MOBILE SOLUTIONS

Tech your office in new directions with these tools

The changing demands and nature of professional development for CAs give new meaning to the term “continuing education”  P. 24
How much time do you spend on collecting client info for personal tax preparation during tax season?

The new **Taxprep® T1 Tax Organizer** from CCH Canadian can bring your productivity to a new level. Unique in Canada, this innovative solution lets you sprint ahead during tax season with pre-filled client questionnaires. They integrate seamlessly with **Personal Taxprep**, making it easy for you to collect your clients’ most up to date tax information.

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- **Improved client service**. With more time to review your clients’ information in advance, you can maximize claims and prevent filing delays.

- **Reduced printing and mailing costs**. **Taxprep T1 Tax Organizer** works with **CCH Portal**, a Web-based solution that allows you and your clients to securely share tax questionnaires and other client files.

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December 2011  
Volume 144, No. 10  

Editor  
Okey Chigbo

From the Editor

Gearing up for tomorrow

Whether it's about education or the latest in gadgets, keeping up with developments is vital to keeping current

In our fast-paced, rapidly changing world, the person who stands still educationally is likely to be left very far behind. Today, it's not enough for CAs to just take professional development courses; to get to the next level they have to take that extra step in education to be competitive in these difficult times. And this may include taking such courses as social networking and business etiquette.

We sent writer Mary Bitti to find out what CAs who want to continue educating themselves are doing these days.

She writes: “The new reality is that what a CA needs to know goes well beyond the expectation that he or she will stay up to speed with changing standards and new tax rules.” See “Education continued,” p. 24, to learn more about what other CAs are doing to get an educational edge.

We live in an age of gadgetry — cellphones, laptops, iPods, iPads and cameras that can do all sorts of things. Many of these electronic knick-knacks are mere toys for adults. But some are useful tools that can assist chartered accountants who are not tied to the traditional office. CICA tech expert Mark Hinkley examined the most useful of these on the market today and reviews them in “Gadgets to go” (p. 32). “Today’s portable gadgets offer a lot that their predecessors didn't,” he writes, “better battery life, higher quality and sturdiness. Not to mention that every year gadgets get faster, stronger and smaller.” Even if you are not always on the move, this interesting examination of the best tech tools out there might reveal an unrecognized need.

The case for a merger between CAs and CMAs has been eloquently stated by the CEOs of the respective national bodies, Kevin Dancey of the CICA and CMA Canada's Joy Thomas. In “The changing accounting landscape: uniting Canada's accounting profession” (p. 14), journalist Deirdre McMurdy speaks to prominent voices in the business world who further explain why this dialogue is vital.

Columnist Marcel Côté is in fine form this issue (Outlook, p. 52). He argues that Canada's slow productivity growth does not stem from a lack of investment or deficiencies in the workforce; he says it is due to a dearth of innovation, something that governments are aware of but have failed to address effectively.

For the regulars this issue, we have taxation, which analyzes the implications of transfer pricing for taxpayers and authorities (p. 36); fraud (p. 39) is on how forensic accountants decipher codes in correspondence; standards gives us an update on financial reporting frameworks for not-for-profit organizations (p. 42); and legal issues is about price-adjustment clauses (p. 44).

Happy holidays and happy reading.

Okey Chigbo, Editor
During his regular workday, Vancouver CA Errol Lipschitz has a subdued demeanour and might wear a three-piece suit. But when it comes to his Shriners work, he steps into big shoes, dons a red shiny nose and a perma-smile to clown around cheering up sick kids at local hospitals.

California targets delinquent taxpayers
- Optimism only slightly dampened
- How can I maximize my productivity when I’m working from home?
- Numbers game
- Going concern

Budget overruns total $82 billion
- Does birth order dictate pay?
- Tablets take off
- Mad men it’s not
- Danish tax

Professional development has always been a condition of keeping a CA designation current and in good standing. But continuing education is not what it used to be. So what do CAs need to brush up on and where and how do they get further training and education?

