CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER:

Common Final Examination
September 11, 2024 – 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 candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the examination 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 the examination including but not limited to generative artificial intelligence and similar technologies (for example, ChatGPT, Grammarly, Chatbots, etc.); or
- Remove or attempt to remove any CPA Canada Examination materials, notes, or any other items from the examination writing centre.

I further agree to report to the Regional/Provincial/Territorial Body 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 the *Policy on Academic Integrity and the Use of Artificial Intelligence*, and I agree to all of their 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 examination 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**. All financial tables in the case with ten lines or more have been preloaded into the spreadsheets that follow Sheet 1. Those spreadsheets are in read-only mode. You must copy and paste the financial information into your Sheet 1, where you can then do all your calculations. 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 examination software or, in the event of computer failure, the CPA Canada writing paper 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 the examination software throughout the entire examination. These materials provide the standards in effect and tax laws substantively enacted as at December 31, 2023.

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 examination questions as presented even though the circumstances described in the examination questions may not be reflective of the current environment.

Common Final Examination, 2024

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.

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BACKGROUND
COMMON INFORMATION FOR ALL ROLES

Inspired Books Ltd. (IBL) is a publicly traded retail bookstore chain headquartered in Richmond, British Columbia. It operates 45 stores across Canada and maintains a small online presence. IBL focuses on selling printed books and magazines to a variety of customers.

Lately, IBL has focused on its online business; however, it has had difficulty converting website traffic to actual sales, and 85% of its sales continue to come from its retail stores. Further, its market share in the online space is poor compared to that of its competitors.

Companies that have invested heavily in technology have found success in attracting new customers and realizing incremental sales from existing customers. Along with the rise in e-business and technology, there has been a rise in consumer concern about data privacy: both the security of consumer data held by companies, and the use of data by those companies and unrelated parties.

Some of IBL's competitors have expanded their product offerings to include home furnishings. The traditional home decor industry was dominated by a few major companies but has been disrupted by younger generations with a strong interest in trendy, affordable home decor products. IBL has instead maintained its focus on traditional printed book and magazine sales.

Today is January 12, 2024, and IBL has not yet finalized the December 31, 2023, IFRS financial statements. Although Tina Parker, CFO, has been with the company for 15 years, IBL has gone through multiple controllers, and its external auditors have consistently found errors. The most recent controller was let go in May, and Jeff Lincoln was promoted from assistant controller to acting controller, doubling his workload. In addition, on December 31, 2023, IBL acquired Bookmarks Inc. (Bookmarks), a small chain of retail bookstores.

IBL has two broad groups of employees: corporate head office employees, and retail employees. It has had significant issues retaining retail employees in the last two years, which has strained daily operations. Stores are often understaffed, and there is high turnover of new staff, which requires significant training efforts on the part of existing staff.

(CONTINUED ON PAGE 4)

BACKGROUND (CONTINUED)
COMMON INFORMATION FOR ALL ROLES

Warehouse operations are running smoothly, with orders filled and dispatched on a timely basis, but there have been reports of customers receiving damaged products—wrinkled pages, scratches on hardcovers, etc.

IBL's existing long-term debt, totalling $15 million, bears interest at 7.5% with the principal due only at its maturity on March 31, 2025. IBL is subject to a 26% income tax rate.

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, are an audit senior at Rutherford and Singh LLP (Rutherford), IBL's external audit firm. You report to Kim Davies, the audit manager. Rutherford is preparing for the 2023 audit and has also been asked by the Board of Directors to provide additional advice to management. Kim recently met with Tina and Jeff to discuss several issues. Kim has asked you to ignore, for now, any independence and conflict-of-interest considerations, as she will discuss them with the audit partner before any deliverables are provided to the client.

Kim asks you to discuss the financial reporting for the acquisition of Bookmarks, a new Halifax lease, and a lawsuit related to a contract breach. Jeff provided Rutherford with a copy of IBL's draft 2024 cash budget, which was prepared by a co-op student. Kim asks you to review the cash budget and make any necessary revisions. She notes that you should ignore Bookmarks' cash flows, since it will continue to operate independently for now.

IBL's balanced scorecard was implemented five years ago. During the meeting, Tina expressed a desire to update it. Kim asks you to assess the balanced scorecard and recommend improvements.

In 2023, IBL operated a café at its Toronto store as part of a pilot project. Tina wants to assess whether the pilot was a success, and what improvements could be made. Kim asks you to perform this analysis.

A few days after the meeting, Jeff informed Rutherford that IBL implemented a new share-based compensation plan. Kim asks you to discuss the financial reporting implications of the new plan.

Kim would also like you to assess the risks of material misstatement at the overall financial statement level and determine materiality for the 2023 audit. In addition, Kim asks you to prepare a year-over-year variance analysis of the statement of financial position and statement of earnings, excluding income tax accounts, and discuss any risks to consider when planning the audit. Kim also asks that you describe the audit procedures to be performed on the financial reporting issues noted by Kim, including the share-based compensation plan.

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

ASSURANCE REQUIREMENTS (continued)

Kim would like to rely on payroll controls for the 2023 year-end audit, and asks you to design procedures to establish whether IBL's payroll controls are operating effectively. IBL's audit committee raised some concerns regarding the control environment in IBL's retail operations. Kim asks you to discuss any internal control weaknesses you identify in the bookstore operations and recommend ways to address them, to present to the audit committee.

IBL has also provided a draft of its Management Discussion and Analysis that will accompany the financial statements in the annual report. Kim asks you to comment on the excerpts provided to date, and explain Rutherford's responsibilities regarding the business risks section, which Tina does not expect to be ready before the audit report is issued.

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

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

FINANCE REQUIREMENTS

You, CPA, work at Westwood & Co., and provide consulting services to IBL. You recently met with Tina and Jeff to discuss some of IBL's present challenges.

Tina asks you to discuss the financial reporting for the acquisition of Bookmarks, a new Halifax lease, and a lawsuit related to a contract breach. Jeff provided you with a copy of IBL's draft 2024 cash budget, which was prepared by a co-op student. He asks you to review the cash budget and make any necessary revisions. He notes that you should ignore Bookmarks' cash flows, since it will continue to operate independently for now.

IBL's balanced scorecard was implemented five years ago. During the meeting, Tina expressed a desire to update it. She asks you to assess the balanced scorecard and recommend improvements.

In 2023, IBL operated a café at its Toronto store as part of a pilot project. Tina wants to assess whether the pilot was a success, and what improvements could be made. She asks you to perform this analysis.

IBL wants to acquire all of the outstanding shares of an owner-managed bookstore, Dominion Books Inc. (Dominion). Tina asks you to value Dominion using a capitalized earnings methodology that considers both years of available data. The appropriate earnings multiple for Dominion is 13 times.

