Canadian Income Taxation 2021 2022 (Canadian) 24th edition Buckwold Test Bank

SKU: 9781260326833-TEST-BANK

Canadian Income Taxation 2021 2022 24ce Edition by Buckwold Ch01

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

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

A) An individual
B) A proprietorship
C) A corporation
D) A trust

Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

2) Which of the following attitudes and actions is most likely to 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.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-02 Taxation - A Controllable Cost
Bloom's : Understand

3) Which of the following statements is true?

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A) Dividends paid by a corporation are deductible by that corporation and are a form of property income for the recipient.

B) Dividends paid by a corporation are deductible by that corporation and are a form of business income for the recipient.

C) Dividends paid by a corporation are not deductible by that corporation and are a form of business income for the recipient.

D) Dividends paid by a corporation are not deductible by that corporation and are a form of property income for the recipient.

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Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

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 corporate tax rate.
D) cash flow before-tax.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : 01-03 Cash Flow after Tax

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

A) Municipal, provincial, and federal
B) Municipal, federal, and foreign
C) Provincial, federal, and foreign
D) Municipal, provincial, and foreign

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Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Understand

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

A) Joint venture
B) Partnership
C) Separate corporation
D) Proprietorship

Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

7) Which of the following statements is true?

A) Cash flow should never be calculated on an after-tax basis.
B) The tax cost to a business should be regarded as a cost of doing business.
C) Income tax cannot be treated as a controllable cost.
D) The value of an enterprise should be based on pre-tax cash flow.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-02 Taxation - A Controllable Cost
Bloom's : Understand
Topic : 01-03 Cash Flow after Tax

8) Logan holds a 7% interest-bearing debt instrument in Glow Co. Glow Co.'s tax rate is 27%, and Logan is in a 45% tax bracket. Which of the following statements is correct?

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A) The after-tax cost of the debt instrument is 5.11% to Glow Co., and the after-tax value to Logan is 3.85%.

B) The after-tax cost of the debt instrument is 5.11% to Glow Co., and the after-tax value to Logan is 3.15%.

C) The after-tax cost of the debt instrument is 1.89% to Glow Co., and the after-tax value to Logan is 3.15%.

D) The after-tax cost of the debt instrument is 7% to Glow Co., and the after-tax value to Logan is 7%.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-03 Cash Flow after Tax
Bloom's : Apply

9) Which of the following lists accurately names the five general income categories for tax purposes?

A) Business, Interest, Employment, Capital Gains, Other
B) Business, Property, Employment, Capital Gains, Foreign
C) Business, Property, Employment, Capital Gains, Other
D) Business, Property, Employment, Investments, Other

Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

10) Proprietorships, corporations, partnerships, limited partnerships, joint ventures, and income trusts are all

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A) categories of income for tax purposes.
B) tax jurisdictions.
C) examples of financial instruments.
D) forms of business.

Question Details
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Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

11) Which of the following statements regarding taxation within jurisdictions in Canada is true?

A) Federal and provincial or territorial tax brackets are always identical to one another.
B) Only federal taxes apply to individuals while both federal and provincial or territorial taxes apply to corporations.
C) Both federal and provincial or territorial taxes apply to Canadian taxpayers.
D) Only federal taxes apply to corporations while both federal and provincial taxes apply to individuals.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

12) Jamie is an employee at ABC Ltd. and is in a 45% tax bracket. ABC Ltd. has a tax rate of 27%. The company has offered Jamie a 10% pay raise. Jamie's current salary is $50,000. What is after-tax cost of the raise to ABC Ltd.?

A) $1,350
B) $2,750
C) $2,858
D) $3,650

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Question Details
Accessibility : Keyboard Navigation
Topic : 01-03 Cash Flow after Tax
Bloom's : Apply

13) Simone is an employee at XYZ Ltd. and is in a 45% tax bracket. XYZ Ltd. has a tax rate of 27%. The company has offered Simone a 10% pay raise. Simone's current salary is $50,000. What is after-tax value of the raise to Simone?

A) $1,350
B) $2,750
C) $2,858
D) $3,650

Question Details
Accessibility : Keyboard Navigation
Topic : 01-03 Cash Flow after Tax
Bloom's : Apply

14) All cash flow must be considered on an after-tax basis because

A) companies want a positive cash flow.
B) the value to a business must be considered.
C) the investor's tax rate is irrelevant.
D) decisions that appear favourable on a pre-tax basis may be unfavorable or marginally favourable on an after- tax basis.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Understand
Topic : 01-03 Cash Flow after Tax

15) Which of the following is not a separate entity for tax purposes?

