

Practice Examination Solution

Chapter 5 (CCA and CEC)

Examination Summary

The marks you have received on each question can be added in the final column.

Question	Type Of Question Or Subject	Total Marks	Your Mark
1	Essay Question	10	
2 - 7	True Or False	9	
8 - 14	Multiple Choice	21	
15	CCA Calculations	45	
16	CEC Calculations	15	
Total		100	

Solution 1 (10 Marks)

The conditions for each outcome would be as follows:

No Immediate Tax Consequences This would be the case if:

- (1) the **proceeds of disposition** were **less than** the **capital cost** of the individual asset,
- (2) there was a **positive balance** in the CCA Class **at the end of the taxation year**, and
- (3) there were other **assets remaining** in the CCA Class.

6

Capital Gain A capital gain would arise if the **proceeds of disposition** was **greater** than the **capital cost** of the asset disposed of.

3

Recapture Of CCA Recapture would occur if, after **deducting** the **lesser** of the **proceeds of disposition** and the **capital cost** of the individual asset, there was a **negative balance** in the CCA Class and a negative balance was still **present at the end** of the taxation year.

6

Terminal Loss A terminal loss would occur if, after **deducting** the **lesser** of the **proceeds of disposition** and the **capital cost** of the individual asset, there was a **positive balance** in the CCA Class, but **no assets** were left in the Class.

6

1 grading point for each highlighted item. Total 21

Your Mark = [(# of grading points ÷ 21)(10%)] = ___%

Solutions 2 Through 7 (9 Marks)

2. **True.** The method specified in the Income Tax Regulations must be used to determine the CCA that can be deducted in each taxation year.
3. **False.** GST, HST, and PST are only included to the extent that they are not refunded as input tax credits.
4. **False.** This is not an election. Such rental properties MUST be allocated to a separate CCA Class.
5. **True.** The half-year rules do not apply to CCA Class 14 which contains limited life intangibles.
6. **False.** The maximum Class 8 CCA would be $\$169.86 [(1/2)(20\%)(\$20,000)(31 \div 365)]$.
7. **True.** In situations where an enterprise chooses not to take maximum CCA, the amount that is taken should be deducted from the CCA Classes with the lowest rates.

1 grading point for each correct answer. Total 6

Your Mark = [(# of grading points ÷ 6)(9%)] = ____%

Solutions 8 Through 14 (21 Marks)

8. **D.** Net book value and capital cost.
9. **C.** Equipment that is used 100 percent for manufacturing activity.
10. **D.** The half-year rules require that, prior to the calculation of CCA, one-half of the net additions for the year must be deducted from the UCC balance.
11. **A.** $\$445.66 [(\$32,000 \div 12)(61/365)]$
12. **B.** $\$9,692 [(\$126,000 \div 13)]$
13. **C.** Class 29
14. **D.** The maximum CEC deduction is equal to 7 percent of the beginning of the year CEC balance.

1 grading point for each correct answer. Total 7

Your Mark = [(# of grading points ÷ 7)(21%)] = ____%

Solution 15 (45 Marks)**2008 Solution**

The required calculations are as follows:

Additions To Class [(10 Cars)($\$20,000$)]	\$200,000
One-Half Net Additions [(1/2)($\$200,000$)]	(100,000)
CCA Base	\$100,000
CCA [(30%)($\$100,000$)(185/365)]	(15,205)
One-Half Net Additions	100,000
UCC For January 1, 2009	\$184,795

9

Note that one-half of the net additions for the year is deducted to provide the basis for calculating the 2008 CCA, and then added back to establish the opening UCC for the next period. The other point that is illustrated in this first year is application of the short fiscal period rules. As the business was established on June 30, 2008, its operations were carried out for 185 days in 2008, and only a proportionate share of the annual CCA charge may be taken. We would call your attention to the fact that it is length of the taxation year, not the period of ownership of the assets, that establishes the fraction of the year for which CCA is to be recorded.

2009 Solution

The required calculations are as follows:

Opening Balance For The Class	\$184,795
Additions [(10 Cars)($\$21,000$)]	210,000
Dispositions - Lesser Of:	
• Capital Cost = 3 @ $\$20,000$ = $\$60,000$	
• Proceeds Of Disposition = $\$43,000$	(43,000)
One-Half Net Additions [(1/2)($\$210,000$ - $\$43,000$)]	(83,500)
CCA Base	\$268,295
CCA [(30%)($\$268,295$)]	(80,489)
One-Half Net Additions	83,500
UCC For January 1, 2010	\$271,306

14

Here again, one-half of the net additions for the year are deducted in establishing the base for calculating CCA, with the same amount being added back to determine the opening UCC for the next period.