Tina has received two proposals to replace IBL's existing long-term debt at a lower interest rate, to reduce IBL's borrowing cost. IBL can repay its existing long-term debt at any time with no penalty. Tina would like you to calculate the proposed covenants, based on the draft 2023 financial statements. She also wants you to assess the proposals and recommend which one to accept.

(CONTINUED ON PAGE 8)

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

FINANCE REQUIREMENTS (continued)

Tina is unsure if IBL is using best practices with respect to its accounts payable process, and asks you to assess its days payable outstanding and whether IBL should be settling payables on a timelier basis. IBL is also concerned about its days in inventory, and has received a proposal for a new inventory management system that Tina would like you to evaluate.

Tina has summarized three financing proposals that are being considered, to provide IBL with additional comfort in meeting its working capital needs. She asks you to evaluate the proposals and recommend which, if any, IBL should accept.

IBL is expanding in Calgary, and can choose to either lease or purchase a property. Tina would like you to advise on which option is best suited to IBL.

Tina is considering introducing a share-based compensation plan for IBL's store managers and assistant managers. She would like you to calculate the impact of each of the two proposed plans on IBL's 2023 quick ratio, debt-to-equity ratio, and the long-term debt covenant ratios you previously calculated.

Some of IBL's shareholder groups are becoming increasingly vocal about their desire for distributions. Tina thinks a $2 million cash dividend or share repurchase may satisfy them, but wonders if a 2:1 stock split or a 10% stock dividend are also viable alternatives.

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

(CONTINUED ON PAGE 9)

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

PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, work at Findlay & Butterfield LLP, and provide consulting services to IBL. You recently met with Tina and Jeff to discuss some of IBL's present challenges.

Tina asks you to discuss the financial reporting for the acquisition of Bookmarks, a new Halifax lease, and a lawsuit related to a contract breach. Jeff provided you with a copy of IBL's draft 2024 cash budget, which was prepared by a co-op student. He asks you to review the cash budget and make any necessary revisions. He notes that you should ignore Bookmarks' cash flows, since it will continue to operate independently for now.

IBL's balanced scorecard was implemented five years ago. During the meeting, Tina expressed a desire to update it. She asks you to assess the balanced scorecard and recommend improvements.

In 2023, IBL operated a café at its Toronto store as part of a pilot project. Tina wants to assess whether the pilot was a success, and what improvements could be made. She asks you to perform this analysis.

IBL is considering focusing more of its efforts on the online portion of the business. Jeff has summarized the cost allocation model between the online and in-store segments, and would like you to prepare a divisional income statement based on the current allocation model, as well as one based on any revisions you would propose. In addition, Tina would like you to discuss the advantages and disadvantages of increasing the focus on the online segment, and to consider whether it is aligned with IBL's mission and vision.

IBL's executive team wants to analyze whether they should introduce a home decor segment to their business. Tina would like you to calculate the potential operating income of this new product line.

In addition, Tina would like you to discuss the advantages and disadvantages of this project, consider whether it is a good strategic fit for IBL, and provide a recommendation.

(CONTINUED ON PAGE 10)

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

PERFORMANCE MANAGEMENT REQUIREMENTS (continued)

The executive team wants to introduce a membership program. Tina would like you to assess the advantages and disadvantages of the proposed program and the financial impact it would have on IBL, excluding any impact the introduction of the home decor segment would have.

Tina wants you to review, and suggest improvements to, the incentive compensation plan for the online segment, which consists of bonuses for the vice president, managers, and staff. As part of your analysis, she would like you to estimate the vice president's bonus, based on the draft 2023 financial statements.

Tina surveyed some of IBL's store managers and corporate managers, and summarized their concerns about IBL's inventory management system, which has been in use for nearly 20 years. She would like you to discuss the weaknesses of the system and recommend improvements for a potential new system.

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 at Lloyd & Patel LLP (L&P), and provide consulting services to IBL, which has asked L&P for assistance with tax issues and to provide advice to management. You recently met with Tina and Jeff to discuss some of IBL's present challenges.

Tina asks you to discuss the financial reporting for the acquisition of Bookmarks, a new Halifax lease, and a lawsuit related to a contract breach. Jeff provided you with a copy of IBL's draft 2024 cash budget, which was prepared by a co-op student. He asks you to review the cash budget and make any necessary revisions. He notes that you should ignore Bookmarks' cash flows, since it will continue to operate independently for now.

IBL's balanced scorecard was implemented five years ago. During the meeting, Tina expressed a desire to update it. She asks you to assess the balanced scorecard and recommend improvements.

In 2023, IBL operated a café at its Toronto store as part of a pilot project. Tina wants to assess whether the pilot was a success, and what improvements could be made. She asks you to perform this analysis.

Tina asks you to determine IBL's net income (loss) for income tax purposes and taxable income for the year ended December 31, 2023, including an explanation of the adjustments made in the calculation. She also asks you to prepare a summary of the income tax implications of the share acquisition of Bookmarks.

IBL provided a leased vehicle to a new employee during the year. It also introduced new employee benefits during the year, including a merchandise discount for retail employees and a recognition and rewards program. Tina asks for L&P's assistance in determining the income tax implications of these benefits, for both the employees and IBL.

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

TAXATION REQUIREMENTS (continued)

IBL began offering loans to senior executives as an additional benefit in 2023. Tina provided a summary of the loans made during the year, and wants to know if there are any income tax implications for the executives and IBL as a result.

Lastly, Jeff has some GST/HST questions related to the events that took place during the year. He has shared them by email.

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

Inspired Books Ltd.
Statement of Financial Position
(Unconsolidated, in thousands of Canadian dollars)
As at December 31

	2023 Draft	2022 Audited
Assets		
Current assets:		
Cash and cash equivalents	$ 10,700	$ 17,600
Inventory	84,113	76,517
Prepaid expenses	1,903	1,952
Income tax recoverable	1,284	1,581
Total current assets	98,000	97,650
Deferred tax asset	600	500
Property, plant, and equipment (PP&E) - net	15,627	16,409
Right-of-use assets	77,874	82,043
Investment in Bookmarks Inc.	5,000	0
Total assets	$ 197,101	$ 196,602
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 29,109	$ 30,289
Current portion of lease liabilities	15,134	13,013
Interest payable	1,157	389
Total current liabilities	45,400	43,691
Lease liabilities	67,500	73,247
Long-term debt	15,000	5,000
Total liabilities	127,900	121,938
Shareholders' equity		
Common shares	65,000	65,000
Retained earnings	4,201	9,664
Total shareholders' equity	69,201	74,664
Total liabilities and shareholders' equity	$ 197,101	$ 196,602

(CONTINUED ON PAGE 14)

APPENDIX I – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Inspired Books Ltd.
Statement of Earnings
(Unconsolidated, in thousands of Canadian dollars)
For the years ended December 31

	2023 Draft	2022 Audited
Sales	$ 74,500	$ 70,775
Cost of sales	(33,525)	(31,924)
Gross profit	40,975	38,851
Operating expenses		
General and administrative	22,600	21,233
Marketing and sales	8,690	8,493
Depreciation	8,388	7,425
Total operating expenses	39,678	37,151
Operating income	1,297	1,700
Loss on disposal of PP&E	(160)	0
Gain on disposal of PP&E	35	0
Interest expense – lease liabilities	(7,649)	(9,599)
Interest expense – long-term debt	(906)	(250)
Loss before income taxes	(7,383)	(8,149)
Income tax recovery	1,920	2,119
Net loss	$ (5,463)	$ (6,030)

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APPENDIX II – COMMON
ACQUISITION OF SHARES OF BOOKMARKS INC.

