NAVIGATOR

Guidance at every turn

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Referrals are our major source of new business. Thank you for thinking of us .

Past Navigator issues can be found on our website.

Giving Back…

As parents know, “back to school” can be an expensive proposition. This year our Social Responsibility Committee organized a school supplies drive to assist less fortunate families in our community. The drive was very successful and the supplies were delivered to the Salvation Army who is handling the distribution.

Many thanks to the contributors, the committee and the Salvation Army.

Airmiles (AGAIN!)

In our July 2007 issue of Navigator we discussed the tax implications associated with “loyalty rewards” earned on personal credit cards used for business expenses.

Well, wonder of wonders, CRA has issued a new interpretation (June 2009, effective commencing in 2009). Employees will no longer incur a taxable benefit on “air miles” earned on a **personal** credit card for business expenses, so long as :

- The points are not converted to cash,
- The plan or arrangement is not indicative of an alternative form of remuneration, or
- The plan or arrangement is not for tax avoidance purposes.

Fraud - a constant business threat

Each business has a unique accounting system for tracking its own types of transactions but some areas are common to all businesses and should be looked at regularly. Consider the following areas, which are vulnerable to fraud by employees.

Accounts Receivable

Because the likelihood of collecting aged receivables decreases with time, aged receivables should be reviewed every two weeks. Any receivable older than 60 days needs to be examined to make sure it has not already been collected and applied to the incorrect account. Payments in unusual amounts may indicate misappropriations or the presence of a “lapping” scheme. Lapping is a fraud in which funds received from one company are used to cover funds misappropriated from another company. Large accounts should be reviewed for unusual payment amounts and reconciled with the invoices.

Ensure that the A/R control account in the general ledger agrees with the aggregate total of the accounts receivable sub ledger. Most integrated accounting systems ensure that the control account is updated when entries for sales, payment or adjustments are made to the specific customer file. Enterprising bookkeepers can, however, override the automatic link from the sub ledger to the general ledger thereby falsifying the overall A/R.

During the A/R review any unusual adjustments or accounts that take the form of credits, bad debt write offs, or other adjusting journal entries should be noted and followed up.

New clients should have assigned credit limits; credit checks should be run and the new customer’s place of business visited to establish authenticity. These simple precautions will reduce the possibility that your inventory will be “sold” to a new client who has set up shop solely to get product and dispose of it at a deep discount without paying your bill.

Personal Accounts

Owner/managers are notoriously casual about keeping track of their personal expenditures and withdrawals. Enterprising staff can cover up their own misappropriations by processing phony expenses to your expense account or by charging missing funds to the draw account. Not only is your company out the funds but the owner may also end up paying personal income tax on the draw.

The “Till”

In any retail business the cash drawer must be reconciled daily. Cash, cheques, debit, charge card, and “out of till” disbursements should be recorded each day and the tape amounts reviewed and reconciled. Shortages and overages should be recorded on the reconciliation.

At the end of the month bank deposits should be reconciled to the daily tapes to ensure no funds have been removed between the till and the bank deposit. Discrepancies should be investigated and staff informed that shortages have been discovered.

All overrides should be reviewed to ensure that a dishonest manager with override authority is not selling deeply discounted merchandise to accomplices for a subsequent street sale or a return to get a refund at the full retail price.

Reconciling Bank Accounts, Term Deposits and Lines of Credit

Management must review all bank accounts monthly. Miniaturized photocopies of cheques now provided by most financial institutions make it possible to review quickly the payee, amount, and authorizing signature. Such an examination will catch cheques paid to unauthorized suppliers or approved with fraudulent authorization.

Kiting is a fraud that takes advantage of the time needed to clear a cheque. The fraudster deposits money in Bank A with a cheque written on Bank B then deposits money in Bank A with a cheque written on Bank B. The delay in clearing the cheques enables the fraudster to steal the cheque amount while no money is actually in either account.

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Although the use of electronic transfers make this fraud more difficult to commit, unscrupulous employees can still take advantage of the time delays between processing paper work for term deposits or lines of credit to cover shortages in bank balances. Statements for all the banks used in the business should be reviewed simultaneously to pick up on unusual deposits, transfers, or redemptions of GICs or other investments. The bank should be notified immediately of any unauthorized purchases or redemptions of short-term investments.

It is also important to understand how the company's line of credit works and know the upper limit set by the bank. Lines of credit that are automatically accessed for a prearranged amount when your operating account goes into a negative balance provide an easy way for an employee to cover any theft from the company bank account, especially if management is not provided with the line of credit statement.

Transfers between all bank accounts should be reconciled. Many fraudulent transactions are intentionally committed near month end to enable the fraudster to cover the misappropriation by indicating that it is an outstanding deposit or cheque in transit. This usually leaves 30 days time for management to forget about the discrepancy or for the employee to cover the misappropriation.

