

Fall 2014

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the newsletter of Prentice Yates & Clark

## **Virtual Reality**

### **Incomplete electronic records are creating difficulties for bookkeepers.**

A complete record of all transactions is essential not only to keep track of *how* business resources are used but also because the Canada Revenue Agency (CRA) requires it. Unfortunately, the simplification of many transaction processes has removed important details and is testing the patience of bookkeepers responsible for obtaining, recording, allocating and saving complete document records.

### **Online Information Is Difficult to Gather**

As more transactions are done online (e.g., "tap and go" or credit/debit card purchases) gathering all the information required for the bookkeeping system is becoming increasingly problematic. Owners and employees need to understand what bookkeepers need and why they insist that appropriate documentation be available.

#### **As a start:**

The CRA and other regulatory bodies need to be able to see the transaction data that supports the calculation of tax obligations and entitlements. The CRA insists that original paper and electronic records be kept. However, a scanned image of a paper document can be accepted as the original record if the records are produced, controlled and maintained according to the latest standards set by the Canadian General Standards Board, the federal government organization responsible for setting standards used in Canadian business.

#### **Monthly credit-card statements do not contain sufficient detail of online transactions to determine:**

- the type of purchase and therefore the allocation to the correct general ledger accounts
- whether the item was of a personal nature or business related
- whether the item was a draw by the owner, a debt repayment or a transfer to another account
- whether GST or HST was charged on the transaction.

#### **Most bank statements do little to assist in:**

- determining whether deposits are owner contributions, transfers from other accounts, accounts receivable collected or reversals of errors
- providing detail as to the type of expenditure for account allocation purposes
- addressing whether withdrawals are personal, payments in full, payments on account or payments to government or employees.

### **Accurate Historical Data Essential to Decision Making**

The historical financial data provided by the accounting records is essential to management when deciding to borrow money, pay dividends, or make distributions under a profit sharing plan. A host of other business decisions regarding expansion, marketing, training, hiring, firing, etc. are also predicated on the analysis of current and historical financial data.

The correct completion of tax documents is entirely dependent on the allocation of transaction data to the correct accounts. Corporate, owner and employee tax returns could be impacted if data is allocated incorrectly.

### **Bookkeeper Access**

If data is received and stored on the computer to which only the recipient of the data has access, the bookkeeper will be unable to record the transaction. Even though most businesses provide the bookkeeper with access to either a cloud-based system or internal servers, nevertheless the individual initiating the transaction must provide information about the nature of the transaction. For example, an invoice from a hardware store may imply a purchase is part of capital spending but it could be for repairs and maintenance and is therefore an expense.

### **Posting Difficulties**

Another difficulty with electronic filing of invoices, regardless of the software used, is that data is often saved in a general folder and then transferred to the bookkeeper for processing. Posting data from an electronic page is difficult because attachments come in single-file format thereby forcing the reader either to recall each file electronically and post from the screen or to print each attachment to ensure that all the data required for bookkeeping has been obtained.

Another problem for the bookkeeper is indicating in the document that the document has been posted and to which account. Failure to complete this simple process may result in duplicate entries or missed documents and make it difficult to track back to the specific transaction.

**No single approach is right for every organization.**

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## **What If You Can't Be There?**

**Choosing someone capable of running your business in an emergency should be part of your business plan.**

We all like to think we are invincible masters of the universe. Unfortunately, since the reality is that our fate can hinge on something as trivial as a slip on the ice, have you considered all the urgent issues that would come up if you were suddenly incapacitated?

### **Someone to Take Over**

Every business should have a second in command. You, as an owner-manager, should ask yourself: "Who has the capacity to run the business if I am absent for a prolonged period?" If no one comes instantly to mind, you should think of either training or hiring someone with this ability. If you think there is someone who could do the job with a little training, start mentoring them and have them shadow your everyday activities. Your staff, as well as your clients and suppliers, should be familiar with this person and know of the trust you place in them by ensuring their attendance at contract meetings, conferences or seminars. Your clients need to feel as comfortable with that person as you do and they should see that this person has your confidence.

### **This designated person must be able to:**

- sign on behalf of the company at the bank
- access the in-house safe, locked cabinets in your office and the safety deposit box at the bank
- access master passwords for the computer, online mailboxes, bank accounts, CRA for payroll, HST and other online portals
- access insurance policies for vehicles, equipment, building and contents and key person policy in case you die
- access any licenses for vehicles or heavy equipment or intellectual property
- bind the company to contracts in your absence
- take over your role in dealing with existing projects and with your major clients, suppliers and the right people at the bank
- be in charge of cash management, review receivables, ordering and do the analysis necessary to ensure a continued cash flow
- be in charge of payroll, approve hours worked and oversee transfers from operations to payroll accounts
- contact the company accountant, lawyer and insurance broker
- access the corporate financial statements and tax returns for the previous three years

A review of these everyday operational issues will help determine how vulnerable your business might be in the event you are taken out of circulation for more than a couple of days.