On December 31, 2023, IBL purchased 100% of the issued and outstanding shares of Bookmarks from its previous owner, a Canadian resident, for $5 million cash pursuant to a share purchase agreement.

The following is an excerpt from an independent appraisal of Bookmarks (*in thousands of Canadian dollars*):

	Dec. 31, 2023 Carrying Amount (IFRS)	Dec. 31, 2023 Appraised Fair Value
Assets		
Current assets:		
Cash and cash equivalents	$ 700	$ 700
Inventory	2,500	3,500
Prepaid expenses	100	100
Total current assets	3,300	4,300
Property, plant, and equipment – net (Note 1)	750	850
Right-of-use assets	600	600
Deferred tax asset (Note 2)	52	52
Total assets	$ 4,702	$ 5,802
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,500	$ 1,500
Current portion of lease liabilities	60	60
Total current liabilities	1,560	1,560
Lease liabilities	750	750
Total liabilities	$ 2,310	$ 2,310

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APPENDIX II – COMMON (CONTINUED)
ACQUISITION OF SHARES OF BOOKMARKS INC.

Note 1

Property, plant, and equipment is broken down as follows *(in thousands of Canadian dollars)*:

Item	Carrying Amount ($)	Fair Value ($)
Furniture and fixtures	500	550
Leasehold improvements	175	250
Computer systems	75	50
Total	750	850

Note 2

Bookmarks noted that the tax values of all of its assets and liabilities were equal to their carrying amounts on the acquisition date, except for the right-of-use asset and lease liability.

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APPENDIX III – COMMON
LEASE OF HALIFAX STORE

On October 1, 2023, IBL entered into a contract to lease a retail space in Halifax from Atlantic Leasing Corp. (ALC), with the intention of opening a Halifax location in early 2025.

The lease agreement provided the following terms:

- The lease commences on November 1, 2023, for a period of 62 months.
- The months of November and December 2023 are rent-free. Starting on January 1, 2024, IBL is required to make monthly payments of $9,000.
- Following the 62-month term, IBL has the option to extend the lease for an additional 60 months, with the same monthly lease payments.

IBL incurred $5,000 in legal costs and $20,000 in commissions paid to a commercial real estate agent for this lease, which have been expensed as incurred. For the year ended December 31, 2023, IBL has not recorded any journal entries for the Halifax lease, other than for the legal fees and commissions. IBL plans on making leasehold improvements estimated at $400,000 in August 2024. IBL intends to take the extension option when it comes up.

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APPENDIX IV – COMMON
LAWSUIT

To: CPA
From: Jeff, acting controller
Date: January 11, 2024
Subject: FW: Breach of Contract

Hi CPA, as discussed, we recently settled a lawsuit relating to a contract breach that occurred during the summer. We recorded the expense today, in the 2024 fiscal year, for the final settlement. I've attached two relevant emails below.

Email 1

To: Jeff, acting controller
From: Alyssa, senior legal counsel, IBL
Date: August 9, 2023
Subject: Breach of Contract

Hi Jeff,

Further to our discussion, the following is a summary of the facts:

- Last month, the Toronto store released, one week early, the sixth instalment in a critically acclaimed young adult sci-fi series. Numerous copies were sold, and news of these early sales spread rapidly online.
- The publisher was upset and has brought a lawsuit against us for breaching our distribution agreement with them, specifically the clause surrounding release dates. Given the widespread reporting of our mistake, they feel we negatively impacted sales of the novel and caused damage to them and their author.
- The lawsuit is asking for $250,000 in damages, which seems exorbitant. I think they would be entitled to $100,000 at most.
- That said, I've reviewed our agreement with the publisher, and I think we can present a few arguments in our defence. Frankly, I don't think we will have to pay them anything.

Regards,

Alyssa

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APPENDIX IV – COMMON (CONTINUED)
LAWSUIT

Email 2

To:	Jeff, acting controller
From:	Alyssa, senior legal counsel, IBL
Date:	January 8, 2024
Subject:	Re: Breach of Contract

Hi Jeff, disappointing result in court today. The judge dismissed my arguments and awarded the publisher $125,000 in damages. I spoke with our outside counsel, and they agreed with the decision. Therefore, we will not be appealing the judgment.

Regards,

Alyssa

(CONTINUED ON PAGE 20)

APPENDIX V – COMMON
DRAFT CASH BUDGET

Below is the draft 2024 cash budget. Here are some notes that Jeff provided to the co-op student:

- We forecast an increase in sales of 3% from 2023.
- Sales occur from Quarter 1 to 4 (Q1 to Q4) in the following pattern: 15%, 20%, 25%, and 40%. The related marketing and sales expenditures occur in the following pattern: 15%, 15%, 35%, and 35%.
- Financing is available to cover any cash shortfalls for 2024.

	Note	Q1 ($)	Q2 ($)	Q3 ($)	Q4 ($)	Total ($)
Cash balance, beginning		10,700,000	8,917,210	7,134,420	5,351,630	
Add: sales	1	18,625,000	18,625,000	18,625,000	18,625,000	74,500,000
Add: debt financing	1	2,500,000	2,500,000	2,500,000	2,500,000	10,000,000
Less: inventory purchases	2	(8,381,250)	(8,381,250)	(8,381,250)	(8,381,250)	(33,525,000)
Less: general and administrative	1	(5,650,000)	(5,650,000)	(5,650,000)	(5,650,000)	(22,600,000)
Less: marketing and sales	1	(2,172,500)	(2,172,500)	(2,172,500)	(2,172,500)	(8,690,000)
Less: depreciation	1	(2,097,040)	(2,097,040)	(2,097,040)	(2,097,040)	(8,388,160)
Less: lease payments	3	(4,132,000)	(4,132,000)	(4,132,000)	(4,132,000)	(16,528,000)
Less: purchase of PP&E	1	(475,000)	(475,000)	(475,000)	(475,000)	(1,900,000)
Cash balance, ending		8,917,210	7,134,420	5,351,630	3,568,840	

Notes:

1. These forecasted items are based on the draft 2023 statement of earnings and statement of cash flows.
2. The forecasted purchases are based on the draft 2023 cost of sales.
3. The forecasted lease payments are based on the lease payments made in 2023.

