

## INCLASS REVIEW PROBLEM

Central Products Ltd. is in the process of completing its 20X0 financial statements and tax return. A junior accountant has given you a list of items that he deducted from the income of the company for accounting purposes to arrive at \$100,000 net income:

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| 1. Purchase price of a patent giving the company exclusive rights to manufacture a product   | \$120,000 |
| 2. Cost of annual dues to a golf club for three senior salespeople to entertain existing and potential customers   | 8,000     |
| 3. The union contract expired four months before the year end and gaining is still in process. A 3% wage increase is expected, and the company has recorded a reserve to cover this increase although they don't know what the outcome will be.                            | 60,000    |
| 4. Legal fees paid for making a representation to a provincial government against a proposal to introduce a payroll tax  | 15,000    |
| 5. Donations paid to a registered charity  | 10,000    |
| 6. Advertising in a foreign trade newspaper that was distributed to Canadian customers   | 4,000     |
| 7. Travel costs (airfare and lodging) for a senior executive to visit a Foreign supplier to inspect and sign a purchase agreement for a new manufacturing machine. The machine was delivered and used in 20X0  | 3,000     |
| 8. Legal, accounting, and printing costs to prepare a prospectus offering common shares for sale to the public   | 32,000    |
| 9. The income statement includes a cost of \$13,150 for attending three conventions during the year. Convention #1 (\$2,750) was in July 20X0. Conventions #2 (\$6,350) and #3 (\$4,050) were both in December 20X0. Each convention includes a cost of \$1,000 for meals. |           |
| 10. Car allowance given 80c x 10,000 kms =\$8,000 to the top salesman  |           |

### Required:

Compute the net income for tax purposes for the 20X0 taxation year.