2010 Solution

The required calculations are as follows:

Opening Balance For The Class	\$271,306
Dispositions - Lesser Of:	
• Capital Cost = 4 @ $\$20,000$ = $\$80,000$	
• Proceeds Of Disposition = $\$60,000$	(60,000)
CCA Base	\$211,306
CCA [(30%)($\$211,306$)]	(63,392)
UCC For January 1, 2011	\$147,914

8

The calculations are simplified by the absence of additions to the delivery car fleet. To establish the CCA base, it is only necessary to deduct the proceeds of the dispositions. The new UCC is the CCA base, less the CCA for the period.

2011 Solution

The required calculations are as follows:

Opening Balance For The Class	\$147,914
Dispositions - Lesser Of:	
• Capital Cost = 3 @ \$20,000	
+ 9 @ \$21,000 = \$249,000	
• Proceeds Of Disposition = \$168,000	(168,000)
Negative Balance	(\$ 20,086)
Recapture	20,086
UCC For January 1, 2012	Nil

10

The inability to replace the fleet cars in a timely fashion results in additional income in the amount of \$20,086. In a more realistic situation, it is likely that actions would have been taken to delay the retirement of the older cars and, thereby, avoid the tax implications of recapture.

2012 Solution

The required calculations are as follows:

Opening Balance For The Class	Nil
Acquisitions [(20 Cars)(\$28,000)]	\$560,000
One-Half Net Additions [(1/2)(\$560,000)]	(280,000)
CCA Base	\$280,000
CCA [(30%)(280,000)]	(84,000)
One-Half Net Additions	280,000
UCC For January 1, 2013	\$476,000

9

As was the case in 2008 and 2009, one-half of the net additions must be deducted in establishing the base for CCA and then added back to determine the opening UCC for the next period.

2013 Solution

The required calculations are as follows:

Opening Balance For The Class	\$476,000
Dispositions - Lesser Of:	
• Capital Cost = 1 @ \$21,000	
+ 20 @ \$28,000 = \$581,000	
• Proceeds Of Disposition = \$348,000	(348,000)
Balance Before Terminal Loss	\$128,000
Terminal Loss	(128,000)
UCC For January 1, 2014	Nil

9

At this point, all of the assets in Class 10 have been retired and there is still a \$128,000 balance in the UCC. This results in a terminal loss that will be deducted in full from the other income of Sorrento Pizza. The terminal loss will also be deducted from the UCC balance.

1 grading point for each highlighted item. Total 59

Your Mark = [(# of grading points ÷ 59)(45%)] = ____%

Solution 16 (15 Marks)**Part A**

With respect to the goodwill acquired with the Victoria stores, the deductions for cumulative eligible capital for 2011 and 2012 can be calculated as follows:

	CEC Balance	CEC Deductions
Acquisition [(3/4)(\$90,000)]	\$67,500	
2011 CEC Amount [(7%)(67,500)]	(4,725)	\$4,725
Balance January 1, 2012	\$62,775	
2012 CEC Amount [(7%)(62,775)]	(4,394)	4,394
Balance January 1, 2013	\$58,381	\$9,119

6**Part B**

The amount to be included in Mr. McLean's 2013 Net Income For Tax Purposes from the sale of the goodwill would be calculated as follows:

Opening Balance In Cumulative Eligible Capital	\$ 58,381
Three-Quarters Of Proceeds [(3/4)(\$100,000 + \$200,000)]	(225,000)
Balance In Cumulative Eligible Capital	(\$166,619)

11

The negative balance in the CEC account after the sale is more than the total of the CEC deductions in the past two years. The \$9,119 (\$4,725 + \$4,394) of previously deducted CEC will have to be added to income in full. The remaining \$157,500 (\$166,619 - \$9,119) is a three-quarters figure that must be multiplied by two-thirds to reflect the inclusion rate for capital gains of one-half. The result is \$105,000 [(2/3)(\$157,500)].

Note that this is half of the gain on the disposition of the goodwill [(1/2)(\$300,000 - \$90,000)].

The total income inclusion for 2013 is \$114,119 (\$9,119 + \$105,000).

1 grading point for each highlighted item. Total 17

Your Mark = [(# of grading points ÷ 17)(15%)] = ____%