



## DENSMORE CONSULTING SERVICES INCORPORATED

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*2009 UFE Practice Simulations*

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**DENSMORE CONSULTING SERVICES INCORPORATED**

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*2008 Practice Uniform Evaluation*

**PAPER I**

Time: 5 hours

**NOTES TO CANDIDATES:**

*(1) Simulations requiring a knowledge of the Income Tax Act, the Income Tax Application Rules 1971, and the Income Tax Regulations are based upon the laws enacted at March 31, 2008, or in accordance with the provisions proposed at March 31, 2008.*

*Provincial statutes, including those related to municipal matters, are not examinable.*

*(2) Tables of present values, certain capital cost allowance rates and selected tax information are attached at the end of the evaluation paper as quick reference tools. These tables may be used in answering any simulation on the paper.*

*(3) Answers or parts of answers to simulations will not be evaluated if they are recorded on anything other than the writing paper provided or using the Securexam software.*

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You have just entered your office at Better & Best Chartered Accountants (BB) on the morning of July 8, 2008. As you're getting settled at your desk, your manager, Barry Blackwell, pokes his head into your office, "Good morning, CA. I'm on my way to meet a new client and I'd like you to come along. Grab your jacket and I'll brief you on the way."

"We recently accepted a new client, DigiTech Inc. (DTI). It is a local company that has found a niche in closed circuit television (CCTV) surveillance systems. Its founders, Joe, Kevin and Scott, are very ambitious guys! A few years ago, they realized that digital technology was poised to become a high-quality, economical alternative to analog video tapes. Although DTI is a small company, it has become a market leader in the manufacturing and installation of these surveillance systems.

The founders have signed a memorandum of understanding (MOU) with Surveillance Security Ltd. (Surveillance) to sell 51% of DTI's shares based on six times DTI's June 30, 2008 year end earnings before interest, taxes, depreciation and amortization (EBITDA). Surveillance is a large Canadian controlled private corporation that specializes in providing security monitoring services for residential and commercial clients. The deal is scheduled to close at the end of this month. There is a copy of the MOU in the file (Exhibit I).

The client acceptance procedures were completed by Simon Chan. As you will recall, he was a Senior Manager in our assurance department before he left last month. We have assigned you as the lead auditor for this engagement. To help you get familiarized with DTI, I have compiled some notes that Simon made on DTI (Exhibit II) and its products (Exhibit III) before he left. I have also included some details on the company's inventory (Exhibit IV).

Last week, I had a telephone conversation with DTI's CEO, Joe Lim. He informed me that this has been a very busy year for the company. DTI has worked on some major contracts, including a job at 'Lucky Stars' casino completed on June 29, 2007. DTI has had some initial talks relating to two joint ventures overseas. Joe has big plans for DTI and hopes that these joint ventures will lead to some strong international growth. He sees an initial public offering as a potential exit strategy in the near future."

You arrive at the DTI offices. After some initial introductions, Joe gets down to business:

"I am very anxious to get this audit completed as soon as possible. I recently purchased some waterfront property, and Kevin and Scott, who are both avid fishermen, have purchased new boats. We really need to close this deal to pay for our new toys! To help get things rolling, I had my office manager, Erin, prepare the information you requested. She has prepared draft financial statements for you (Exhibit V).

Erin mentioned that she had difficulty understanding some of the things on your client request list since she has never had to prepare some of them before and she does not have an accounting designation. She also had some trouble preparing the inventory count procedures. She wasn't sure what to do since DTI has never performed an inventory count before.

You requested a list of all jobs in process at year-end. I had Erin compile the list using our records in Job Tracker (Exhibit VI). We use Job Tracker to maintain records on all of our jobs in process. This includes both installations in progress and units under assembly. We are pretty excited about the significant contracts we won in May this year with Costco and Imperial Oil. The systems will be assembled in July and installation will begin this August. I included some notes on our accounting system (Exhibit VII) and Job Tracker (Exhibit VIII) in the package as well.

(CONTINUED ON PAGE 3)

You also requested information on DTI's outstanding shareholder loans. There are only three loans; one each from Kevin, Scott, and I. I have provided the details of these promissory notes (Exhibit IX).

