

CFE CANDIDATE NUMBER:

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**Common Final Examination
September 13, 2021 – Day 1
(Booklet #1 – DHC Version 3)**

Total examination time: 4 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 examination room. They must **NOT BE REMOVED** from the examination room. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the examination room.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

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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 – Linked Case (240 minutes) (this booklet)

Booklet #2 – Capstone 1 case (for reference) and rough notes

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, which also includes a copy of the Capstone 1 case. Rough notes, and any other notations made in the examination booklets will not be evaluated.

The CPA Canada Handbooks and the *Income 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, 2020.

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

| |
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| Candidates are instructed to consider and respond to the case as presented and ignore the potential impacts of COVID-19. |
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Common Final Examination, September 2021

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

Case**(Suggested time: 240 minutes)**

It is March 2023, and your boss, Irene Malik, assigns you to another engagement with Distinct Hotels Corporation (DHC).

Over the past three years, the trend of travellers using websites such as Airbnb and VRBO has increased. Many travellers prefer the convenience, ease of booking and unique accommodations that these websites offer. Whereas chain hotels have suffered significantly from this trend, boutique hotels have not been affected as severely because travellers are still attracted to the unique experiences that many boutique hotels offer. As a result, the occupancy rates of chain hotels have decreased in each of the past three years whereas occupancy rates for boutique hotels have been relatively stable.

In recent years, it has been revealed that websites such as First Canadian Hotel Review are prone to posting fake reviews. This has resulted in travellers losing confidence in online review websites. Therefore, building brand loyalty and retaining customers has become even more vital to the success of companies in the hotel industry. In addition, a hotel's presence and reputation on social media is quickly becoming the main factor behind the public's perception. Viral news stories and negative social media attention have become serious risk factors for the hotel industry.

It has also recently been shown that companies in the hotel industry can increase their customer retention and brand loyalty by providing unique vacation packages. Vacation packages that include a mix of accommodation, activities, and transportation offer a convenient and easy way for leisure travellers to book their entire vacation. Vacation packages appear to be particularly attractive to international travellers.

Business travel has decreased in recent years as companies are relying more heavily on video conferencing as a cost cutting measure. Leisure travel, however, has continually surpassed its growth expectations. In addition, Canada is still a sought-after tourist destination. Growth in the Canadian tourism industry has been driven mainly by travellers who value Canada's natural beauty and the abundance of outdoor activities that the country has to offer.

In March 2020, Doug Mallette was let go due to his unethical behavior. Since his departure, Doug has regularly published negative posts related to DHC on social media and travel blogs for both Ontario and Quebec. He has also been featured in a few newspapers in Ontario and Quebec, claiming he was wrongfully dismissed. As a result, the public's opinion of DHC has been negatively impacted in both of those provinces.

On November 15, 2021, DHC accepted an offer to sell its Northern Ontario hotel along with the rights to the Awani Spa name. Upon sale, the loan related to the Northern Ontario property and the company's line of credit were paid off. DHC now intends to only use its line of credit for operational or emergency reasons, and not for making any major capital investments. DHC currently has \$18 million available in cash resources.

The shareholders decided against taking DHC public. The company's mission, vision, and core values have not changed. Going forward, DHC's Board of Directors (the board) has decided to give preference to investments that will increase the overall occupancy rate and ADR. The shareholders also prefer to make investments that will help DHC increase its brand visibility and brand loyalty.

Irene asks you to review the information that she has provided and to draft a report to the board that analyzes and makes a recommendation for each strategic option that has been presented. She would also like you to comment on DHC's overall strategic direction and how each option may affect that direction, and whether you have noted any other issues that should be discussed with the board.

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APPENDIX I
TRANSCRIPT OF PREVIOUS BOARD MEETING

Derek: Thank you for attending today, Irene.

