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the newsletter of Prentice Yates & Clark

## Online Purchasing

Caveat emptor is still good advice in the online era.

**THE WORLD HAS CHANGED MUCH** since caveat emptor, Latin for “let the buyer beware,” was first uttered. Unfortunately, the principle still applies today, even in an online marketplace. While e-commerce has become viable and even mainstream for many companies, it still holds potential risks for individual consumers and businesses. Identity theft is a new risk for those purchasers who reveal too much information to insecure websites, but traditional methods of swindling can still relieve you of your cash.

### CONSIDER THE FOLLOWING BEFORE YOU PURCHASE ONLINE:

**Location.** Where is the supplier located? Purchasing from an out-of-province or out-of-country supplier can potentially introduce complications. If you receive goods of inferior quality, shipping costs may make returning the product an unattractive proposition. Even worse, what if you don’t even receive the goods for which you have already paid? Since consumer protection laws may vary from country to country or even province to province, taking the seller to court might not be worth the cost, time and effort required.

**Warranty.** Products sold in Canada usually carry a warranty, especially for the Canadian marketplace. Those sold in the United States may not carry a warranty for Canadian consumers. If the product is a “lemon” you are at the mercy of the seller to either repair it or provide a replacement. If the seller refuses, it is at your cost. Before purchasing online, it is always wise to check with the manufacturer to determine whether the product warranty is country-specific or international.

Keep browser and malware protection up to date.

### MAKE SURE YOUR ONLINE BUYING IS SECURE

In addition to the aforementioned considerations, there are other areas online purchasers should keep in mind to protect themselves.

1. An order placed using a public Wi-Fi network, such as at a local coffee shop, may not be secure or encrypted.
2. Your operating system, browser and malware protection should be up to date. Since many



downloaded updates include code to patch known vulnerabilities, it is strongly advisable to keep all your devices current. Check your system at least once a week to see whether it has the latest updates. Don’t ignore those notices that tell you an update is available and ask if you want to install it now.

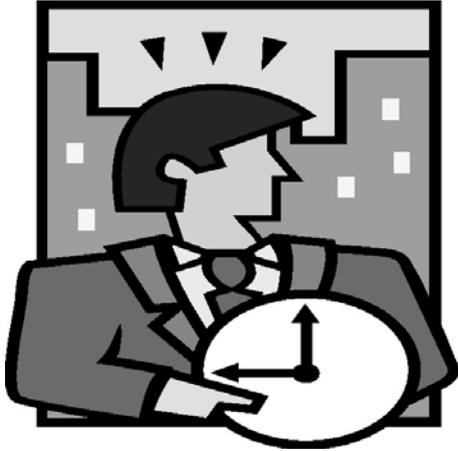
3. With the ubiquitous availability of Apps and an expectation of security through the device’s App store, it is easy to become careless about downloading Apps. For example, you may find an App claiming to allow online searching for the location of the stores of a merchant you like. Check out the company’s website before installing or using the App. For all you know, the company does not have an App, or the official App may go by a different name, and a hacker has simply offered a counterfeit App for the unsuspecting to download. By downloading and using the counterfeit, you may be inadvertently providing personal information to an identity thief.
4. Look for the padlock icon. The symbol suggests that the website is encrypted via SSL (secure sockets layer) or TLS (transport layer security). The browser should show a padlock icon near the address bar if the site is secure. Notice that the URL of a secured website will begin with “https://” and not “http://”
5. Although it has been said a thousand times, it is worth repeating: do not provide credit card numbers over the Internet to any organization, unless your connection is secure, as noted above. Never send your credit card information by email; email is not secure.

6. Use available independent organizations to ensure the company you are dealing with is rep-

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# Opportunity Cost: The Errors of Our Ways

Time is valuable and money is wasted when time is not used productively.



**A LOT HAS BEEN WRITTEN ABOUT TIME MANAGEMENT;** most of it focuses on the need for planning budgets, managing tasks and setting time lines for meeting goals. These are all good ways to increase productivity in your owner-managed business; however, these techniques don't address the prime reason time is wasted: human nature does not easily lend itself to self-discipline.