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APPENDIX VI – COMMON
BALANCED SCORECARD (LAST REVISED IN 2018)

Financial Perspective

Goals	Measures
Promote financial growth of the business	Profit growth rate (%)
Improve cash flow relating to inventory	Gross margin (%)

Customer Perspective

Goals	Measures
Retain existing customers	Customer retention rate (%) (estimated through informal interactions between cashiers and customers)
Attract new customers	Overall sales volume

Learning and Growth Perspective

Goals	Measures
Promote continuing education	Number of employee voluntary learnings completed
Improve employee morale	Employee satisfaction rate (%) (anonymous survey administered by a third party)

Internal Operations Perspective

Goals	Measures
Improve order handling	Time from order to shipment
Improve systems capability	Number of new system features added

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APPENDIX VII – COMMON
CAFÉ PILOT PROJECT

On January 1, 2023, IBL launched a café within the Toronto store in an effort to rival competitors with similar offerings in their stores. IBL hoped that a successful pilot would lead to widespread rollout in 2024 and beyond, with each café contributing to growth in the core business and earning a small profit itself.

While the café has brought an increase in foot traffic to the store, and an increase in book and magazine sales volume of 8%, Tina is concerned because the café operation was unprofitable during 2023. She is considering closing it. The store manager provided a financial summary and comments on the pilot:

		Note
Sales	$ 225,000	1
Cost of sales	(135,000)	1, 2
Gross profit	90,000	
Salaries and wages	120,000	3
Marketing and other	6,000	
Rent	3,150	4
Utilities	4,054	5
Loss	$ (43,204)	

Notes:

1. Relates to café sales and cost of sales only.
2. Cost of sales includes inventory write-offs for food wastage. For example, we stock a variety of dairy alternative products, and while customers appreciate the offerings, we have had to dispose of near-full containers on multiple occasions.
3. We had trouble finding baristas to work in the café, and often had to ask our reluctant retail staff to provide coverage. About one-third of the salaries and wages are related to these retail employees, who would otherwise have been working elsewhere on the floor.
4. The café takes up 15% of the store's floor space, so we have allocated 15% of the annual lease payments of $21,000 to the café. We had previously used this space as a lounge area, without any food or beverage offerings.
5. We also allocated 15% of the store's utilities to the café. Given the increased electricity and water required for the café, the bookstore's overall utilities increased by 17% from 2022.

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APPENDIX VII – COMMON (CONTINUED)
CAFÉ PILOT PROJECT

Comments from the store manager:

- Our district manager asked me to oversee the café operations. Unfortunately, I’ve worked in retail my entire career. I don’t even drink coffee! A supervisor performs most of the management duties for the café, but I make myself available if they need help.
- We’ve noticed damage to books and furniture near the café. As a result, we’ve had to replace some of our furniture, and mark books to clearance, due to spills.

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ASSURANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 25)

APPENDIX VIII – ASSURANCE
ADDITIONAL INFORMATION

Restricted Stock Unit (RSU) Plan

On January 1, 2023, when IBL's common shares were trading at $7, the company implemented an RSU plan for its senior leadership, which includes 25 eligible employees. On December 31, 2023, IBL's share price was $7.50.

The plan sets out the following for eligible employees:

- Employees were each granted 1,000 RSUs on January 1, 2023.
- The RSUs vest according to the following schedule:
  - 40% on the first anniversary of the grant date; and
  - 20% on each anniversary thereafter.
- IBL will cash-settle vested RSUs at IBL's share price on the vesting date.
- Employees must be employed by IBL on the vesting date, to be entitled to the cash settlement.

IBL worked with a compensation consultant in creating the RSU plan. The consultant estimated that 90% of the eligible employees will be employed by IBL on the second anniversary date, 80% on the third anniversary date, and 70% on the fourth anniversary date. On December 31, 2023, all 25 eligible employees remained employed at IBL.

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APPENDIX VIII – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Excerpts from IBL's Process Descriptions Regarding Payroll

Timekeeping

Retail employees are responsible for checking in and checking out for each shift, using a point-of-sale (POS) system terminal located in the staff room. At the end of each pay period, the assistant manager and manager of each store review and approve their store's time summary, and send it to the payroll clerk for processing.

Every six months, the assistant controller selects a random sample of time records and checks the master employee file from human resources, to ensure that each record is related to an active employee.

Payment of payroll

The payroll clerk prepares the payroll report in IBL's internal payroll system, based on the approved time records and each employee's wage rate, as defined in the employee's master file. The payroll manager reviews the payroll report, including the inputs, prior to approving the amounts for payment. Employees are paid by direct deposit from IBL's payroll-specific bank account to each employee's bank account. In rare instances where an employee is not registered for direct deposit, a pre-numbered cheque is written and is signed by the payroll manager and the controller. Cheques, when required, are issued in sequential order. A treasury clerk prepares the monthly payroll bank account reconciliation, which is reviewed by the treasury manager.

Recording payroll transactions

The payroll clerk prepares the payroll journal entry for each pay period, based on the payroll report, and the entry is reviewed by the payroll manager. The payroll manager ensures that the entry ties to the payroll report generated by the payroll system, and further ensures that the appropriate general ledger accounts are being used for the journal entry before approving. The payroll clerk records the approved journal entry on the pay date.

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APPENDIX VIII – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Bookstore Operations

A typical IBL store includes up to five checkout counters, staffed by cashiers. Cashiers process sales by scanning the bar code on the product, and the customer's subtotal, sales tax, and final total are tallied using the POS system, which is connected to a payment terminal. Each checkout counter has a cash register that maintains a cash float. Daily, one cashier is responsible for closing the store, and their tasks include summarizing sales transactions and providing the cash from the registers to the store manager. The store manager performs the cash reconciliation nightly, resets the floats to the appropriate levels, and deposits the excess cash at a local bank branch.

Store managers and assistant managers are permitted to order new furniture and fixtures, provided that they order from pre-approved vendors. They do not need approval from head office for these purchases, and there is no limit on the amount they may spend. They send the purchase orders to head office, which orders the requested items. Vendors send invoices to head office, and once the stores receive the items, they provide proof of receipt to head office so that payment can be arranged. Upon receipt of furniture and fixtures, retail staff are responsible for assembly and display. Since some of the items are interchangeable, IBL does not assign asset numbers to its furniture and fixtures.

