

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? 1) \_\_\_\_\_
- A) An individual  
B) A corporation  
C) A trust  
D) A proprietorship
- 2) Which of the following attitudes and actions will help decision-makers develop an efficient approach to taxation? 2) \_\_\_\_\_
- A) All managers should own a copy of the Income Tax Act.  
B) Cash flows should be considered from a before-tax perspective when making decisions.  
C) Tax costs to a business should be regarded as controllable expenses, much like product costs and selling costs.  
D) Functional managers should not be held responsible for the tax effects of decisions within their divisions.
- 3) Which of the following statements is true? 3) \_\_\_\_\_
- A) Dividends are not deductible by a corporation and are a form of business income for an individual.  
B) Dividends are not deductible by a corporation and are a form of property income for an individual.  
C) Dividends are deductible by a corporation and are a form of business income for an individual.  
D) Dividends are deductible by a corporation and are a form of property income for an individual.
- 4) When assessing the value of a corporation, the most relevant information that decision-makers normally consider is 4) \_\_\_\_\_
- A) the potential for after-tax profits.  
B) the potential for before-tax profits.  
C) the current corporate tax rate.  
D) cash flow before-tax.
- 5) Income tax is calculated for which of the following jurisdictional groups? 5) \_\_\_\_\_
- A) Municipal, provincial, and international  
B) Municipal, federal, and international  
C) Provincial, federal, and international  
D) Municipal, provincial, and federal
- 6) Two investor corporations may *not* enter jointly into which of the following? 6) \_\_\_\_\_
- A) Partnership  
B) Separate corporation  
C) Proprietorship  
D) Joint venture

7) Which of the following statements is *false*?

7) \_\_\_\_\_

- A) Cash flow should be calculated on an after-tax basis.
- B) Income tax should be considered a controllable cost.
- C) The tax cost to a business should not be regarded as a cost of doing business.
- D) The value of an enterprise should not be based on pre-tax cash flow.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

8) The text book lists four fundamental tax variables which 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 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 value 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'.

Answer Key

Testname: UNTITLED1

- 1) D
- 2) C
- 3) B
- 4) A
- 5) C
- 6) C
- 7) C
- 8) Income: Business, Property, Employment, Capital Gains  
Entities: Individuals, Corporations, Trusts  
Forms of business: Proprietorship, Corporation, Partnership, Limited Partnership, Joint Venture, Income Tr  
Tax Jurisdictions: Provincial, Federal, Foreign
- 9) A) Actual cost to ABC:  $(\$50,000 \times 10\%) \times (1 - .25) = \$3,750$   
B) Actual value for John:  $(\$50,000 \times 10\%) \times (1 - .4) = \$3,000$
- 10) 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.