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A) Corporation
B) Trust
C) Partnership
D) Individual

Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

16) The Canadian income tax system is considered

A) progressive.
B) regressive.
C) flat.
D) unfair.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-04 The Fundamental Income Tax Structure and Its Complexity
Bloom's : Remember

17) What is the most significant form of taxation that affects return on investment?

A) Property Taxes
B) Excise Taxes
C) Income Taxes
D) All taxes

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Topic : 01-01 Taxation and the Financial Process

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18) QWERTY Co. decides to give a 6% raise to its employee Jean, who is currently in the 40% tax bracket. The company is in the 27% tax bracket. What is the after-tax implication for each of the parties in this transaction?

A) The company has a net after-tax cost of 4.38% and Jean has an after-tax income of 3.6%.
B) Both Jean and the company have a 3% after-tax cost/benefit.
C) We should only consider the pre-tax amount of 6% to each party.
D) Both the company and Jean have an after-tax cost of 4.38%.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-03 Cash Flow after Tax
Bloom's : Apply

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

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

Question Details
Accessibility : Keyboard Navigation
Topic : 01-02 Taxation - A Controllable Cost
Bloom's : Understand

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20) Blake holds a 5% interest-bearing debt instrument in Day Co. Day Co.'s tax rate is 27%, and Blake is in a 50% tax bracket.

Required:

A) Calculate the after-tax cost (as a percentage) of the debt-instrument to Day Co.
B) Calculate the after-tax value (as a percentage) of Blake's interest income.

Question Details
Accessibility : Keyboard Navigation
Topic : 01-03 Cash Flow after Tax
Bloom's : Apply

21) Tanner holds a 7% interest-bearing debt instrument in Eve Co. Eve Co.'s tax rate is 13%, and Tanner is in a 45% tax bracket.

Required:

A) Calculate the after-tax cost (as a percentage) of the debt-instrument to Eve Co.
B) Calculate the after-tax value (as a percentage) of Tanner's interest income.

Question Details
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Topic : 01-03 Cash Flow after Tax
Bloom's : Apply

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Answer Key

Test name: CH01

1) B
A proprietorship is correct as the entities subject to tax on income in Canada are individuals, corporations, and trusts.

2) C
Taxation should be considered in all aspects of business planning on an ongoing basis.

3) D
Dividends are paid from after-tax corporate income and are not a deductible expense. Dividends received by individuals are a form of property income.

4) B
Decision-making should always address the after-tax values.

5) C
Canadian taxpayers are usually subject to provincial, federal, and foreign tax on international income.

6) D
A proprietorship, since it is an operation run by one individual.

7) B
Tax costs are a regular part of doing business and therefore have an impact on cash flow.

8) A

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.07 × (1 - .27) = 5.11%
.07 × (1 - .45) = 3.85%.

9) C
Income for tax purposes is categorized as Business, Property, Employment, Capital Gains, and Other.

10) D
This list comprises the many forms of businesses that may be created.

11) C
Canadian taxpayers are subject to both federal and provincial or territorial taxes, and the schedule of rates for the latter differs per jurisdiction.

12) D
After-tax cost to ABC Ltd.: ($50,000 × 10%) × (1 - .27) = $3,650.

13) B
After-tax value for Simone: ($50,000 × 10%) × (1 - .45) = $2,750.

14) D
Taxes must form part of the cash flow decision.

15) C
The individual partner is taxed on their share of the partnership income.

16) A
The Canadian income tax system is considered progressive because the rate of tax on marginal income gets progressively higher.

17) C
Income taxes by far present the most cost of all taxes to any business entity.

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18) A
The company's cost is 6% × (1 - .27) = 4.38%, and Jean has an after-tax income of 6% × (1 - .4) = 3.6%. Therefore, the after-tax benefit to Jean is less than the after-tax cost to the company.

19) 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.

20) A) .05 × (1 - .27) = 3.65%
B) .05 × (1 - .50) = 2.5%

21) A) .07 × (1 - .13) = 6.09%
B) .07 × (1 - .45) = 3.85%

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