In the past, our bank has accepted our financial statements without any assurance. So, I have always just had an old buddy of mine who is a CA prepare the statements with a notice to reader attached. Likewise, he has always quickly prepared our annual corporate tax returns for no extra charge. It was just a matter of calculating taxable income and then applying the relevant tax rates so we didn't feel it was necessary to get a tax expert involved.

This is our first time being audited and we need an unqualified audit report. We would really appreciate any suggestions you might have to help us make improvements in the company's operations for the future. As you know, we are closing the share sale at the end of the month and are considering a public offering in the near future. We need to do whatever it takes to make sure our financial results are as strong as possible. I would really like to know how much we will receive from the share sale after we pay taxes."

Once you and Barry are back in his car, he turns to you and says:

"CA, I would like you to prepare the planning memo for the DTI audit. You will need to make sure you tailor your audit procedures to address any specific risks you identify. If there are any other issues or areas of concern that I should be aware of, please make sure you document those as well. I would also like you to prepare the information requested by Joe and provide recommendations where appropriate. Joe needs the audited statements as soon as possible, so we will need to get started right away."

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**EXHIBIT I****MEMORANDUM OF UNDERSTANDING**

This Memorandum of Understanding ("**MOU**") is dated March 28, 2008 by and between:

(1) **Joe Lim, Kevin Campbell, and Scott Ford**, (collectively referred to as the "**Sellers**")

AND

(2) **Surveillance Security Ltd.** (the "**Buyer**")

WHEREAS:

1.1 The Sellers and the Buyer have agreed that:

1.1.1 The Sellers will transfer 51% of the total issued and outstanding common shares of DigiTech Inc. to the Buyer;

1.1.2 The Buyer will purchase the 51% ownership interest for an amount equal to six (6) times EBITDA from the audited DigiTech Inc. financial statements for the year ended June 30, 2008; and

1.1.3 The consideration for the purchase of the Shares shall be in cash payable by Buyer to Sellers at the closing of the Acquisition. Each of the Sellers will be entitled to receive one-third (1/3) of the net proceeds of the sale.

1.2 The Sellers shall provide an unqualified audit report within 30 days of DigiTech Inc.'s June 30, 2008 financial statement year end.

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**EXHIBIT II****DIGITECH INC.**  
**BACKGROUND INFORMATION**

DTI was founded in 1998 by Joe Lim, Kevin Campbell, and Scott Ford. DTI was the brainchild of Scott Ford. Scott realized there were no industry players who both manufactured the CCTV units and installed the surveillance systems. By both manufacturing and installing the systems, DTI would gain competitive advantages through economies of scale and by providing clients with a single point of contact for all of their surveillance needs. DTI has achieved its success by being a market leader in employing the latest in technological innovations and by ensuring absolute client satisfaction. These are important elements to success given the highly competitive nature of the industry.

DTI has invested a significant amount of money in developing a proprietary software package that operates on its units, called Guardian. All software development costs were appropriately capitalized and have now been amortized fully. DTI employs four full-time software engineers, who were originally hired to develop the basic code for the Guardian application. They remain on staff to customize the software based on client needs as the systems are installed. Each engineer is paid an annual salary of \$60,000. Their salaries are included in salaries and benefits. Customization costs are expensed as incurred. They do not provide any ongoing support work.

In recent years, DTI has expanded its range of services by also supplying and installing access control technology, such as numeric key pads and access control cards. This has further enhanced its ability to provide a single solution to its clients' security needs.

Although DTI had a slow start in establishing itself and creating a market for its units, it has grown rapidly over the past few years. In fiscal 2007, DTI was awarded several large contracts with major retailers, gas bars, and casinos. DTI had expected to commence work on some of these contracts last year, but for various reasons they were delayed until fiscal 2008. While this has significantly increased revenues, it has also led to a cash shortage due to the fact that the larger corporations tend to be slower in processing payments. Consequently, DTI has had to rely heavily on its line of credit to finance operations.

DTI also employs 23 service technicians who only install the CCTV units. Erin, the office manager, is in charge of scheduling jobs and provides the technicians with a monthly calendar of installation dates and locations. In order to promote quality work, all technicians are paid a flat annual salary of \$50,000. Joe believes this will prevent them from rushing to complete jobs.

