2009 SOA - PRACTICE EXAMINATIONS

WRITTEN INSTRUCTIONS FOR

CANDIDATES USING LAPTOP COMPUTERS

To do this exam you will need your four digit 2009 SOA candidate number, a laptop with the 2009 version of Securexam (CA) on it (version 6.4.12 or 6.4.14) and a USB key.
If you do not have your four digit candidate number please contact the ICAO.
If you do not have the 2009 version of Securexam (CA) please go to our website http://www.icao.on.ca/CAstudents/securexam/1014page6056.aspx.
If you do not have your own USB key you can do the exam without one.

At the exam start-up

- Turn on your computer and make sure the booting process is complete.
- Make sure your clock is set to the correct date and time.
- Run Securexam.
- Select the Language you wish to use and click "Ok".
- Select "Login and take an exam".
- Type in your user name (email address) and click "Ok".
- Run the USB Drive Backup Wizard. (a USB key is not required for practice one, however it is recommended to help identify any potential problems with your USB port which may arise in future exams.)
- Once you get a "Passed" response, click "Continue to Exam".
- In the "Select Exam" box, tick the available box:
  "Practice Examination 1". Click "Ok".
- Enter your 4-digit candidate number. Click "Ok".
- Type in the password "cake".
- Type in the word "start" and begin the exam. You have **4 hours** to complete the exam from this time.

AT THE END OF THE EXAM (AFTER 4 HOURS):

BEFORE EXITING SECUREXAM

- Go to the spreadsheet tab and select the “Show Printable Area” box. (When the “Show Printable Area” box is selected, all the menu items and buttons are disabled.)
- Review your spreadsheet visually and make sure that all text typed appears in the printable area. If not, deselect the “Show Printable Area” box and manually reformat the cells.

EXITING SECUREXAM

- To exit Securexam, make sure that the “Show Printable Area” box in the spreadsheet is deselected.
- Select “End Exam/Session” from the pull-down “File” menu.
- Enter the exit password “pies”.
- Click “Yes” to the question “Are you finished with this exam?”
- Click “Ok” to the question “Confirm that you wish to end this exam.”
- The program must complete its shutdown sequence.
- Once the program has shut down, right click on “Start” at the bottom of your screen and select “Explore”.
- Confirm that you can see the “Removable Disk E” (or it may be a different letter) and that you see one file with today’s date ending with **“.ssi-response”** and one folder labelled **“ExamIP”**.
- Check that the **“.ssi-response”** file on the USB key is not at zero bytes.

UPLOADING EXAM

You are required to upload your practice one exam files to the Software Secure upload site by Midnight on May 31, 2009. Any exams uploaded after this date will not be marked.

Upload instructions

1. Verify that you are connected to the internet.
2. Locate on your desktop the .ssi-response file named **Practice_exam_one**_1234_date_xxxxssi.response" where instead of 1234 it has your candidate number.
3. Go to the Securexam Exam registration site at http://cica.softwaresecure.com and log in to your existing account. If necessary, you may use a different computer but you will need to copy the .ssi-response file to that computer beforehand.
4. Click the "Upload Live Exam" from the left hand column to upload the file.
5. Ensure the program selected in the drop down is "School of Accountancy"
6. Use the Browse button to select the file from your desktop.
7. Click on upload.
8. After the upload has been completed, you will be taken back to your Account Home page where you can verify that the uploaded file appears under your "Upload History". If you do not see this item, restart your computer and repeat the previous steps.
9. You will receive an email notification from Software Secure that your file has been received. If you do not receive a notification within 1 hour, contact cica@softwaresecure.com.

   Please note this email will not be monitored on weekends!
10. The copy of your response sent to ICAO contains only your candidate number as a reference. All other personal information provided to Software Secure through the uploading process or email will be kept confidential by them so please ensure your candidate number is correct.
11. If you have any questions or need assistance, please contact cica@softwaresecure.com.

2009 ICAO SCHOOL OF ACCOUNTANCY

PRACTICE EXAMINATION ONE

Instructions to Candidates

1. This examination is 4 hours in length and consists of 3 questions. There are 22 pages including this one.

2. To assist in budgeting time during the examination, a suggested number of minutes for each question is shown at the beginning of the question. The marks available for each question will be based on the relative amount of time suggested.