IBL performs store and warehouse inventory counts annually, which are attended by Rutherford. A list of discrepancies is provided to the accounting department, which adjusts the inventory levels in the accounting system. The warehouse manager takes discrepancies seriously, and investigates any identified. Store managers, who view discrepancies as a cost of doing business, often ignore them.

IBL has had issues with employee retention over the last year. In multiple cases, store managers have had problems recovering company assets from departing employees, including store keys. IBL maintains a virtual private network (VPN), so that managers can access company systems from home when necessary. Recently, it was discovered that a former manager retained their VPN and systems access for five months following their termination.

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APPENDIX VIII – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Excerpts from IBL's Draft Management Discussion and Analysis

Operational results: EBITDA

IBL's EBITDA from its physical stores and online business lines, for the year ended December 31, 2023, was as follows (*in thousands of Canadian dollars*):

Item	Stores ($)	Online ($)	Total ($)
Revenue	65,000	15,000	80,000
Cost of sales	(29,250)	(4,275)	(33,525)
General and administrative	(18,363)	(4,237)	(22,600)
Marketing and sales	(7,061)	(1,629)	(8,690)
Depreciation	(8,388)	0	(8,388)
Loss on disposal of PP&E	(160)	0	(160)
Gain on disposal of PP&E	35	0	35
EBITDA	1,813	4,859	6,672

Balance sheet performance

IBL has strong liquidity, having a current ratio of 2.16, and a quick ratio of 0.31.

The company greatly improved inventory controls during the year, and this continues to be an area of focus.

Employee retention

IBL continued to experience high levels of turnover at the retail level, consistent with competitors in the immediate industry. However, IBL undertook efforts to improve retention at the senior leadership level by implementing a stock option plan, which provides some employees with the option to acquire IBL stock at certain grant prices.

Business outlook

On December 15, 2023, IBL closed on the acquisition of Bookmarks, which expands IBL's footprint across the country.

In 2025, IBL will be opening a new retail store in Halifax, which will generate revenues of $5 million annually over the 10-year lease.

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FINANCE ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 31)

APPENDIX VIII – FINANCE
ADDITIONAL INFORMATION

Dominion Books Inc.
Statement of Earnings
For the years ended December 31

	2023 Unaudited	2022 Audited	Note
Sales	$ 2,000,000	$ 1,750,000	
Cost of sales	(940,000)	(840,000)	
Gross profit	1,060,000	910,000	
Operating expenses			
General and administrative	725,000	625,000	1
Management fees	100,000	100,000	2
Marketing	45,000	65,000	
Depreciation	65,000	68,000	
Total operating expenses	935,000	858,000	
Operating income	125,000	52,000	
Dividend income	10,000	9,500	3
Interest income	15,000	12,000	3
Loss on inventory revaluation	0	(25,000)	
Gain on disposal of PP&E	15,000	5,000	4
Income before income taxes	165,000	53,500	
Income tax expense	35,723	25,427	5
Net income	$ 129,277	$ 28,073	

Notes:

1. General and administrative expenses include salaries of $150,000 paid to the owner in each year, and $45,000 paid to her husband only in 2023. IBL expects to replace them with regular full-time employees for total wages of $100,000.
2. Dominion paid a management fee to the owner's management company for various administrative services that could be performed by either IBL or Dominion without incurring additional costs.

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APPENDIX VIII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Notes (continued):

3. Dominion maintains an investment portfolio using excess cash. At December 31, 2023, the portfolio was valued at $400,000, with an adjusted cost base of $300,000. All dividend and interest income relates to this portfolio.
4. Dominion has a small portfolio of vacant land that it is in the process of liquidating. At December 31, 2023, the company owned vacant land with a fair market value of $75,000, and an adjusted cost base of $40,000.
5. Dominion's income from active operations is taxed at a combined small business rate of 12.2%, and investment income is taxed at a rate of 50.17%.

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APPENDIX VIII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Long-Term Debt Replacement

Commerce Plaza Bank

- Principal: $15 million, with blended annual repayments of $1,173,000 due on December 31 of each year.
- Interest rate: 6% fixed.
- Term: 5 years.
- Amortization period: 25 years.
- Covenants:
  - Debt-to-EBITDA ratio of 2.5 or lower. Debt includes all long-term debt and excludes lease liabilities.
  - Interest-coverage ratio (EBIT / interest on interest-bearing debt) of 1.05 or greater. EBIT is prior to all interest expenses, and interest on interest-bearing debt excludes interest on lease liabilities.
  - IBL may not make any investments (including, but not limited to, acquisitions, store renovations, store expansions, and significant furniture and fixture purchases) greater than $1 million without the express consent of the lender.
- Securitization: General security agreement over IBL's inventory, investments, and property, plant, and equipment.
- Early repayment: An additional $1 million may be repaid annually without incurring a penalty. Any excess repayment is subject to a penalty equal to the interest rate differential if the stated interest rate is greater than the posted rate on similar loans.

First Canadian Credit Union

- Principal: $15 million, with blended monthly repayments of $124,500 due on the first day of each month.
- Interest rate: 5.74% variable.
- Term: 5 years.
- Amortization period: 15 years.
- Covenants:
  - Debt-to-EBITDA ratio of 2.2 or lower.
  - IBL may not incur additional debt without the express consent of the lender.
- Securitization: General security agreement over IBL's inventory, investments, and property, plant, and equipment.
- Early repayment: No early repayment is permitted.

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APPENDIX VIII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Working Capital Management

Accounts payable

IBL's statement of financial position reflects accounts payable and accrued liabilities as at December 31, 2023, of $29,109,000 (2022 – $30,289,000). Of these amounts, accounts payable owing to inventory suppliers as of December 31, 2023, was $2.5 million (2022 – $2.75 million), and the remainder relates to salaries and wages, bonus accruals, amounts owing for PP&E, GST/HST payable, and other accruals.

IBL strives to be a courteous customer of the publishers from which it sources inventory, and aims to settle its inventory payables every 25 to 30 days. The following is an excerpt from IBL's primary supplier agreement:

Payment terms:
- Customer shall pay a supplier within 30 days of the date specified on the commercial invoice (net 30).
- Payments received on days 31 to 60 shall be assessed a one-time fee of 0.5%, and payments received on day 61 or later shall be assessed a one-time fee of 15%.
- A discount of 2.0% shall be applied to payments received on or before day 10.

Inventory

Each IBL store controls its inventory orders. Typically, store managers replenish inventory throughout the year as it depletes, and when new titles are released. IBL's inventory management system is quite old, and provides only simple information about the quantity of inventory in a specific store, the Stock Keeping Unit (SKU) number, and the cost. IBL stores do not share inventory.

