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CLARITY VISION RESULTS

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Business Matters

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MANAGEMENT

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:

1. 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.

2. 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.
3. 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.

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.

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.

TECHNOLOGY

Multifunction Printers

Some printers can do it all.

If your business printers are approaching the end of their life cycle and are due to be replaced, you may wish to consider multifunction printers (MFP) as a versatile, affordable alternative for small business.

Beyond Printing

Simply put, printers are devices we use to turn digital documents into paper ones.

In a modern office, the printer likely does not stand alone: photocopiers, scanners and fax machines are the other common tools we use every day. But why is it necessary to own several separate devices when it is possible to have all these features in one device? The multifunction printer (MFP) is a jack-of-all-trades document device that does most or all the things a small office needs: print, copy, scan and fax.

Every major printer manufacturer now offers MFP products that can print in traditional black and white or colour, using either inkjet or laser technologies.

So Many Choices

Although an MFP may have many features, the print function is still the central capability, so it's best to start with your printing needs. Before making any final decision, it is necessary to consider the following:

Monthly Duty Cycle: This is the maximum number of pages per month that the printer can handle and should be considerably higher than the amount of printing you actually plan to do.

Colour or Monochrome: Do you need colour or black and white? For colour printers, check whether the colours are contained in a single cartridge, or whether it is necessary to buy a cartridge for each colour. While it may seem more complicated to have multiple cartridges, it may be cost-saving in the long run because each colour can be replaced individually as it is depleted. (Definitely a plus if you have a single-colour company logo that appears on every page!)

Inkjet or Laser: Generally, inkjet hardware tends to have lower front-end costs than laser. Over time, however, laser printers may be cheaper to operate as they tend to have a lower cost per page. Before buying an MFP, take a look at the cost of the replacement ink or toner, and how many pages you can expect from each cartridge. Compare this to the amount of printing you typically do.

Connectivity: Many MFP models now include Ethernet and Wi-Fi support to allow multiple devices in the office to connect wirelessly to the same device. Some models even have connectivity for mobile devices. Check for compatibility with popular mobile operating systems like iOS and Android. (The ability to print directly from your phone or tablet could be quite a time saver!)

Other Printer Features to Consider: When buying an MFP, check out the speed (pages per minute), resolution (dots per inch), supported paper sizes and duplex (double-sided printing).

Is an MFP Right for You?

MFPs have become quite ubiquitous and competitively priced. It is possible (and even easy) to find a multifunction printer for $500 that would serve as a reasonable stand-in for a traditional large-size copier that can run upwards of $10,000. Does this mean it is time to ditch the old behemoth that takes up half a room and pick up a nimble team of MFPs for your office? The answer to that is… well, maybe.

The biggest advantage of MFPs (besides, of course, the initial cost) is their small size. With an average footprint of 18”x18”, an MFP can be comfortably placed on a desk, side-table or even a sturdy rolling cart. If office space is an issue, this could be a good solution over the traditional copier.

An MFP can improve productivity.

Docuzones

MFPs can also create multiple “docuzones” within the office, rather than having one central copier around which everyone has to huddle. This could be a productivity saver if you have many people in the office doing a lot of scanning, faxing or copying at once. Keeping printers closer to workstations can also translate into greater document security, since there is a reduced chance of a sensitive printed document being “left around” for others to pick up and read.

Risks of Ownership

There are, of course, potential downsides to consider. Unlike traditional copiers, which often have a service agreement that includes everything from fixing tough paper jams — to regular maintenance — to replacing empty toner cartridges, an MFP is likely a device that you have bought outright. This means that if it breaks, you will be responsible for repairs. It also means that you will regularly have to buy and replace expensive ink or toner cartridges.

Needless Extra Printing

Having many smaller-format MFPs around the office may also unintentionally encourage an increase in printing. If there is only one large shared copier for the entire office, individuals might think twice about printing every email or document since it means a cross-office trek to wait in the copier queue. If there is an MFP on every desk, it becomes much easier and more attractive to print a copy “because it’s just easier to read on paper.”

Right Printer, Right Business

Ultimately, the decision to trade in the old “copier down the hall” for a squad of smaller multifunction printers wholly depends on the size and type of business. For small to medium offices that deal mostly in text-centric documents (and do not do a lot of printing), having a number of smaller MFPs might be the perfect solution. The increased productivity gained from eliminating wait times and streamlining document-sharing capabilities might offset the increased cost-per-page from a lower-capacity toner cartridge, especially if scanning and emailing is your primary method of document distribution.

For businesses with a much greater dependency on printed paper (either by virtue of the work itself or the number of employees who print, copy and scan), a traditional copier with a third-party service agreement might still be the best option.

Moving Your Business

If you need to move your business, think long and plan carefully.