3. Tables of present values and selected tax information have also been included in this package. These tables may be used in answering any question on the examination.

4. You are permitted to use the specially printed examination version of the CICA Handbooks and either CCH's Income Tax Act with Regulations or Carswell's Practitioner's Income Tax Act. These reference materials may not be written in (annotated), nor may additional pages be inserted. Underlining, highlighting, and tabbing of sections are permitted. You are also permitted to use a laptop computer to access these reference materials electronically using the approved Securexam(CA) software. No other reference sources are allowed. *Please note that paper reference material will not be available for practice one. This material will be provided during the first week of the SOA.*

5. Answers or parts of answers to examination questions will not be marked if they are recorded on the question paper.

6. Rough notes will not be marked.

* * * * * * *

KEEP THIS EXAMINATION FOR DEBRIEFING PURPOSES.

EXTRA COPIES WILL <u>NOT</u> BE AVAILABLE.

<u>Question 1</u> (80 minutes)

Established in 1980, Commercial Spray Inc. (CSI) is a professional painting contractor company that handles large commercial painting projects, such as high-rise exteriors. CSI is located in Toronto and services clients in the GTA and across Ontario. The company is known for continually developing new processes and testing new products to better serve their customers.

CSI is a private corporation owned by Doug Statham. The company has a June 30 year end and has always had a review engagement performed on its financial statements by Saunders and Sautner, Chartered Accountants (SS). During fiscal 2009, CSI obtained an operating line of credit and the bank requires that the reviewed financial statements be prepared in accordance with generally accepted accounting principles (GAAP), without differential reporting.

During fiscal 2009, Doug decided to hire a CEO, Brian Findley, to manage the company. Doug was tired of dealing with the day-to-day operations of CSI.

You, CA, are employed by SS. It is now June 1, 2009 and you are the newly-assigned manager for the CSI review engagement for fiscal 2009. Yesterday, you met with Doug to discuss this year's engagement and were informed of a number of changes that have taken place at CSI during the year. A summary of these significant changes is included in Exhibit I. You also met with CSI's bookkeeper, Susannah Drake, and the notes you took during this meeting are included in Exhibit II. After you met with Susannah, you tried to set up a meeting with Brian but he did not return any of your phone calls.

Karen Sparks, the engagement partner for the CSI review has asked you to prepare the review engagement planning memo, including an identification and discussion of the significant areas of risk of the engagement and a description of the procedures to be performed to address these risks. She also asked you to address the significant financial accounting issues.

During your meeting with Doug, he explained that for the first time, CSI received some dividends in May 2009. He would like an explanation of how these will be taxed in CSI and how he will be taxed personally on the dividend CSI paid to him. Details on these dividends are included in Exhibit II. Karen also asked you to draft a report to Doug regarding the taxation of the dividends.

<u>Required</u>:

Prepare the review planning memo and the report to the client.

Exhibit I

NOTES FROM MEETING WITH THE OWNER, DOUG STATHAM

New Contract

In January 2009, CSI signed a contract, negotiated by Doug, with Seville Property Group (SPG) to paint the exterior of one of their high-rise buildings for $315,000. The price is inclusive of all paint, which CSI obtained for $95,000. The paint would have cost $112,000 if SPG had purchased it from another supplier. The painting service would have cost $228,000 if purchased from CSI without the paint. All paint necessary to complete the project will be delivered to SPG's property on Friday, June 26 and SPG must pay 50% of the total contract price at the point of delivery. CSI will commence painting the high-rise building on Monday, July 6. Currently no revenue has been recognized for this project.

Equipment Purchase

In February 2009, CSI signed an agreement with a U.S. manufacturer for a specialized automated paint sprayer to be used in underground parking garages. The cost of the new equipment is $400,000 U.S. dollars, which is to be paid on delivery of the equipment on August 10, 2009. This is the first time that CSI has purchased any equipment from the U.S.

To protect the company against fluctuations in the exchange rate, CSI entered into a forward contract in March 2009 to purchase $400,000 U.S. dollars at a foreign exchange rate of 1.1828 Canadian dollars on August 10, 2009.