Here is a summary of the major events that have occurred since February 2020:

| | |
|-------------------|--|
| March 15, 2020 | Terminated Doug Mallette for unethical behaviour. |
| April 1, 2020 | Converted the golf course in Kelowna to semi-private, according to the original proposal. |
| April 1, 2020 | Patrick Kuzoff loaned DHC \$20 million in the form of a convertible bond, as originally proposed. |
| July 1, 2020 | Signed management contract with Huron Heights Hotel (HHH) consistent with the original proposal, except that DHC did not allow the use of DHC's name. The hotel is therefore still branded as HHH. |
| July 1, 2020 | Acquired a 20% investment in Topomo Mountain Ski Resort (TMSR), with the same terms as originally proposed. |
| November 30, 2020 | Completed \$8 million of renovations at HHH. The hotel is now rated as a five-star hotel. |
| November 15, 2021 | Sold Northern Ontario hotel for \$46.5 million. At the time of the sale, the outstanding loan was \$40 million. |
| March 10, 2022 | Completed renovations on TMSR on time and only slightly over budget. |
| July 15, 2022 | Renewed line of credit with H&A bank, with the same terms and conditions. |

Derek: Doug Mallette's behaviour continues to harm DHC. Given the bad publicity that Doug has brought to DHC, I think we were lucky to get the generous deal we did on the Northern Ontario hotel.

Kelvin: I agree. Doug's negative posts on social media have not stopped and continue to hurt DHC's reputation, especially in Ontario and Quebec. We really need to do something to defend DHC. This has gone on long enough!

Derek: I have a solution—divest completely from Eastern Canada and focus solely on DHC's presence and growth in Western Canada.

Kelvin: That seems drastic, Derek. The eastern provinces represent a significant portion of the overall Canadian market. Why would we divest from them completely?

Derek: I know it sounds extreme, but hear me out. I could not be more excited about this idea.

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Jessica: Okay Derek, tell us.

Derek: Gladly! I would like to introduce my proposal for a Western Corridor. With the investment opportunities that DHC currently has, combined with the properties we already own in Western Canada, we have the chance to create a network of luxury hotels. Our guests will be able to travel from one DHC hotel to the next with both convenience and ease.

In addition to enjoying the luxury of DHC's hotels, our guests will be able to participate in unique and sought-after experiences as they move from one to the other!

Alyson: Wow, that is interesting! But how do you intend to accomplish this?

Derek: I came up with the idea while reviewing a potential strategic alliance that Jessica recently discovered. Jessica, please tell us about Peak Revie.

Jessica: Peak Revie is a 150-room, log-cabin-style hotel near a world-class ski hill in Revelstoke, British Columbia. The owner, Miranda Murdoch, recently approached me to express interest in collaborating with DHC.

From what Miranda has told me, her guests are always satisfied, and her customer retention rate proves it. However, she claims that few people are aware of Peak Revie despite all her efforts to promote the hotel, and it continues to underperform. To alleviate this, she wants to collaborate with DHC. Miranda is confident that the hotel's performance would greatly improve if it were rebranded and marketed as a DHC hotel.

Kelvin: Okay, but I fail to see how this opportunity would lead us to leave Eastern Canada.

Derek: Jessica, tell everyone about the vans that Miranda has purchased.

Jessica: Miranda mentioned that the hotel's remote location is the main reason for its underperformance. The nearest major airport is over two hours away in Kelowna, and many guests have complained about how hard it is to access the hotel. As a solution, Miranda purchased a fleet of transportation vans to transport passengers to and from Kelowna, as well as between the hotel and the ski hill. Since purchasing the vans, the hotel's performance has improved. However, Miranda overbought, and a number of these vans are underutilized.

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Derek: If we team up with Miranda, we will get both an ownership interest in Peak Revie and the use of these vans! That would allow DHC to transport its guests from various airports to our hotels, and from one DHC hotel to another. Talk about service! On top of that, Peak Revie is located near one of the best ski hills on the continent. It could not be more perfect.

Kelvin: The opportunity does sound interesting, but this hotel lacks any kind of historical appeal.

That said, one thing I like about this proposal is the hotel's proximity to the ski hill. As we have seen, the unique experiences that we offer our guests have quickly become a major competitive advantage for us. After we purchased the stake in TMSR and began to offer skiers a discounted rate at our Canmore hotel, the occupancy rate increased nicely. In fact, an obvious new key success factor is having activities affiliated with our hotels. Our guests love receiving discounts!

However, we need to analyze whether this opportunity makes sense on a stand-alone basis. What is it going to cost? And how much of an upfront cash investment is required?

Jessica: I have compiled the details of the opportunity.

Derek: Next, Alyson, please tell us about the recent development at HHH.

