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the newsletter of Prentice Yates & Clark

Changing Auditing and Accounting Standards

Most PYC clients know that there are new standards coming into force this year and next. These standard changes are creating challenges.

What does this mean to PYC clients and will it affect audit fees?

AUDIT STANDARDS

Commencing December 15, 2009 Canadian Auditing Standards (CAS) are aligned with International Standards on Auditing (ISA). New Quality Control Standards are effective immediately. New assurance standards are effective for years ended December 2010 and forward. The assurance standards have been changing for the past 5 years in preparation for this migration to CAS.

ACCOUNTING STANDARDS

International Financial Reporting Standards (IFRS) have been adopted in Canada effective with 2011 year ends for public companies and publicly accountable enterprises. Private Enterprise (PE) accounting standards (for small and medium size enterprises) have also been adopted and are available immediately for use by small business enterprises.

An exposure draft is expected to be issued by the Accounting Standards Board in 2010 on the status of GAAP for not for profit organizations. PYC made representations as part of a group of CA firms in June 2009. Our recommendation was to give groups a choice between IFRS and PE. Once that choice is made the entity has to stick with that form of GAAP. We feel PE GAAP with some additional not for profit principles would be the most appropriate choice for most not for profit entities.

All entities will be affected by the change in assurance standards. Most not for profit entities will be affected by the accounting standards changes. Non profit housing organizations will be affected in a less significant fashion by the accounting standards changes. Most non profit housing entities in Ontario are bound either by operating agreements with funders or by legislation. Both determine the accounting principles to be used in reporting for these entities. The notes to the financial statements for these entities disclose these differences from GAAP. Adoption of new GAAP will simply result in additional differences being disclosed in the significant accounting policies note without any change to the actual accounting principles used.

WHAT DOES THIS MEAN TO CLIENTS OF PYC?

PYC has taken this opportunity to make changes to its systems to accommodate many of the new assurance standards and attempt to make implementation as efficient as possible.

The fieldwork for audits happening in 2010 and 2011 will probably take longer than usual. This will be a result of PYC staff taking the time required to complete the audit in the new framework with which we are now working. Much of this extra time will be set up and will not have to be repeated in subsequent years after 2011.

Will this result in a significant increase in the audit fees for the current year?

In the short term we do not believe this will result in significant increases to audit fees if a client's internal controls remain strong with few system changes from year to year. The requirements of the new assurance standards will further increase the amount of work required in 2011 and beyond.

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Notebooks for Everyone

The old adage, "You only get what you pay for" is certainly true when buying a notebook

ONLINE OR AT YOUR FAVOURITE RETAIL STORE, brand-name notebooks have a large price range, typically starting at about \$500 and going up to \$3,000; premium and specialty laptops can cost even more.

Given the variety of choices, it is often difficult to know what to buy. Businesses may be reluctant to spend more than the lowest price; however, paying for quality is beneficial in the long run because the extra dollars spent will reward with faster processing, more memory, and greater reliability, durability and longevity.

A \$500 notebook may save you money at the outset but if it crashes six months after purchase, the cost of retrieving the information when the Geek Squad looks at it, combined with the need to rebuild data that may not be recoverable, will eat into the savings faster than a raccoon at a fast-food garbage bin.

When selecting a new portable computer, consider the tasks you need to perform, how often you expect to take your computer with you, and your budget.

GET RAM

Whether you work with simple office applications or occasionally want to be a gamer, a sure way to improve performance is to go for the largest RAM available. Since two GB is entry level today, you should get at least four GB to make sure your hardware will be able to handle future software applications. And, while you're at it, get a more powerful 64-bit processor to handle future application and operating system needs.

SCREEN SIZE AND RESOLUTION

Screen size refers to the physical size of a computer display, measured diagonally in inches. Resolution measures how much information can be displayed on the screen, effectively by counting the number of pixels that form the image. Both are important considerations.

Numerous studies indicate that size does matter when it comes to screen "real estate" and productivity - to a point. In the world of mobile computing though, space is at a premium. A desktop replacement, that is, a laptop with a large display and desktop-like performance is certainly an option; however, the increased size and weight tends to make this form far less portable. Conversely, smaller notebooks are lighter and more portable at the expense of performance.

GRAPHICS CARD

Quite separate from screen size and resolution is the graphics card, the device inside the computer that produces the image. The sophistication of the graphics processor unit (GPU) itself and the amount of memory dedicated or allocated to it affect the quality and kinds of images the GPU can produce. A better GPU with more memory is ideally suited to graphics-intensive applications, large high-resolution external displays, and support for multiple displays.

BETTER BATTERY?

Battery life is a challenge for all notebooks. Many manufacturers advertise battery life in the three-to-five-hour range for a typical 15" notebook, although the way the manufacturer determines this may not match your typical usage. Also remember that battery life will decline over the life of the cell. Depending on the number of charge cycles, the battery will likely need to be replaced at least once over the life of the computer.