By Mary Teresa Bitti

Today, working from home, from a hotel room or on a plane is easier than ever thanks to tech tools that facilitate working on the go. If you’re a road warrior, find out what tech aids are out there, or about to be on the market, to make your job easier.

By Mark Hinkley
regulars

36 Taxation
Transfer-pricing implications: treasury-related transactions pose problems in applying arm’s-length pricing
By Andrei Tarassov + Jaime Nemeth + Thomas Tsiopoulos

39 Fraud
The 411 on the 420s: deciphering codes and arcane references is all in a day’s work for forensic accountants
By David Malamed

42 Standards
New standards for NFPOs: the AcSB and PSAB joined forces to update financial reporting frameworks for NFPOs, which have diverse needs
By Brian Barrington + Jim Keates

44 Legal issues
Passing comments on PACs: the tax and legal communities may have to wait to get a clear picture of appropriate PAC provisions
By Manu Kakkar

news

14 MERGER UPDATE
18 NEWS FROM THE PROFESSION
21 STANDARDS DIGEST

professional directory

47 PROFESSIONAL DIRECTORY
49 CAREER OPPORTUNITIES
50 CLASSIFIED
MERGER CONCERNS

In “Strength in letters” (Discussion, August), Joseph Petrie gives a good overview of some of the major issues concerning the proposed merger with the CMAs. However, he — and CICA president and CEO Kevin Dancey — ignores the elephant in the room: the matter of the standards of admission, education, examination and practical experience of the two accounting bodies. This is not mentioned, although it is, I think, the primary concern of all CAs.

There have been several attempts in the past to merge the CA designation with other designations, the most successful of which was the Ontario CA-CPA merger of the 1960s.

This was a successful merger because the examination and other standards of the then Ontario CPAs were equal to that of the CAs and the practical experience requirements of the two bodies were very similar. I speak from firsthand knowledge as I was the Institute of Chartered Accountants of Ontario’s first director of education and was responsible for putting out the CPA exams during a three-year transition period.

Another, but unsuccessful, merger attempt was in 2004 when the CICA, ICAO and the other provincial institutes tried to merge CAs and CMAs (formerly registered industrial and cost accountants) into one body. Ontario rejected this move despite huge pressure from the ICAO Council, which included province-wide meetings with sophisticated sales-talk presentations promoting the idea. The opposition was so strong that the proposal was quietly dropped. Why? Because, in my view, unlike in the CPA merger, this was not a merger of equals and members saw through the expediency of the effort. Also, Quebec would have no part of it.
The title of the article raises the canard that there are so many accounting designations in Canada that the public is confused. I have yet to see a shred of empirical evidence to support this assertion. Further, the proponents of the merger plan to add to the “confusion” for 10 years, during which time designations such as CPA-CA and CPA-CMA would be acceptable. This makes no sense.

Brian Galvin, FCA
North York, Ont.

HOMO OPTIMISTICUS?

In “Homo innovaticus” (Outlook, October), Marcel Côté makes all the right points about the effects of the application of economic theory. What he does not address is the more serious impact of the acceptance of the advice of economists within ministries of finance over that of accountants.

We CAs tend to be somewhat conservative in our fiscal outlook. Government economists tend to be somewhat optimistic. In my many years as a financial executive within the Ontario public service sector there were occasions when I foolishly asked ministry of finance economists why the government did not increase taxes to pay for significant new programs. The answer was invariably that economic growth would result in the extra taxes required and/or the politicians did not want to raise taxes. Big joke!

As the chair of a school’s finance committee, I continued the practice of my predecessor by ensuring fees were raised by a nominal amount each year in those years when we could have managed without an increase. This cushioned the impact of subsequent years’ required increases and sensitized parents to the fact that costs go up, never down.

Stephen Dreezer, CA
Toronto
hen Vancouver CA Errol Lipschitz got the nickname “Lippy” in high school, he had no way of knowing what a fitting nom de guerre it would be for his future alter ego: a boisterous clown volunteering at local hospitals, events and parades on behalf of the philanthropic Shriners organization. “Behind the mask, you can say and do outrageous things you’d never think of doing in a three-piece suit,” says Lipschitz, 60, who — when he’s not wearing his perma-smile and red shiny nose — is the perfectly professional vice-president of marketing and operations (Western region) for LaunchLife International Inc., the franchisor behind career and business college Academy of Learning.

