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TECHNOLOGY

Cloud Accounting for Small Business

Keeping your books at an offsite server may make your accounting function more efficient and cheaper.

What Is Cloud Accounting?

Cloud accounting represents a shift from the traditional “software-in-a-box” installed on your desktop or laptop that can be updated only by accessing that specific machine. Instead, cloud accounting is sold as “software-as-a-service”; the application is web-based and generally accessible at any time from any location because your data and the application itself reside on the remote server.

Cloud accounting offers myriad features, including accounting, invoicing, payroll and expense tracking. Several service providers now offer online accounting solutions tailored to the unique needs of individual



businesses. In general, cloud products are easy to use and usually inexpensive or even free.

Advantages of an Online Service

Cloud accounting offers several time-saving advantages over device-bound systems:

- **Integration with financial accounts:** Some programs save you the pain of exporting and importing spreadsheets by offering the ability to import transactional data from your bank automatically.
- **Online invoicing:** Many offerings allow you to create invoices quickly and easily, then send them electronically via email to your clients. Clients can then pay your invoice online. The invoice is automatically marked as paid once the payment is processed.
- **Expense tracking:** In addition to the traditional method of manually entering line items to a budget or expense account, some providers allow you to capture and file receipts or bills by simply taking a picture from your smartphone or mobile device. The picture is read and the data entered automatically into a pre-defined category within your account.
- **Cross platform:** Since this is a web-based service, you can use a Mac, PC, Linux, or a combination of multiple platforms.
- **Mobile friendly:** Many cloud accounting platforms offer mobile apps that provide access to key features from your smartphone or tablet, such as submitting a receipt directly following a business lunch, or quickly creating an invoice while you're on the go. For example, you could snap a photo of the receipt from your business lunch and send it directly to your accounting department. No more piles of unprocessed paper receipts in your drawer!
- **Collaboration:** Some programs offer the ability to collaborate on financials with multiple employees and even to share your books with an off-premises accountant or bookkeeper.
- **Security:** We all know that we should back up our data regularly, but most of us don't. If your desktop crashed or your laptop got stolen and you had not backed up your data, it would all be lost. Cloud accounting companies use rigorous back-up practices to ensure your data is protected against possible deletion or corruption.

*Cloud accounting can save
you time and money.*

Lower Your Costs

Switching to cloud accounting can save you time and money. For example, using electronic invoices may

help you to get paid faster, particularly if payments are made online.

The pricing model of cloud accounting is subscription-based. Depending on the provider and the services you require, the monthly cost ranges from under \$20 to about \$40. Some providers offer different tiers based on the number of clients, number of transactions, number of staff that requires access, and other product-specific features. Technical support is included with the subscription rather than treated as an add-on.

Some providers offer a free tier as a trial or for very small businesses. However, at least one company, Wave Accounting, offers service for free, while supporting itself with advertising revenues and by charging fees for processing electronic invoice payments and payroll transactions.

By comparison, some of the leading software-in-a-box options start at under \$100, but can cost nearly \$600 for a more comprehensive edition with a 12-month payroll service subscription. Gaining access to new features may require you to purchase an upgrade or new edition. Cloud accounting, on the other hand, automatically adds new features as they become available.

Other Considerations

Every rose, after all, still has its thorns. So, before you get rid of your current desktop-based software, some potential drawbacks to cloud accounting should be considered.

With the application and your data located remotely (and, therefore, not within your control), there's always the possibility that *something* could disrupt access to your service. That "something" could be anything from a server issue at your cloud accounting provider, to your local Internet connection going down, to a power outage across town. Unfortunately, these things can happen.

Another consideration to make before committing to a cloud accounting option is *where* your data will actually be stored. With some of the current options available, your data could be stored on servers outside Canada. If so, your data may be subject to the laws of the country in which it is stored. If this affects your business, check with the provider in advance.

What about My Accountant?

Some critics have commented that cloud accounting may eliminate the need for accountants. This is highly unlikely. Most owner-managers will find that cloud accounting is no replacement for a thinking human to oversee their financial decisions.

In fact, cloud accounting may make keeping in touch with an accountant even easier. With online collaboration, instant uploading of bills, receipts and invoices, and the ability to designate or authorize a “user” to access your account data, you may find that your regular visits to your accountant become a breezy experience!

Most cloud accounting services also offer a “network” feature to encourage accountants and bookkeepers to register with them. The service provides incentives that include a listing on the service provider’s website to help attract prospective clients. This feature gives you an easily accessible network of accountants who

are already familiar with the format and organization of your type of financial data. Assistance is available by simply logging on and clicking a few links.

