

March, 2003

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## Burning Issues Conference

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the newsletter of Prentice Yates & Clark

## So, You're Signing Cheques, eh?

So... you're going to sign cheques for your business or non-profit. Maybe you are the only signer, or perhaps there will be two signatures required. Either way, the cheque signing process is your opportunity to check that everything is OK, before the money goes out the door. Are you up for it?

By John Torry, BASc, CMA

If you are "up for it", it means that you are going to take time to review the documentation and approvals, and look at the cheques to see if they look OK — even if you are the second person signing. Here's why:

1. You're going to look for processing problems - sometimes a cheque will be made out to the wrong person or for the wrong amount; or, perhaps a bill should not yet be paid, or has already been paid. You may be the one who knows!
2. You are going to try to catch or prevent fraud - on occasion, someone will try to defraud the business or non-profit. Don't believe that it always happens to someone else. For example, a supplier might send an inaccurate invoice in the hopes it will be paid. Or, someone might put an inappropriate purchase on a credit card.

As a cheque signer, you have the final opportunity in the cash disbursements process to protect the business's or non-profit's assets — you are the last line of defence. Here are some of the things you should do (and should not do).

### You should not...

- (i) Sign cheques before the payee and amount have been filled in — not even one of the signatures if two are required. If you do, you eliminate the potential of doing any checking when the cheque is completed, and there is an opportunity for someone to put in an incorrect amount or payee.
- (ii) Sign cheques that do not have adequate supporting documentation. There should always be an invoice. A statement is not adequate on its own. The invoice should be an original not a



faxed copy. If the invoice is not available, do not sign the cheque.

- (iii) Sign cheques for which the purchases have not properly been approved. For example, a capital expenditure should likely be approved by a board member or senior manager and often should be accompanied by a quote. If it is not, do not sign the cheque.
- (iv) Sign a cheque where the payee is made out to "cash". If you do, anyone can cash it if it becomes lost. Make the cheque out in the name of the person who will cash it. This includes petty cash cheques.

### But you really should...

- (i) Go through your Expenditure Policy and determine who has the authority to approve purchases and under what circumstances. For example, perhaps a staff person can approve purchases up to \$500 and over that, a senior manager, the owner, or the Board must do the approval.
- (ii) Prepare a chart, such as the one below, which summarizes the policy so that everyone understands it. Choose your own row and column headings, not ours!

(continued on next page)

## Signing Cheques (continued from cover)

	Staff	Senior Manager	Owner/Board
Budgeted Expenditures	\$500	\$2,000	\$2,000+
Emergencies	No limit	No limit	No Limit
Capital Purchases	Nil	Nil	No Limit

- (iii) Review the chart and the policy to make certain that what was developed years ago is still reasonable. Are the limits adequate to the needs of the business or non-profit? Should certain levels of staff be given more authority because the organization has grown? If so, change the Expenditure Policy.
- (iv) Add to the bottom of the chart a summary that indicates when purchase/work orders are required, and when quotes are required. (This information should also be stated in your Expenditure Policy.)
- (v) Give a copy of the chart you develop to every person who will be signing cheques so they understand the approval process and the documentation that is required before purchases can be made.

### And then you can sign cheques, but first.....

- (a) There should be a cheque requisition, a rubber stamp, or some other way of indicating the accounts to which the expenditure will be charged. You can review the accounts to determine if they are correct. For example, a capital purchase should not go to an Income Statement expense account.
- (b) Look at the backup documentation that is attached to the cheque. Is it complete? Does it have a purchase/work order, quote and invoice attached? Your chart tells you what should be there.
- (c) Determine if the person who approved the purchase has the authority to do so, according to your chart?
- (d) Compare the purchase/work order and/or quote to the invoice to see if the amounts are comparable.
- (e) Quickly review the invoice to make certain it looks correct. Has the arithmetic been done correctly? Are the taxes correctly calculated? Pay special attention to hand written invoices, because they are frequently wrong.
- (f) Compare the payee and amount on the cheque with the invoice, to ensure that they are the same.
- (g) Check that the cheque number is in sequence and there are no numbers unaccounted for.
- (h) Initial the cheque requisition or invoice to indicate you have reviewed and approved it.