Establishing good work habits and tweaking existing ones will improve productivity and can be significant money savers. Make your business more productive, and your day less frustrating by trying these time-saving suggestions.

## ONE

Log the kilometres driven and the destinations every day. Whether you use pen and paper, your laptop or smartphone calendar, this habit will save you time and frustration at month's end when you have to provide your mileage report. You can print out the calendar for the accounting department. This ensures proper records for reimbursement, allocation to client accounts and calculation of HST and Input Tax Credits (ITCs).

## TWO

Design a spreadsheet that categorizes expenses and ties them into your general ledger chart of accounts. Enter each expense separately on the spreadsheet under the specific category. Each line should describe the expense and indicate the total of the invoice. Set up a formula that calculates the HST/PST. Have each category total the HST/PST and the expense amount. Print out the summary at the end of the month. Attach the form to an envelope full of receipts and provide it to your bookkeeper. The bookkeeper can post the totals beside the general ledger account number.

## THREE

Why do you always find what you were looking for in the last place you look? Searching for misplaced files wastes time. When the task is finished, put the files back where you found them. Create paper or electronic client and sub-category folders so you can search both by client or vendor name and by some other category such as "Invoices". When documents are received by email, mail or flash drive, file the data immediately. By having all staff follow the same filing system for manual and electronic data, finding and updating the file should be a breeze. Wherever possible scan hard copy documents and place in the appropriate client folder.

## FOUR

Having to wait for parts or data to complete jobs not only delays other projects but duplicates process when data needs to be rechecked because of the delay. Wasted time can be reduced if the start time can be postponed until all parts or pieces of information have been received. Make comprehensive notes to record what has transpired. Before the project is shelved, make a "to do" list of outstanding work that will need to be done to kick start the project when it reopens. This list may provide evidence in a lawsuit in the event that an important step was missed because someone thought it would be done later.

## FIVE

Open and read all electronic and paper mail when received. Decide what to do with it. Merely looking at the email then closing it or just leaving the paper mail in your inbox mean you have to deal with it again later thus handling it twice. Read it, file it, or trash it.

## SIX

To reduce the number of times clients or goods don't show, call the client or supplier to confirm everything is on schedule. Establish when making the initial appointment or placing the order whether confirmation will be by email, telephone, text message or cell phone. This establishes the importance of the client or the urgent need for the part while eliminating wasting time checking email, telephone or cell phone messages.

## SEVEN

Single trips to complete just one task are a great time waster. Organize and schedule trips to pick up as many things as possible at the same time. To avoid the "Oh, I forgot to..." syndrome, establish a routine for completing any task. It may, for instance, be better to pick up the mail and do the banking every second day. Make a list of needed parts or supplies that can be picked up in the same locale at the same time.

## EIGHT

There are times when we must mull over a project to ensure all issues have been considered before we act. When frustrated with a difficult project, fill the time with mundane tasks that must be done. Catch up on your paperwork or do the maintenance on the front-end loader. The distraction allows you to regroup your thoughts while moving forward with areas that must be taken care of. Be careful not to put off the real task indefinitely, however, by continuously substituting other jobs.

## NINE

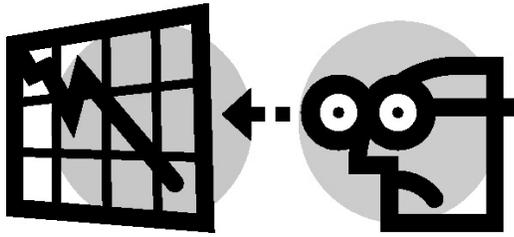
Minimize social interaction with other staff members. Certainly we all want to know "how the weekend went" but those questions should be saved for scheduled break times. Avoid extended telephone conversations with clients or suppliers that have little to do with business. Five minutes lost with 10 contacts every day for 250 work days runs to 208 hours a year - 26 eight-hour working days - almost a month.