Some manufacturers include a lower-capacity battery by default and offer an upgrade to a longer-lasting battery pack with more cells. Some



manufacturers offer models with a built-in battery that cannot be removed or upgraded. This means you cannot "swap out" battery packs if you are working for extended periods without access to an outlet; if the battery is nearing the end of its life you will need to take the complete computer in for servicing to have it replaced.

STAY CONNECTED

The ability to connect to the Internet should be "a given" on any notebook. Wired Ethernet is no longer standard on all computers; if you need to plug in to your network, make sure Ethernet is included. In the wireless world, Wi-Fi is king; ensure the computer includes support for at least 802.11n. Manufacturers are also starting to include built-in wireless hardware that connects to the Internet via the cellular network rather than Wi-Fi. Cellular coverage is ubiquitous and can enable Internet access from literally almost anywhere; however, a monthly subscription with your mobile provider would be required.

While on the subject of connectivity, consider your needs for input and output ports. Many laptops include a sufficient number of USB ports, although some still include only two, or even one port. You can always expand your USB capacity with an external USB hub, but it's far more convenient to eliminate or reduce the need to carry one.

The VGA port has been a standard analogue display connector for more than 20 years; however, in recent years newer digital standards are replacing VGA. Many laptop computers now include a DVI port or DisplayPort connector instead of VGA; these standards are technically superior to the VGA interface, but many older and even current entry-level projectors and displays only support VGA. If you do off-site presentations, always carry an adapter with your computer to ensure compatibility.

An ExpressCard slot allows for future expandability, although not all models include one. Webcams, biometric fingerprint scanners and flash-card readers are now also popular inclusions on many laptop models and should be considered if you need these features.

KEYBOARD AND MOUSE

Laptop keyboards are often slightly smaller than you would find on a desktop, and usually do not include a discrete number pad. If your work depends on numeric data entry, separate portable numpad peripherals are available. A touchpad surface or pointing stick is usually provided for the "mouse" interface. Each has advantages and disadvantages.

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Are We Living Together?

Head in the stars, feet off the ground - love is a beautiful thing!

IT IS INDEED, but love also has some pretty banal earthly aspects that need to be looked into before that love becomes a living arrangement. Any two people contemplating marriage or merely living together for the long term should be aware that each type of relationship carries legal and tax implications. So, before getting too financially involved, the parties should pull together their respective financial information and meet with their lawyers and chartered accountants to discuss the implications of what they are contemplating.

MARRIAGE, COMMON LAW AND THE CRA

But how are these relationships defined in law? The term spouse has been reserved for a legally married couple; determining when two individuals are considered to be living together as common-law partners is a bit more complex.

For tax purposes the individuals in a common-law partnership (same or opposite sex) must have:

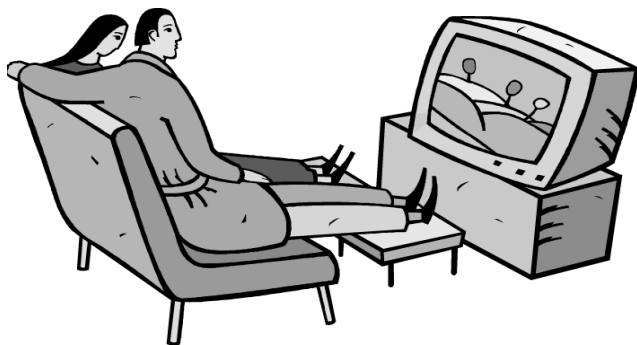
- lived together in a conjugal relationship for at least 12 consecutive months
- had a birth child together or adopted a child
- a child wholly dependent upon one of the individuals in the relationship and the other individual must have custody and control of the child.

Once married or determined to be common-law partners the Canada Revenue Agency does not differentiate for income tax purposes.

Partners in either type of relationship will see changes in many deductions and tax credits to which they were accustomed as single tax filers. Some changes are beneficial while others appear to penalize those whom love has brought together. Some common changes that each partner should review for their possible impact on the individual and the family unit are as follows:

Partners in both types of relationship may now make RRSP contributions to the other partner's RRSP. The result is a reduction in the contributor's taxable income and a consequent reduction in tax liability while the recipient is permitted to build a tax deferred RRSP nest egg. Couples should be aware of the rules concerning ownership of the plan and withdrawal from the plan before contributing to their partner's RRSP.

Individuals earning less than \$25,000 per annum are recipients of GST rebates approximating \$250 per annum. Once it is determined that individual taxpayers are married or in a common-law relationship, the GST calculation becomes based upon the combined income of the two partners; the GST benefit attributable to two "unmarried" individuals each earning \$25,000 is greater than the GST attributable to a "married" couple with combined earnings of \$50,000.



PYC Briefs

Congratulations to **Catherine Jones**, Property Manager, Durham Region Non-Profit Housing. Ms Jones won the draw for the Niagara Presents gift basket courtesy of Prentice Yates & Clark at the recent ONPHA Conference and Trade Show.

Congratulations to **Paul Jaroszko** and **David Molyneux** who have recently completed all the requirements for their designation as chartered accountants.

