CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER:

Common Final Examination
September 10, 2024 – Day 1
(Booklet #1 – API Version 1)

Total examination time: 4 hours.
Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the examination writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the writing centre.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

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____________________________ ____________________________

CANDIDATE NAME (Please print) SIGNATURE

Examination Details

The examination consists of:
Booklet #1 – Linked Case (240 minutes) (this booklet)
Booklet #2 – Capstone 1 Case (for reference) and rough notes

The case should be answered using the examination software provided, which includes a word processor and spreadsheet for inputting your response. The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. All financial tables in the case with ten lines or more have been preloaded into the spreadsheets that follow Sheet 1. Those spreadsheets are in read-only mode. You must copy and paste the financial information into your Sheet 1, where you can then do all your calculations. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded on anything other than the examination software or, in the event of computer failure, the CPA Canada writing paper provided.

Rough-note paper is available in a separate booklet, which also includes a copy of the Capstone 1 case for reference only. Rough notes, and any other notations made in the examination booklets, will not be evaluated.

The CPA Canada Handbooks, the *Income Tax Act* and the *Excise Tax Act* are available in the examination software throughout the entire examination. These materials provide the standards in effect and tax laws substantively enacted as at December 31, 2023.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Candidates are instructed to consider and respond to the examination questions as presented even though the circumstances described in the examination questions may not be reflective of the current environment.

Common Final Examination, 2024

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case **(Suggested time: 240 minutes)**

It is March 24, 2026, and you, CPA, are still working at Richmond, Lawrence & Co. LLP (RLC). Amuzu Parks Inc. (API) has again engaged RLC to assist with its strategic analysis and planning.

In 2024, API decided to invest with Arctica Outerwear Company (AOC) to develop the 4D virtual reality (VR) Canadian High Arctic Immersion Experience (Arctic VR experience) in downtown Winnipeg. The attraction uses VR to provide customers with an immersive virtual tour of the Canadian Arctic. Initial development proved more costly and time-consuming than originally planned. Despite the initial challenges, the attraction has been a huge success since opening in December 2025. Reviews from customers have been overwhelmingly positive, and the earnings have surpassed API's expectations. API did not move forward with any of the other potential strategic investments considered in 2024.

Since 2024, the performance of API's two largest amusement parks, Magical Land and Aqua Bleu Parc, has declined. This is partially due to API's inability to reinvest in its parks and introduce new, attractive rides. Many of API's competitors, which are large multinational companies with access to more investment capital, have made significant investments, to update their parks with the most advanced high-tech thrill rides. This has led to a drop in the number of API's visitors, given that some are choosing to go to more advanced parks instead.

Over the next several years and beyond, the popularity of high-tech attractions is expected to continue to increase. This increase in popularity has resulted in a steep increase in competition, since many companies are making significant investments in new technologies that harness the power of VR and augmented reality. However, there is also a growing demand among parents with young families for low-tech, family-friendly alternatives that encourage outdoor time and do not involve increased screen time.

API has not changed its vision, mission, or core values, which were established in 2021.

At present, API is faced with the considerable challenge of repaying a $9 million loan to R&W Bank (R&W), which is due in roughly five months (August 2026). API planned to repay the loan sooner but was unable to, given the cost overruns associated with the development of the Arctic VR experience. API currently has $1 million cash on hand, and no access to further debt financing.

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API's Board of Directors agreed that, for any new strategic investments, the company's main objectives are to increase operating income and to increase the number of visitors to its parks and attractions. In addition, the board prefers investments that provide API with the highest growth potential.

API's board has asked you, CPA, to review the information provided and draft a report that discusses API's main strategic considerations, and includes a strategic analysis and recommendation for each proposal presented. For this engagement, ignore any tax implications within your analysis and recommendations.

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APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Jacob: Thank you for joining us today, CPA.

API is facing several tough decisions. Not only is the performance of our two biggest parks on the decline, but we must also figure out how to repay the R&W loan that is quickly coming due. The decisions we make now will determine the future of this company.

On the bright side, our new Arctic VR experience has been a huge success since its launch.

Kenneth: That's right, Jacob. Although it took a bit longer than expected to develop the new attraction, it is clearly a hit. There is a huge demand for this type of attraction, and the market is quickly growing. I think API should align with this trend and further invest in immersive VR technology.