New Product

In March 2009, CSI decided to introduce a new hi-tech fluoropolymer paint, PFDF. This paint protects surfaces from corrosion and contamination, and offers non-stick and electric insulation properties. PFDF is only available from MIL Industries, located in India. Once the paint was shipped to Canada in April, CSI had to use a third party warehouse because PFDF must be stored in a special cold storage unit for eight weeks prior to CSI mixing the paint to achieve customer-specified colours. This mixing process must be done before CSI can use the paint. These increased storage costs are included in general and administrative expenses.

Other

Although Brian now deals with the company's lawyer, Doug is not aware of any outstanding claims against CSI. This is consistent with the prior year.

CSI recently completed the exterior painting of a multi-unit residential building for Trispot Properties (TP). The balance of $210,000 was outstanding for 30 days as at May 31, 2009 and is included in accounts receivable. CSI was recently notified by the trustees for TP that the company has filed for bankruptcy and it is unlikely that CSI will receive any of the outstanding balance.

Exhibit II

NOTES FROM MEETING WITH THE BOOKKEEPER, SUSANNAH DRAKE

Revenue recognition

There is no general right of return for paint that is delivered to customers.

Inventory

CSI maintains an inventory of paint that is recorded at the cost of purchase.

Lawsuit

In April 2009, CSI was named as the defendant in a civil lawsuit brought against them by a past employee. The plaintiff claims that CSI fired him after he threatened the CEO that he would contact the Workplace Safety and Insurance Board regarding unsafe working conditions. The company's lawyers believe that CSI will likely payout a sum of between $75,000 and $100,000.

Allowance for doubtful accounts

Consistent with prior years, CSI records an allowance for doubtful accounts based on 15% of the outstanding accounts receivable balance greater than 90 days outstanding.

Review of the draft income statement for the 11 months ended May 31, 2009

General and administrative expenses increased by 25% compared to the prior year. Susannah explained that Brian told her to record two jobs as expenses instead of revenue and cost of sales. The work order for the first job included the description "House painted for Brian". The second work order included the description "Findley cottage – exterior and interior painting".

Travel expenses increased by 20% compared to fiscal 2008. Susannah explained that there was a payment of $4,500 toward Brian's airfare to Europe. When asked whether CSI was planning to expand its operations to Europe, Susannah said that she was not aware of any such plans.

Repairs and maintenance expenses increased by 35% compared to the prior year. Susannah explained that Brian had directed her to use a new company, Findley Repairs Ltd. to repair CSI's equipment. Susannah said that they charge 35% more for the same repairs than the company CSI used in fiscal 2008.

Exhibit II

DETAILS ON DIVIDENDS RECEIVED IN MAY 2009

CSI received the following dividends:

- An eligible dividend of $9,000 from a large Canadian bank.
- A non-eligible dividend of $5,500 from PCL Inc., a Canadian controlled private corporation with income of under $300,000 for the past five years.
- A non-eligible dividend of $25,000 from its 55% investment in the common shares of CAL Paints Incorporated, a Canadian company. CAL Paints received a dividend refund of $10,000.
- A dividend of $6,000 in Canadian funds, from Wheelabrator Group, a foreign company that manufacturers automated painting systems. No foreign tax was withheld on the payment of the dividend. CSI owns less than 1% of Wheelabrator Group.

The investments from which these dividends were issued were made by CSI in fiscal 2008 and were accounted for in accordance with GAAP.

In May 2009, CSI declared and paid taxable dividends of $15,000.

Question 2 (80 minutes)

Home Vintners Inc. (HV) manufacturers wine making kits that are sold to retailers across North America. Consumers purchase HV's wine making kits from retailers to produce their own wine at home. Since the company's inception in 1989, HV has been the leader in the consumer wine making industry. HV is known for developing high quality kits that produce wines that are comparable to those produced in vineyards.

It is now May 23, 2009. You, CA, have recently joined HV as the company's controller. You were hired by the new CFO, Jack Sparrow, for your experience with International Financial Reporting Standards (IFRS).