But the opportunity to shed his normally subdued demeanour isn’t the CA’s primary reason for stepping into such big shoes. “My motivation is for philanthropy,” he says. Giving back was something he learned as a child. “My father was a physician who had that affinity toward helping people who were less fortunate,” says Lipschitz, who had started medical school himself before switching studies and earning his CA designation in South Africa in 1977. After moving to Vancouver in 1979 to flee the apartheid regime, he joined the Shriners with the understanding that he’d join one of their volunteer units. “The one that attracted me the most was the clown unit,” says Lipschitz, who has become a pro at balloon twisting and performing a little magic.

Lippy has even clowned around with dignitaries, including former BC premier Gordon Campbell. But his most meaningful moments as a clown have been cheering up sick kids at local hospitals. “The best part is bringing a smile to a [sick] child,” he says. “To take their mind off their discomfort, and seeing the relief on the parents’ faces, that’s the best reward.”

California targets delinquent taxpayers

Some of the most egregious tax deadbeats in the US may soon lose their ability to make a living. Under new California legislation, officials can suspend the professional and/or driver’s licences of the state’s top 1,000 tax debtors until they arrange to pay their back taxes or prove financial hardship.

California Governor Jerry Brown signed the Delinquent Taxpayer Accountability Act in October, which also allows state officials to work with other jurisdictions and the IRS to locate debtors who have transferred their money out of state. According to California State Assembly member Henry Perea, who authored the bill, US$6.5 billion in California taxes go unpaid annually. News reports list a Hollywood celebrity, a dot-com millionaire, former professional athletes, doctors, lawyers, dentists, realtors and major builders among the worst offenders.

Résumé

1979 joins Ernst & Whinney (Vancouver)
1982 obtains CA designation (BC)
1994 hired at Academy of Learning (Vancouver)
2003 becomes volunteer clown with Shriners
2010 awarded a “red nose” by the International Shrine Clown Association

Behind the makeup: CA and Shriners clown Errol Lipschitz has heartfelt reasons for donning the red nose

Make ’em laugh

Margaret Jetelina

Rick Etkin/klixPix

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Make ’em laugh

Margaret Jetelina
Despite the challenges of the current economy, most owners of Canadian CA firms remain optimistic not only about the economic prospects for their firms, but also for the country as a whole.

In a CICA survey conducted on behalf of the International Innovation Network, 69% of partners and sole practitioners said they were optimistic and 29% were neutral on the economic outlook for their firms. Six in 10 respondents were optimistic on the economic outlook for their province and Canada overall. Although optimism is down across all three measures from a similar survey conducted in 2007, the decline is small.

The positive outlook is supported by expansion plans by most practices: 55% expect to expand over the next year and 66% over the next five years. A majority of others expect to remain the same.

The survey also looked at how key financial indicators, expenses and head count would change from year to year. Practice owners expect most measures to increase during the next 12 months. Firms are most likely to expect increases in prices they charge (73%), revenue (70%) and profit (66%), though all three of these are down 8% from 2007. The most notable decrease is in staff development and training, down 14% from 2007. While the expectations for practice owners have softened a little since 2007, their outlook remains positive overall.

John Tabone is CICA’s manager of member value and research services.

### Findings

<table>
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<tr>
<th>Outlook of practice owners</th>
<th>Expecting increases 2011</th>
<th>Expecting increases 2007</th>
<th>% difference</th>
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<tr>
<td>Compensation of other professionals</td>
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</tbody>
</table>

Source: CICA, 2011

### Ask an Expert

**How can I maximize my productivity when I'm working from home?**

The autonomy of working from home can be very rewarding as long as it doesn’t diminish productivity. Here are a few tips to help telecommuters work as efficiently as possible:

**Keep a normal morning routine.** If there’s one good thing about a commute, it’s the mental transition between home and work life. Get out of bed, dress up, grab breakfast — do anything that will get your mind in the right place.