On that note, I have invited Lawrence from AOC to join us toward the end of today's meeting, to introduce an exciting new investment opportunity that will help API build on the initial success of the Arctic VR experience.

Natalie: I appreciate your enthusiasm, Kenneth, but how can we consider a new investment when we don't even have the necessary funds to repay the R&W loan?

Jacob: That's a good question, Natalie. I think now is a good time to discuss the recent offer we received from a Vancouver land developer, Beacon Builders (Beacon), to purchase the land that Magical Land sits on. They are willing to pay $30 million for the property. By selling the land, we would have enough money to repay R&W and still have plenty left over for reinvestment.

Terri: Magical Land is API's flagship amusement park and our biggest earner. How can we consider selling it? Besides, we haven't exhausted our options for improving its performance.

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APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Kenneth: I understand it's uncomfortable to consider, but selling Magical Land seems like our best option, given that the area surrounding Magical Land is developing quickly and the value of the property has never been higher. As well, the development around the park has brought many new residents to the area, and some have filed noise complaints against the park. Other residents have complained about the traffic going to and from Magical Land. As the neighbourhood grows, I expect these complaints to only get worse. This could result in bad publicity for the API brand.

Terri: I see it a different way. Many of the new residents are young families—the demographic our recent visitor survey identified as API's most loyal customers. I expect that many of them will visit Magical Land, which will help improve the park's performance. As well, although we have received complaints, based on our discussions with the city authority, we have done nothing wrong and are operating well within all the applicable bylaws. In my view, a few complaints are no reason to sell our flagship park.

Jacob: It's not just the complaints, Terri. To turn the performance of Magical Land around, we need to make a significant reinvestment in the park and its attractions. Not only have we already fallen behind our competitors in this respect, but we don't have the necessary funds to introduce the high-tech thrill rides that are most in demand. The fact is that Magical Land can no longer effectively compete with the more advanced technologies our competitors have introduced.

Terri: Again, I see it differently. With all our competitors so focused on introducing high-tech thrill rides and attractions, not many options remain for people who want a traditional amusement park experience with classic rides that are fun for the whole family—something API has always excelled at.

As well, the cost to purchase low-tech, classic rides is declining because many amusement parks are selling theirs to replace them with newer, more advanced rides. This offers API the ability to introduce new rides at a reduced cost. Even better, the ongoing cost to service and maintain this type of ride is far lower than the more advanced thrill rides.

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APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Kenneth: That could be the case, but how can we ever expect API to grow if we only rely on amusement parks? We might be able to improve our existing attractions, but we will never be able to afford to open a new park. Real estate costs are simply too high.

Natalie: I agree with Terri. We still have options for improving the performance of our existing parks. For example, we could offer family-oriented seasonal events. We could also consider taking on a new licensing or sponsorship agreement.

Terri: Actually, we recently received an offer from Pioneer Pictures (Pioneer), a large and well-known movie producer, which wants to enter into a licensing agreement that will involve all our existing amusement parks, starting with Magical Land.

Jacob: Sounds interesting. Tell us more.

Terri: Pioneer will be releasing a new children's movie toward the end of this year and wants to promote it in our parks. Pioneer's offer has three main facets. First, it will build a new ride at each of our five parks, based on the new movie. These won't be high-tech, advanced thrill rides, but instead, more traditional rides designed for the whole family. Second, Pioneer requires API to sell merchandise for the movie at each of our parks. Third, Pioneer will introduce costumed characters attached to the movie during the main phase of the movie's marketing campaign.

Natalie: Pioneer is a household name. This is a great opportunity. How much of an investment would this require from API?

Terri: That's one of the best parts. The upfront cost is very low—only $200,000. This is the cost of renovating Magical Land's existing merchandise shop to make way for Pioneer's merchandise. Pioneer will be responsible for the cost of the rides introduced.

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APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Kenneth: A children's movie won't help us retain the young adults who visit our parks. Does the agreement come with any restrictions?

Terri: It does. First, the agreement includes all five of our parks, so for the duration of the agreement, we won't be able to sell any of them. Second, because Pioneer will attach its brand name to our parks, it must approve any major changes to our parks' themes, to ensure that they remain in alignment with Pioneer's values and brand image.