Common Reasons to Move

The reasons for moving a business are usually based on:

- labour issues — you need different skills than are available locally
- new markets — you are no longer near your primary markets
- outdated facilities — current facilities are small and equipment is old
- lower operating costs — municipal taxes, energy costs, etc. are rising
- quality of life — the local economy, culture, environment are changing

Location, Location, Location

Take your time before deciding. Do not focus too narrowly on one or two cost factors. Analyze the importance of your present location to the overall success of your business. Examine the relation between your present location and your historical growth, workforce skills, distribution network, suppliers, current market penetration and potential for growth. If you have problems, is moving the only solution? For example, if you have outgrown your current facilities, could you buy the property next door or relocate some operations to another part of town?

Quality of Life

Quality of life is very important for your family and the families of the employees who move with you. Before you make your final decision, do some research. Subscribe to the online editions of the local papers. Stay at a hotel in the area for a long weekend and drive around. Talk to a local real estate agent. Talk to the owners of businesses that have moved there recently. Above all, talk to the municipality's business development services to see whether they offer any incentives for a company of your size and in your industry to move into the area.

Before the Decision: Factors to Consider

Consider the following before finalizing your decision to move:

Room to Grow: Will the new facilities allow you to grow your business without running into the very problems that forced the move in the first place?

Lease/Buy: Review the advantages of leasing versus buying the new location. Use your accountant to determine any tax advantages, cash flow requirements for capital expenditures and the impact of moving on your line of credit or capital loans. Will personal guarantees be required for new or old loans?

Employees: If the move is not too far from your present location, most employees will probably move with you. Are you prepared to help pay to move key employees closer to the new location?

Annual Shutdown or Slow Periods: Do you have a "best time" to move? Does your business have an annual shutdown or a period of low seasonal activity?

Physical Facilities: Review the physical facilities of the new building such as office space, parking, loading docks, door heights, warehouse lighting, security, turning space for tractor trailers, etc. When was the roof of the new building last replaced? Can the floor, roof and walls take the weight, traffic, vibration and noise of your business? Will additional cost be incurred to operate equipment?

Communication: Can all telephone and fax numbers be carried forward? Does the new location allow for wireless communication or is network hardwiring a requirement?

Do local by-laws support your kind of business?

Local Restrictions: Do your trucks comply with local restrictions on weight or length? Does the new location meet local fire and safety regulations? Will extensive capital expenditure be required to bring it up to code?

Neighbours: Are your potential neighbours a good fit for your business? Is the new location down-wind from a business that creates dust, fumes, high traffic volume, high noise levels? Will your kind of business be out of place in the new location?

Taxes, Maintenance and Insurance: Be aware of taxes, maintenance and insurance costs. Get a handle on the changes over the term of the lease and include these factors in your cash flow and profit projections. If purchasing, review the past five years of tax increases to estimate the future.

Replace Assets: Moving equipment can be costly. Is it cheaper to move the old assets or sell them and buy new?

After the Decision: Factors to Consider

Address Change: Notify the post office and change your email signatures, website, business cards, letterhead, envelopes, and invoices. Notify yellow pages, social media, and, of course, each client and supplier of the change in your mailing and delivery address.

Data and Records: Make at least two backup copies of all pertinent electronic information. Maintain one offsite in the event the other is lost or stolen. Consider whether information should be encrypted to protect confidentiality of clients, employees and proprietary information.

Financial: Notify financial institutions and credit card companies so you can maintain continuous transaction records and avoid overdraft or late payment charges.

Regulatory Authorities: Notify all relevant municipal, provincial and federal government agencies in order to avoid penalties or fines. Consider vehicle/trailer licences, Workplace Safety and Insurance Board (WSIB), health cards, interprovincial and cross-border registration, etc.

Relocation Costs: Maintain records of the cost of the relocation. Moving expenses are normally business expenses, but the work at the new facility may need to be treated as capital costs for tax purposes.

Legal: Consult a lawyer to ensure that lease/purchase agreements cover your needs and protect you from future liability. Consider a local lawyer familiar with the local by-laws and zoning requirements to ensure that your business is within the operating parameters of the municipality. Enquire about pending by-law changes, development or environmental issues that may impact the future.

Insurance: Contact your insurance provider to insure the new premises and to determine whether the move places vehicles in a higher insurance bracket.

Parallel Running: Is it necessary to continue to run specific orders during the move? Discuss needs with clients/suppliers and plan accordingly.

Project-Manage Your Move

Take a project-management approach to the move. Break the move into identifiable and manageable stages. Identify and assign specific tasks within each stage and anticipate a completion date for each task. Set up a visual chart indicating the expected completion date of each component. And use the following "moving to do" checklist:

1. Determine the number of days.
2. List the stages.
3. Assign people to each task.
4. Establish a timeline of task completion.
5. Review the budget and the cash flow requirement.
6. Review the task, budget and timeline daily and adjust as necessary.

