

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 just off?

- 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 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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