According to Joe, jobs are quoted with a target profit margin of between 35 to 38%. This is accomplished by determining the hardware and parts required for a given job and applying a mark-up to reach the target margin. A standard labour rate is applied to the estimated hours required for the job. The hardware, parts, and labour included in the original quote are rarely what is included in the final invoice because clients will often request additional work or require changes during the job, or unforeseen circumstances arise during installation that require alterations. In the end, billings and costs can be quite different from the original quote.

(CONTINUED ON PAGE 7)

**EXHIBIT II (continued)****DIGITECH INC.**  
**BACKGROUND INFORMATION**

Joe is not sure what the final profit margin earned on the individual jobs is because they do not perform a post-installation review of the individual jobs. Joe says he does not worry too much about this because he can tell whether they are making money based on the monthly internal financial reports that Erin prepares. He also says that reviewing the margins would not provide an accurate picture of DTI's true profitability because of the nature of the inventory. Initially, the technology was quite expensive, but the costs have decreased over time. This is typical for all new technology that DTI employs. DTI does not pass these cost savings on to its customers, but rather absorbs them into its margins.

Before the start of each fiscal year, Joe prepares a budget. He bases the budget on contracts in process and any anticipated jobs he expects to be awarded during the year. At the end of each year, Joe revisits the budget and compares it to DTI's financial statements once the accountant compiles them. This allows him to determine how accurate his budgets were as well as assess DTI's profitability and overall performance for the year.

(CONTINUED ON PAGE 8)

**EXHIBIT III****DIGITECH INC.**  
**PRODUCT INFORMATION**

DTI has four sources of revenues:

*Closed Circuit Television (CCTV)*

This is DTI's main source of revenue. It consists of revenues generated from the installation of security units, cameras, and other surveillance equipment. DTI purchases the hardware components separately in order to customize each unit to a client's specific needs.

Service technicians prepare details for the quotes based on site visits and consultation with the clients. Once the quote has been completed and approved by both Joe and the client, it is uploaded into Job Tracker and assigned a unique order number. Once Erin has scheduled the job, she enters a memo with the installation date into Job Tracker, along with a required date of completion for the job.

Each day, the manufacturing department checks Job Tracker to determine what components are required for assembly. When manufacturing personnel need to requisition an item from inventory, they remove it from the shelves in the warehouse and enter a memo into Job Tracker stating the part, part number, and quantity taken from the warehouse. Once the unit has been fully assembled, they will enter a memo into Job Tracker indicating assembly is complete. Parts used in the assembly of units are not removed from the inventory accounting records until final installation has been completed and invoiced.

Revenue is recognized when installation is complete, the customer has signed off on the installation and the job has been invoiced. According to Joe, he likes to keep things simple and only invoices when jobs are complete.

Revenues from the sale of hardware and installation labour charges are included in CCTV revenues. Wages for the manufacturing department are expensed and included in salaries and wages on the income statement.

*Access Control*

This revenue stream consists of the supply and installation of various types of access control units, such as numbered keypads, biometric systems, and access card systems. Access control units are sold as part of a complete CCTV package. DTI does not sell these products separately. Revenue is recognized in the same manner as CCTV revenue; however, the revenues are tracked separately for management purposes.

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**EXHIBIT III (continued)****DIGITECH INC.**  
**PRODUCT INFORMATION***Software Licenses*

DTI designed the Guardian software to be compatible with all industry CCTVs. In this way, DTI can generate additional revenue, as well as brand awareness, by selling licenses for use of the software on non-DTI units. Customers can simply visit DTI's webpage, purchase a license and download the software. License terms range from one year to five years.

Revenue from software licenses is recognized when the license term begins and the licensed software has been downloaded by the customer. Revenue is recognized evenly over the term of the license.

*Other*

Other revenue consists of revenues generated from technical support, equipment rentals, any gains realized on the disposal of equipment, and other one-time gains.

Technical support is charged based on an hourly rate for troubleshooting or repair of software and hardware for any issues arising outside of the one-year warranty period. DTI provides its customers with 'loaners' while their equipment is being serviced. A rental fee is charged for loaner equipment if the repair is not covered by the warranty. DTI keeps a number of pre-assembled units and other hardware components in inventory for this purpose. The total value of the loaner equipment held in inventory is \$96,000.

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**EXHIBIT IV****DIGITECH INC.**  
**INVENTORY DETAILS**

DTI values its inventory using the average cost method. This has been its policy since the company's inception.