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**Your replacement should be able to access all the computer codes needed to run your business.**

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### **Codes and Keys**

Control of computer access by your second in command is necessary, not only to ensure business activity continues uninterrupted while you are away, but also to ensure that key employees do not mismanage assets in your absence. Your substitute must have the ability to review all data at any time. In the event an employee must be dismissed, your deputy must be able to change passwords in order to protect company data.

### **Information**

If you do not have a replacement knowledgeable about the details of contracts, the company's financial position, loan agreements, etc., your business risks being temporarily crippled while company personnel try to get company data from suppliers, clients and financial institutions. Make sure all pertinent documentation is available and that your replacement knows what is required.

### **Key Contacts**

Contact between your designated replacement and key individuals such as accountants, lawyers, bankers and insurance agents is essential in the event there are emergencies that require their input. You should introduce your potential replacement to these key people and provide written permission to them by means of a letter for their files stating that you have authorized this person to act on your behalf in any corporate matter in the event you are unavailable.

### **Business Acumen**

When you have chosen your replacement, groom them for their management potential. Provide training in business management and have them work with you when you analyze cash flow needs, establish project costs, etc. so they can supplement theory with experience of how you actually work. It is important that your replacement feels comfortable in your shoes.

### **Field Experience**

Ensure your replacement is not office sheltered. They should get into the field and become familiar with the faces, names, tasks and responsibilities of all employees. Familiarization prevents any buildup of contempt that some employees may feel for someone taken from the ranks and groomed for the top job. The breadth of experience that comes with field work enables your replacement to understand how the company's projects are progressing, know who is working where and with what responsibilities. Field experience also gives the new leader an opportunity to learn how costs are controlled in the company.

### **Start Planning Today**

Contingency planning for the possibility that you suddenly may be unable to take an active role in running the business should be a part of normal long-term planning for anyone who runs their own business. Knowing that your business will continue until you are back on your feet is, in itself, just good business. ♦



## The Big Five-O

**Retirement is coming. What should you be thinking about as you turn 50?**

When you are 35, your life stretches endlessly ahead of you. You are in the midst of child rearing and career building. Over the next 15 years, paying off your home, educating your children and consolidating your career are the main areas of focus.

Then there's that fiftieth birthday party. The Big Five-O has arrived.

By now the children are probably either out of the nest or well on the way, you have a good picture of what your career is going to be and your business is well established. The issues of the day are not the same as they were when you were a younger adult with a new family and at the beginning of your career. You now have memories of formative experiences, but retirement and mortality are starting to slip into your thoughts.

### No Formula for Successful Retirement

Happiness in retirement is not dependent solely on having sufficient funds. You need to look at the whole picture of the lifestyle you wish to have and the effect on it of your present and future assets and debt. A little attention paid today should give you some idea of how you want to live in retirement and enable you to start planning. Here are some areas you should consider when gathering information about the change to your life that is inevitably coming.

### Retirement Goals

An important aspect of any retirement plan is determining what you would like to do. Maintenance of your present lifestyle is a good baseline from which to compare other possible lifestyles. What is the minimum amount of other income you would need to continue your present lifestyle if your earned income ended? What would it cost to do some things you can't do now because you are still working? For example, what if you want to live in Florida during the winter and spend the summer at the cottage in Canada? That retirement goal is much different from staying in Canada year round to golf in the summer and ski in the winter. Each goal requires different financial considerations.

### Personal and Spousal Health

Health is an important concern, especially if you are unable to obtain additional insurance or plan to spend a lot of time at a property in a foreign jurisdiction. Before you make any major commitments to retiring abroad, make sure you understand your provincial health coverage and how to maintain it while out of province. In a similar vein, take a look at the cost and coverage of travel insurance for extended travel abroad.

### Property and Other Assets

List all your real estate, personal assets and liabilities with the assigned value and debt attached with them. This will provide an estimate of your current net worth and permit a strategy aimed at reducing the debt within a reasonable time frame.

### Foreign Real Estate

If you own foreign real estate and decide to spend part of your time there, you need to investigate that country's sojourn and visitor rules to ensure you do not overstay your visit and end up being deported from the country or forced to pay residency taxes.

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**What is the likelihood of advancement, retirement or dismissal after age 50?**

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## PYC Briefs

The annual **Ontario Non-Profit Association (ONPHA)** conference will be held in November in Ottawa. You will be able to find J.J. Pauze and Charlie Petralito at the Trade Show. Tom McGivney will be presenting the award of Excellence at the opening plenary and ONPHA's audited financial statements at the AGM.