Congratulations to, **Anthony Martino** who has successfully completed the CICA Uniform Final Examination. He is now accumulating work experience toward his designation as a chartered accountant.

Holiday Donations

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

- St. Hilda's Towers Foundation
- Homeward Family Shelter
- St. Clare's Multifaith
- Society of St. Vincent de Paul



There are tax credits, including age credit, disability and tuition (to name but a few) that are transferrable to a spouse or common-law partner if one individual in the relationship cannot use them.

Many employers provide a \$10,000 tax-free death benefit payment to the surviving spouse, partner, or child of the deceased employee. If two friends living together do not meet any one of the conditions that define a common law partnership, the tax-free benefit may not be paid.

Medical expenses: are deductible once the aggregate of the expenses exceeds the lesser of 3% of net income or \$1,962. Those couples who meet the married or common-law criteria can transfer medical expenses to each other to attain an overall benefit. Similarly, donations made by individuals within a relationship can be transferred to the tax return of the other taxpayer if tax benefits accrue.

When an individual dies: the value of an RRSP and capital gains deemed realized upon death are taxed in the year of death. If the amount is large, it can create a hefty tax bill when added to any other income earned during the year of death. If the deceased is married or a common-law partner, RRSP amounts are transferred to the survivor's RRSP tax free. Capital items can, depending upon the decision made by the spouse or common-law partner, be transferred to the survivor without tax consequences.

Principal residence may be a pressing issue: Whether married or in a partnership the Tax Act allows for only one principal residence. This means that, if each partner possessed a residence at the time of union, one residence will be subjected to tax on capital gain at the time of sale. This does not imply that one of the units should be sold just because of the union, but it does suggest that individuals should consider the tax implications of holding a second residence including a cottage.

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Changing Standards ▶ continued from front cover

Over the long term, as a result of the more stringent assurance standards, the number of hours to complete an audit will increase resulting in increased fees.

The keys to a timely and successful audit this year will continue to be good controls and strong planning. Please ensure you:

- have received your pre audit planning package
- have your letters signed and confirmations prepared and returned to PYC offices as soon as possible
- send a copy of your books to PYC as soon as all year end adjustments have been completed
- contact PYC for a fieldwork date if you have not already been contacted
- maintain your internal controls to a high standard
- discuss with your fieldwork auditor and agree on the timing for:
 - date drafts are to be delivered by PYC
 - date of Audit Committee/Finance Committee or Board meeting to approve the statements and agreement as whether a PYC representative is to attend
 - date approved draft financial statements and additional signed letters are to be signed off and sent to PYC
 - date final financial statements are to be delivered by PYC
 - date of AGM and agreement whether PYC is to attend

If you have any questions about any of the preceding please feel free to contact David Robertson at PYC (416-366-9256 ext 234). ✦

Notebooks for Everyone ▶ continued from inside front cover

vantages and can take some time to get accustomed to. For work in the office or at home you can always connect a full-sized desktop keyboard and mouse if you prefer.

HARD DRIVES

A large storage capacity seems to be a big seller in notebooks; hard drives up to 500 GB are now available. Most business applications will never use all this capacity. Systems with less hard-drive storage are often less expensive. That said, consider the current and future needs of the business and purchase accordingly.

Solid-state drives, which operate in much the same way as a USB flash drive, are also starting to become more widely available, although still at a premium price. Unlike a traditional hard drive, a solid-state drive has no moving parts that can fail or cause data loss.

Notebooks are, unfortunately, often exposed to extremes of human carelessness. Thus businesses may wish to consider a hard drive that incorporates an accelerometer to detect sudden motion and disengage the hard drive to protect it in the event of a drop.

THE "IDEAL" NOTEBOOK

Purchasing notebooks for staff should not depend so much on the cost as on the ability of the notebook to integrate easily into the business environment. The ideal notebook should function whether the user is at home base or away. Once the "ideal" notebook has been found, management should consider purchasing the same make and model for all corporate users. Such a practice allows seamless notebook exchange, the ability to isolate user problems faster, and ensures similarity of hardware responses to software or hardware added to the notebook. ✦

Are We Living Together? ▶ continued from previous page

A single parent who marries or enters into a common-law relationship will lose the equivalent-to-spouse credit of \$10,100 for the 2009 taxation year. Further, if the single parent enters into a relationship, does not earn income, and circumstances permit the payment of child care by the major breadwinner, the child care payments will not give rise to a tax deduction for the individual paying tax on earnings because such payments must be deducted by the lower income "spouse".

For older individuals entering into a new relationship, the ability to split pension income with a partner who earns less can provide significant tax savings not permitted if the individuals were just friends.

DISPEL THOSE URBAN MYTHS

Meeting with your chartered accountant before entering into any kind of a long-term conjugal relationship is an excellent means of clearing up urban myths about the positive and negative aspects of splitting various items of income and deductions. Furthermore, the knowledge a chartered accountant gathers during the initial meeting will allow consideration of strategies that may prove beneficial to both partners as their lives together progress. ✦



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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.