**Stay connected to colleagues.** If you’re struggling to stay motivated at home, schedule an update meeting or call and talk shop with an office peer to get your mind back on work.

**Plan your breaks.** You should never feel like a prisoner in your own home. Plan short breaks to take care of chores, play with pets, exercise or run a brief errand. You’ll be less likely to succumb to quitting work early if you structure the perks of being at home appropriately into your schedule.

**Find the best spot to work.** If you don’t have a dedicated home office, find the least distracting place in your home. Don’t be tempted by the entertainment system or the recliner.

**Take your work to a coffee shop.** A lot of workers don’t like telecommuting because they’re accustomed to working around others. Working at home can be lonely. If your job allows it, try spending an afternoon in a coffee shop or library. At many spots, you’ll likely find contract workers or other telecommuters toiling away as well.

Rosemary Haefner is vice-president of human resources at CareerBuilder (www.careerbuilder.com)
League of our own  The newest incarnation of the Winnipeg Jets played their first regular season National Hockey League game in October. A recent history of professional hockey in Canada:

4  New Canadian franchises, including teams from Saskatoon, Toronto, Ottawa and Hamilton, said to be participating in a “global league” according to a 1989 report. Moscow, St. Petersburg, Helsinki and Stockholm were also expected to ice teams.

16  Sale price in millions of US dollars to move the Atlanta Flames to Calgary in 1980. “The visitors’ dressing room is only two cubicles with three showers for 25 people,” says new owner Nelson Skalbania of its temporary rink. “I hope this will aggravate the visiting team.”

40  Losses in millions of US dollars suffered in the Winnipeg Jets’ final two seasons before relocating to Phoenix in 1996.

7,317  Number of subscribers pledging a total of $6.2 million in deposits for season tickets for an unconfirmed NHL franchise in Hamilton in 2007. RIM co-CEO and prospective team owner Jim Balsillie’s drive would prove unsuccessful.

20,000  Planned seats in a new arena demanded to keep the Nordiques in Quebec City in 1995, according to owner Marcel Aubut. The provincial government balks on an adjacent casino floated to fund the rink and the Nords move to Denver that year.

1979  Year the NHL agreed to absorb four World Hockey Association teams including the Edmonton Oilers, Winnipeg Jets and the Quebec Nordiques. Teams paid US$6 million each. The Toronto Maple Leafs voted against the expansion.

Steve Brearton

Going Concern

GREGORY ROBERTS, CA
CEO, MARY BROWN’S FAMOUS CHICKEN & TATERS!

COMPANY PROFILE: The chain has 85 franchised outlets in Ontario, Alberta, Nova Scotia and Newfoundland and Labrador and is now No. 2 among Canada’s largest quick-service chicken restaurant chains. When Roberts bought it in 2007, it was No. 5. Mary Brown’s is the largest and best known of the six enterprises in Roberts’ holding company, Pilley’s Island Enterprises Group, which has 1,150 employees including about 20 management staff.

HOT FACTOR: Roberts, 39, was among this year’s Caldwell Partners’ Top 40 Under 40 outstanding Canadian leaders. In 2008, he received the Ernst & Young Entrepreneur of the Year Award in Atlantic Canada for the services sector. In 2007, the Institute of Chartered Accountants of Newfoundland and Labrador honoured him with its CA Early Achievement Award.

COOL PROJECTS: In June, the chain launched a quick, casual-eating format called Mary’s Diner with an 80-seat outlet in Glovertown, NL, about three hours west of St. John’s. The new template will serve as the basis for Mary Brown’s first international foray, with a 400-seat location opening in central Georgetown, Guyana, in early 2012. Roberts is also negotiating with prospective franchisees in emerging markets including Eastern Europe, the Middle East, South Asia, the Caribbean and North Africa.

