

STREAMLINING YOUR BUSINESS FINANCES: A CLIENT'S GUIDE

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CGLTAX
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RECORDKEEPING, BOOKKEEPING,
ACCOUNTING, AND TAX – HOW YOU
CAN BE A PRO IN THE PRO-CESS

INTRODUCTION

Let's be honest. You wouldn't hire just anyone to do your job, and definitely not your Chartered Professional Accountant (CPA) because they are not experts in your profession.

So why do many small business owners try to be accountants or bookkeepers themselves?

As a business owner, you now know you are no longer in the time-based economy. It doesn't matter if you work eight hours or twelve hours, you get paid on results. Results like: another sale's order; a new customer; or another service contract.

Business owners like yourself know that watching a clock does not make revenue appear from the sky.

In this newsletter

In the realm of financial management, terms like recordkeeping, bookkeeping, and accounting are often used interchangeably.

However, these are distinct processes, each with its own importance and function.

For owner-manager small and medium-sized businesses, understanding these differences and their involvement can be crucial for effective financial management.

For previous newsletters, visit our info centre at: https://CGLtax.ca/info_centre.html

How much do you think your own customers are willing to pay you for you doing your own bookkeeping or accounting?

Every hour you spend doing bookkeeping or accounting is one less hour of time you have to generate income-producing results in your business.

As a result, for many business owners, it makes sense to retain the services of a CPA firm because, like your own line of work, some things are best left to trained professionals that know what they are doing – and are good at it!

“Someone calling themselves an accountant does not make them a CPA.

Having laypersons issue *Compilation Engagement Report - Financial Statements* and file your Corporation's Tax Returns would be similar to having a “Doctor” of English Literature be your gynecologist or give you a prostate exam.”

- Cory G. Litzenberger, CPA, CMA, CFP, C.Mgr

Navigating the financial responsibilities of your business doesn't have to be overwhelming.

As a client of a CPA firm, understanding the different roles you can play in recordkeeping, bookkeeping, and accounting can make a world of difference in the quality of information and advice you can receive.

This newsletter (or guide) aims to demystify these processes and show you how your active participation can significantly streamline your interactions with your bookkeeper and accountant, improving both efficiency and accuracy.

Now, what would our newsletter be without some sort of marketing for our services? We'll keep it brief, to make sure this is more of a guide for your own use, rather than a giant advertisement.

But while we give you items you can look at to see what fits with your business, we'll also give examples of what we use ourselves or how we can help.

PART 1: RECORDKEEPING – YOUR VERY IMPORTANT ROLE IN THE PROCESS

Recordkeeping is the bedrock of all financial management. It involves maintaining accurate and comprehensive records of every transaction in the business.

However many new entrepreneurs may be unaware of penalties that can be imposed if their recordkeeping is inadequate. Various levels of government and regulatory bodies have imposed requirements in several Acts, Regulations, and By-Laws for recordkeeping.

While we won't bore you with the details of Information Circulars and Memoranda Series, we can summarize all of these requirements for recordkeeping into three broad categories:

- documentation of transactions
- organization of documentation, and
- creating audit and compliance trails

DOCUMENTING TRANSACTIONS

In the simplest form, this is creating a receipt, writing a cheque, issuing an invoice, keeping copies of statements, bills, and purchases documents.

While it may seem tedious, this is the foundation of everything else that comes after it. Remember, this is a **process**, not individual items on a checklist.

The high-quality results and advice you are looking for all depend on the quality of the documentation you keep.

YOUR ROLE IN THE PROCESS (THE BASICS)

Maintain a record of all business transactions, including legal agreements, sales, purchases, and expenses.

Utilize user-friendly digital tools or apps to track these transactions regularly.

MAKING IT SMOOTH (BE A PRO)

Regularly update your transaction log and ensure it's categorized (office supplies, travel expenses, meals, vehicle repairs, fuel, insurance, etc). Avoid using words like "other" or "miscellaneous" when unsure. Instead, make a list of items or put them in a separate folder so you can easily point them out to your bookkeeper and accountant and get assistance.

Keep digital copies of receipts and invoices, and organize them in a cloud-based storage system, labeling them with clear, consistent names.