Inventory consists mostly of hard drives and RAM for the CCTV units, and cameras and lenses for the surveillance cameras. There is also a small amount of supplies, such as conduit, wire, and various brackets and fasteners. All inventory items are stored in the company's warehouse.

At the end of each day, the warehouse supervisor, Janice, locks the doors to the warehouse before she leaves. She unlocks the warehouse each morning when she arrives at work. She does not restrict entry to the warehouse during the day because installers and assembly personnel need to have access to the inventory.

DTI has never performed an inventory count. The book value of inventory is adjusted when an employee notices a variance between the book and physical amounts for a given part. In preparation for the fiscal 2008 audit, DTI performed an inventory count on June 30, 2008. BB had a junior staff member attend the count. He was provided with a listing of inventory and supplies contained in the service technician's vans. These amounts were determined to be immaterial. According to his notes, the staff member queried Joe and Erin as to whether there were any obsolete items in inventory and none were noted.

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**EXHIBIT V**

**DIGITECH INC.**  
**INCOME STATEMENT**  
*For the year ended June 30*

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Draft)	(Unaudited)	(Unaudited)
<b>SALES</b>			
CCTV installations	\$ 9,585,497	\$ 3,783,185	\$ 5,307,291
Software licenses	365,461	330,488	276,181
Access control	207,602	203,172	266,813
Other revenue	2,635,255	556,409	990,416
	<u>12,793,815</u>	<u>4,873,254</u>	<u>6,840,701</u>
<b>COST OF SALES</b>			
CCTV installations	6,297,158	2,472,322	3,382,444
Access control	104,409	66,605	91,124
	<u>6,401,567</u>	<u>2,538,927</u>	<u>3,473,568</u>
	6,392,248	2,334,327	3,367,133
<b>EXPENSES</b>			
Salaries, wages and benefits	2,316,802	1,849,759	1,562,517
Advertising and promotion	190,724	160,293	151,141
Bad debts	25,191	23,544	24,786
Freight	312,105	134,184	122,229
Interest	122,000	91,000	74,000
Office and supplies	192,992	94,084	82,638
Professional fees	125,437	94,627	75,040
Rent	176,842	175,759	174,777
Travel	97,439	88,745	48,499
Utilities	171,845	153,202	127,330
Vehicle	248,865	174,135	114,335
Amortization	141,310	134,278	115,683
	<u>4,121,552</u>	<u>3,173,610</u>	<u>2,672,975</u>
Income (loss) before income taxes	2,270,696	(839,283)	694,158
Income taxes (recovery)	(217,596)	-	53,860
Net income (loss)	<u>\$ 2,488,292</u>	<u>\$ (839,283)</u>	<u>\$ 640,298</u>

(CONTINUED ON PAGE 12)

**EXHIBIT V (continued)**

*DIGITECH INC.*  
*BALANCE SHEET*  
*As at June 30*

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Draft)	(Unaudited)	(Unaudited)
<b>Assets</b>			
<b>Current</b>			
Cash	\$ -	\$ -	\$ 14,844
Accounts receivable (net)	2,911,998	1,209,279	910,346
Income taxes recoverable	262,835	-	-
Inventory	2,688,182	1,708,776	1,744,543
Due from related parties	9,333	-	-
Prepaid expenses	87,545	59,136	63,667
	<u>5,959,893</u>	<u>2,977,191</u>	<u>2,733,400</u>
Capital assets	<u>465,603</u>	<u>341,323</u>	<u>363,107</u>
	<u>\$ 6,425,496</u>	<u>\$ 3,318,514</u>	<u>\$ 3,096,507</u>
<b>Liabilities and shareholders' equity</b>			
<b>Current</b>			
Bank indebtedness	\$ 1,304,905	\$ 702,451	\$ 53,300
Accounts payable and accruals	1,251,045	801,794	382,840
Income taxes payable	-	233,015	239,830
Due to shareholders	700,000	900,000	900,000
	<u>3,255,950</u>	<u>2,637,260</u>	<u>1,575,970</u>
Share capital	3	3	3
Retained earnings	<u>3,169,543</u>	<u>681,251</u>	<u>1,520,534</u>
	<u>\$ 6,425,496</u>	<u>\$ 3,318,514</u>	<u>\$ 3,096,507</u>

