,570,000 | 3,748,500 | 3,935,925 | 4,132,721 |
| Direct labour | 1,250,000 | 1,275,000 | 1,338,750 | 1,405,688 | 1,475,972 |
| Variable overhead | 550,000 | 561,000 | 589,050 | 618,503 | 649,428 |
| | 5,300,000 | 5,406,000 | 5,676,300 | 5,960,116 | 6,258,121 |
| Contribution margin | 3,100,000 | 3,162,000 | 3,320,100 | 3,486,104 | 3,660,410 |
| Fixed costs | 895,000 | 895,000 | 895,000 | 895,000 | 895,000 |
| Total net cash flow | $2,205,000 | $2,267,000 | $2,425,100 | $2,591,104 | $2,765,410 |


(CONTINUED ON PAGE 42)

## APPENDIX VIII – PERFORMANCE MANAGEMENT (continued)
## ADDITIONAL INFORMATION

**Candy Circus Limited's (CC) Offer to Sell Vegan Sweets Inc.'s (VS) Assets (continued)**

Notes from VS are as follows:

- The contribution margin is for all products combined.
- We have taken the cash flow from 2021 and projected forward using a 2% annual growth rate for 2022, and 5% per year thereafter.
- During 2021, we had an abnormal amount of spoilage. We were unable to get the gelatin substitute in some of our products to react correctly, but the issue was resolved in November 2021. Included in direct materials is an additional cost of $225,000 due to this abnormal spoilage.
- Flour, sugar, and substitute butter comprise approximately 75% of our normal direct material costs. As the combined annual orders from CC and its divisions are over $50 million, VS receives the same volume discount that CC gets from shared suppliers. Without this discount, the cost for these three ingredients would be 40% higher.
- Included in direct labour is an allocation of $35,000 for a portion of the salary of CC's master candy maker. As it is a shared cost, each of CC's five divisions absorbs one-fifth of this salary. The master candy maker spends only about 18% of their time making garnishes for VS's desserts.
- The fixed costs represent other manufacturing, selling, and administrative expenses.
- The machinery used in production was purchased five years ago at the inception of VS and has a remaining useful life of 10 years.

TMB has noted the following:

- CC's procurement manager fulfilled procurement duties for VS, but the cost was not allocated to VS. TMB expects to hire a procurement manager at an annual cost of $60,000.
- As TMB believes it can achieve some synergies with its existing workforce, it plans to lay off 5% of VS's direct labour workforce.
- Due to its lack of experience in desserts, TMB will need to hire a manager who specializes in dessert baking and new recipe development, at an expected annual cost of $130,000.
- Similar to CC's master candy maker, TMB will need to hire a part-time candy maker for VS at an annual salary of $25,000.


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## APPENDIX VIII – PERFORMANCE MANAGEMENT (continued)
## ADDITIONAL INFORMATION

**PVM Acquisition**

TMB had three objectives:

1. To access the Western Canadian market to achieve economies of scale on procurement costs and increase revenues that were stagnating in Eastern Canada.

2. To reduce costs by duplicating PVM's state-of-the-art Vancouver fulfillment centre in its existing Montreal facility.

3. To obtain Chef Dashim's culinary expertise for product development.

Chef Dashim believes his creative culinary skills are not being used to their full potential. To him, TMB seems to be duplicating the model used in Eastern Canada with Chef Rita's meal kits in the West, and he is surprised by this approach.

The performance of the four high-end restaurants acquired has been declining. Many customers have complained about the reduced number of new dishes offered and the lower quality of the offerings. Customers who were polled said the reduction in prices over the past year seems to have reduced the gastronomic vegetarian experience and the reputation of the restaurants. Chef Dashim thought TMB would have consulted with him before making changes.

He senses that the higher-than-expected integration costs of the PVM acquisition and the lower-than-expected sales volume for his meal kits are being attributed to him.


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## *TAXATION ROLE*
## *ADDITIONAL INFORMATION*


(CONTINUED ON PAGE 45)

## APPENDIX VIII – TAXATION
## ADDITIONAL INFORMATION

**Ending Balances from TMB's 2020 Corporate Tax Return**

At December 31, 2020, the undepreciated capital cost balances are as follows:

| | | |
|---|---|---|
| Class 1 (all at 6%) | $ | 6,826,000 |
| Class 8 | $ | 1,015,000 |
| Class 14.1 | $ | 1,258,000 |
| Class 50 | $ | 102,000 |

**Additional Information from the 2021 Financial Statements**

In addition to the Montreal renovations and the Chef Arlene contract, the following capital items were acquired during 2021:

| | | |
|---|---|---|
| Manufacturing equipment | $ | 2,850,000 |
| Office equipment | $ | 60,000 |
| Computer application software | $ | 260,000 |
| Computer hardware | $ | 350,000 |

Other expenses in the income statement include meals and entertainment of $50,000 and donations of $30,000 to registered charities.