REAL-WORLD EXAMPLES

Using a cloud-based storage or archiving applications to save PDFs or images of your documents can make it easier to keep all your records in one place and easy to find no matter how many times you physically move or relocate.

Some examples of this would be

- Microsoft OneDrive
- Google Drive
- Apple iCloud
- Citrix ShareFile

Shameless self promotion: In our firm we use a secure platform similar to many financial institutions called Citrix ShareFile. The data is encrypted. Ability to securely control access, and more importantly, allows us to maintain data storage on Canadian servers to protect our client information under the PIPEDA (Canada) and PIPA (Alberta) privacy laws.

Our firm provides the unlimited use of our Citrix ShareFile servers for every client at no extra cost.

ORGANIZING DOCUMENTS

Growing up we learned the Alphabet, we learned to count to ten, and we learned months, weeks, and days of the year. Could it really be this simple?

However you decide to organize these documents is going to be whatever works the best in your business.

For some, putting things in chronological order to align with the bank statements, and labelling them with categories works well.

For others, the categories come first, then chronological.

Yet even others, especially with high volumes of transactions on a large project or with similar suppliers, may decide to keep each vendor or large project separate before sorting them further.

How you decide to do this is completely up to you – as long as there is a simple way to understand it.

YOUR ROLE IN THE PROCESS (THE BASICS)

Establish a system for categorizing and storing financial documents, both physically and digitally.

MAKING IT SMOOTH (BE A PRO)

Use folders (physical or digital) labeled by month and type of document.

Regularly upload or hand over these documents to your accounting firm, maintaining a consistent schedule (e.g., monthly or quarterly).

REAL-WORLD EXAMPLES

To electronically sort by date, avoid using words for the months and format your date of the transaction or statement as using the **YYYY-MM-DD** method at the start of a file name (ex: 2024-01-31 Bank Statement).

Doing this will automatically sort your documents in chronological order, first by year, then by month, and then by day.

Shameless self promotion: Our process allows you the ability to upload your documents anytime from anywhere instantly, organize them in electronic folders, and continues to provide 24/7 access to your documents and information to use in your business

day-to-day even when the records are “with the accountant”.

COMPLIANCE AND AUDIT TRAILS

Audit. Does anyone ever like hearing this word? Many see the need to provide the “paper-trail” as being a negative thing. However in our experience, the better the trail, the better it is for our clients during an audit by the Canada Revenue Agency (CRA) or other compliance requirements.

Bad recordkeeping = Bad results.

Remember, you are in the results-based economy. How much time do you want to spend dealing with a compliance or tax audit?

Keeping a proper trail to follow in your records not only reduces the time it takes for regulatory compliance, it also reduces the risks of reassessment due to uncertainty.

The onus of proof is not on the regulator or the tax auditor it is on you. You have to prove to them that you are being compliant with the law.

This isn't a criminal case. To reassess you or penalize you, they do not have to prove “beyond reasonable doubt.” They just have to cast doubt on what you tell them. It is an extremely low bar for them.

Having a proper audit trail removes their ability to cast this doubt, and works in your favour.

YOUR ROLE IN THE PROCESS (THE BASICS)

Ensure that all your financial documents are ready and available for audits or compliance checks.

MAKING IT SMOOTH (BE A PRO)

Keep an indexed file system for easy retrieval of documents.

Stay aware of key tax deadlines and collaborate with your accounting firm to meet these dates.

REAL-WORLD EXAMPLES

Keeping copies of “everything” no matter how small in an organized, detailed, and easy to find manner will not only make it quicker for you to deal with compliance, but it will also get rid of the compliance or tax auditor quicker. The sooner they can look at,

find, and realize you are able to back up everything you've said and done – the quicker they are likely to go away, and let you go back to spending your time producing results in your business.

During a tax audit, it is highly recommended to ask the auditor to deal with your accountant where possible. Words used interchangeably in everyday life may not have the same meaning to the one listening (**auditory**) to your explanations.

For example, Motor Vehicle, Automobile, and Passenger Vehicle, all have different meanings for income tax. Do you know which one gives you the best tax advantage?

Shameless self promotion: Your accountant will know these - especially when the firm's founder is an In-Depth Tax expert who has been practicing in tax matters before and after they were an auditor at the CRA over twenty years ago, and is referenced by name in the introduction of the *Practitioner's Income Tax Act*. We think we know who this might be.