There are always unexpected developments during a move. Most require the consideration or approval of the owner-manager and the corporate cheque book.

Don't leave town until everything has been settled.

TAXATION

Here's a Tip

Point of sale software tracks gratuities as they pass through the hands of both restaurant owners and servers.

Electronic point of sale (POS) software on a tablet carried by a restaurant server has revolutionized the way restaurant patrons are seated, orders taken and sent to the kitchen or bar, and the way customers are billed at the end of their visit. Order information is also streamed wirelessly to the central POS system where the invoice is created and the customer's payment recorded. Payments usually include a gratuity for the server in the form of cash on the table or added to the credit or debit card amount processed at the POS "cash register" or on the wireless debit card device or tablet. When a patron pays using a debit or credit card, the amount deposited to the bank will include the gratuity recorded on the POS.

Owners and Servers Should Be Aware

Electronic POS systems now track all the data associated with a transaction including any gratuities.

This means that all data regarding gratuities is recorded and available to the Canada Revenue Agency (CRA).

For example, POS systems record the:

- identity of all servers
- total of all tips accrued to the server
- total sales and tips per server calculated to determine a percentage
- funds deposited to bank accounts, with all details establishing types of sales, methods of payment and gratuities.

Canada Revenue Agency Guidelines

The CRA states: "Gratuities or tips received by employees are income earned in respect of employment for purposes of the *Income Tax Act*." The CRA further states: "it must be determined whether tips received in the course of employment are considered pensionable earnings under the CPP (Canada Pension Plan) and/or are insurable earnings under the EIA" (*Employment Insurance Act*) (There are exceptions for Quebec not addressed within this article.)

Because employers are required by law to deduct CPP contributions and EI premiums from most amounts paid to employees, it is important to understand that the CRA recognizes two classes of tips: controlled tips and direct tips.

Controlled Tips

Controlled tips are those controlled by the employer (i.e., considered by the CRA as remuneration to the employee) and thus subject to CPP and EI deduction requirements. Examples include:

- a mandatory service charge added to the bill by the management to cover tips
- a percentage of the bill added to cover tips
- amounts received by employees based on a tip-sharing formula established by the employer
- tips that are collected by the employer and therefore included in the employer's revenue, are then expensed by the employer and paid out to employees (i.e., the employer creates a tax-deductible expense for the business)
- tips turned over to the employer and later redistributed to the employees
- cash tips deposited in the employer's bank account as the employer's property before being paid out to the employees.

Direct Tips

Direct tips are those paid directly to the employee by the patron without passing into the control of the employer. Examples include any tips:

- left on the table or otherwise given directly to the employee
- pooled and shared in a manner determined by the employees
- included in a credit or debit card payment and returned by the employer to the employee in cash.

Direct tips are not subject to CPP contributions or EI premiums. Employees can, however, elect to make CPP contributions if the tips are received in the course of pensionable employment.

Owners

During the course of the business day, restaurant owners usually receive sufficient cash payments to pay the servers in cash at the end of each shift. To avoid issues with the CRA in the event of an employee or business audit, owners should maintain detailed records of gratuities paid to each server at the end of every shift. It may even be appropriate to have the server sign off that the funds have been received. An owner who does not record payouts will have difficulty supporting the difference between bank deposits and recorded sales. In the event of an audit, the CRA could suggest the difference be attributed to the owner's draw and thus be added to the owner's income.

Further, owners must establish whether the tips are "controlled" or "direct" in order to determine whether the appropriate source deductions must be accounted for and submitted.

CRA requires servers to report both controlled and direct gratuities.

Servers

Servers are required to report tip income on their income tax return regardless of whether it is controlled or direct. Servers who underreport tip income will find it difficult to refute the CRA's figures when the reassessment is based on POS data supplied from their place of employment. Further, the POS system is able to distinguish the dollar value of the server's sales and tips (and therefore tips as a percentage of sales) from the server's sales that have no tips attached. Armed with this data, CRA could conceivably calculate the "table tips" by applying the determined percentage to sales without tips recorded on the POS system per server. Servers who have failed to report adequate income could find themselves in for a surprising reassessment.

Inform the Staff

Once owners have determined whether the tips are "controlled" or "direct," a meeting with servers should be convened to ensure the servers are aware of the CRA's position regarding tips and the implications that the detail provided by the POS has for the employer and for the employees' personal tax filings. It might be worthwhile to clarify this information in writing for all employees. The most important thing is that the CRA requirements are clear to both employers and employees alike.

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