(CONTINUED ON PAGE 13)

**EXHIBIT VI****WORK-IN-PROCESS LISTING**

Page 1 of 1 Job Tracker Open Jobs Report As at: June 30, 2008 Report date: July 6, 2008 Generated by: Erin Johnson						
<b>Customer Name</b>	<b>Start Date</b>	<b>Invoice #</b>	<b>Invoice Date</b>	<b>Invoice Amount</b>	<b>Completion Date</b>	<b>Notes</b>
Big Bob's Bakery	June 12, 2008	102496	July 7, 2008	\$9,845	July 7, 2008	
Blockout Video	June 26, 2008					
Costco	May 7, 2008	102471	June 27, 2008	\$151,027		Erin Johnson: First progress billing as requested by Joe Lim
Fred's Fish & Chips	June 11, 2008					
Future Shop	June 24, 2008				July 10, 2008	
Imperial Oil	May 29, 2008	102476	June 30, 2008	\$172,391		Erin Johnson: First progress billing as requested by Joe Lim
In & Out Cash Wash	June 27, 2008					
Lucky Stars Casino	April 16, 2007	101389	July 2, 2007	\$476,000		Jim Steel: Installation completed on June 29, 2007
United Hardware	June 1, 2008	102501	July 7, 2008	\$10,318	July 2, 2008	
Stunning Jewellers	June 24, 2008					
****END OF REPORT****						

(CONTINUED ON PAGE 14)

**EXHIBIT VII**

**DIGITECH INC.**  
**ACCOUNTING SYSTEM**

Since its inception, DTI has been using an off-the shelf accounting software package, EasyBooks. It was recommended to Joe by his previous accountant. He felt that this would be more than adequate to meet DTI's needs, and would be simple enough to use that Erin and the rest of her staff would have little difficulty posting journal entries to it. This was a key selling feature of EasyBooks as the software automatically posts entries to revenue and inventory when an invoice is generated. This helps Erin ensure revenue is being recognized at the appropriate time.

EasyBooks can be configured to allow varying access levels as well as write access and read-only access. According to Erin, she has set up the system with one user account with the user ID 'admin'. She has not set up a password for the account because she does not feel it is necessary given the limited number of staff working in the administration area. All administrative staff post entries from time to time.

EasyBooks does not have a separate inventory module for tracking inventory and does not integrate with Job Tracker. Therefore, Erin must post journal entries manually whenever an adjustment to inventory is required.

Each year when Erin closes the books and rolls them forward to the next fiscal year, EasyBooks carries the average inventory costs forward. As such, the average costs DTI uses to value its inventory are based on an average of inventory values over the past ten years.

(CONTINUED ON PAGE 15)

**EXHIBIT VIII**

**JOB TRACKER**

Job Tracker is a simple software application that allows office staff and service technicians to enter memos documenting details of jobs in process and to save them under a unique tracking number. Attachments can also be added to memos. Price quotes for each job are attached to assist Erin with invoicing and tracking inventory.

Job Tracker is capable of generating a limited number of reports. These include jobs that have been closed off within a specified range and jobs still in progress at a particular point in time. Jobs are considered 'closed' when a completion date is entered.

Job Tracker does not integrate with EasyBooks, so there are no access restrictions. Anyone throughout the organization has the ability to enter memos into Job Tracker.

Whenever a service technician needs to take inventory from the warehouse for a job, he will print off a copy of the price quote from Job Tracker, put a checkmark beside the items he is taking, and then place it in Erin's inbox outside her office for her to update the inventory records in EasyBooks. If the technician makes any changes to the hardware to be used on site, he will note it on the quote at that time as well. It is important that this information is captured because prices vary significantly among different types of cameras, lenses, and other hardware.

Each week, Erin prints a list of closed jobs from Job Tracker. She then prints off the quotes for each closed job from Job Tracker and uses them to prepare invoices in EasyBooks. Once an invoice is generated, EasyBooks will automatically post the necessary entries to revenue and inventory. If Erin is not able to generate invoices in a given week, she delegates the work to one of the other office staff.