PART 2: BOOKKEEPING – HOW YOU CAN FACILITATE

Bookkeeping is the process of recording and organizing all financial transactions in a systematic manner.

While your accounting firm or bookkeeper will handle the bulk of this work, the quality and organization of the information you provide can significantly affect the efficiency and accuracy (and ultimately the results) of the process.

By ensuring that your financial data is well-organized, with every document, and is up to date, you can help your bookkeeper and CPA maintain accurate financial records for your business.

RECORDING TRANSACTIONS

"The quality of the output is only as good as the quality of the input."

While many business owners that deal with inventory matters understand the concept of FIFO – First In, First Out – when it comes to bookkeeping and the

records the bookkeepers are given the concept to avoid is GIGO – Garbage In – Garbage Out.

Remember we told you this is a process and that the first step is the most important!

If the previous three steps in Recordkeeping results in giving "Garbage" to your Bookkeeper or CPA – then don't be surprised when you get "Garbage" back.

YOUR ROLE IN THE PROCESS (THE BASICS)

Provide detailed and categorized records of all financial transactions.

Ensure all transactions are correctly labeled and that any notes or memos needed for clarification are included.

MAKING IT SMOOTH (BE A PRO)

Use accounting software that can be accessed by both you and your accounting firm for real-time updates.

Use an electronic document labelling application to not only sort your documents, but categorize them as well.

REAL-WORLD EXAMPLES

Using online bookkeeping applications to create your invoices like

- Xero
- QuickBooks
- Sage Accounting

will allow your bookkeeper and CPA to get real-time current information on your revenue, while being able to update your expenses so you can see the reports instantly.

Electronically sort, label, and categorize receipts. You can sort, scan, or take pictures, and upload your receipts and use products like:

- HubDoc by Xero
- QuickBooks Mobile App
- Dext Prepare (formerly Receipt Bank)
- AutoEntry by Sage

Fun fact: HubDoc is a Canadian software application success story that was eventually purchased by Xero (a New Zealand company).

Shameless self promotion: Our clients that use our bookkeeping services and purchase a Xero license through us also access to HubDoc included.

To make it even better, HubDoc can be backed up or synchronized with many archival storage locations including Citrix ShareFile.

This means our clients can upload a document once to HubDoc, categorize it, and it will automatically be archived for their long-term encrypted data storage archiving needs in Canada as well.

RECONCILING ACCOUNTS

We've all heard the saying "Cash is King", and how cash flow is the most important resource in your business. But your bookkeeping for this cash flow is only good to you if you keep an eye on it regularly and know what to expect.

Recording the invoices shows income, and recording the bills and receipts shows expenses – but what about cash flow? Did you get paid on that invoice? Did you pay your bill on time? Were you double-charged for something? What about additional interest charges or bank fees? Did the cheque you deposited come back NSF?

Doing proper bank reconciliations will make sure you know which invoices have been collected, which expenses have been paid, allow you to find errors or duplications, any additional fees or bank charges you paid, and NSFs from customer payments you have.

YOUR ROLE IN THE PROCESS (THE BASICS)

Assist in the reconciliation process by providing access to bank statements, credit card statements, vendor statement of accounts, and any relevant financial documents.

MAKING IT SMOOTH (BE A PRO)

Set up a shared folder with your accounting firm where bank statements and other financial documents can be uploaded regularly.

Respond promptly to any queries from your bookkeeper or CPA regarding discrepancies or clarifications.

Use an electronic system that allows you to comment, question, or provide explanation, directly on the transaction, document, or statement so that this is easily available historically for years to come.

REAL-WORLD EXAMPLES

It can be as simple as an email, or as detailed as being asked on the transaction itself.

Many of the applications previously mentioned can also be used to provide questions and answers using various methods and communicate between the bookkeeper, the CPA, and you. These options allow you to choose the method that works the best for your specific situation.

Avoid using the phone for the queries your bookkeeper or CPA asks about. (Do you remember that documentation of transactions – recordkeeping – thing?).

Having items in writing even in something as simple as an email, allows for your bookkeeper, your CPA, and you, to improve the details in Recordkeeping – Documentation of Transactions – which we have said previously, it the most important step in the process.