**Land Sale**

In 2018, TMB purchased vacant land in an industrial area of Vancouver with the intention of building a fulfillment centre as part of expansion plans for Western Canada. After the acquisition of PVM, the land was no longer needed. TMB sold it in February 2021. No development activities had been started. The adjusted cost base of the land was $1.5 million, and it was sold for $2.2 million. Disposition costs were $150,000. The accounting gain was netted against PVM integration costs in the financial statements.


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## APPENDIX VIII – TAXATION (continued)
## ADDITIONAL INFORMATION

**Proposed Acquisition of Desserts Inc. (DI)**

DI is a Canadian-controlled private corporation and a GST/HST registrant, with the following tax balances at its most recent taxation year end:

| | |
|---|---|
| Class 8 | $ 600,000 |
| Class 50 | $ 400,000 |
| Unused charitable donations | $ 50,000 |
| Non-capital losses | $ 300,000 |

The preliminary purchase price of substantially all of DI's net assets is $10 million, allocated as follows:

| | |
|---|---|
| Office equipment | $ 250,000 |
| Computer hardware | 450,000 |
| Dessert-making equipment | 1,500,000 |
| Liabilities to be assumed by TMB | (300,000) |
| Goodwill | 8,100,000 |
| | $ 10,000,000 |

If TMB agrees to purchase the shares of DI instead of net assets, DI's owner would be willing to discount the price to $8.6 million.


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## APPENDIX VIII – TAXATION (continued)
## ADDITIONAL INFORMATION

**Krzysztof Broughton Relocation Benefits**

Krzysztof owns his home in Vancouver and is married with two children. To entice Krzysztof to move 5,800 kilometres from Vancouver to Halifax, TMB will reimburse house-hunting costs, to a maximum of $5,000.

Estimated house-hunting costs are as follows:

| | |
|---|---|
| Airfare | $ 1,500 |
| Hotels | 2,100 |
| Childcare | 2,000 |
| Car rental | 300 |
| | $ 5,900 |

TMB will also reimburse expenses for moving Krzysztof, his family, and their possessions to Halifax, to a maximum of $25,000. When they move, Krzysztof and his family expect to spend one day travelling by plane and five nights in a hotel in Halifax while waiting for the moving company to deliver their possessions.

Estimated moving costs are as follows:

| | |
|---|---|
| Moving company | $ 20,000 |
| Airfare | 3,000 |
| Mail forwarding | 100 |
| Two hotel rooms in Halifax for five nights | 3,000 |
| Utility connection fees | 150 |
| Damage deposit on leased house | 1,000 |
| | $ 27,250 |

Housing

The value of their Vancouver home has appreciated and will continue to appreciate, so Krzysztof and his spouse do not want to sell it yet. While they reside in Halifax, they will rent the Vancouver home to a third party and would like advice on the tax implications of doing so.

Since TMB has no office in Atlantic Canada, Krzysztof will be required to work from his Halifax home as a condition of his employment. TMB will pay him a monthly housing allowance of $1,000 in addition to his regular salary.


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## APPENDIX VIII – TAXATION (continued)
## ADDITIONAL INFORMATION

**BD Family Holdings Limited (BDFH)**

BDFH holds residual funds from previous business ventures of both Rita and Conrad and has a December 31 taxation year end. It does not own any shares of TMB. Currently, all the funds are invested in securities. Annually, BDFH earns approximately $50,000 in eligible dividends, $20,000 in taxable capital gains, and $60,000 in interest income.

Rita and Conrad each take an annual salary of $300,000 from TMB and no salary from BDFH. They withdraw funds from BDFH annually for personal use, but they have not given much thought to how to structure these draws. So far, BDFH has only paid them with dividends other than eligible dividends.

On December 31, 2021, there were two loans receivable in BDFH, neither of which bears interest:

- Due from Conrad for $50,000, which he used to purchase a car. The loan was made on September 30, 2020.
- Due from Justine for $10,000, which she used to pay for university tuition and living expenses. The loan was made on August 1, 2021.

In addition, Rita borrowed $100,000 from BDFH on February 1, 2021, and repaid the full amount on October 31, 2021. Rita did not pay any interest to BDFH for this loan.

At the end of 2021, BDFH had the following tax balances:

| | |
|---|---|
| Paid-up capital | $ 100,000 |
| Capital dividend account | $ 325,000 |
| General rate income pool | $ 200,000 |
| Eligible refundable dividend tax on hand | $ 100,000 |
| Non-eligible refundable dividend tax on hand | $ 125,000 |

In addition to federal taxes, the highest marginal provincial individual tax rate is 20%. The provincial dividend tax credit is 16% of the gross-up for all dividends.


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**APPENDIX VIII – TAXATION (continued)**
**ADDITIONAL INFORMATION**

**Information on Personal Assets**

Rita and Conrad jointly own 4 million shares of TMB, with an adjusted cost base of $1.08 per share.