Kenneth: It sounds like we would be giving up too much control over the direction of our company. And what if this movie isn't successful? I don't want to link API's name to an unpopular product.

Terri: Pioneer has a strong history of putting out popular, family-friendly movies that are both entertaining and educational, and its values align well with API's.

Jacob: Even if the movie isn't a blockbuster, just the addition of a new ride would entice people to return to our parks.

Terri: I agree, Jacob. And I haven't even mentioned yet that Pioneer wants this licensing agreement to extend beyond its upcoming movie release to include other future movies. For each new movie that Pioneer advertises within our parks, API will get more new rides and additional merchandise to sell.

Natalie: Sounds like a great opportunity. Speaking of which, I want to introduce another idea for how we could boost the performance of our existing parks. As we know, arcade games have always been popular, and this trend has shown no sign of slowing down.

With that in mind, Pixel Play Inc. (Pixel) provides a leasing service for a wide range of arcade games. From classic games released decades ago to brand new games and advanced simulators, Pixel has an incredible selection. We could choose the games that best fit what our visitors want.

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APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Jacob: What's the upfront cost? And are there any restrictions built into the agreement?

Natalie: It would have an upfront cost of around $5 million to introduce an arcade at Magical Land. In the future, if the initial arcade proved successful, we could introduce them at the rest of the parks for a similar cost. In terms of restrictions, there aren't any, besides the fact that we would agree to only use games we lease from Pixel within our arcades.

Kenneth: I don't see how this offers API a strong growth opportunity. We might see a minor increase in the company's earnings, but how does this position the company for future growth? Arcades are certainly popular, but if we are going to revive this company's future, we need to think bigger. As well, there's nothing to stop other arcades from opening up in the surrounding area, so this investment wouldn't provide API with a competitive advantage.

Terri: I don't agree, Kenneth. Our research shows that our visitor numbers would go up by about 5% at each park with an arcade. That's a significant increase!

Kenneth: That could be, but why would we limit ourselves to only Pixel's games? With all the new high-tech advancements, it makes more sense to remain flexible so we could introduce whatever games we want without restriction.

Natalie: The lease agreement with Pixel offers significant advantages. For example, Pixel would maintain and repair all the games within our arcades. As well, the agreement is flexible, in that every three months, API can replace whatever games we want with something else from Pixel's warehouse. This ensures that the arcade would remain fresh and exciting for our visitors.

Kenneth: If you want fresh and exciting, then I have just the thing. Let's invite Lawrence from AOC into the meeting.

Lawrence joins the meeting via telephone.

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APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Jacob: Lawrence, it's great to have you with us. Congratulations on the initial success of the Arctic VR experience.

Lawrence: Thanks, it's an exciting time!

Kenneth: Lawrence, please introduce your idea.

Lawrence: Okay. Based on the success of our Arctic VR experience, my plan is to develop another attraction, using an upgraded version of the immersive technology. This attraction will showcase Canada's famous Great Bear Rainforest and the incredible variety of wildlife that inhabits it. I have many close friends who live in that area. With their knowledge plus our new immersive VR technology, this will be a truly one-of-a-kind experience!

Kenneth: But that's not all. There is also the opportunity to license the technology to other companies that wish to offer immersive experiences.

Lawrence: That's right. As part of this investment, our intention is to upgrade the technology so it can accommodate other types of immersive VR experiences without the need for costly hardware changes. Once upgraded, the technology could be used to transport people into all sorts of unique environments. It's not just nature tours—the upgraded technology could also be used for immersive musical and sporting experiences.

Kenneth: We already have the VR production team and engineers needed to begin the technology upgrade and design the new Great Bear VR attraction. All they need is funding to get started. API will need to contribute $20 million to the upfront cost.

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APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

March 24, 2026

Lawrence: Yes, and our team can use what we learned from the first attraction to make this one even better.

I should mention that a private equity company also wants to invest in the technology. So far, I have declined their offer because I prefer to work with API. Also, the same private equity company has expressed interest in buying API out of the Arctic VR experience for $15 million, if you want to divest from the technology entirely.

Let me know one way or another, as we are eager to get started.

Lawrence leaves the meeting.

Terri: This sounds risky to me. If we move forward with this, API's future will rely heavily on the success of this technology. I think we should stick to what we know best—amusement parks.