Alyson: HHH is about to go up for sale. Martha is overwhelmed and is ready to move on. She is asking \$25 million for all the outstanding shares of HHH and is giving us the first opportunity to purchase the hotel.

Kelvin: I do not see HHH fitting with our brand as it is clearly not a boutique hotel. The building does not have any historical or artistic appeal. Besides, competition has only become fiercer in that market and occupancy rates are declining.

Alyson: That is true, but HHH is in a popular area of downtown Vancouver, and we do not yet have a presence in an urban core. This is our chance to increase our brand visibility. It would be fantastic for DHC. It is almost impossible to find a historical building for sale in any city's core.

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Alyson: Also, Martha has offered us an attractive transition plan where she only requires a 20% cash down payment and will provide financing for the remainder.

Derek: Once rebranded, this hotel would fit perfectly into the Western Corridor. Being directly linked to our other hotels will surely increase the financial performance of HHH. Remember, guests will be transported from one hotel to the next.

Kelvin: DHC cannot accept any strategic proposal simply because it fits into your Western Corridor idea, Derek.

Derek: Kelvin, try to see the big picture. The Western Corridor would boost the occupancy rates at each of our hotels because we will offer vacation packages that include multiple hotels with a variety of experiences. The Western Corridor would be a huge competitive advantage for us.

Let's have Irene's team look at the potential HHH purchase.

Alyson: Moving on, Derek, tell us more about the Tofino castle.

Derek: Thanks, Alyson. We have been given a once-in-a-lifetime opportunity to acquire a historical castle in one of the most beautiful parts of Canada. I have put together some information, as well as an income projection. Not only would this property set us apart from the competition, it would also complete the Western Corridor in spectacular fashion.

Alyson: I understand that the property is oceanfront. There would be an abundance of hotel-affiliated activities that we could offer, such as whale watching and sea kayaking. This does seem like an opportunity to be seriously considered.

Jessica: From your report, Derek, it seems that some Tofino residents are unhappy that the castle has gone up for sale.

Derek: Yes, and there is also a fast-growing petition on social media to have the castle designated as a national historic site. The petitioners claim that converting the castle to a for-profit hotel would be against the public interest and that the castle should belong to the community. They have also threatened further action. We need to move fast on this before the petitioners get their wish.

Kelvin: What is the asking price?

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Derek: Unfortunately, the price is high. We could only afford it if we sell another property. Given the bad publicity in Eastern Canada, Cape Breton makes the most sense. The Cape Breton hotel is our only remaining hotel in Eastern Canada, and needs a large renovation. Thankfully, based on a preliminary assessment, the selling price of the Cape Breton hotel would be roughly the same as the purchase price of the Tofino castle.

Kelvin: We need to slow down here. I do not think that selling the Cape Breton hotel makes much sense, especially since the hotel's renovation has already been planned and is set to begin shortly.

Alyson: It is true that this hotel has struggled in the past few years.

Kelvin: Agreed, but with this renovation, which is long overdue, its performance will improve. Once completed, Cape Breton will easily be one of the best hotels in that area.

Speaking of renovations, do we have any idea what it would cost to convert the Tofino castle into a hotel?

Derek: I estimate it will cost \$20 million. Also, H&A bank has agreed to transfer the debt secured by the Cape Breton hotel to the castle.

Kelvin: We know that renovating antique structures is always a major challenge, especially the initial conversion. It will be very difficult for me to create a realistic renovation budget before we complete a full structural assessment. It is impossible to know what kind of potential issues we might find without this kind of analysis.

Derek, I looked at your earnings projection for the Tofino hotel and added some notes. I am not sure about the accuracy of some of your assumptions.

Jessica: Also, before we make any decisions, we need to ensure that each project makes sense for DHC on a stand-alone basis.

APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Kelvin: I have also compiled more information on the Cape Breton property. For now, we will assume that the proceeds from the potential sale of Cape Breton would be sufficient to purchase the castle in Tofino. Irene, with that assumption in mind, please get your team to provide a complete analysis of both the castle in Tofino and the Cape Breton hotel, and recommend which of the two properties fits best with DHC.