HV is privately owned by the Truggs family and Ron Truggs is the company's CEO. Ron wants to take HV public in 2013. To get ready for the initial public offering, Ron wants to understand if there are any differences between the current Canadian accounting standards used by HV and IFRS. HV's financial statements are audited and are currently prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) without differential reporting. Extracts from HV's most recent audited financial statements are included in Exhibit I.

Ron has drafted a new bonus plan for the senior management team and for the operational managers that will be implemented once HV is a public company. Details of the bonus plan are included in Exhibit II

HV has recently developed a new beer making kit, Bottle Brew. Ron is very excited about this new product because it not only introduces HV to a brand new market segment, but he believes that it will generate additional demand for HV's wine making kits. Market research has shown that once consumers begin to produce beer at home, they also begin to make their own wine. Ron wants to make sure that the new product is feasible before mass production begins on January 1, 2010. Given that this is a new market, he would also like to know the number of units that HV will have to sell in order to cover the costs associated with Bottle Brew. Details on the new product are included in Exhibit III.

Jack is so busy adjusting to his new role that he has asked you to prepare a report to Ron outlining the differences between Canadian GAAP and IFRS for the areas included in the extracts of the financial statements in Exhibit I. As well, he would like you to prepare an analysis of the feasibility of the Bottle Brew product. Finally Jack would like your assessment of the proposed new bonus plan along with any recommendations that you may have.

Required:

Prepare the report.

Exhibit I

EXTRACTS FROM THE FINANCIAL STATEMENTS

HOME VINTNERS INC.
BALANCE SHEET

	December 31 2008 (audited)
Assets	
Current assets	
Cash	$ 323,000
Accounts receivable	425,000
Inventories (note 1)	1,450,100
Prepaid expenses	95,600
	2,293,700
Intangible assets (note 2)	620,000
Property, plant and equipment (note 3)	3,340,200
Total assets	$ 6,253,900
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	$ 1,615,500
Mortgage payable, current portion	875,000
	2,490,500
Mortgage payable, long-term portion	2,150,000
	4,640,500
Shareholders' equity	
Share capital	1,000
Retained earnings	1,612,400
	1,613,400
Total liabilities and equity	$ 6,253,900

<u>Exhibit I (continued)</u>

<u>EXTRACTS FROM THE FINANCIAL STATEMENTS</u>

HOME VINTNERS INC.
NOTES TO THE FINANCIAL STATEMENTS
<u>For the year ended December 31, 2008</u>
(audited)

Note 1: Inventories

The cost of inventory includes the costs of purchase and production. Administrative overheads that are not production costs, wastage and selling costs have been excluded from the cost of inventory.

Note 2: Intangible assets

HV's intangible assets consist of trademarks that have definite lives. These assets were not tested for recoverability at December 31, 2008 because there were no events or changes in circumstances that indicated that the carrying amount of these assets may not be recovered.

Note 3: Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation.

Exhibit II

INFORMATION ON NEW BONUS PLAN

Senior Management Team

After HV goes public, the bonus plan for the senior management team will be based on the annual appreciation of the market price of HV's shares and the increase in earnings per share. Ron has always prided himself on having a long-term vision for HV and he wants to make sure that the new bonus plan will reward HV's executives for supporting his long-term initiatives.

Operations Managers

Ron also wants to implement a new bonus for the managers in operations. These managers will be paid a quarterly bonus based on the financial performance of their department. HV's operations are divided into two separate departments: the production department and the sales department. HV's transfer pricing policy is that the sales department must purchase the materials used in the wine making kits from the production department at the actual cost of production.

Exhibit III

INFORMATION ON NEW PRODUCT LINE – BOTTLE BREW

Product Description

The new Bottle Brew product consists of a two-litre plastic bottle, which is filled with a non-alcoholic liquid called Brewer's Wort. This is unfermented beer. The consumer unscrews and discards the solid cap from the bottle, drops the yeast pill into the bottle, and firmly screws on the pressure cap that includes a relief valve. The yeast converts the sugar in the Brewer's Wort into alcohol and carbon dioxide during fermentation. The pressure cap vents excess carbon dioxide and carbonates the beer naturally.