IBL received a proposal to implement a new inventory management system. This system is expected to bring IBL's inventory turnover to the industry average of 1.15 through centralization of inventory orders and inventory management efficiencies (such as reducing orders for slow-moving and obsolete books, and sharing of inventory between stores). The cost of the system is $2.5 million.

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APPENDIX VIII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Financing Proposals to Meet Working Capital Needs

Canadian Learning Program

The Canadian Learning Program is a new educational initiative launched by the federal government, with the mission of increasing youth literacy rates and engaging the next generation of readers. The program provides loans on a case-by-case basis. It proposed the following to IBL:

- $10 million loan at a 4% annual rate, interest payable monthly, and principal payable at the end of the 2-year term.
- The government will forgive 25% of the principal at maturity if certain conditions are met. IBL must:
  - dedicate a minimum of 15% of each store's floor space to books and magazines for children and young adults.
  - host a monthly reading session at each store.

Rights offering

Tina recently learned about a rights offering from a CFO peer in another industry. She wonders if IBL could use a rights offering to existing shareholders, to avoid increasing its debt level in 2024. She thinks IBL could raise additional funds as follows:

- Rights will be offered to existing shareholders, providing them with one right per common share held (10 million common shares of IBL are issued and outstanding).
- For every 7 rights, a holder can acquire a common share within the next 12 months for $6.50. The new common share will be issued from treasury.
- IBL's current share price is $7.50.

Inventory financing

Timely Factoring Company (Timely) has offered to provide IBL with a line of credit collateralized by IBL's inventory, under the following terms:

- Timely will advance up to 75% (at IBL's option) of the appraised market value of IBL's inventory, less any outstanding debt secured by the inventory. This value is estimated to be 60% of carrying value.
- The line of credit will bear interest at 12% annually.
- IBL must maintain a perpetual inventory process free from material weaknesses, and provide Timely with its audited annual financial statements.
- Timely will conduct quarterly inspections of IBL's stores and warehouse, to assess inventory activity.

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APPENDIX VIII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Property Acquisition

IBL wants to open a new store in Calgary. The owner has historically leased the property but is open to selling it. IBL's commercial real estate agent has summarized the options as follows:

<u>Purchase</u>

- The purchase price is $500,000, of which 20% would be allocated to land.
- The building has a remaining useful life of 10 years, at which point its residual value is expected to be $125,000.
- IBL expects to place the building in Class 1, and to make the required election for an additional 2% CCA.
- Annual property taxes are estimated to be $10,000, paid at the end of each year.
- Annual insurance premiums are estimated to be 1% of the building's acquisition value, paid at the start of each coverage period.

<u>Lease</u>

- Payments of $7,000 are due on the first of each month for the duration of the lease.
- The lease term is set at 10 years, with no renewal option.
- Insurance is estimated to be $2,000 annually, paid at the start of each coverage period.

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APPENDIX VIII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Share-Based Compensation Plan

Each of IBL's 45 stores has one store manager and one assistant manager, all of whom would be eligible for the bonus plan. Tina is concerned about the impact of each of the proposed plans on IBL's quick ratio, debt-to-equity ratio, and the ratios included in the long-term debt covenants.

Proposed plan #1 – Employee stock option plan (ESOP)

- Store managers and assistant managers will be provided with an annual grant of 100 options at an exercise price of $8 on the first day of each year, which vest immediately and expire on the last day of the year.
- Exercised options will be settled via the issuance of new shares from treasury.
- At the time of grant, IBL would record an expense of $14,400 and an increase in equity of the same amount, based on the fair value of the options at the grant date.
- IBL expects 7,200 of the stock options to be exercised within 12 months; at the time of exercise, IBL will receive cash of $57,600 and record an increase in equity of the same amount.

Proposed plan #2 – Restricted stock unit (RSU) plan

- Store managers and assistant managers will be provided with an annual grant of 50 RSUs on the first day of each year.
- All RSUs will vest on the last day of the year; it is expected that 70% of the managers and assistant managers will still be employees of IBL at that time.
- Vested RSUs will be settled via the issuance of new shares from treasury.
- IBL expects to recognize an expense of $23,625, and an increase in equity of the same amount on the vesting date of the RSUs.

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PERFORMANCE MANAGEMENT ROLE ADDITIONAL INFORMATION

(CONTINUED ON PAGE 39)

APPENDIX VIII – PERFORMANCE MANAGEMENT ADDITIONAL INFORMATION

IBL's Mission

To create a comfortable environment, and provide exceptional service and a wide variety of printed books and magazines, so our customers can experience the joy of reading.

IBL's Vision

To contribute to a better society through the development of literacy and lifelong learning.

Company and Industry Background

IBL sells a wide range of books and magazines to readers of all ages, backgrounds, and reading abilities. IBL's expertise has always been narrow, focusing on printed books, which has allowed it to provide a comfortable shopping environment.

The executive team is made up of individuals experienced in the industry, who have worked at IBL's competitors and at publishing firms. Each IBL bookstore has one manager and one assistant manager, supported by a small staff of hourly retail employees and a corporate function that provides accounting, human resources, legal, marketing, and other related services. The senior leadership team does not conduct reviews of the IT systems.

IBL has noted some decline in the industry, with global book sales peaking in the early 2000s, but it has maintained stable-to-low growth since then.

Historically made up of small brick and mortar stores, IBL has grown into larger stores and introduced an online store. Online shopping has grown significantly in the last decade, with younger generations more willing to shop online. More broadly, e-businesses have an easier time scaling than traditional businesses. IBL outsources the delivery process but is responsible for packaging and handling at its warehouse. Customers must go to a store to complete a return or exchange.

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APPENDIX VIII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

To: CPA
From: Jeff Lincoln, acting controller
Subject: Cost Allocation Model

Hi CPA,

Our existing cost allocation model for the online and in-store segments is as follows:

- Cost of sales, general and administrative, interest expenses, and accounting gains or losses, if any, are allocated according to the revenue-split percentage.
- Marketing and sales and depreciation expenses are allocated equally between the segments.

In addition:

- The online-segment vice president says that their gross margin was 52% during the year.
- Based on my general and administrative cost allocation model, 40% of these costs are for duties that are related to the general administration of the business. The remaining expenses are the following:

Expense	Amount ($)
Costs related to the IT department	2,030,000
Maintenance and repairs	1,540,000
Utilities	1,490,000
Store managers' wages and benefits	8,500,000
Total	13,560,000

- The marketing manager estimates that only 10% of the marketing costs are related to the online store, including the online-segment manager's salary and benefits.
- The only fixed assets used by the online store are the furniture and fixtures in the leased warehouse devoted to that store. Depreciation expense on these items totalled $275,000 for the year. Interest expense on the lease was $130,000 for the year, and actual cash payments were $240,000.
- Utility costs related to the operation of the online store are variable costs, which generally represent 2% of sales. All the other utility costs are fixed.
- In my opinion, the IT department spends 80% of its time on managing the online store.
- All property, plant, and equipment disposals during the year occurred at retail stores.