IN HIS OWN WORDS: “People in Newfoundland and Labrador have taken control of their own destiny and are now reaping the rewards of our own resources. When I started out 13 years ago running a rural business with four employees, it was very difficult to get outside investment. But all that has changed. Newfoundland is now a positive place to do business. Everyone here realizes that success leads to success. I am just a product of these new times.”

Ken Mark
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TABLETS TAKE OFF
The use of tablets in the workplace is exploding, finds a study by Forrester Research. Of the nearly 5,000 US information workers surveyed, 11% are using tablets to do their jobs. “Despite a tablet market that’s barely a year old, this is astounding growth,” says Matt Brown, vice-president and practice leader at Forrester.

MAD MEN IT’S NOT
We’ve come a long way from the three-martini lunch of a generation ago. One-third of North American employees don’t take a lunch break, or do so only occasionally, according to a survey by human resource firm Right Management. Of the two-thirds of workers who do regularly take lunch, half don’t leave their desks.

DANISH TAX
Denmark has introduced the world’s first tax on saturated fat, with a levy of about $3 per kilogram on fats such as butter or oil in food. The move, which is intended to increase the life expectancy of Danes to 82 from 79 over the next decade, is estimated to cost the country’s businesses $28 million to implement in the first year.

Budget overruns total $82 billion
Saskatchewan has the worst record among Canadian provinces for keeping its budget promises, according to a report by the C.D. Howe Institute. In a ranking the policy think-tank tellingly calls the Pinocchio Index, Saskatchewan spent nearly 30% more than it budgeted for over the past 10 years. Alberta and Prince Edward Island were also among the worst performers and total budget overruns for federal, provincial and territorial governments totalled $82 billion in the past decade (see chart below).

“Fiscal pressures and sovereign debt concerns around the world are intensifying scrutiny of government finances,” says William Robson, one of the authors of the report. “Even in Canada, where these pressures and concerns are less acute, federal and provincial fiscal controls could be better.”

The authors say legislators and citizens should hold governments more strictly to account when year-end results are badly out of line with budget plans.

Does birth order dictate pay?
Your position at work may be linked to your position in the family, according to a study from US recruiter CareerBuilder.
In the survey of more than 5,700 full-time employees, only-children were most likely to earn six figures and hold a C-level position (CEO, CFO, senior VP, etc.), followed by first-born children. Middle children were the most likely to hold entry-level positions and earn less than US$35,000, while last-born children were most likely to work in middle management. Overall, respondents with siblings were more likely to be satisfied in their jobs than workers who have no brothers or sisters.

As for type of work, only-children tended toward technical and health-related fields and protective services; eldest siblings were drawn to science and government; middle kids leaned toward public service and caretaking roles, and the youngest preferred creative roles and technology.
ERP Software Helps Trailer Manufacturer Ride Out Recession

Established in 1974, Arctic Manufacturing is a private company situated in Prince George, British Columbia. With 25 employees, working out of a single, 35,000-sq. ft. facility, Arctic fabricates a variety of stock and custom-designed commercial trailers for heavy transportation. “It’s class 8 equipment,” says Blair Stunder, the company’s General Manager, “mostly for log transportation.”

The bulk of Arctic’s product is made for companies in British Columbia, Alberta, and Northern Saskatchewan. Over the past few years, outside market forces have been unkind to Western Canada’s forest workers, and the current housing crisis in the States has decreased demand for forest products dramatically. “The market’s not what it should be,” admits Stunder, “but everyone’s in the same boat. On the positive side, the Chinese market for timber is starting to open up.”

Like most companies in the global marketplace, Arctic relies on efficient business processes to maintain its competitive edge in difficult times. Having an appropriate enterprise resource planning (ERP) system can help a business integrate its key operations, and synchronize, plan and optimize its available resources. An ERP also offers a wealth of real-time information that can greatly enhance the insight of company decision makers.

