c1

Student: ____

1. Which of the following is not considered to be a separate entity for tax purposes in Canada?

   A. Individuals
   B. Proprietorships
   C. Corporations
   D. Trusts

2. Which of the following attitudes and actions will help decision-makers develop an efficient approach to taxation?

   A. Cash flows should be considered from a before-tax perspective when making decisions.
   B. Functional managers should not be held responsible for the tax effects of decisions within their divisions.
   C. Tax costs to a business should be regarded as controllable expenses, much like product costs and selling costs.
   D. All managers should own a copy of the Income Tax Act.

3. Which of the following statements is true?

A. Payment of the return on equity is deductible by the corporation and is a form of property income for the individual.
B. Payment of the return on equity is deductible by the corporation and is a form of business income for the individual.
C. Payment of the return on equity is not deductible by the corporation and is a form of business income for the individual.
D. Payment of the return on equity is not deductible by the corporation and is a form of property income for the individual.

4. When assessing the value of a corporation, the most relevant information that decision-makers normally consider is

A. the potential for before-tax profits.
B. the potential for after-tax profits.
C. the current rate of corporate tax.
D. cash flow before-tax.

5. Income tax is calculated for which of the following jurisdictional groups?

A. Municipal, provincial, and federal
B. Municipal, federal, and international
C. Provincial, federal, and international
D. Municipal, provincial, and international

6. Two investor corporations may *not* enter jointly into which of the following?

A. Joint venture

B. Partnership

C. Separate corporation

D. Proprietorship

7. Which of the following statements is false?

A. Cash flow should be calculated on an after-tax basis.

B. The tax cost to a business should not be regarded as a cost of doing business.

C. Income tax should be considered a controllable cost.

D. The value of an enterprise should not be based on pre-tax cash flow.

8. The text book lists four fundamental tax variables that a manager needs to consider when making business decisions. These variables are: 1) primary types of income; 2) entities subject to taxation on income; 3) alternative forms of business and investing structures used by taxable entities structure; and 4) tax jurisdictions. List the relevant variables within these four categories.

9. ABC Corporation is in the 25% income tax bracket. John Adams is an employee at ABC and is in the 40% tax bracket. The company has offered John a 10% pay raise. His current salary is $50,000.

   Required:

   A) Calculate the after-tax cost of the raise to the corporation.
   B) Calculate the after-tax cost of the raise for John.

   Show all calculations.

10. Explain what is meant by the statement that ‘tax should be treated as a ‘controllable cost".

c1 Key

1. Which of the following is not considered to be a separate entity for tax purposes in Canada?

A. Individuals

B. Proprietorships

C. Corporations

D. Trusts

Accessibility: Keyboard Navigation
Blooms: Knowledge
Buckwold - Chapter 01 #1

2. Which of the following attitudes and actions will help decision-makers develop an efficient approach to taxation?

A. Cash flows should be considered from a before-tax perspective when making decisions.

B. Functional managers should not be held responsible for the tax effects of decisions within their divisions.

C. Tax costs to a business should be regarded as controllable expenses, much like product costs and selling costs.

D. All managers should own a copy of the Income Tax Act.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Buckwold - Chapter 01 #2

3. Which of the following statements is true?

A. Payment of the return on equity is deductible by the corporation and is a form of property income for the individual.

B. Payment of the return on equity is deductible by the corporation and is a form of business income for the individual.

C. Payment of the return on equity is not deductible by the corporation and is a form of business income for the individual.

D. Payment of the return on equity is not deductible by the corporation and is a form of property income for the individual.

Accessibility: Keyboard Navigation
Blooms: Knowledge
Buckwold - Chapter 01 #3

4. When assessing the value of a corporation, the most relevant information that decision-makers normally consider is

A. the potential for before-tax profits.

B. the potential for after-tax profits.

C. the current rate of corporate tax.

D. cash flow before-tax.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Buckwold - Chapter 01 #4

5. Income tax is calculated for which of the following jurisdictional groups?

A. Municipal, provincial, and federal

B. Municipal, federal, and international

C. Provincial, federal, and international

D. Municipal, provincial, and international

Accessibility: Keyboard Navigation
Blooms: Comprehension
Buckwold - Chapter 01 #5

6. Two investor corporations may *not* enter jointly into which of the following?

A. Joint venture

B. Partnership

C. Separate corporation

D. Proprietorship

Accessibility: Keyboard Navigation
Blooms: Knowledge
Buckwold - Chapter 01 #6

7. Which of the following statements is false?

A. Cash flow should be calculated on an after-tax basis.

B. The tax cost to a business should not be regarded as a cost of doing business.

C. Income tax should be considered a controllable cost.

D. The value of an enterprise should not be based on pre-tax cash flow.

Accessibility: Keyboard Navigation
Blooms: Comprehension
Blooms: Knowledge
Buckwold - Chapter 01 #7

8. The text book lists four fundamental tax variables that a manager needs to consider when making business decisions. These variables are: 1) primary types of income; 2) entities subject to taxation on income; 3) alternative forms of business and investing structures used by taxable entities structure; and 4) tax jurisdictions. List the relevant variables within these four categories.

Income: Business, Property, Employment, Capital Gains
Entities: Individuals, Corporations, Trusts
Forms of business: Proprietorship, Corporation, Partnership, Limited Partnership, Joint Venture, Income Trusts
Tax Jurisdictions: Provincial, Federal, Foreign

Blooms: Knowledge
Buckwold - Chapter 01 #8

9. ABC Corporation is in the 25% income tax bracket. John Adams is an employee at ABC and is in the 40% tax bracket. The company has offered John a 10% pay raise. His current salary is $50,000.

Required:

A) Calculate the after-tax cost of the raise to the corporation.
B) Calculate the after-tax cost of the raise for John.

Show all calculations.

A) Actual cost to ABC: ($50,000 × 10%) × (1 - .25) = $3,750
B) Actual value for John: ($50,000 × 10%) × (1 - .4) = $3,000

Blooms: Application

Blooms: Comprehension

Buckwold - Chapter 01 #9

10. Explain what is meant by the statement that ‘tax should be treated as a ‘controllable cost".

Just as decision makers in business must control costs such as product, occupancy, selling, and many others, so should tax costs be regarded as controllable. The actions and activities of the organization must be analyzed at all levels, and across departments, to determine the impact on the overall tax cost.

Blooms: Comprehension

Buckwold - Chapter 01 #10

c1 Summary

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