Derek: I still think we should sell Cape Breton and pursue the Western Corridor. We would save money by having all our properties close to each other and would also be able to escape the bad press that we have endured in Ontario and Quebec. Although it has not happened yet, the Cape Breton hotel could easily be hurt by Doug's actions.

Jessica: Your Western Corridor idea is great, Derek, but we cannot abandon Eastern Canada on a whim. Sure, we only have one property there now, but more opportunities are bound to arise in the future.

Kelvin: I spoke with a local public relations firm, Camden and Co., and they have offered to represent DHC to combat the negative perception Doug has generated. They are confident that they can quickly repair the damage done. Camden and Co. have a high success rate and have agreed to charge us \$120,000 for the engagement.

Derek: That seems like a huge waste of money to me, especially given our opportunities out West. Let us not forget our core value of embracing new ideas and change!

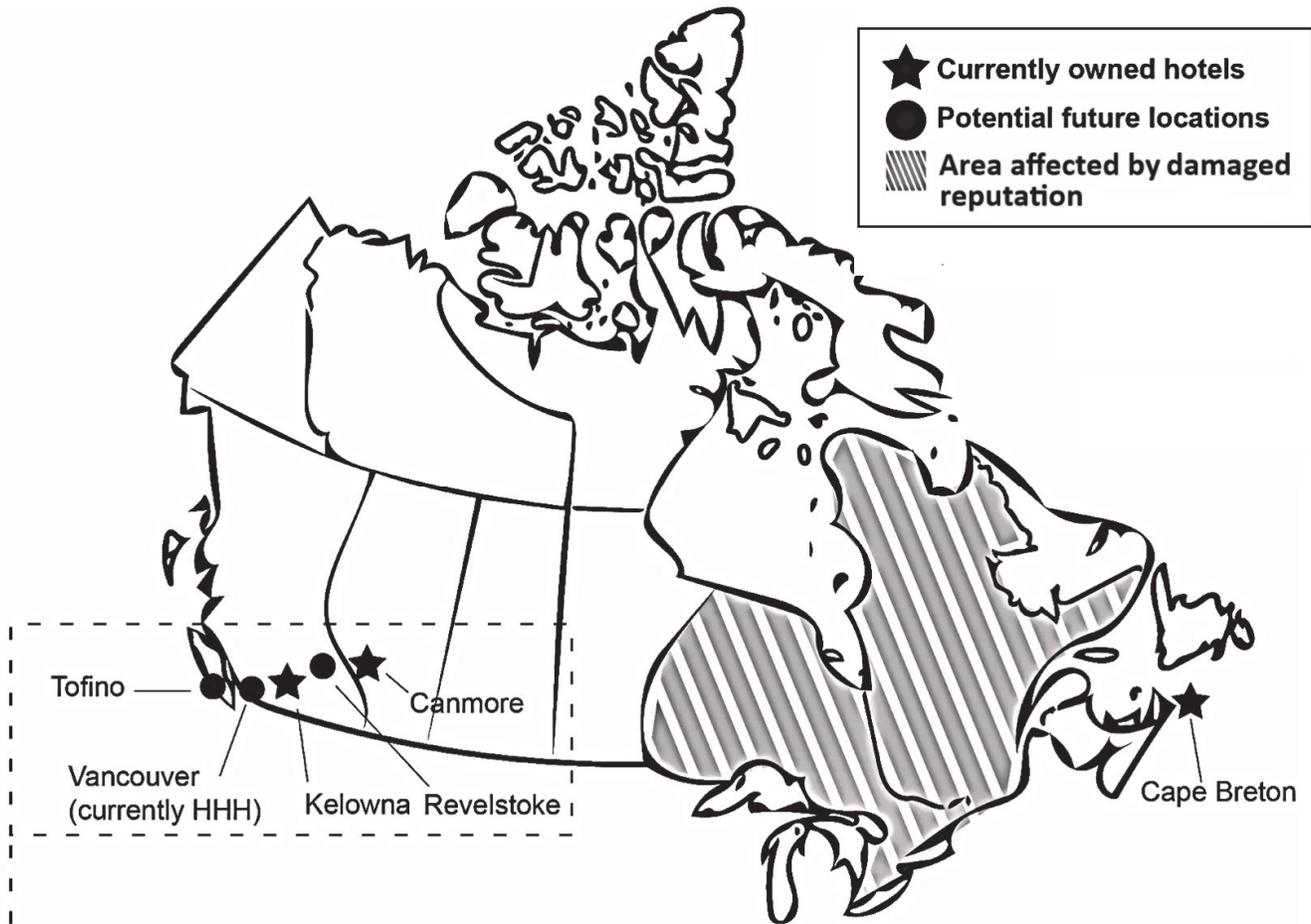
Kelvin: Along with the potential impact on our ADR and occupancy rate, I would also like to know what kind of rate of return DHC could expect on each of these possible investments.