(CONTINUED ON PAGE 16)

**EXHIBIT IX****DIGITECH INC.**  
**PROMISSORY NOTES**

In August 2003, DTI was in need of additional funding to purchase capital assets and finance its operations. Both Joe and Scott took out second mortgages on their homes to invest in the company, taking back promissory notes of \$300,000 each. The notes are due on October 31, 2010 and bear interest at an annual rate of 8%. Interest payments of \$2,000 are paid to both Joe and Scott at the end of each month. DTI provides both owners with T5 slips for the \$24,000 in interest received each year.

Kevin was not able to invest any funds personally. However, he had an uncle who had some extra funds that he wished to invest. According to Joe, Kevin's uncle, Vinnie Ratucci, had run into some legal troubles in the past. Vinnie had recently come into a substantial amount of money and he offered to invest some of it in DTI. Joe said he did not want to know where the money came from, but was happy to have the investment in DTI. Kevin and Vinnie have a side arrangement whereby the monthly interest payments are recorded in the general ledger under Kevin's name, but the cheques are issued to Vinnie. At the end of each year, the T5 slip for the interest is prepared in Kevin's name. Joe says he is fine with this arrangement because in the end the Canada Revenue Agency is getting its taxes on the interest so it should not matter who declares it.

In January 2008, Kevin took a \$200,000 draw from DTI against the shareholder loan to buy himself a new fishing boat. Vinnie is still receiving interest cheques for \$2,000 each month. Joe was not sure whether Vinnie knew about this draw but says he is alright with it because Kevin plans to repay the money to DTI when he receives his payout from the share sale.

**TABLE I**

**PRESENT VALUE OF \$1 RECEIVED AT THE END OF THE PERIOD**

<i>Periods</i> Hence 2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.98	0.97	0.96	0.95	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.88	0.87	0.86	0.85	0.85	0.84	0.83
2	0.96	0.94	0.92	0.91	0.89	0.87	0.86	0.84	0.83	0.81	0.80	0.78	0.76	0.74	0.73	0.72	0.71	0.69
3	0.94	0.92	0.89	0.86	0.84	0.82	0.79	0.77	0.75	0.73	0.71	0.69	0.66	0.64	0.62	0.61	0.59	0.58
4	0.92	0.89	0.85	0.82	0.79	0.76	0.74	0.71	0.68	0.66	0.64	0.61	0.57	0.55	0.53	0.52	0.50	0.48
5	0.91	0.86	0.82	0.78	0.75	0.71	0.68	0.65	0.62	0.59	0.57	0.54	0.50	0.48	0.46	0.44	0.42	0.40
6	0.89	0.84	0.79	0.75	0.70	0.67	0.63	0.60	0.56	0.53	0.51	0.48	0.43	0.41	0.39	0.37	0.35	0.33
7	0.87	0.81	0.76	0.71	0.67	0.62	0.58	0.55	0.51	0.48	0.45	0.43	0.38	0.35	0.33	0.31	0.30	0.28
8	0.85	0.79	0.73	0.68	0.63	0.58	0.54	0.50	0.47	0.43	0.40	0.38	0.33	0.31	0.28	0.27	0.25	0.23
9	0.84	0.77	0.70	0.64	0.59	0.54	0.50	0.46	0.42	0.39	0.36	0.33	0.28	0.26	0.24	0.23	0.21	0.19
10	0.82	0.74	0.68	0.61	0.56	0.51	0.46	0.42	0.39	0.35	0.32	0.29	0.25	0.23	0.21	0.19	0.18	0.16
11	0.80	0.72	0.65	0.58	0.53	0.48	0.43	0.39	0.35	0.32	0.29	0.26	0.21	0.20	0.18	0.16	0.15	0.13
12	0.79	0.70	0.62	0.56	0.50	0.44	0.40	0.36	0.32	0.29	0.26	0.23	0.19	0.17	0.15	0.14	0.12	0.11
13	0.77	0.68	0.60	0.53	0.47	0.41	0.37	0.33	0.29	0.26	0.23	0.20	0.16	0.15	0.13	0.12	0.10	0.09
14	0.76	0.66	0.58	0.51	0.44	0.39	0.34	0.30	0.26	0.23	0.20	0.18	0.14	0.13	0.11	0.10	0.09	0.08
15	0.74	0.64	0.56	0.48	0.42	0.36	0.32	0.27	0.24	0.21	0.18	0.16	0.14	0.11	0.09	0.08	0.07	0.06
16	0.73	0.62	0.53	0.46	0.39	0.34	0.29	0.25	0.22	0.19	0.16	0.14	0.11	0.09	0.08	0.07	0.06	0.05
17	0.71	0.61	0.51	0.44	0.37	0.32	0.27	0.23	0.20	0.17	0.15	0.13	0.09	0.08	0.07	0.06	0.05	0.05
18	0.70	0.59	0.49	0.42	0.35	0.30	0.25	0.21	0.18	0.15	0.13	0.11	0.08	0.07	0.06	0.05	0.04	0.04
19	0.69	0.57	0.47	0.40	0.33	0.28	0.23	0.19	0.16	0.14	0.12	0.10	0.07	0.06	0.05	0.04	0.04	0.03
20	0.67	0.55	0.46	0.38	0.31	0.26	0.21	0.18	0.15	0.12	0.10	0.09	0.06	0.05	0.04	0.04	0.03	0.03
21	0.66	0.54	0.44	0.36	0.29	0.24	0.20	0.16	0.14	0.11	0.09	0.08	0.05	0.04	0.04	0.03	0.03	0.02
22	0.65	0.52	0.42	0.34	0.28	0.23	0.18	0.15	0.12	0.10	0.08	0.07	0.05	0.04	0.03	0.03	0.02	0.02
23	0.63	0.51	0.41	0.33	0.26	0.21	0.17	0.14	0.11	0.09	0.07	0.06	0.04	0.03	0.03	0.02	0.02	0.02
24	0.62	0.49	0.39	0.31	0.25	0.20	0.16	0.13	0.10	0.08	0.07	0.05	0.04	0.03	0.02	0.02	0.02	0.01
25	0.61	0.48	0.38	0.30	0.23	0.18	0.15	0.12	0.09	0.07	0.06	0.05	0.04	0.02	0.02	0.02	0.01	0.01