The plastic bottle must be stored upright, out of direct sunlight, at room temperature until beer becomes very clear, which is usually one to two weeks. After fermentation, the yeast settles firmly to the bottom. The finished beer can be stored at room temperature for up to eight weeks and should be refrigerated for 12 hours before opening.

To be competitive with brewed beer, the selling price per two-litre bottle has been set at $6.90 in 2010 and $6.95 in 2011 and 2012. Bottle Brew sales are forecasted to be $345,000 in 2010, $695,000 in 2011 and $1,390,000 in 2012.

Manufacturing Information

The plastic bottle will cost $0.40 each. The cost of the yeast pill will be $0.24. Brewer's Wort is produced in batches of 25,000 litres at a cost of $17,000 per batch.

The solid caps will be purchased in bulk, at a total cost of $1,125 for 7,500 units. The pressure caps can be purchased individually at a cost of $0.35 per unit. However, if HV purchases more than 75,000 units, a discount of $0.05 per unit will be applied to the total purchase.

Variable overhead has been estimated to be $0.60 per unit. Identifiable fixed costs for the production of Bottle Brew have been estimated at $135,000 in 2010, $140,500 in 2011 and $146,200 in 2012.

Other Information

A brewmaster will be hired to oversee the production of the Bottle Brew product at an annual salary of $70,000, including benefits. It is estimated that each unit will require five minutes of direct production labour. HV's direct production labour cost, including benefits, is $12 per hour.

Advertising for Bottle Brew will be purchased based on the annual budgeted volume of units at the beginning of each year. The amount cannot be adjusted if actual sales differ from the budget. In 2010, HV will spend $40,000 to promote the introduction of this new product. HV expects to spend $65,000 and $68,000 in 2011 and 2012 respectively.

Labour, material costs and overhead costs are not expected to change in 2011.

HV has excess production capacity.

Question 3 (80 minutes)

Wendy Wicks is the sole shareholder of Universal Medical Ltd. (UML), a distributor of medical supplies to hospitals and medical offices throughout Ontario. The head office of UML is located in southern Ontario. As the sole shareholder, Wendy makes all major decisions and does not have a formal audit committee. However, Wendy does like to run UML with an organizational structure that is more formal than most private companies. UML has been successful, and continues to grow because of the insight and management skills of Wendy. Part of the expected growth will come from continued investment in other companies, details of which are included in Exhibit I.

You CA, work for UML, and have the responsibility for providing Wendy with confidence on the financial reporting process, similar to an internal audit function of a large corporation. Further details on your role in the organization are included in Exhibit II. It is now March 1, 2009, and you have started to review UML's financial information. Summary financial statement projections with supplementary information to the end of the year are included in Exhibit III and Exhibit IV. The projected financial statements do not include an estimate of the current year's income taxes as UML was not required to, and did not, make income tax instalments during the year.

UML has a bank loan that requires that the annual financial statements be audited and submitted within three months of the year end. The auditors of UML, Badden & Capston, LLP, (B&C) have indicated that they may consider relying on some of the internal processes of UML in the completion of this year's audit. It is Wendy's hope that the audit fees can be reduced if the auditors can rely on your work. B&C have been the auditors since inception and have always issued an unqualified opinion. UML, even though eligible, does not apply differential reporting options when selecting its accounting policies.

Wendy has asked you to provide an estimate of UML's tax payable for the year ending March 31, 2009 and a calculation of taxable income to support the estimate. She would also like you to discuss any important income tax issues that you identify.

As Wendy hopes B&C will be able to rely on work done by you to reduce the amount of time spent on the audit, she would like you to provide an explanation of: how, in general terms, auditors rely on the work of internal auditors; how the auditors will view any work done by you in the planning and completion of their audit and any recommendations you might have that would help increase the amount of reliance B&C might have on your work.

B&C have indicated to Wendy that one of the areas where their fees may be reduced is if you could provide them with support for estimates made in the tax provision. To help with this, Wendy would like you to provide her with details of what evidence you would collect to substantiate the tax claim for the scientific research and experimental development expenses, the claim of a loss on the George Street property and the treatment of the Inspired Toy Limited losses in subsequent years.