Irene, could your team analyze these proposals for us? We obviously need an impartial assessment.

Irene: Gladly.

Derek: Thank you. Meeting adjourned.

**APPENDIX II
MAP OF CURRENT AND POTENTIAL FUTURE OPERATIONS**



The Western Corridor - from the peak of the Rockies to the shore of the Pacific

Driving distance and time between locations in the proposed Western Corridor are as follows:

| Locations | Distance | Travel Time |
|-----------------------|----------------|---|
| Canmore to Revelstoke | 300 kilometres | 3.5 hours |
| Revelstoke to Kelowna | 200 kilometres | 2.5 hours |
| Kelowna to Vancouver | 390 kilometres | 4.5 hours |
| Vancouver to Tofino | 280 kilometres | 5.5 hours (including ferry to Vancouver Island) |

**APPENDIX III
PERFORMANCE METRICS**

| | DHC (Note 1) | | Boutique Hotel Benchmarks | |
|----------------------------|-------------------------|-------------|--------------------------------------|-------------|
| | 2022 | 2019 | 2022 | 2019 |
| Total rooms available | 525 | 760 | N/A | N/A |
| Occupancy rate (Note 2) | 75% | 70% | 77% | 78% |
| Average daily rate (ADR) | \$425 | \$400 | \$375 | \$335 |
| Revenue per available room | \$319 | \$280 | \$289 | \$261 |

Notes:

1. Excludes the rooms at HHH, which are currently managed by DHC.
2. The occupancy rates at both the Canmore and Kelowna hotels increased when each hotel was formally marketed with its hotel-affiliated activity (TMSR for Canmore, and the semi-private golf course for Kelowna); Canmore hotel's rate rose by 10% whereas Kelowna's rose by 8%.

APPENDIX IV
PEAK REVIE HOTEL PROPOSAL
(Prepared by Jessica Sterne)

Performance Metric Data

| | Projected First Year Metrics if Acquired by DHC | 2022 (Actual) |
|----------------------------|--|----------------------|
| Total rooms available | 150 | 150 |
| Occupancy rate (Note 1) | 73% | 63% |
| Average daily rate (ADR) | \$395 | \$380 |
| Revenue per available room | \$288 | \$239 |

Note 1 – The 10% projected increase is based solely on converting Peak Revie to a DHC hotel.

Proposal Details

Peak Revie has 150 guest rooms and is rated as a five-star hotel. Amenities include a full-service restaurant, fitness facility, pool, etc. The hotel was built in 1992 and was last renovated in 2016. It is located only five kilometres from the ski hill, which is not directly affiliated with the hotel.

Reviews for Peak Revie have been very positive, both online and in the community. As many guests return year after year to see friends and ski the nearby mountain, customer retention is high. In 2022, the hotel's profit margin was equal to 8% of room revenue.

Important aspects of the proposal are as follows:

- For a \$3.5 million upfront cash investment, DHC will receive 35% of the outstanding common shares of the business. Currently, Miranda is the sole owner, with 100% of the common shares.
- All future renovation and improvement costs will be divided according to ownership percentages.
- DHC can use Peak Revie's fleet of transportation vans for other operations and hotels.
- The hotel will be rebranded as a DHC hotel; however, no licensing fees will be paid.
- DHC will be responsible for managing the hotel. A management fee equal to 10% of the gross profit generated by the hotel operations will be paid quarterly to DHC.
- DHC will be responsible for marketing the hotel.
- Miranda will retain the right to sell her shares to other parties; however, no new shares will be issued.
- All major decisions will require the unanimous support of the shareholders. Any disputes between shareholders will be resolved through an independent arbitration process.