**TABLE II**

**PRESENT VALUE OF AN ANNUITY OF \$1 RECEIVED AT THE END OF EACH PERIOD**

<i>No. of Periods Received</i>	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.98	0.97	0.96	0.95	0.94	0.93	0.93	0.92	0.91	0.90	0.89	0.88	0.88	0.87	0.86	0.85	0.85	0.84	0.83
2	1.94	1.91	1.89	1.86	1.83	1.81	1.78	1.76	1.74	1.71	1.69	1.67	1.65	1.63	1.61	1.59	1.57	1.55	1.53
3	2.88	2.83	2.78	2.72	2.67	2.62	2.58	2.53	2.49	2.44	2.40	2.36	2.32	2.28	2.25	2.21	2.17	2.14	2.11
4	3.81	3.72	3.63	3.55	3.47	3.39	3.31	3.24	3.17	3.10	3.04	2.97	2.91	2.85	2.80	2.74	2.69	2.64	2.59
5	4.71	4.58	4.45	4.33	4.21	4.10	3.99	3.89	3.79	3.70	3.60	3.52	3.43	3.35	3.27	3.20	3.13	3.06	2.99
6	5.60	5.42	5.24	5.08	4.92	4.77	4.62	4.49	4.36	4.23	4.11	4.00	3.89	3.78	3.68	3.59	3.50	3.41	3.33
7	6.47	6.23	6.00	5.79	5.58	5.39	5.21	5.03	4.87	4.71	4.56	4.42	4.29	4.16	4.04	3.92	3.81	3.71	3.60
8	7.33	7.02	6.73	6.46	6.21	5.97	5.75	5.53	5.33	5.15	4.97	4.80	4.64	4.49	4.34	4.21	4.08	3.95	3.84
9	8.16	7.79	7.44	7.11	6.80	6.52	6.25	6.00	5.76	5.54	5.33	5.13	4.95	4.77	4.61	4.45	4.30	4.16	4.03
10	8.98	8.53	8.11	7.72	7.36	7.02	6.71	6.42	6.14	5.89	5.65	5.43	5.22	5.02	4.83	4.66	4.49	4.34	4.19
11	9.79	9.25	8.76	8.31	7.89	7.50	7.14	6.81	6.50	6.21	5.94	5.69	5.45	5.23	5.03	4.84	4.66	4.49	4.33
12	10.58	9.95	9.39	8.86	8.38	7.94	7.54	7.16	6.81	6.49	6.19	5.92	5.66	5.42	5.20	4.99	4.79	4.61	4.44
13	11.35	10.63	9.99	9.39	8.85	8.36	7.90	7.49	7.10	6.75	6.42	6.12	5.84	5.58	5.34	5.12	4.91	4.71	4.53
14	12.11	11.30	10.56	9.90	9.29	8.75	8.24	7.79	7.37	6.98	6.63	6.30	6.00	5.72	5.47	5.23	5.01	4.80	4.61
15	12.85	11.94	11.12	10.38	9.71	9.11	8.56	8.06	7.61	7.19	6.81	6.46	6.14	5.85	5.58	5.32	5.09	4.88	4.68
16	13.58	12.56	11.65	10.84	10.11	9.45	8.85	8.31	7.82	7.38	6.97	6.60	6.27	5.95	5.67	5.41	5.16	4.94	4.73
17	14.29	13.17	12.17	11.27	10.48	9.76	9.12	8.54	8.02	7.55	7.12	6.73	6.37	6.05	5.75	5.47	5.22	4.99	4.77
18	14.99	13.75	12.66	11.69	10.83	10.06	9.37	8.76	8.20	7.70	7.25	6.84	6.47	6.13	5.82	5.53	5.27	5.03	4.81