Accounts Payable

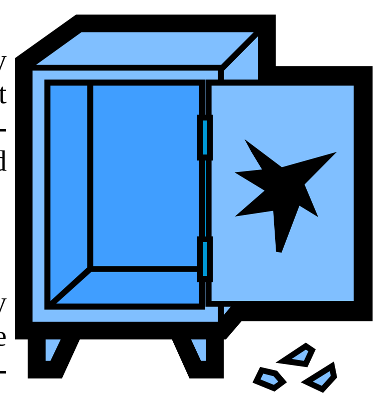
In an A/P fraud the business honours fraudulent invoices for goods or services never ordered or for goods ordered but delivered to another site and subsequently sold. To guard against these possibilities owner/managers should consider the
following:

- Purchase and credit limits should be established for each approved supplier. This will discourage dishonest personnel from purchasing unauthorized material and selling it or taking it back for refund.
- Follow up on invoices with names that are similar to actual suppliers or with unfamiliar addresses. Scam artists often mass mail invoices with logos and names similar to real suppliers but with different addresses. An A/P clerk may simply write out a cheque for the fictitious but similar invoice and the unsuspecting owner/manager signs it.
- All statements from suppliers as well as the accounts payable sub ledger listing should be reviewed. Unusual purchases or returns should be queried as should any accounts not paid within 60 days. The account may be in dispute, but it is also possible that payment has been diverted to another account to cover up a misappropriation.

Expense Accounts

Padding of expense accounts for personal gain has been around since the beginning of time. Expense account and travel costs, including vehicle costs, should be closely reviewed.

Payroll

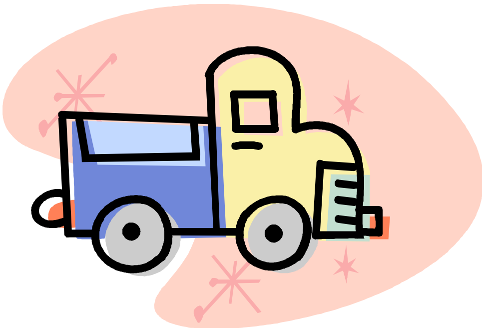


Payroll fraud is not normally an issue for smaller businesses because the boss normally knows everyone and it is virtually impossible to add ghost employees to the roster. Just the same, it pays to review payroll records and employee data stored in accounting programs to ensure the business is not paying for non-existent employees, unauthorized overtime or a raise.

Review Your Financial Statements

Management should review the company income statement and balance sheet every month. Accounting software can now easily generate month-by-month and year-to-date comparisons, ratios, percentage changes and budgets; areas of concern can become visible sooner and follow up can be faster than ever before. Any issues of concern should be referred to a chartered accountant.

"The hardest thing in the world to understand is the Income Tax" – Albert Einstein



Is that your pick-up truck?

Along with the change in taxing the benefit of "loyalty programs" mentioned earlier in this issue of Navigator, CRA has provided some welcome relief for employees who are required to take an "employer provided motor vehicle" (e.g. a pick-up truck but not a car) home for the night.
In the appropriate circumstances, (i.e. a genuine business requirement that the employee is required to take the vehicle home and personal use is prohibited by the employer), the taxable benefit, commencing for 2009, is reduced to the operating allowance portion only which would be applied to the kilometres driving to and from work. At the current rates this is approximately a 50% reduction in the taxable benefit!
More details on what qualifies for Canada Revenue Agency's largesse can be found on our web-site at www.sterncohen.com/viewfinder.asp "Automobiles and Canadian Taxes – 2009".

Accounting standards update

Canadian accounting standards, commonly referred to as Generally Accepted Accounting Principles ("GAAP"), will be no more as of 2011. The Accounting Standards Board (AcSB) decided back in 2006 that all publicly accountable enterprises will have to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning January 1, 2011. (There is an option to choose U.S. GAAP, however, the U.S. is expected to adopt IFRS in a few years.) After much lobbying by various stakeholders, AcSB came to the conclusion that "one size does not necessarily fit all" and has been working diligently since to create separate standards for private enterprises and non-profit entities.

Earlier this year, AcSB released an exposure draft of standalone standards, referred to as Canadian GAAP for Private Enterprises, as a solution for private companies who do not wish to adopt IFRS (although that is always an option). These new standards use the current CICA Handbook as a starting point but contain many simplifications to the existing standards. These new standards are expected to be finalized and ready for implementation by private enterprises for fiscal years ending December 31, 2009.

AcSB is currently in the process of reviewing the current financial reporting standards for non-profit entities to determine what standards these entities should apply as of 2011. For non-profit entities operating outside of the public sector, the tentative option is to adopt the new standards for private enterprises mentioned above, supplemented by the current non-profit sections of the CICA Handbook (4400 series).