APPENDIX V
PROPOSAL TO PURCHASE HURON HEIGHTS HOTEL
(Prepared by Jessica Sterne)

Performance Metric Data

| | <u>2022 (Actual)</u> |
|----------------------------|----------------------|
| Total rooms available | 170 |
| Occupancy rate | 68% |
| Average daily rate (ADR) | \$325 |
| Revenue per available room | \$221 |

Additional Information

- In 2022, HHH had net earnings of \$2.1 million, cash flow from operations of \$2.4 million, and a profit margin of 7%.
- The debt component of the proposal would have an interest rate of 5% and a term of 12 years.
- 17 years remain on DHC's existing management agreement with HHH.
- The management contract with HHH has been successful; however, without 100% control over HHH, to date, the management of it has been challenging. Working with Martha has hindered the decision-making process.
- The hotel currently does not have any affiliated activities. However, given HHH's location, there are an abundance of activities near the hotel. Moreover, there are several golf courses within an hour's drive, and a famous ski hill is within a two-hour drive.
- Competition in major metropolitan areas has increased in recent years as new hospitality companies have entered the market. This trend is expected to continue.
- Given that DHC manages the hotel, the quality of service meets the company's high standards.
- Currently, 70% of HHH guests are business travellers.

APPENDIX VI
PROPOSAL TO PURCHASE TOFINO HISTORICAL CASTLE
(Prepared by Derek Sterne)

Projected Performance Metric Data

| | <u>Year 1 of Operations (Projected)</u> |
|----------------------------|---|
| Total rooms available | 105 |
| Occupancy rate | 85% |
| Average daily rate (ADR) | \$600 |
| Revenue per available room | \$510 |

| | <u>Annual Earnings (Projected)</u> | <u>Notes</u> |
|-------------------------|--|---|
| Revenue | | |
| Room revenue | \$19,545,750 | Hotel to be open 365 days per year 60% of room revenue |
| Food and beverage | 11,727,450 | |
| Total revenue | <u>31,273,200</u> | |
| Expenses | | |
| Room operating costs | 10,750,163 | 55% of room revenue |
| Food and beverage costs | 8,795,588 | 75% of food and beverage revenue |
| Other variable costs | 5,316,444 | 17% of total revenue |
| Fixed costs | 2,500,000 | |
| Total operating costs | <u>27,362,195</u> | |
| Operating income | 3,911,005 | |
| Tax (27%) | <u>1,055,971</u> | |
| Net earnings | <u><u>\$2,855,034</u></u> | |
| Profit margin | 9% | |

Additional Information

- The castle was featured in *Classic Canada* magazine. According to the magazine, the building and surrounding area meet the requirements to be designated as a national historic site.
- Celebrities and British royals have stayed at the castle in the past.
- If acquired by DHC, the property will be closed to the general public as too many visitors will disrupt guests. Only DHC's guests will be allowed on the property.

APPENDIX VII
NOTES ON PROPOSAL TO PURCHASE THE TOFINO CASTLE
(Prepared by Kelvin Chung)

- The structure was never meant to be divided into individual rooms, so 105 rooms may be overly optimistic. As it will be a challenge to effectively divide the space, 95 rooms is likely more realistic, but there is a chance it could be even fewer.
- An 85% occupancy rate seems high—why would this hotel’s occupancy rate exceed DHC’s average occupancy?
- At an ADR of \$600, we would be charging our customers a large premium relative to the industry.

APPENDIX VIII
INFORMATION ON CAPE BRETON HOTEL AND UPCOMING RENOVATION
(Prepared by Kelvin Chung)

Performance Metric Data

| | <u>2022 (Actual)</u> |
|----------------------------|----------------------|
| Total rooms available | 165 |
| Occupancy rate | 66% |
| Average daily rate (ADR) | \$390 |
| Revenue per available room | \$257 |

2022 Annual Earnings

| | <u>Pre-renovation Actuals</u> | <u>Notes</u> |
|-------------------------|-----------------------------------|--|
| Revenue | | |
| Room revenue | \$15,501,915 | Hotel is open 365 days per year 55% of room revenue |
| Food and beverage | 8,526,053 | |
| Total revenue | <u>24,027,968</u> | |
| Expenses | | |
| Room operating costs | 7,905,977 | 51% of room revenue |
| Food and beverage costs | 5,882,977 | 69% of food and beverage revenue |
| Other variable costs | 4,565,314 | 19% of total revenue |
| Fixed costs | 2,500,000 | |
| Total operating costs | <u>20,854,268</u> | |
| Operating income | 3,173,700 | |
| Tax (27%) | <u>856,899</u> | |
| Net earnings | <u><u>\$2,316,801</u></u> | |
| Profit margin | 10% | |