19	15.68	14.32	13.13	12.09	11.16	10.34	9.60	8.95	8.36	7.84	7.37	6.94	6.55	6.20	5.88	5.58	5.32	5.07	4.84
20	16.35	14.88	13.59	12.46	11.47	10.59	9.82	9.13	8.51	7.96	7.47	7.02	6.62	6.26	5.93	5.63	5.35	5.10	4.87
21	17.01	15.42	14.03	12.82	11.76	10.84	10.02	9.29	8.65	8.08	7.56	7.10	6.69	6.31	5.97	5.67	5.38	5.13	4.89
22	17.66	15.94	14.45	13.16	12.04	11.06	10.20	9.44	8.77	8.18	7.65	7.17	6.74	6.36	6.01	5.70	5.41	5.15	4.91
23	18.29	16.44	14.86	13.49	12.30	11.27	10.37	9.58	8.88	8.27	7.72	7.23	6.79	6.40	6.04	5.72	5.43	5.17	4.93
24	18.91	16.94	15.25	13.80	12.55	11.47	10.53	9.71	8.99	8.35	7.78	7.28	6.84	6.43	6.07	5.75	5.45	5.18	4.94
25	19.52	17.41	15.62	14.09	12.78	11.65	10.68	9.82	9.08	8.42	7.84	7.33	6.87	6.46	6.10	5.77	5.47	5.20	4.95

**TABLE III**

**A FORMULA FOR CALCULATING THE PRESENT VALUE OF  
REDUCTIONS IN TAX PAYABLE DUE TO CAPITAL  
COST ALLOWANCE**

$$\frac{\text{Investment Cost} \times \text{Marginal Rate of Income tax} \times \text{Rate of Capital Cost Allowance} \times \left( 1 + \frac{\text{Rate of Return}}{2} \right)}{\left( \text{Rate of Return} + \text{Rate of Capital Cost Allowance} \right) \times \left( 1 + \text{Rate of Return} \right)}$$

**MAXIMUM  
CAPITAL COST ALLOWANCE RATES  
FOR SELECTED CLASSES**

Class 1 .....	4%
Class 3 .....	5%
Class 8 .....	20%
Class 10 .....	30%
Class 10.1 .....	30%
Class 12 .....	100%
Class 13 .....	original lease period plus one renewal period (Minimum 5 years and Maximum 40 years)
Class 14 .....	Length of life of property
Class 17 .....	8%
Class 39 .....	25%
Class 43 .....	30%
Class 44 .....	25%
Class 45 .....	45%

**SELECTED PRESCRIBED AUTOMOBILE AMOUNTS**

Maximum depreciable cost - Class 10.1	\$30,000 + GST
Maximum monthly deductible lease cost	\$800 + GST
Maximum monthly deductible interest cost	\$300
Operating cost benefit - employee	22¢ per kilometre of personal use
Non-taxable car allowance benefit limits	
- first 5,000 km	50¢ per kilometre
- balance	44¢ per kilometre











































