Required: Prepare the report for Wendy *(For the income tax estimate use the appropriate federal rate plus a provincial rate of 5.5% for income subject to the federal small business deduction and 14% for other income. Ignore provincial tax other than the assumed provincial tax rate given).*

<u>Exhibit I</u>

<u>UML PURCHASES</u>

Health Products Inc.

At the beginning of the year, UML purchased 15% of the common shares of Health Products Inc. (HPI), a company in a similar line of business but operating in western Canada. HPI has consistently earned pre-tax profits of between $200,000 and $250,000 from its business operations. For its year ending March 31, 2009, HPI expects to earn profits from its business operations of $200,000 and pay taxes of $33,000. HPI does not earn any investment income. The remaining 85% of HPI's shares are owned by Ken Kandles, who is actively involved in managing HPI's operations.

Inspired Toys Limited

UML has also entered into an agreement to purchase 100% of the shares of a toy company, Inspired Toys Limited (ITL). The deal closes on April 15, 2009. Wendy plans to amalgamate UML and ITL immediately after the acquisition. ITL has $40,000 in net capital losses and $300,000 in non-capital losses that Wendy wants to use to reduce UML's future income tax liability.

Exhibit II

CA ROLE AT UML

Wendy believes that good decisions require accurate information, so she has set up the internal structure and reporting process with internal controls and has you advise her on tax and reporting matters. You have worked for UML for one year, after spending two years as a manager in public practice, and have experience in both taxation matters for private companies and auditing. You report directly to Wendy and she relies on you for advice and recommendations and usually acts immediately on your recommendations if she can see that the benefits exceed the costs. Your job description has not been formally documented, but you have had many opportunities to improve the internal processes of UML in the last year.

Exhibit III

UNIVERSAL MEDICAL LTD.

PROJECTED BALANCE SHEET

March 31, 2009
(unaudited)

Cash, receivables, inventory	$ 300,000
Receivable from shareholder	100,000
Equipment and leaseholds	180,000
Investment in Health Products Inc, at cost	400,000
Investment in bonds	220,000
	$1,200,000
Current and long-term liabilities	$ 333,000
Shareholders' equity	867,000
	$1,200,000

Exhibit III (continued)

UNIVERSAL MEDICAL LTD.

PROJECTED STATEMENT OF INCOME
For the Year Ended March 31, 2009

Sales		$2,000,000
Cost of sales		990,000
Gross profit		$1,010,000
Expenses:		
Salaries and wages	$520,000	
Rent and utilities	40,000	
Research and development	60,000	
Amortization	8,000	
Travel and delivery	20,000	
Interest	16,000	
Insurance	15,000	
Reserve for doubtful accounts	10,000	
Advertising & promotion	30,000	
Charitable donations	4,000	
Legal and accounting	25,000	
Other	30,000	778,000
Income from operations		$232,000
Other income:		
Interest on bonds	8,000	
Dividends from taxable Canadian corporations	40,000	
Gain on sale of marketable securities	10,000	
Net gain on land sales	15,000	73,000
Net income before tax		$ 305,000

Exhibit IV

UNIVERSAL MEDICAL LTD.
SUPPLEMENTARY INFORMATION

1. The accounts receivable on the projected balance sheet is net of an allowance for doubtful accounts of $20,000. The allowance has been calculated based on the collection history of the accounts receivable over the last two years.

2. Wendy withdrew $100,000 from UML on May 1, 2007 to help pay the building costs of her new cottage. It is currently recorded as a loan receivable.

3. On February 8, 2009, UML rented additional warehousing space under a 4-year lease agreement. The agreement includes two 2-year renewal options (for a total of 8 years). Improvements costing $35,000 were made to the premises. As an inducement to sign the lease, the landlord paid UML $5,000 to cover some of these improvements. This amount was credited to current liabilities on the balance sheet.

4. Research and development expenses include equipment purchased during the current year for $32,000 that is used exclusively in the scientific research and experimental development activities of UML. There were no other acquisitions or sales of equipment during the current year. The remainder of the research and development expenses are current in nature as opposed to capital.

5. Salaries and wages expense includes estimated bonuses of $60,000 for senior staff. These will be accrued at year end. The bonuses will be paid in three instalments of $20,000 over the next taxation year. The first instalment will be paid four months after year end, the remaining two at eight and twelve months, respectively.