For the past 16 years, Arctic has been run on SYSPRO enterprise resource planning (ERP) software. “In the ’70s,” says Stunder, “we did the books by hand. In the ’80s we switched to computers, and worked with a custom software vendor. In 1993, we realized that our business had outgrown the capabilities of our software. When you start getting into manufacturing, supply chains, bill of materials, etc., the field of appropriate software narrows considerably. We looked at other systems, but at the time there weren’t many ERPs that had everything we needed. SYSPRO was clearly the best choice, and to make it even better, their support was in the same time zone.”

Working with a SYSPRO VAR, Arctic’s ERP implementation went smoothly. “We went live during our busiest season,” says Stunder. “There were a few long days and evenings, but no major hitches. In retrospect, we spent time making modifications that might not have been necessary. Next time around I would probably go with SYSPRO’s default company set-up. With all the flexibility built into SYSPRO, it pretty much fits our business needs right out of the box.”

These days, Arctic uses most of SYSPRO’s inventory, manufacturing, tracking, reporting, analysis and accounting modules.

“One of the most important consequences of using SYSPRO,” says Stunder, “is that our inventory control has tightened considerably, without having to add additional people or increase anybody’s workload. Whenever you can increase your access to data without adding to staff or work levels, it’s a good thing. In general, with SYSPRO, we’re getting more accomplished, with fewer people, than has ever been possible before.”

Tapping into to SYSPRO’s flexibility, Arctic uses the Work in Progress (WIP) module for overall expense tracking. “Because of the ability of the WIP database to track labour, as well as stocked and non-stocked parts for job costs,” says Stunder, “we can set up a piece of equipment in the WIP and track its maintenance throughout the year. Similarly, at the end of the each month we can look at our building maintenance and cleaning costs, and it gives us an almost live look at our real expenses.”

Not only has SYSPRO helped to keep Arctic competitive, it’s done so within a framework of simplicity. “Many of our employees have worked with other ERPs,” says Stunder, “and are impressed with SYSPRO’s ease of data retrieval. Our employees also appreciate how simple it is to customize the interface. At the warehouse level, the user has manipulated the screen set so he sees strictly what’s important for his job. In the accounting office it’s completely different. It’s great to see employees customize the user interface to optimize their workflow.”

Stunder also credits SYSPRO with improving the company’s relationships with suppliers and customers. “Over the last few years we’ve switched to e-mailing our Purchase Orders in MS Word format. Not only has that cut down on long-distance phone calls, it’s greatly reduced the number of order entry errors.”

In the future, Arctic is considering the implementation of bar codes and scanners. “There’s also a great deal of data entry on the manufacturing side,” says Stunder. “Scanning job tickets would streamline things considerably. As an additional benefit, the printed barcode labels would allow for much better tracking.”

For Arctic, SYSPRO has given 16 years of sterling service. “We’ve had no problems to speak of,” says Stunder. “SYSPRO is a stable, reliable, low-maintenance ERP system, and it does what it’s supposed to do six days a week, every week of the year.”

For more information on Arctic Manufacturing please visit: www.arcticmfg.com

“One of the most important consequences of using SYSPRO is that our inventory control has tightened considerably, without having to add additional people or increase anybody’s workload.”

Blair Stunder, General Manager, Arctic Manufacturing

Delivering high-end solutions mid-size companies can afford.
The complex art of estimating

Few complex projects are undertaken without some estimating being done. Whether it’s a construction company that needs to do a custom project or an accounting firm that needs to prepare a proposal for a complex audit engagement, someone (often several people) will have to take a stab at calculating the effort and cost required to finish the job.

As common as it is, estimating is a complex art. I know this from experience, because I have been doing it ever since I worked in a software firm many years ago. At the time, I was responsible for estimating the time needed to develop a new program or set of programs. In the early stages, when we had only a high-level specification or a conceptual design, we would offer a broad range of times to get the job done. But once we had detailed specifications, we could provide a more precise estimate. We did this based on both our experience with similar programs and the complexity of the specification. We used a number of criteria in the specification to arrive at the time it would take.

Today I use a similar method when providing quotes to review a company’s business processes and/or help it choose a new system. I base my figures on history as well as on one complexity metric — namely, how many interviews will be required. The number of interviews is a good metric to judge complexity and it can be easily measured. This comes in handy as our projects are billed on a fixed-fee basis according to the number of interviews. We would only request a change in fees if many more interviews were required than originally estimated.