Rita and Conrad want to gift shares of TMB to their children before their death. They want to know the tax implications of doing so. They plan to gift at least 50,000 shares of TMB to each of their children annually. Ultimately, they plan to gift 3.5 million of their shares over 20 years, starting next year.

Rita's and Conrad's wills provide for each other to be the beneficiary upon each other's death. When the second spouse dies, their wills specify that 500,000 shares of TMB will be donated to a specific registered charity before the remainder of their estate is distributed equally among their children. They would like an explanation of the tax implications of this plan.

In addition to their shares of TMB and BDFH, Rita and Conrad have RRSPs worth $600,000 and $550,000, respectively. They expect to have significant value remaining in their RRSPs at death. They also jointly own their family home in Montreal, the only real estate they own, which is worth approximately $1.5 million. They expect that BDFH will be wound up before they retire.


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**End of Examination**


(CONTINUED ON PAGE 51)

# CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

## 1. PRESENT VALUE OF TAX SHIELD FOR AMORTIZABLE ASSETS

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018

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

**Notation for above formula:**
*C* = net initial investment
*T* = corporate tax rate
*k* = discount rate or time value of money
*d* = maximum rate of capital cost allowance

## 2. SELECTED PRESCRIBED AUTOMOBILE AMOUNTS

| | 2021 | 2022 |
|---|---|---|
| Maximum depreciable cost — Class 10.1 | $30,000 + sales tax | $34,000 + sales tax |
| Maximum depreciable cost — Class 54 | $55,000 + sales tax | $59,000 + sales tax |
| Maximum monthly deductible lease cost | $800 + sales tax | $900 + sales tax |
| Maximum monthly deductible interest cost | $300 | $300 |
| Operating cost benefit — employee | 27¢ per km of personal use | 29¢ per km of personal use |
| Non-taxable automobile allowance rates | | |
| — first 5,000 kilometres | 59¢ per km | 61¢ per km |
| — balance | 53¢ per km | 55¢ per km |

## 3. INDIVIDUAL FEDERAL INCOME TAX RATES

**For 2021**

| If taxable income is between | | | Tax on base amount | Tax on excess |
|---|---|---|---|---|
| $0 | and | $49,020 | $0 | 15% |
| $49,021 | and | $98,040 | $7,353 | 20.5% |
| $98,041 | and | $151,978 | $17,402 | 26% |
| $151,979 | and | $216,511 | $31,426 | 29% |
| $216,512 | and | any amount | $50,141 | 33% |

**For 2022**

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


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## 4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

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

| | 2021 | 2022 |
|---|---|---|
| Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins | $12,421 | $12,719 |
| Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins | 13,808 | 14,398 |
| Age amount if 65 or over in the year | 7,713 | 7,898 |
| Net income threshold for age amount | 38,893 | 39,826 |
| Canada employment amount | 1,257 | 1,287 |
| Disability amount | 8,662 | 8,870 |
| Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount | 2,295 | 2,350 |
| Canada caregiver amount for other infirm dependants age 18 or older (maximum amount) | 7,348 | 7,525 |
| Net income threshold for Canada caregiver amount | 17,256 | 17,670 |
| Adoption expense credit limit | 16,729 | 17,131 |

Other indexed amounts are as follows:

| | 2021 | 2022 |
|---|---|---|
| Medical expense tax credit — 3% of net income ceiling | $2,421 | $2,479 |
| Old age security repayment threshold | 79,845 | 81,761 |
| Annual TFSA dollar limit | 6,000 | 6,000 |
| RRSP dollar limit | 27,830 | 29,210 |
| Lifetime capital gains exemption on qualified small business corporation shares | 892,218 | 913,630 |

## 5. PRESCRIBED INTEREST RATES (base rates)

| Year | Jan. 1 – Mar. 31 | Apr. 1 – June 30 | July 1 – Sep. 30 | Oct. 1 – Dec. 31 |
|---|---|---|---|---|
| 2022 | 1 | 1 | 2 | |
| 2021 | 1 | 1 | 1 | 1 |
| 2020 | 2 | 2 | 1 | 1 |

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.


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## 6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

| | | |
|---|---|---|
| Class 1………………………… | 4% | for all buildings except those below |
| Class 1………………………… | 6% | for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for non-residential activities |
| Class 1………………………… | 10% | for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for manufacturing and processing activities |
| Class 8………………………… | 20% | |
| Class 10………………………. | 30% | |
| Class 10.1………………….. | 30% | |
| Class 12………………………. | 100% | |
| Class 13………………………. | n/a | Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years) |
| Class 14………………………. | n/a | Straight line over length of life of property |
| Class 14.1………………….. | 5% | For property acquired after December 31, 2016 |
| Class 17………………………. | 8% | |
| Class 29………………………. | 50% | Straight-line |
| Class 43………………………. | 30% | |
| Class 44………………………. | 25% | |
| Class 45………………………. | 45% | |
| Class 50………………………. | 55% | |
| Class 53………………………. | 50% | |
| Class 54………………………. | 30% | |


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