## TEN

Schedule meetings near the end of the work day. People want to leave at a regular time to catch a bus, train or carpool ride on time. The end-of-day time constraint will ensure the agenda is dealt with efficiently. Any unresolved issues can be dealt with at the next meeting. ♦

# Sins of Omission

Losing sight of the most basic issues can cause trouble to the bottom line.



**OWNER-MANAGERS ARE A SPECIAL BREED.** They have tenacity, optimism and a strong belief in their own ability to succeed. Success, however, is the result of making the right decisions day after day. It should, therefore, not be surprising that inattention to basic activities can often create problems. The following list may help owner-managers avoid some common problems.

## NOT REVIEWING BASIC FINANCIAL DATA

Many owner-managers do not get the maximum value from the basic financial data produced by their accounting department; the focus is usually just on accounts receivable, accounts payable and payroll. The financial data gathered through the humble bookkeeping process provides insight into patterns in cash flow, sales revenue, payroll costs, job costing and the like on a day-to-day basis, i.e., before they are brought together in the financial statements. Tracking this data at the ledger and trial-balance level will reveal the small beginnings of unhealthy trends before they become big problems.

## NOT PAYING TAXES ON TIME

When cash flow is tight there is a tendency to redirect funds collected for remittance to various tax authorities. Failure to remit payroll withholding taxes, HST/GST/PST, or income taxes can result in penalties by regulators. Management should review the weekly bank balance in the general ledger as well as the aggregate of amounts of tax due for remittance. Bookkeepers should ensure sufficient funds for remitting the withholding taxes are always in the bank account.

## NOT REVIEWING ACCOUNTS RECEIVABLE

The ability to survive depends on cash flow. Normal business practice used to be to pay invoices in 30 days; now, 60-to-90 days is the norm. But 90-day collection creates a number of financial concerns. First, HST/GST may have to be remitted even though the funds have not been collected. Second, you are financing your accounts receivable for longer. Third, if credit is tight and suppliers are not willing to grant you additional credit, the lack of cash will affect inventory levels, production and sales.

Regular review of accounts receivable will show how many clients are now extending payment terms or asking for higher credit limits. By regularly monitoring the tightening credit terms of suppliers and the demands for better terms by customers, the alert owner/manager will be aware early that a cash flow problem may be building.

## FAILURE TO CONTROL DRAWS

Taxes are not withheld when sole proprietors make withdrawals from the business. As a result, the sole proprietor may be surprised at the end of the calendar year when a hefty personal income tax payment plus CPP contribution may be required. Additional withdrawals to pay income tax will create additional taxable income for the sole proprietor and could create working-capital difficulties for the business.

## PYC Briefs

We would like to welcome **Bhavin Oza** to our professional staff. You will meet him as he becomes an important member of our team.

Not monitoring draws taken from your company can be the kiss of death. In many instances, owner-managers take draws instead of a regular wage (in which the usual deductions are withheld and remitted to the Canada Revenue Agency (CRA)). Salary or wage-based compensation provides the owner assurances that personal tax liability will be covered, (assuming this is the only source of taxable income) as well as providing a guideline for determining the RRSP-contribution level in the year following. Further, it allows management to assess the impact of its own remuneration on the company's bottom line.

## TAKING ON TOO MUCH DEBT

Cash flow requirements should be analyzed before taking on debt to enlarge the premises, purchase additional vehicles, or expand into new territory. Financial data should be mined to compare historical monthly cash flows with projected receipts and disbursements. This exercise also permits management to determine whether the projected debt and repayment structure is supported by historical norms.

## NOT UNDERSTANDING FINANCIAL STATEMENTS

Without understanding financial statements you cannot really understand how your business is doing. Financial statements, whether created by monthly bookkeeping or provided by your chartered accountant at the end of the year, are indicators of the well-being of your company. In order for managers to make financial information more useful to themselves and to their creditors, in-house statements should resemble year-end statements as closely as possible. To do so your accountant may be required to "tweak" internal statements with proper allocation, headings, subheadings and final totals.