Additional Information

- This hotel was last renovated in 2014. Therefore, the rooms and decor are outdated, causing the hotel to underperform.
- The renovation will cost \$12 million, based on a negotiated, fixed-price contract.
- After renovation, the occupancy rate of the hotel is expected to be in line with DHC's 2022 averages, but it may take a few years before the ADR reaches DHC's average.
- Although DHC and Patrick have discussed a formal agreement that would provide DHC's hotel guests with preferred rates at Patrick's Nova Scotia golf courses, an agreement has yet to be reached.

End of Examination

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

| | 2020 | 2021 |
|--|----------------------------|----------------------------|
| Maximum depreciable cost — Class 10.1 | \$30,000 + sales tax | \$30,000 + sales tax |
| Maximum depreciable cost — Class 54 | \$55,000 + sales tax | \$55,000 + sales tax |
| Maximum monthly deductible lease cost | \$800 + sales tax | \$800 + sales tax |
| Maximum monthly deductible interest cost | \$300 | \$300 |
| Operating cost benefit — employee | 28¢ per km of personal use | 27¢ per km of personal use |
| Non-taxable automobile allowance rates | | |
| — first 5,000 kilometres | 59¢ per km | 59¢ per km |
| — balance | 53¢ per km | 53¢ per km |

3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2020

| <u>If taxable income is between</u> | | <u>Tax on base amount</u> | <u>Tax on excess</u> |
|-------------------------------------|----------------|---------------------------|----------------------|
| \$0 | and \$48,535 | \$0 | 15% |
| \$48,536 | and \$97,069 | \$7,280 | 20.5% |
| \$97,070 | and \$150,473 | \$17,230 | 26% |
| \$150,474 | and \$214,368 | \$31,115 | 29% |
| \$214,369 | and any amount | \$49,644 | 33% |

For 2021

| <u>If taxable income is between</u> | | <u>Tax on base amount</u> | <u>Tax on excess</u> |
|-------------------------------------|----------------|---------------------------|----------------------|
| \$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% |

4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

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

| | 2020 | 2021 |
|--|-------------|-------------|
| 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 | \$12,298 | \$12,421 |
| 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 | 13,229 | 13,808 |
| Age amount if 65 or over in the year | 7,637 | 7,713 |
| Net income threshold for age amount | 38,508 | 38,893 |
| Canada employment amount | 1,245 | 1,257 |
| Disability amount | 8,576 | 8,662 |
| Canada caregiver amount for children under age 18 | 2,273 | 2,295 |
| Canada caregiver amount for other infirm dependants age 18 or older (maximum amount) | 7,276 | 7,348 |
| Net income threshold for Canada caregiver amount | 17,085 | 17,256 |
| Adoption expense credit limit | 16,563 | 16,729 |

Other indexed amounts are as follows:

| | 2020 | 2021 |
|---|-------------|-------------|
| Medical expense tax credit — 3% of net income ceiling | \$2,397 | \$2,421 |
| Annual TFSA dollar limit | 6,000 | 6,000 |
| RRSP dollar limit | 27,230 | 27,830 |
| Lifetime capital gains exemption on qualified small business corporation shares | 883,384 | 892,218 |

5. PRESCRIBED INTEREST RATES (base rates)

| <u>Year</u> | <u>Jan. 1 – Mar. 31</u> | <u>Apr. 1 – June 30</u> | <u>July 1 – Sep. 30</u> | <u>Oct. 1 – Dec. 31</u> |
|-------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 2021 | 1 | 1 | | |
| 2020 | 2 | 2 | 1 | 1 |
| 2019 | 2 | 2 | 2 | 2 |

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.

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 $\geq 90\%$ of the square footage is used for non-residential activities |
| Class 1..... | 10% | for buildings acquired for first use after March 18, 2007 and $\geq 90\%$ 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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