Final Words

While cloud accounting may be a relatively new kid on the block when it comes to accounting software, there are some compelling advantages:

1. many offerings are designed to be easy to use (one was even created by and for “people who hate accounting”);
2. online integration with bank accounts and the ability to manage financials on the go could potentially be big time savers; and
3. remote storage of data means easy accessibility anytime, anywhere, and protection against potential data loss.

So, is cloud accounting right for your small business? It might be worth looking into.

TAXATION

A Lasting Relationship

Using do-it-yourself tax filing software does not mean you no longer need the support of your accountant.

Software for do-it-yourself bookkeeping, photography, drafting, publishing, music, investing, tax filing and many other purposes is readily available at any store that sells software. Developers emphasize the ease-of-use for individuals and small businesses as part of their marketing strategy. However, ease-of-use does not mean that all users are equal. A hammer is also easy to use but that does not make every user a carpenter.

Your Tax Advisor Is Still Necessary

Such is certainly the case with personal taxation software. This software is mathematically correct, provides “intuitive” guidance to your tax questions and allows ease of filing with the Canada Revenue Agency (CRA). But, beyond that, when one is dealing with personal financial matters that impact not only the current year’s filing but also future and past filings,



taxpayers should maintain a strong relationship with a tax advisor to avoid making the following mistakes:

1. **Taxpayers tend to put the most favourable interpretation on tax rules and regulations.** For example, being self-employed does not usually mean you are entitled to expense the clothes you wear to work. Although this could be true de-

pending upon the nature of your business, most taxpayers cannot use this deduction.

2. **Taxpayers often think they can claim what their friends can claim.** Only look at your own situation; each filer's circumstances are different. One of the most common tax filing mistakes is the belief that car expenses can be written off merely because you drive your car to work. Vehicle expenses are only deductible where the vehicle is needed to perform the job, the employer demonstrates that need, and provides a signed and dated Declaration of Conditions of Employment to the CRA, if requested.
3. **Taxpayers frequently misinterpret CRA regulations.** The federal tax credit for children's fitness is a classic example. Many people spend thousands of dollars for children's fitness in the mistaken belief that the expenditure is a dollar-for-dollar reduction of their earned income. In fact, the maximum amount allowed per child is \$500 and of that \$500, only 15% or \$75 is factored into the taxable income equation.
4. **Taxpayers overlook the benefits of carryforwards.** Common examples of lost tax reduction opportunities from carryforwards are tuition fees, capital and non-capital losses, medical expenses and donations. All these carryforwards, if ignored, will result in a higher future tax expense for the individual.

Keep all your tax files for six years from the year to which they relate.

5. **Taxpayers do not keep their tax files long enough.** Taxpayers may be aware that as a general rule, the CRA determines that:

“...you must keep all of the records and supporting documents that are required to determine your tax obligations and entitlements for a period of six years from the end of the last tax year to which they relate.” Additionally; “If you file an income tax return late, keep your records for six years from the date you file the return.”

Most taxpayers will probably be able to find the original source documents in a box in the base-

ment, but finding electronic copies of tax returns can be problematic as new computers are purchased, PDF files are lost, tax programs are erased or new tax software cannot read old programs.

6. **Taxpayers are not friends of the CRA.** If you fail to file information from a T4, T5, or other document that is matched with the records of your employer or financial institution, the CRA will notify you, reassess you and undoubtedly charge you interest and, perhaps, even a penalty, for your oversight. If, on the other hand, the CRA discovers through the filing process that you have missed inputting property taxes, tuition fees, disability or any other deductions to which you are entitled, the CRA is under no obligation to notify you and send a refund.
7. **Taxpayers may miss opportunities to file corrections.** If errors or omissions occur in the filing, taxpayers may not know how to take advantage of the opportunity to correct the error by filing a T1-Adjustment. Thus, the possibility of reducing income tax liability may be lost forever.
8. **Taxpayers who are owner-managers of a corporation may fail to record draws and loans from their company as income.** Failure to properly record this income may result in additional taxes, interest and penalties.
9. **Taxpayers may miss available deductions.** Interest expense on business or investment loans, income splitting, administration fees paid for investment counsel, combined with myriad deductions that may be available depending upon a taxpayer's place of residency or occupation, are all areas where tax advantage may be lost.
10. **Taxpayers get upset when dealing with the CRA.** If you are nervous and feel generally uncomfortable dealing with tax matters, you may misinterpret the needs of a CRA representative and inadvertently provide inadequate or incorrect information that may unnecessarily drag out any audit process.

Use Your CPA to Maintain Your Advantage

Your local Chartered Professional Accountant is someone to have on your side. Continuous education, combined with experience in various businesses and collaboration with like-minded professionals, allows CPAs to review your unique situation and apply the most advantageous tax rules.

Maintaining years of records and notes regarding your tax history are a CPA's forte. The use of tried and true tax software designed for professionals, plus the ability to review your file each year and compare results, reduces the possibility of missed carryforwards or lost data files.