Congratulations to **Rohan Sharma** who has successfully completed the School of Accountancy (SOA) and is attempting the Uniform Final Examination (UFE).

Best of Luck to **Preety Chohan** who left PYC to broaden her experience hours as she works toward her CPA designation.

**Katya G. Bell** has taken on a new role at PYC. As of July 1, 2014, Katya has taken over the duties of Office Manager. Although Katya will be busy in her new role, she will still be available for some accounting and tax engagements as her office duties allow. We wish Katya success and happiness in her continuing role at PYC.

Plans are underway for **Tools 2014** to be held on November 26th at Hart House on the University of Toronto campus. Find out the latest at [www.toolsconference/2014](http://www.toolsconference/2014). PYC will be presenting three workshops.

### Job Security and Opportunities

Be honest with yourself. At the age of 50, what is the likelihood of advancement, a retirement package or dismissal? What are your options if the job ceases to exist because of changes in technology, a merger or acquisition?

If you are self-employed, what are your succession plans? Do any of your children want to take over the business? What is its growth potential if you want to sell it as a going concern?

### Pensions from Employment

Review the terms of your pension plan. Is it fully funded? If you are dismissed, is the pension transferable? Is there any possibility the company may go bankrupt and be unable to honour its pension obligations?

### Investments

Your portfolio should be divided between registered (RRSP) and unregistered investments and between debt and equity. What is the annual rate of return on your investments overall? Is the portfolio well diversified? Will it be able to provide funds for your retirement if it continues to grow at its historical average rate? Is your RRSP fully contributed? Does your spouse have an RRSP? Is there room for more contributions?

### Wills and Powers of Attorney

If you don't have these critical pieces of documentation or if circumstances have changed significantly since they were written, make the changes now. You need to provide the survivors with a guideline for your physical care as well as for the disbursement of your physical and financial assets.

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**Virtual Reality.....continued from front page**

#### **Effectively Processing Electronic Data**

No single approach is going to satisfy all organizations, but the following are some ideas that may help:

Provide each employee with a list of expense accounts and a brief summary of the allocation criteria.

Ensure each expenditure has an electronic note attached indicating expense allocation.

Create folders for specific categories or suppliers and have electronic invoices saved by month in those specific category folders.

Develop a monthly spreadsheet of electronic invoices with a category breakout and a reference to specific electronic invoices.

Attach posting notes to the electronic document indicating the account allocation and/or the journal entry establishing that the document was posted.

Establish protocols for electronically filing the backup supporting the entries into the system. Manual systems incorporate alphanumeric systems to track customers and suppliers. Determine whether a similar approach is required to file electronic invoices.

Scan all incoming hardcopy data and file it with the electronic data.

Create an audit trail of electronic information posted to the bookkeeping system by tracing through a customer invoice number or date. Ensure you can trace not only from the books to the electronic invoice but also from the electronic invoice to the books.

Maintain a record of the software format, operating systems and the hardware on which the data was recorded. The CRA requires you to be able to retrieve the data and provide it in a readable format. Because you are required to keep all records and supporting documents for a period of six years, the rapid changes in software, operating systems and hardware may require the migration of data as your bookkeeping system is updated.

Ensure that documents and records for acquisition and disposal of property, the shareholder registry, agreements, long-term obligations, leases and other historical information that may have an impact 10 or 15 years down the road are maintained in separate files and available to be carried forward to the next generation of computers.

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**The Big Five-O .....**continued from previous page

#### **Life and Health Insurance**

Life insurance and health insurance become more expensive with age. Insurance may not be available if you become sick or present policies expire. Consider whether additional life insurance or health insurance should be purchased while you are still able.

#### **Tax Consequences**

You should have a clear understanding of the tax consequences in the event of your death, the death of your spouse, or your simultaneous deaths. Determining the financial impact on survivors will assist in determining whether the asset mix, beneficiaries or ownership should be changed or whether additional insurance might be the answer.

#### **Putting It All Together**

In the end, all of this knowledge must be synthesized in a long-term action plan. You will need to seek the advice and collaboration of your spouse, your family, your investment broker and your banker to gather all the information required. After all the information has been collected and summarized, consider meeting with your CPA for guidance as to whether your retirement goals must be modified to fit present and future financial realities. ◆

►**Virtual Reality.....continued**

#### **No Time Like the Present**

An accounting and financial reporting system is only as good as the bookkeeping processes that record the original transactions. If the source documents are not available to support journal and ledger entries and, ultimately, the financial statement and corporate tax returns, there will be problems establishing the veracity of the submissions. That, in turn, will raise issues with all those who have a stake in the corporate operations.

Within a few years, all transactions will likely be virtual. Because it may take some trial and error to figure out how your business is going to manage and maintain virtual data, now is the time to get started. ◆

**Fall 2014**



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