### When you are paying a credit card statement you should also...

- (i) Ensure there is a supporting invoice or voucher for each line on the statement.
- (ii) Understand what each invoice or voucher represents in the way of a purchase and confirm that it is an acceptable purchase.

**And then you can finally sign the cheque** and feel comfortable that you have done your best to protect your business's or non-profit's assets. But, before you set the cheque aside for the next one, mark the invoice "paid" so that it cannot accidentally be paid a second time. Δ

## The Future of Your RRSP

Many Canadian taxpayers have been able to build substantial RRSPs that will one day supplement their pensions and other sources of retirement income.

Since the inception of this strategic retirement savings program, the RRSP has become an attractive investment for many taxpayers. An RRSP offers the contributor both immediate and long-term benefits:

- a reduction of personal income tax for the year in which the contribution is made
- the security of knowing that these savings will help finance your future retirement but can also be accessed in the event of an emergency
- the deferral of taxes on the income and capital gains on the RRSP investments that accrue within the plan, and
- substantial savings in taxes if your income (and marginal tax rate) is lower at the time you make withdrawals for your retirement.

### Withdrawals from RRSPs

Generally, you can withdraw funds from an RRSP at any time and the tax consequences are very straightforward — the amount of your withdrawal is fully taxable in that taxation year. As these savings are for your retirement, withdrawals should only be made in the case of an emergency or in a year in which your income is particularly low. It is very important to get tax advice before you consider withdrawing RRSP funds prior to the maturing of your plan.



## PYC Briefs

### Holiday Donations

In lieu of seasonal gifts to individual clients Prentice Yates & Clark made donations to the following charities.

- Kehilla Residential Programme
- Jessie's Centre for Teenagers
- Foodshare
- Homes First Society
- Homeward Family Shelter
- Society of St. Vincent de Paul
- St. Hilda's Towers Foundation

### Individual Tax Clients

We hope you found our special December newsletter on tax-planning helpful. Prentice Yates & Clark is available to assist you with you with preparation of your tax return. Please call John Yates at ext. 239 or Tom McGivney at ext. 233 if you have any questions.

### Tools 2003

Tools is an annual one-day conference for senior staff and board members of non-profit organizations. It offers practical, down-to-earth advice from experienced practitioners through a series of workshops. The tentative date is Friday, June 13.

**Watch for the next issue of [news@pyc.net](mailto:news@pyc.net) for details.**



However, the lifespan of the RRSP does not continue beyond the year in which you turn age 69. In that year, the RRSP is said to have matured. That is, you must terminate your RRSP in the year in which you reach age 69.

You do have options for winding up the RRSP. Besides a lump sum withdrawal (which would be subject to tax in that year), you can purchase a life annuity or fixed term annuity and pay taxes as the payments are received. However, annuities lack flexibility and the rates of return may not be competitive with other investments. Your other alternative is to transfer the funds on a tax-free basis to a Registered Retirement Income Fund (RRIF).

Note that if you do not select one of these options by the end of the year in which you turn 69, the RRSP is automatically deregistered. For tax purposes, this deregistration is treated as if it is a lump sum withdrawal so a high portion of the funds would be taxed at the maximum tax rate.

#### Registered Retirement Income Fund (RRIF)

A RRIF is managed in much the same manner as an RRSP; however, deductible contributions cannot be made to a RRIF. For this reason, there is usually no advantage to establishing a RRIF prior to age 69.

Once inside the RRIF, the assets can be managed by the trustee of the plan according to the taxpayer's directions. The wide range of qualifying investments that can be acquired in a RRIF may make it possible to achieve a better rate of return than those available through the purchase of annuities.