Your CPA is familiar with the *Income Tax Act*, the CRA requirements, and is able to interpret CRA's needs without invoking personal issues. A neutral, dispassionate and objective person with solid accounting

and tax knowledge is your best spokesperson when dealing with representatives of the CRA. This avoids impromptu emotional overtures that can lead to misunderstandings and failure to resolve the issues at hand.

Cultivating and maintaining a lasting relationship with a Chartered Professional Accountant provides assurance that your tax filing is the most advantageous one for you because it is well documented. Your ongoing relationship with your CPA will assure that this advantage is maintained well into the future.

MANAGEMENT

Creating Competitive Advantage

Yes, you *can* compete with the big guys but you have to do it on quality and service.

Most small businesses operate in what economists call a perfectly competitive market. By that, they mean no single company is big enough to set prices because of the intense competition of the many producers selling into the same market. Prices are set by supply and demand; producers are price "takers" and not price setters. What this means for a marketing strategy is that competitive advantage can only be gained through superior quality and service. Given the intense competition in this type of market, it would be wise to pay attention to the following when preparing a marketing strategy:

1. **Make sure you have a quality product or service with which to compete in the first place.** This means that quality control and a well-trained staff are the keys to your long-term success. It never takes long for customers to decide whether they are getting value for their money.
2. **Once your quality is established, do not compromise it.** If it is your goal to sell \$700 tablets, ensure the product is worth the \$700 price tag and your sales staff is knowledgeable. Deep discounting to increase market share can kill the integrity of the brand. The joy of increased revenues from a sale will be short lived when you see a decline of sales at regular prices. If you discount too often, customers start to see the pattern and



just wait for the next sale. Then the sale price becomes the real price of your product.

3. **Educating your staff about the business, its values and the products and services offered must be part of your marketing strategy.** Before a product or service is offered, staff should be trained in what can be expected from, as well as the limitations of, the product or service. Encourage staff to ask clients about their expectations and to explain the features and benefits of the product or service, including any limitations. Teach staff to be honest with the customer.
4. **Ensure that you and everyone else in your business promote confidence and trust in your product or service.** If your staff believes in what you sell, so will the customer.
5. **Whether you or members of your staff are answering the telephone, responding to an**

email request, or greeting customers on the floor, every single interaction transmits a message about the style of your business. Make no mistake, these messages are indelibly etched into the subconscious of the client. Everything about your business should be geared to making a lasting positive impression on the customer.

6. **Know your market. Profile your clients. This will allow clearer identification of their needs and wants.** Knowing who needs your product or services gives you a greater opportunity to create loyalty to your brand. If your target market is young gamers, for example, hiring staff or purchasing products that suit the over-30 gamer crowd is a recipe for disaster.

Be a niche marketer.

7. **Focus your business in one area and dominate that part of the market. In other words, be a niche marketer.** Marketing computer software? Don't try to sell both gaming systems and business systems. Since each market is so large, it is impossible to become a recognized brand in both.
8. **The development of the Internet and social media has brought marketing costs per potential customer to an historic low.** In fact, you can reach a larger demographic than ever before with less effort and less expense.
9. **A short-term commitment will not work. Clients and customers want to know that you are going to be there for the long haul.** Establishing a marketing program and working it for only a few months will not be effective. Continuity stabilizes your brand in the minds of customers and promotes return business.
10. **Marketing success does not happen overnight.** If the marketing strategy does not pay off immediately, it does not mean that the entire approach should be scrapped. Be patient. It takes a long time to become well enough known for customers to rely on you. Evaluate what you were trying to achieve with your original marketing approach, then determine if modifications are necessary.
11. **Clients, both potential and existing, need to be able to associate what you do with your name.** Thus, it is important to establish a connection between your name and the products or

services you sell. Whenever possible, build what you do into your name. For instance, the name First Rate Electrical Inc. indicates that your business deals in "electrical" issues somehow. The name First Rate Residential Electrical Inc., however, highlights the fact that your business deals with residential electrical issues as opposed to industrial or commercial installations. This ensures that those who need residential work know you are the "go-to business" that can solve their problems.

12. **Consistency is essential. Whether your company name is displayed in print advertising, on vehicles, uniforms or elsewhere, the colours, logos, and taglines should be constant.** This necessitates a careful consideration of all forms of advertising before designing the campaign. Ready identification of your name no matter what the media should be your goal.
13. **Visibility is essential. We are bombarded with hundreds of ads every day: when we walk through a grocery store, watch TV, go online or read the newspaper.** Use as many advertising platforms as economically possible. Encourage local patronage by having regular sales events and supporting local initiatives, such as school or sports activities.
14. **Ensure that your sales messages are not confusing. Often the marketing message is "too cute."** Clever ads may be memorable for their wit but often do not actually sell much product. The client must be able to identify the product and the location and dates of the promotion. A sales message saying you will pay the HST only on limited quantities of products over \$x on a Tuesday will deter rather than encourage sales.