Kenneth: But the technology has already proven successful, and Lawrence has proven himself highly capable. Because we could eventually license the technology to other companies, this investment offers API an opportunity for incredible growth.

Terri: What about the other companies that are making investments in new entertainment technologies? With how quickly technology changes, I fear API won't be able to keep up.

Kenneth: That's why we need to move quickly on this opportunity, to ensure that our technology is the one other entertainment companies use for their own immersive experiences. But even if that doesn't happen, the Great Bear VR experience is an almost guaranteed success. It's a bold move, but that's exactly what API needs right now.

Jacob: Wow, there's lots to consider, with these opportunities and the upcoming loan repayment. CPA, we look forward to reading your report. Meeting adjourned.

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APPENDIX II
SURVEY RESULTS

Prepared by Terri

Based on a recent survey conducted with API's current and former season pass holders, we discovered a number of common themes:

- API's customer service, park cleanliness, and ride safety consistently rate very well.
- API's parks remain a popular choice for families seeking a stress-free, enjoyable outdoor experience for their children. Parents particularly appreciate API's classic rides and attractions, which provide a refreshing alternative to screen-based entertainment, such as social media and video games.
- On the other hand, API's parks have become less popular with young adults who wish to experience the latest advancements in technology-driven attractions, which API currently does not offer at any of its outdoor parks. Young adults also listed thrill rides and arcades as their preferred types of attraction.
- Visitor numbers at API's parks have declined, mainly because the rides and attractions have not changed in the last two years. For parents with young children, this means their children are less excited to visit the parks because there is nothing new for them to experience.
- API's brand is most closely associated with classic amusement parks that provide outdoor fun for the whole family.

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APPENDIX III
POSSIBLE SALE OF MAGICAL LAND

Prepared by Jacob

Based on our research, an amusement park such as Magical Land should sell for at least three times its operating income. In addition, because the amusement park would be sold to a land developer that plans to build residential housing on the land, API could either sell the rides or redistribute them to its other existing parks.

Magical Land's Financial Information from 2025:

	2025	
Number of visitors	770,285	
In-park spending per visitor:		
Admission price	$ 28.00	
Food and beverage	$ 10.20	
Merchandise	$ 4.75	
Revenues		
Ticket sales (admission)	$ 21,567,980	
Food and beverage sales	7,856,907	
Merchandise sales	3,658,854	
Total revenue	33,083,741	
Expenses		
Variable operating expenses	16,175,985	75% of ticket sales revenue
Fixed operating expenses	4,550,900	
COGS: Food and beverage	2,357,072	30% of food & beverage sales
COGS: Merchandise	1,097,656	30% of merchandise sales
Total expenses	24,181,613	
Operating income	$ 8,902,128	

In the first two months of 2026, the number of visitors has dropped slightly compared to the same period in 2025. This downward trend is expected to continue until API is able to offer new rides and attractions that will entice more people to visit.

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APPENDIX IV
LICENSING AGREEMENT WITH PIONEER PICTURES

Prepared by Terri

Extracts from Pioneer's licensing agreement are as follows:

- The agreement's term is five years, with the option to extend for an additional five years if both parties agree.
- Either party must pay a penalty if the terms of the agreement are violated.
- API must submit a quarterly earnings report for its sales of Pioneer's merchandise, which Pioneer reserves the right to audit.
- API will be entitled to half the profit from the sales of Pioneer's merchandise.
- API cannot enter into any licensing agreement with another movie producer throughout the life of the agreement.
- Pioneer cannot license its name or movies to any other entertainment companies that operate within the same provinces as API.

Based on my research, I am confident that, if we agree to the licensing agreement, our existing parks will attract more visitors. For example, I expect that Magical Land's number of annual visitors will increase by 30% relative to the park's current level of visitors, and then remain at that increased level over the duration of the agreement. I also expect that Magical Land will sell $6 million of Pioneer's merchandise annually. One drawback to offering Pioneer's merchandise is that sales from our existing merchandise will likely fall by nearly 65%, given that many visitors will choose Pioneer's merchandise over what we currently offer.