The RRIF offers some degree of flexibility as there is no maximum to the amount that you can withdraw in a year. However, it is important to note that you must withdraw a minimum from your RRIF each year. The Income Tax Act sets out the percentage of the fair market value of the RRIF assets that must be withdrawn (and are subject to tax) each year, beginning in the year following the year that the RRIF is established. If the RRIF is established at age 69, the percentage starts at 4.76% and increases until it reaches 20% at age 94. At age 94, it stays at the 20% level until such time that you die.

#### What Happens on Death?

Whether you currently have an RRSP or have transferred your funds to a RRIF, make sure you designate a beneficiary. Amounts received by your spouse or financially dependent children will be taxable in their hands; however, the tax on the receipt of these amounts may be eligible for deferral if they transfer the funds to an RRSP or annuity. If you do not designate a beneficiary, your estate will be taxable on the fair market value of your plan at the time of your death unless your legal representative jointly elects with the spouse/partner or financially dependent child to transfer the amount to him or her in which case it would be taxable in his or her hands.

You also need to revisit your assignment of beneficiaries periodically to reflect changes in your life such as separation or divorce, the birth of a child, or the death of a beneficiary.

**An Example**

Let's look at an example. A taxpayer who was in the top tax bracket began making annual RRSP contributions of \$10,000 on January 1, 1983.

Throughout the years 1983 to 2002, he received a 6% return on his RRSP investments. By January 1, 2002, the RRSP vehicle had allowed him to defer almost \$100,000 in income taxes while his RRSP portfolio grew to an aggregate principal and interest value of \$367,855.

In 2002, he reached age 69 and as the RRSP must be terminated before December 31st of the year in which you reach age 69, he transferred the funds to a RRIF. Unfortunately he met an early demise in 2003.

Taking into account the additional interest of \$22,071 that his investments would earn in 2002, the value of the RRIF at December 31, 2002 would be \$389,926. The RRIF would have provided a minimum payment of \$18,560 for 2003. If this payment had been made, the remaining balance of the RRIF would be \$371,366. The tax on this remaining amount, depending on the tax jurisdiction, would be approximately 45% of the RRIF face value, or \$167,115. (The lowest tax rate is in Alberta and the highest in Newfoundland.)

How could he have protected his estate from this substantial tax liability on death?

**RRIF Transfers on Death**


When a RRIF annuitant dies, the spouse or common-law partner can become the annuitant of the RRIF on a tax-free basis. There is also a rollover if the RRIF assets are left to a financially dependent child or grandchild. In essence, the beneficiary may defer taxes on the amount by transferring it to an issuer to buy an annuity that provides payments until the child reaches the age of 18. Of course, any payments received from the plan or annuity are subject to tax in the hands of the beneficiary. Also of note is that for children and grandchildren that are financially dependent by reason of a mental or physical infirmity, the amount can also be transferred to an RRSP or other eligible annuities regardless of their age. In this case, you should also consider the impact of the annuity on any social assistance that the dependant receives.

If the assets are left to any other beneficiary, the fair market value of the assets will have to be added to the deceased taxpayer's income in the year of death. This could result in a very large tax liability. In some instances, the taxpayer will purchase a life insurance policy to provide the funds to pay this tax liability at death.

**Consult Your Professional Advisors**

Be sure to consult with your chartered accountant and your lawyer before making decisions about your estate planning or signing documents. Your professional advisors can help you plan for your retirement years secure in the knowledge that you have addressed the tax liability issues to better provide for your beneficiaries. Δ

**visit our web site**  
**www.pyc.net**



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We hope that you find *info@pyc.net* a useful source of information. If you should ever have any specific questions or concerns regarding your own business or personal finances, please call us. We will gladly help in any way that we can. If you would like to

contact us by e-mail, we can be reached at *info@pyc.net*. Some of the articles appearing in this issue of *info@pyc.net* were prepared by the Canadian Institute of Chartered Accountants for the clients of its members.