Regards,
Jeff

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APPENDIX VIII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Home Decor Forecast

- Tina estimates that sales revenue will be $13 million, plus or minus 10%.
- Gross margin is expected to be between 48% and 60% for the new products, although IBL has yet to form relationships with new suppliers for these products.
- IBL will use existing space in its stores, and will not incur incremental leasing costs. Management expects that stores will sacrifice between 12% and 16% of existing floor space in favour of the new products, thus negatively impacting sales of the current products proportionally.
- IBL anticipates that it will require new corporate employees to oversee the new product line, with an expected annual cost of $600,000, plus or minus 5%.
- As the home decor products are significantly larger in size than books, IBL expects its warehousing costs will increase by $800,000 annually, less a recovery of $250,000 for savings related to books.
- IBL plans to spend $300,000 on marketing annually, to develop its customer base.
- IBL expects to purchase $1 million of new furniture, with a useful life of 10 years, to display the new products.

Home Decor Industry Trends

The home decor industry sells a wide range of products for all areas of the home. Specific product lines include artwork, organizational solutions, accents, textiles, and candles.

Some of IBL's competitors have adopted such offerings in their stores, with varying degrees of success, as they work to understand a new segment and new target markets, and to stock products whose demand is more elastic than books. These products are most successful in-store rather than online, and have been credited with encouraging shoppers to visit the stores, even if they are not interested in books.

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APPENDIX VIII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Proposed Membership Program

Overview

- The customer may purchase either a monthly ($3 per month) or annual ($20 per year) membership card. Both cards will be paid for upfront.
- The card will allow for a 10% discount on all merchandise.
- The physical card must be presented, for the discount to apply.
- The discount is only available in-store (the online store is not currently designed to allow for such a program).
- Customers must provide their email address to sign up, and will receive targeted advertising from IBL (with opt-out and unsubscribe options available).
- The program applies only to products currently sold by IBL (books, magazines, etc.).

Projections and additional information

- Estimated sign-ups are as follows:
  - Monthly card: 4% of the in-store customer base.
  - Annual card: 2% of the in-store customer base.
- IBL expects to incur $100,000 in one-time costs related to the program, and an additional $500,000 in annual operating costs.
- IBL's customers spend $40 per purchase, on average. If they become members, customers are expected to spend 15% more per visit.
- The average in-store customer currently makes 1.65 purchases per year, although many customers are more frequent visitors. Customers who become members are expected to increase their number of annual visits to the stores by 50%.
- The current in-store customer base is 959,470 clients.

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APPENDIX VIII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Online Segment – Bonus Plans

IBL employees within the online segment are included in one of the following two bonus plans:

Element	Plan 1 Vice President	Plan 2 Managers and Staff
Salary	$150,000	Average of $60,000
Target bonus % (of salary)	10%	10%
Weighting – Individual performance	0%	60%
Weighting – Organizational performance	100%	40%

All employees receive a minimum bonus of 5%, regardless of performance.

Targets for organizational performance

Metric	Weighting	Thresholds	Bonus Impact
Operating income of online segment	50% of target bonus	$750,000 – $1,600,000 More than $1,600,000	50% 100%
EBITDA of in-store segment	50% of target bonus	$8,000,000 – $16,000,000 More than $16,000,000	50% 100%

Operating income is revenue less the following: marketing and sales, cost of sales, general and administrative, warehouse lease costs, and depreciation.

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APPENDIX VIII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Online Segment – Bonus Plans (continued)

Individual performance

All employees, including the vice president (reporting to the chief operating officer), are automatically included in IBL's performance management process. Staff and management are required to develop and submit annual goals, have quarterly check-ins with their direct superior, and self-assess their performance against those goals at the end of the year.

The vice president is responsible for oversight of the entire online segment, and for delegating projects to appropriate managers and staff. She has the discretion to hire an appropriate mix of experienced managers and staff, and to set salaries/wages within the ranges provided by human resources. She is ultimately responsible for the design and maintenance of the online store, and for negotiating leases for warehouse space from a pre-approved short list determined by the finance department. She also supervises the process for ordering inventory, which is stored at the warehouse until sold. Certain activities are carried out by the finance department, including the setting of prices to ensure the online store and retail stores align, and the allocation of head office overhead. Marketing activities are determined by the marketing department.

At the end of each year, direct superiors review the individual self-assessments of their employees, and have sole discretion for rating their direct reports, as follows:

Rating	Bonus Impact
Needs improvement	50%
Meeting expectations	100%
Exceeding expectations	100%

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APPENDIX VIII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Inventory Management System

The inventory management system is a legacy IT solution that was custom built for IBL nearly 20 years ago. The system lacks current capabilities, such as notifications of stockouts, or a search function. Employees can only filter data using the columns listed below:

Quantity	Description	Stock Keeping Unit # (SKU)	Avg. Cost	Price	Last Sold

The corporate finance and operations departments often require inventory reports for financial planning and analysis. The inventory management system can only be viewed at each store; therefore, every store must export PDF reports (the system does not export in spreadsheet form), to send to corporate, as corporate does not have the ability to monitor inventory otherwise.

IBL employees must manually key in new inventory when it arrives, which involves entering data in each of the above fields. The descriptions are limited to 15 characters, so staff must be creative when naming a product, for it to be identifiable by description. The system refreshes at the end of each day, at which point the new products will show up and any sales or refunds made in the point-of-sale (POS) system will also be reflected.

Numerous store managers and corporate finance and operations managers have asked that IBL adopt a new inventory system. Senior leadership has not been receptive to these requests because they consider replacement to be a costly project, and because the legacy system is familiar to employees and easy to use.

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TAXATION ROLE
ADDITIONAL INFORMATION

(CONTINUED ON PAGE 47)

APPENDIX VIII – TAXATION
ADDITIONAL INFORMATION

Capital Items

Class	UCC as at Dec. 31, 2022 ($)
Class 1 – Non-residential building	800,000
Class 8	7,500,000
Class 10	45,000
Class 12	125,000
Class 13	5,475,000
Class 46	50,000

The following transactions occurred during the year:
- IBL disposed of its remaining Class 10 computer systems for nil proceeds, and replaced them with new computer systems costing $700,000. The computer systems disposed of had a net book value of $160,000, and an original cost of $900,000.
- IBL also disposed of some Class 46 (30%) data infrastructure systems for proceeds of $75,000. The systems disposed of had a net book value of $40,000, and an original cost of $65,000.
- IBL acquired new furniture and fixtures for $850,000 during the year.
- IBL renovated one of its buildings and capitalized $100,000 for accounting purposes, including $2,000 paid for landscaping.
- IBL has accurately determined its CCA for 2023 on the opening Class 13 UCC balance to be $650,000, and it made an additional $250,000 of leasehold improvements during the year on a five-year lease, with three renewal options for an additional five years each.