A monthly summary of financial data in financial statement format will show a true picture of assets, liabilities, owners' equity and profit and loss for the period. When compared with previous years or the previous month, such data can alert you to problems or opportunities.

## FAILURE TO INVEST IN THE FUTURE

When times are good owner-managers tend to withdraw more money for themselves. However, paying yourself should be balanced against the impact withdrawals have on working capital and the company's future.

Before taking rewards, management should do some projections based on market trends, client base, capital asset requirements, the cost of financing, operational and payroll costs, potential for growth, changes in demographics, and changes in technology. Examination of these key areas will enable management to assign costs and benefits and determine working capital requirements to move forward.

Hiring a consultant to review your business may be a good investment.

## FAILURE TO UNDERSTAND YOUR MARKET

Your product may be excellent, your service exemplary and your price right, but, when your product becomes stodgy, your company may be headed for a fall. Attend trade meetings, read trade magazines and talk to your clients and suppliers to find out what is new in your mar-

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utable. Your local Chamber of Commerce as well as the Better Business Bureau are useful starting points to discover the reputation of companies. Keep in mind that mere payment of membership dues to these organizations does not always mean a company is an outstanding citizen of commerce. Search blogs or ask your friends or business associates whether they have ever bought from the company.

- 7. Whenever possible, use online payment services that act as a buffer between you and the merchant. To protect their reputation, many payment services monitor transactions with suppliers and merchants for abnormal activity. Using a payment service is not, however, going to protect you from a merchant who ships faulty goods or fails to honour return policies or warranties, but it may prevent unscrupulous individuals from gaining access to your banking or credit card information.
- 8. Most companies want to obtain as much information as possible about their customers and use warranty registration questions as a means of gathering that information. Since we like to comply, we willingly provide serial numbers, model numbers and our name and address as they seem to be a logical requirement for registration. Beyond that, be cautious when providing information, especially when ordering from sources that are not household names. Privacy laws exist to protect you, but they may not always be respected.

**FINAL WORDS**

Since the day commerce began, there have always been individuals and organizations bent on taking advantage of the unsuspecting consumer. Internet purchasing has not changed the nature of those who wish to make a fast buck. It has, however, changed the way purchases are made and thereby introduced new ways people and systems can be manipulated. Consumers ordering online must follow safe communication protocols as well as exercise due diligence before making purchases. Ecommerce is generally safe and secure, but, in both the bricks-and-mortar world and online, it never hurts to be cautious. *Caveat emptor.* ♦

**Sins of Omission...** ▶ continued from previous page

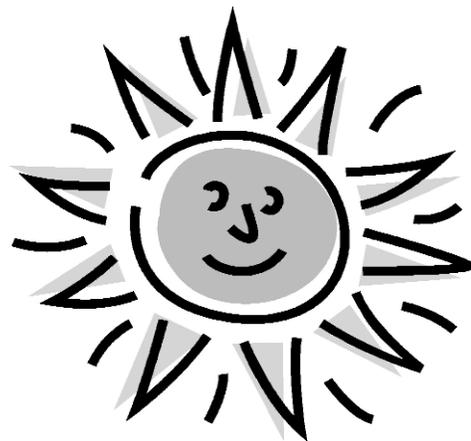
ket. Hiring a marketing consultant to review your business and where it should be going may be a good investment.

**NOT PREPARING CASH FLOW AND PROFIT FORECAST**

Forecasting cash flows and profits forces owner-managers to think about future available funds, revenues, expenses and capital spending. These forecasts may bring up issues of working capital needs, potential long-term debt requirements or even issues concerning staffing or the need for larger floor space.

**NOT INVOLVING SPECIALISTS**

The single biggest weakness of owner-managers is that they tend to make important decisions without seeking the advice of experts. The problems that may be created when decisions are made outside your area of expertise can be far more expensive than the cost of hiring consultants. Because they look at so many businesses, consultants often have knowledge beyond that of even the most talented owner-manager. Consultants are not hired to change your mind, but they can make you aware of your options and can provide valuable assistance when your business needs guidance into the future. ♦



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