6. The insurance expense of $15,000 consists of three separate premiums: fire and theft ($3,000), public liability ($9,000), and term life insurance on Wendy that has been pledged to the bank as required collateral for the loan ($3,000).

7. Advertising and promotion includes meals and entertainment expenses of $2,000. The remainder relates to ads in various medical magazines.

8. Legal and accounting expense include legal fees of $4,158 for the collection of delinquent accounts receivable, $5,000 for preparing a debenture agreement to obtain an expanded line of credit with the bank, and $3,000 for amending the UML's articles of incorporation. The remaining costs relate to annual audit fees.

Exhibit IV (continued)

UNIVERSAL MEDICAL LTD.
SUPPLEMENTARY INFORMATION

9. This year, UML began a new policy of establishing a reserve of 1% of sales for future returns of defective merchandise. This amount, along with other minor items, is included as a deduction under other expenses. During the year, $12,000 of defective merchandise has been returned and applied against the reserve. No further returns are anticipated before the end of the year.

10. HPI declared and paid a dividend $60,000 in December, 2008. UML received its share of the dividend.

11. The net gain on land sales of $15,000 resulted from two transactions. One property was acquired five years ago as a possible site for a warehouse. However, when new leased space became available, UML sold the land for $40,000 more than it cost. The other property 235 George Street was sold for a loss of $25,000 after being held by UML for only six months. It had been acquired in the expectation that its value would rise rapidly and the land would be sold for a nice profit. However, it was announced that a landfill site was to be located nearby, and land values in the area declined.

12. The undepreciated capital cost of certain assets at the end of the previous year was as follows:

Class 8	$30,000
Class 10	$40,000

13. At the end of the previous year, the following additional tax accounts existed:

Refundable dividend tax on hand	$ 12,000
Capital dividend account	9,000
Cumulative eligible capital	2,000

TABLE I

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

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

TABLE II

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

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

TABLE III

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

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

MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

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

SELECTED PRESCRIBED AUTOMOBILE AMOUNTS

Maximum depreciable cost - Class 10.1	\$30,000 + GST
Maximum monthly deductible lease cost	\$800 + GST
Maximum monthly deductible interest cost	\$300

Operating cost benefit - employee	24¢ per kilometre of personal use
Non-taxable car allowance benefit limits	
- first 5,000 km	52¢ per kilometre
- balance	46¢ per kilometre

TABLE IV

INDIVIDUAL FEDERAL INCOME TAX RATES

Income Tax Rate Schedule - Individuals

Taxable Income	Tax
$40,726 or less	15.0%
$40,727 to $81,452	$ 6,109 + 22% on next $40,726
$81,453 to $126,264	$15,069 + 26% on next $44,812
$126,265 or more	$26,720 + 29% on remainder

SELECTED NON-REFUNDABLE TAX CREDITS PERMITTED TO INDIVIDUALS FOR PURPOSES OF COMPUTING INCOME TAX

The tax credits are 15% of the following amounts:

Basic personal amount	$10,320
Spouse or common-law partner amount	10,320
Net income threshold for spouse or common-law partner amount	nil
Child	2,089
Age 65 or over in the year	6,408
Disability amount	7,196
Infirm dependents who reach 18 in the year	4,198
Net income threshold for infirm dependents 18 and over	5,956
Basic amount for:	
Age credit and GST credit	32,312
Child tax benefit	40,726
OAS clawback	66,335
Children's fitness credit	up to 500

CORPORATE FEDERAL INCOME TAX RATE

The tax payable by a corporation under Part I of the *Income Tax Act* on is 38% before any additions and/or any deductions.

PRESCRIBED INTEREST RATE

Year	Jan. 1 - Mar. 31	Apr. 1 - June 30	July 1 - Sept. 30	Oct. 1 - Dec. 31
2009	4	3		
2008	6	6	5	5
2007	7	7	7	7
2006	5	6	6	7
2005	5	5	5	5

The rate is 2 percentage points higher for late or deficient income tax payments and unremitted withholdings.
The rate is 2 percentage points lower for deemed interest on employee and shareholder loans.

* * * * * * * * * * *