

Submission to: *Kelly.Jung@Georgebrown.ca*

### Memorandum

To: Accounting Associate

From: Tax Manager

Date: March 2021

Subject: GBC Ltd.

#### Required:

Our client, GBC Ltd., has asked us to determine its 2020 minimum Net Income For Tax Purposes as well as the January 1, 2021 UCC for all of its CCA classes based on the following information in our file.

For my review, please identify necessary adjustments and prepare a Schedule 1 reconciliation schedule and related CCA calculations with its summary in Excel and include them in your memo (word). You may incorporate necessary explanations/calculations in your schedule or prepare a separate Notes section. You are not required to provide any ITA references.

Email me your well-organized 2-page memo (including all calculations, font size 10, no more than 2 pages) in the suggested memo format attached (see the last page) by **Wednesday, April 7, 2021 (11:59 pm)**.

#### *The following is the information in our file:*

For the year ending December 31, 2020, the Income Statement of GBC Ltd., prepared in accordance with generally accepted accounting principles, is as follows:

Revenues		\$974,000
Expenses:		
Cost Of Goods Sold	(\$272,000)	
Selling And Administrative Costs	( 132,000)	
Amortization Expense	( 156,000)	
Other Expenses	( 137,000)	( 697,000)
Income Before Tax Expense		\$277,000
Income Tax Expense:		
Current	(\$ 97,000)	
Future	( 32,000)	( 129,000)
<u>Net Income</u>		<u>\$148,000</u>

**Other Information:**

1. The Company spent \$4,820 during the year on landscaping for its new building. For accounting purposes this was treated as an asset. The Company will not amortize this balance as it believes the work has an unlimited life.
2. Selling And Administrative Costs include \$15,000 in business meals and entertainment.
3. Selling And Administrative Costs include membership fees for several employees in a local golf and country club. These fees total \$3,300.
4. Other Expenses include contributions to registered charities of \$3,700.
5. As the Company expects to issue more shares during 2021, it made a number of amendments to its articles of incorporation in 2020 and included the legal costs in Other Expenses. These costs totaled \$6,000.
6. Other Expenses includes interest on late income tax instalments of \$500 and on late municipal tax payments of \$275.
7. On January 1, 2020, the Company has UCC balances for its tangible assets as follows:

Class 1	\$400,000---(a)
Class 8	575,000---(b)
Class 10	45,000---(c)
Class 13	68,000---(d)

- a. The Class 1 balance relates to a single building acquired in 2000 at a cost of \$550,000. It is estimated that the value of the land at this time was \$50,000. On February 1, 2020, this building is sold for \$612,000. It is estimated that the value of the land is unchanged at \$50,000. In the accounting records (i.e., net book value), this real property was carried at \$507,000, \$457,000 for the building and \$50,000 for the land. The resulting gain on the building is included in the accounting revenues.

The old building is replaced on February 15, 2020 with a new building acquired at a cost of \$683,000 of which \$60,000 is allocated to land. The Company chose not to put the new building into a separate Class 1 so it does not qualify for the 6 percent CCA rate. No elections are made with respect to the replacement of the building (i.e., the new building can be placed in the same Class 1).

- b. There are no dispositions of Class 8 assets during the year. However, there are acquisitions in the total amount of \$126,000.
- c. As the Company has decided to lease all of its vehicles in the future, all of the assets in Class 10 are sold during the year (i.e., check Terminal loss). The capital cost of these assets was \$93,000 and the proceeds of disposition amounted to \$37,000. The net book value of these assets was \$52,000 and the resulting accounting loss of \$15,000 was included in Other Expenses.

- d. The Class 13 balance relates to a single lease that commenced on January 1, 2018. The lease has an initial term of seven years, with two successive options to renew for three years each. Expenditures on this leasehold were \$50,000 in 2018 and \$27,000 in 2019. There were no further expenditures in 2020. The write-off of these expenditures for accounting purposes is included in Amortization Expense.
8. GBC Ltd. has always deducted the maximum CCA allowable in each year of operation.

*Suggested memo format*

**Memorandum**

To: Tax Manager  
From: Accounting Associate  
Date: March 2021  
Subject: GBC Ltd.

*[Sample text only – Students may use any professional writing style as appropriate for this memo. Depending on how you organize your responses, Notes section may or may not be necessary.]*

Please find below the Schedule 1 reconciliation and the CCA calculations for GBC Ltd.'s taxation year ended December 31, 2020 for your review. I have added additional information/analysis for various items identified for Schedule 1 adjustments (under Notes as appropriate).

**Schedule 1 Reconciliation**

The calculation of GBC Ltd.'s Net Income For Tax Purposes would be as follows:

**CCA Calculations**

Maximum CCA and other related inclusions and deductions can be calculated as follows:

**Summary of CCA Results**

**Notes**