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APPENDIX VIII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Financial Statement Details

General and administrative expenses include the following:
- $3,500 of penalties relating to late payroll remittances
- $1,500 of interest relating to late-paid supplier invoices
- $65,000 of donations made to registered Canadian charities
- $250,000 of financing fees incurred to increase IBL's long-term debt
- $36,000 of meals and entertainment

Accrued liabilities include accrued performance bonuses. The opening balance of accrued bonuses was $525,000. This amount was added back on IBL's December 31, 2022, tax return as an accounting reserve. Cash payments of $525,000 in respect of prior year bonuses were made in August 2023, and new bonuses of $600,000 were accrued relating to 2023. Tina anticipates that 50% of the new accrued bonuses will be paid in April 2024, and the remaining 50% in July 2024.

Tax Return Details

The December 31, 2022, tax returns for IBL and Bookmarks showed the following:

Ending Loss Balance	IBL ($)	Bookmarks ($)
Non-capital losses	0	85,000
Net capital losses	30,000	200,000

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APPENDIX VIII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Vehicle Lease

During 2023, IBL hired a district manager, Janet, to oversee its Ontario stores, and provided Janet with a leased vehicle as she is frequently required to travel across the province to the various stores. The following relates to the leased vehicle, which is not a zero-emission vehicle, for 2023:

Manufacturer's suggested retail price: $28,000
Lease start date: February 1, 2023
Monthly lease payments: $950 + 13% HST

Personal kilometres: 15,000
Business kilometres: 35,000

Operating costs: $10,000, of which Janet is required to reimburse 10% by January 30, 2024

Employee Discount Program

Retail employees are entitled to purchase merchandise at a price of cost + 10%. Corporate employees are not entitled to the discount program.

Recognition and Rewards (R&R)

Corporate managers have the discretion to provide their staff with the following gifts:
- Gift of a $600 value, to celebrate a wedding or birth of a child
- Gift of a $400 value, for long-term service, available every five years

Store managers have the discretion to provide their staff with the following gifts at any time:
- $300 food delivery service gift card, usable only at one retailer and not convertible to cash
- IBL-branded coffee mugs

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APPENDIX VIII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Executive Loan Program

- Available to senior vice presidents and corporate officers (CEO, CFO, etc.).
- Executives can take loans up to $100,000. The loans bear interest at 3%, have a five-year term, and have interest payable annually and principal repayable upon maturity.

The following loans were still outstanding at December 31, 2023.

<u>Kayla Hengten, CEO</u>

- Kayla borrowed $10,000 on September 1, 2023, to fund her son's university tuition for the fall 2023 semester.
- Kayla is a long-time shareholder of IBL, and owns 8% of the common shares of the company.
- Kayla's brother, Lucas, is another long-time shareholder, and owns 4% of the common shares of IBL.

<u>Tina Parker, CFO</u>

- Tina borrowed $80,000 on September 1, 2023, to assist with the down payment on a new home.
- Tina and her spouse, Paul, are long-time shareholders, and each own 7% of the common shares of IBL.

<u>James Timmins, senior VP of human resources</u>

- James borrowed $50,000 on July 1, 2023, to renovate his cottage.
- James owns 0.25% of the common shares of IBL.

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APPENDIX VIII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

To: CPA
From: Jeff Lincoln, acting controller
Date: January 11, 2024
Subject: GST/HST Questions

Hi CPA,

Further to our meeting, I wanted to follow up with some concerns regarding GST/HST:

1. Are the new benefits we are providing to our employees (discounts, leased car, and R&R program) subject to GST/HST?
2. Do we have any GST/HST considerations on the acquisition of Bookmarks?
3. We are contemplating an asset acquisition of another bookstore in 2024. Would that have the same outcome as the share acquisition, from a GST/HST perspective?
4. We are planning on selling some of IBL's furniture and fixtures to Bookmarks in early 2024. Are we required to charge GST/HST on this?

Thanks,
Jeff

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End of Examination

(CONTINUED ON PAGE 53)

CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}$$

Present value of total tax shield from CCA for a new asset acquired after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would not normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.25k}{1+k}\right)$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, other than those eligible for immediate expensing.

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

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

(CONTINUED ON PAGE 54)

Selected Prescribed Automobile Amounts

Item	2023	2024
Maximum depreciable cost — Class 10.1	$36,000 + sales tax	$37,000 + sales tax
Maximum depreciable cost — Class 54	$61,000 + sales tax	$61,000 + sales tax
Maximum monthly deductible lease cost	$950 + sales tax	$1,050 + sales tax
Maximum monthly deductible interest cost	$300	$350
Operating cost benefit — employee	33¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	68¢ per km	70¢ per km
— balance	62¢ per km	64¢ per km

Individual Federal Income Tax Rates

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $53,359	$0	15%
$53,360 and $106,717	$8,004	20.5%
$106,718 and $165,430	$18,942	26%
$165,431 and $235,675	$34,208	29%
$235,676 and any amount	$54,579	33%

For 2024:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $55,867	$0	15%
$55,868 and $111,733	$8,380	20.5%
$111,734 and $173,205	$19,833	26%
$173,206 and $246,752	$35,815	29%
$246,753 and any amount	$57,144	33%

(CONTINUED ON PAGE 55)

Selected indexed amounts for purposes of computing income tax

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

Item	2023	2024
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	$13,520	$14,156
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	15,000	15,705
Age amount if 65 or over in the year	8,396	8,790
Net income threshold for age amount	42,335	44,325
Canada employment amount	1,368	1,433
Disability amount	9,428	9,872
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	2,499	2,616
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,999	8,375
Net income threshold for Canada caregiver amount	18,783	19,666
Adoption expense credit limit	18,210	19,066

(CONTINUED ON PAGE 56)

Other indexed amounts are as follows:

Item	2023	2024
Medical expense tax credit — 3% of net income ceiling	$2,635	$2,759
Old age security repayment threshold	86,912	90,997
Annual TFSA dollar limit	6,500	7,000
RRSP dollar limit	30,780	31,560
Lifetime capital gains exemption on qualified small business corporation shares	971,190	
Lifetime capital gains exemption for dispositions before June 25		1,016,836
Lifetime capital gains exemption for dispositions on or after June 25		1,250,000

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2024	6	6	5	
2023	4	5	5	5
2022	1	1	2	3

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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Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
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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