Build Customer Loyalty

The success of any business depends on the loyalty of customers who not only do return business but also refer their friends. The first sale is easy; it's the second one that's hard. Businesses are built on second sales. Yes, box stores and franchises certainly have bigger advertising budgets and can often beat you on price. But not everyone wants to buy from a box store or franchise. People still want a quality product and service supported by knowledgeable caring staff and owners. When you provide that, you will carry the day and create a thriving business.

Making It Work

Layoffs are not the only, or even the best, way to manage labour costs during a downturn in your business cycle.

One of the most important line items any user of financial statements looks at is the cost of labour. From the owner-manager's point of view, lowering labour cost is always desirable but not always possible. Skilled people are hard to find in the first place and hard to replace after a layoff. As product demand increases with an economic recovery and you have to replace those lost workers, you may regret your cost-cutting decision when the outlook for demand was the darkest. Maybe you could have kept those valuable employees after all!

Time off vs. Extra Pay

From the employee's point of view, a regular paycheque with maybe some overtime thrown in makes life a lot less stressful than being laid off and having to wait for better times. Although some employees welcome overtime and its higher hourly rate, others look at their work/leisure balance and see the increased income as not worth the effort because the hours required to earn it cut into their lifestyle.

Owner-managers and workers may seem to be diametrically opposed on the question of remuneration. Both parties, however, have in common the desire to keep the company in business. Owner-managers want their business to survive so that they can make a decent income, and employees want your business to survive so they too can make a decent income. This common interest can be the basis of joint decisions that will maintain employee morale, avoid layoffs and improve the bond between you and your employees.

Consider the following:

1. **Find out which employees would prefer to take time off instead of being paid extra money for working overtime hours.** Employees with children may want more family time or be willing to do personal errands such as visit the doctor during these days off rather than using the company's time. Allowing employees to choose, and knowing who has opted for time and who for



money, will ease work scheduling, better define labour costs and stabilize cash flow requirements.

2. **Ask employees whether they would rather spread their annual holidays over three-day weekends instead of the traditional two weeks.** In many families where young adults and spouses are working, this option would be welcome since arranging holidays together is already problematic. For you, the employer, losing a key employee for one day is less of a problem than trying to find a replacement for two weeks – or more.
3. **Approach your employees to find out who would prefer to work extended hours in order to take time off at a later date.** Those working from nine to five, for example, may be willing to extend the day to 6 p.m. for four days, take a shorter lunch break and leave at noon on Fridays. Others may prefer to extend the workday for nine days (excluding weekends) and take every second Friday off. Employee morale benefits from long weekends because they save travel time and costs and get to relax away from office responsibilities. Employers benefit as their employees are able to work on projects or just plan tomorrow's schedule in that "after five time" when the office is quieter. This extra hour each day can

mean a significant increase in individual employee productivity.

Periods of working from home may make sense for some employees.

4. **Examine your work processes and see whether periods of working from home makes sense for some employees.** Owner-managed businesses certainly can't have people working at home five days a week since most work still requires an employee to be in the office or at a client's office. Communication via Skype and encrypted email makes possible face-to-face conversation or delivery and receipt of confidential documents. Such secure systems would have the same security as internal communications within the four walls of the office. There is little downside for employers since the lines of communication are always open to get updates on how the project is progressing; employees enjoy the benefits of saving travel time and the associated costs.
5. **Negotiate with employees on how to handle those inevitable cyclical downturns when reduced demand for your goods or services might otherwise require layoffs.** The goal would be to keep the business alive while keep-

ing everybody's job. If each employee is willing to take a reduction in regular hours worked for the duration of the crisis, all employees would keep their jobs and you, the owner-manager, would be able to keep the staff you will need during the equally inevitable recovery. Labour costs could be adjusted to the level appropriate to the crisis and the costs of hiring and training new people during the recovery would be avoided. Perhaps the decision on the cutback could be decided by an employee vote. For this "all for one and one for all" proposal to succeed, a very positive corporate culture would have to be cultivated during the good times.

Business Survival Requires Imaginative Solutions

As entrepreneurs, you rightly focus on managing labour costs as a key element in the management of overall costs. It has been engrained in your thinking patterns that reducing staff reduces cost. In the short term this may be true, but in the long run of a business owner-managers must consider whether this approach is the only or the best solution. Alternatives that enhance the lifestyle of all employees while minimizing the impact on the bottom line may do more to maintain good employees and ensure the survival of your business than the traditional reduction of staff.

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Richard Fulcher, CA – Author; Patricia Adamson, M.A., M.I.St. – CPA Canada Editor.