Shameless self promotion: Many of our clients currently prefer email communication for this form of Documentation of Queries during the reconciling process. However, we do have the ability to flag questions directly on statements, or provide a checklist of queries so documents can be uploaded directly to the question it pertains to as support.

As technology advances, directly linking documents to transactions, while providing written explanations at the same time, will create a compliance trail that is extremely solid and easy to follow.

Our process and application access and integration provided to our clients already creates this ability.

SUMMARIZING FINANCIAL INFORMATION

Unfortunately, in our experience, many self-proclaimed but untrained bookkeepers do not know how to do proper reconciliations and as a result, when they are attempting to create a summary of financial information, they end up with "GIGO".

In order to provide summary information, many inexperienced laypersons will cut corners and work only off of the bank statements to record transactions and (might) attempt to deal with things like accounts receivable and accounts payable at the end of the year.

The problem with this logic is that going off of the bank statement only, is also known as Cash Basis accounting or what we nicknamed MIMO – Money In, Money Out.

While it might get the bare minimum accomplished for compliance, it does not give you any datapoints that are useful.

Waiting until year end to figure out if anyone owes you money results in only the deposits being recorded, and things like uncollected invoices being ignored until a long time has passed.

When a recordkeeper tries to do bookkeeping only from bank statements and not the documents from step one in this process (remember that?) then it is highly unlikely anyone would find accidental duplicate payments, or know if a cheque is outstanding that hasn't cleared, or worse - if an invoice you sent a customer was never collected.

YOUR ROLE IN THE PROCESS (THE BASICS)

Although your bookkeeper or CPA will usually be involved in the creation of summary information, your role is to make sure you are not missing anything and provide complete and accurate data. Every invoice issued, and every bill received, even if not collected or paid respectively, is extremely important.

MAKING IT SMOOTH (BE A PRO)

Regularly review the preliminary financial information provided by your bookkeeper for accuracy.

Provide feedback or clarification promptly to ensure accurate final numbers in the bookkeeping process.

REAL-WORLD EXAMPLES

Some questions to ask yourself when looking at the initial summary of financial information would be:

- Do the numbers look right or is something jumping out when comparing to last year?

- Did the shareholders of the corporation purchase items or pay for expenses with personal money that they should eventually be reimbursed for and were these recorded?
- Do you know which month-end your financials would look the best to a banker or prospective buyer of your business?
- Does your fiscal year end currently match the best month-end?
- What is your average monthly working capital need?

Shameless self promotion: By using our business model, you can gain access to your reports as frequently as you want, and if you don't see a report you would like run, we can customize one for you that gives you the information you need.

If that still doesn't cut it, using applications that can integrate with many others allows the ability to locate the application that will give you the information you need and integrate it directly into your recordkeeping and bookkeeping process.

PART 3: ACCOUNTING AND TAX FILINGS – YOUR CONTRIBUTION

Accounting goes beyond bookkeeping to include the analysis, interpretation, and reporting of financial data. This is where strategic financial decisions are made.

As for tax filings, they are a crucial component of accounting, requiring accuracy, complex navigation of competing provisions and regulations, and of course meeting deadlines to avoid penalties.

Your role in providing comprehensive, well-organized, and timely information is crucial in enabling your CPA to perform thorough financial analysis and ensure compliance with tax regulations.

ANALYZING FINANCIAL DATA

As we move into the more complex areas of the process, the business owner's role becomes less involved, as the shift is now onto the CPA that will be able to interpret the information from all the steps above and tell you what it all means.

In order to avoid Garbage-In, Garbage-Out (GIGO) your bookkeeper and CPA have relied on your involvement at every step of the way.

- How confident are you in how you did?
- Did you provide all the details, documentation, and explanations in an easy to follow "paper-trail" and not a giant shoe box or garbage bag?
- Did you expand beyond "yes" and "no" answers to clarify any queries your bookkeeper and CPA had?

If you made it smooth in all the steps above, then it is highly probable your CPA will be able to provide more analysis and answer more business advisory related questions you may have.

YOUR ROLE IN THE PROCESS (THE BASICS)

Provide comprehensive data to allow for detailed analysis.

MAKING IT SMOOTH (BE A PRO)

Maintain open communication with your CPA about business changes that could impact financial analysis (e.g., new revenue streams, significant expenses, large capital purchases, increased debt).