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APPENDIX V
INVESTMENT IN MAGICAL LAND ARCADE

Prepared by Natalie

The upfront investment includes a $2 million cost to construct the building that will house Magical Land's arcade, and an initial $3 million fee paid to Pixel. Once the arcade is up and running, API will pay Pixel $500,000 annually to lease the arcade games, as well as 10% of the revenue earned by the games.

The arcade games are token-operated, and visitors will be charged a small fee to play each game. This is expected to generate $3.5 million in annual revenue. The arcade's variable expenses are estimated to be 12% of revenue, and fixed annual expenses are estimated to be $450,000. The cost of capital is 16%.

The initial term of the contract with Pixel will be five years; however, API will have the option to extend the contract for an additional five years without needing to pay the $3 million upfront fee again.

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APPENDIX VI
INVESTMENT IN NEW IMMERSIVE VR EXPERIENCE

Prepared by Kenneth

The total cost of the technology upgrade and development of the Great Bear VR experience is estimated to be $30 million. API will contribute $20 million, and AOC will contribute $10 million. Based on this split in upfront investment, API will earn 67% of the income generated by the new attraction, which is expected to have a useful life of five years and a salvage value of $3 million.

The attraction is expected to generate $20 million in annual revenue, and will have variable expenses equal to 35% of revenue, and a fixed annual expense of $2.25 million. The cost of capital is 16%.

Note from Jacob:

An independent valuator assessed the current value of the Arctic VR experience. They concluded that, based on the expected operating income of $5.2 million that API will earn from the attraction in 2026, the $15 million offer that API received to sell its portion of the project is fair and reasonable.

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End of Examination

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CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}$$

Present value of total tax shield from CCA for a new asset acquired after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would not normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.25k}{1+k}\right)$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, other than those eligible for immediate expensing.

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:
C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

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Selected Prescribed Automobile Amounts

Item	2023	2024
Maximum depreciable cost — Class 10.1	$36,000 + sales tax	$37,000 + sales tax
Maximum depreciable cost — Class 54	$61,000 + sales tax	$61,000 + sales tax
Maximum monthly deductible lease cost	$950 + sales tax	$1,050 + sales tax
Maximum monthly deductible interest cost	$300	$350
Operating cost benefit — employee	33¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	68¢ per km	70¢ per km
— balance	62¢ per km	64¢ per km

Individual Federal Income Tax Rates

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $53,359	$0	15%
$53,360 and $106,717	$8,004	20.5%
$106,718 and $165,430	$18,942	26%
$165,431 and $235,675	$34,208	29%
$235,676 and any amount	$54,579	33%

For 2024:

If taxable income is between	Tax on base amount	Tax on excess
$0 and $55,867	$0	15%
$55,868 and $111,733	$8,380	20.5%
$111,734 and $173,205	$19,833	26%
$173,206 and $246,752	$35,815	29%
$246,753 and any amount	$57,144	33%

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Selected indexed amounts for purposes of computing income tax

Personal tax credits are a maximum of 15% of the following amounts:

Item	2023	2024
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	$13,520	$14,156
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	15,000	15,705
Age amount if 65 or over in the year	8,396	8,790
Net income threshold for age amount	42,335	44,325
Canada employment amount	1,368	1,433
Disability amount	9,428	9,872
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,499	2,616
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,999	8,375
Net income threshold for Canada caregiver amount	18,783	19,666
Adoption expense credit limit	18,210	19,066

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Other indexed amounts are as follows:

Item	2023	2024
Medical expense tax credit — 3% of net income ceiling	$2,635	$2,759
Old age security repayment threshold	86,912	90,997
Annual TFSA dollar limit	6,500	7,000
RRSP dollar limit	30,780	31,560
Lifetime capital gains exemption on qualified small business corporation shares	971,190	
Lifetime capital gains exemption for dispositions before June 25		1,016,836
Lifetime capital gains exemption for dispositions on or after June 25		1,250,000

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2024	6	6	5	
2023	4	5	5	5
2022	1	1	2	3

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

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Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007, and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8	20%	
Class 10	30%	
Class 10.1	30%	
Class 12	100%	
Class 13	N/A	Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight line over length of life of property
Class 14.1	5%	For property acquired after December 31, 2016
Class 17	8%	
Class 29	50%	Straight-line
Class 43	30%	
Class 44	25%	
Class 45	45%	
Class 50	55%	
Class 53	50%	
Class 54	30%	

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