REAL-WORLD EXAMPLES

Comprehensive data that allows for detailed analysis would not only be things like breaking down revenue by month, but also pointing out any major customers, or major suppliers.

In analyzing your expenses, you may stumble across information of the frequency or dollar amount of transactions with a specific vendor. Maybe you can negotiate a volume discount, or set up an account with them so you can pay your bills in 30 days instead of instantly in order to free up cash flow.

- How long on average does it take to collect on your invoices?
- How long does it take to pay your bills?
- What is the average timeline in your process?

For example what is the timeline from when:

- a quote is given to a prospective customer.
- an order is received from a customer.

- materials and items are purchased for the order.
- items are received for the order.
- bills are received for the items.
- services are rendered for the order.
- payments are made on the bills.
- invoice is issued to the customer.
- payment is received from the customer.

to when amounts are deposited into the bank.

If you know the answer to all of these, then you are on your way to understanding your cash flow and working capital needs in your business.

You may also be on your way at looking at ways to improve the efficiencies and timeline for the collection of cash and ways to extend the timeline economically on the payment of cash on your bills.

Shameless self promotion: If you don't know this answer or other valuable metrics in your business, have you asked your CPA about advisory services or management reports?

We provide access to reporting tools and standard advisory services to our corporate clients. However, to get better analysis and results, much of it will require more direct involvement by your CPA, and as such, usually will be a completely separate engagement.

Some applications might be able to provide this data immediately on a simple report, but again, is each transaction - *including invoices not yet collected, or bills not yet paid* - being recorded for the day it happened throughout the year? Or is it only at year end?

If the latter then your calculations can only be run on a 12-month, yearly basis and might not be as beneficial to you as more detailed ones in shorter intervals. If you don't currently have this service, you should ask your CPA about advanced Business Advisory and Analysis services (sometimes referred to as Fractional CFO services) as an addition to your current compliance services package.

FINANCIAL REPORTING AND TAX FILINGS

The most common reason why we came here in the first place - because we have to.

Tax and Accounting are two very complex areas that a layperson should steer clear from, yet many self-proclaimed "accountants" attempt anyway.

Really, in all of this at the end, your role becomes very simple.

YOUR ROLE IN THE PROCESS (THE BASICS)

Provide all necessary documentation for accurate financial reporting and tax filing.

Research when choosing who should take care of this very important and potentially expensive mistake in the process.

MAKING IT SMOOTH (BE A PRO)

Be proactive in gathering and submitting all tax-related documents well before deadlines.

Work with your CPA to understand any tax-saving opportunities and ensure you have the documentation to support them.

REAL-WORLD EXAMPLES

- Do you know how to record a Capital Lease for accounting purposes and the difference for tax purposes?
- Do you know what Specified Corporate Income is and how to navigate the negative impacts of it?
- Do you know the definitions of affiliated, associated, related, and/or connected corporations?
- Do you know how and when to use Schedule 11, 14, and 88 on the T2 Corporate Tax Return?
- Do you know what Adjusted Aggregate Investment Income (AAII) is, how to calculate it, and how to navigate around the potential negative consequences?

If the answer is that you (or your self-proclaimed "accountant") or corporate tax preparer don't know

these common issues and definitions, then you should definitely seek a CPA that does.

Shameless self promotion: The complexities of the tax system and accounting regulations are not something to take lightly.

"Ignorance is not bliss – it's expensive."

– Cory G. Litzenberger, CPA, CMA, CFP, C.Mgr

Frequently we get new clients with situations that are now in a tough spot where they say "we didn't know" or "we thought they knew what they were doing".

A good CPA doesn't cost you money, they save you money by making sure you are meeting your regulatory requirements.

- Accounting is not recordkeeping
- Accounting is not bookkeeping
- Accounting is a highly-skilled profession, just like engineering, medicine, dentistry, and law.

So after you have gone through all of the previous steps in this entire process, do you really want to have the very last step completed by a layperson?

CONCLUSION

As a client of an accounting firm, your proactive involvement in recordkeeping and organization can significantly streamline the bookkeeping, accounting, and tax filing processes.

By understanding your role and implementing these practices, you can foster a more efficient and effective partnership with your accounting firm, ultimately leading to better financial management, compliance and data-driven decision making capabilities for your business.

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