In our system selection projects, our clients naturally want to know the total cost of ownership, which includes the licence and the vendor’s implementation services. The licence is relatively easy to estimate based on the number of users, but implementation fees are harder to pin down. In their quotes, vendors usually calculate them as a ratio of licence fees. For a relatively straightforward implementation, the fee would be about the same as the licence cost; if customizations are expected, it could be double that amount. Often, however, vendors don’t know enough to assess the complexity of the implementation. They might provide a fairly low estimate but qualify the number based on assumptions. For example, they might assume they will be implementing best practices, which is code for no customizations or variations.

To help assess the reasonability of implementation estimates, we often ask our shortlisted vendors to break out the costs of their services by module and by tasks. Modules would include general ledger, financial reporting and accounts payable. Tasks would include training, project management, setup, reporting, customization, integration and conversion. We also ask them to estimate over five years, as there can be additional costs when a new version is released and an upgrade is required.

Once we have decided on one vendor or solution, we try to nail down all the costs for the implementation. This is not easy, as the vendor will still have questions about requirements and who will be doing what. We typically recommend the preferred vendor be paid a fee to conduct a needs analysis before any licences are purchased to ensure they understand the project requirements. The vendor will then be able to prepare a firm quote and project plan.

No one wants to find that the actual fees to complete a project will be much higher than estimated. It’s clearly not good for the customer, but it’s also not good for the vendor. An unhappy customer is unlikely to give a good reference in future. My advice is to prepare an accurate estimate based on specific criteria that are agreed upon in advance. This will help avoid cost overruns and delays.

Michael Burns, MBA, CA•IT, is president of 180 Systems (www.180systems.com), which provides independent consulting services, including business process review, system selection and business case development. Contact 416-485-2200; mburns@180systems.com
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The changing accounting landscape

Uniting Canada’s accounting profession by Deirdre McMurdy

Over the course of a distinguished career, Ed Waitzer has been involved in more than his share of complex business mergers. When it comes to the proposed creation of a Canadian chartered professional accountant (CPA) designation, the former head of the Ontario Securities Commission, Canada’s largest securities regulator, firmly believes the proposal makes sense.

The national CA, CMA and CGA organizations, along with some of their provincial counterparts, are exploring the possibility of uniting under the Canadian CPA banner.

Is Canada keeping pace?

“If professional accountants in Canada want to stay relevant, they’re going to have to edge out of their comfort zone,” Waitzer says. “They have to understand that the world around them is changing fast — even if they’re reluctant to keep pace and come together.”

Waitzer, a corporate lawyer, director and governance adviser, knows what he’s talking about: he played a key role in restructuring the International Accounting Standards Board and was a member of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada. He was also a participant on the Canadian Institute of Chartered Accountants’ (CICA) Task Force on Standard Setting and a public director of the American Institute of Certified Public Accountants (AICPA).

Historically, says Waitzer, the solid reputation of Canadian accounting standards has been sufficient.

“Canada has always punched above its weight in international accounting circles,” he says. But in the current global context, “professional fragmentation is increasingly fatal and we will quickly lose our clout.”

Tom O’Neill, FCA, chairman of BCE and Bell Canada and former CEO of PricewaterhouseCoopers, puts it rather more bluntly: “Canada is a rounding error in the world economy.

As accountants, we need the strongest possible voice if we want to be heard on key issues.”

Certainly, the pressure to play a role on the international stage has intensified with Canada’s recent adoption of international financial reporting standards for publicly traded entities. To have an influential role in the shaping of international standards, Canada’s voice must be heard.

Paul Tellier, a former clerk of the Privy Council and former president and CEO of both CN Rail and Bombardier, agrees it is important for the profession to maintain its influential voice. He now serves as a trustee with the IFRS Foundation based in London. “When it comes to shaping standards, a single body — as lawyers and doctors have in Canada — would be much easier and much more credible,” says Tellier.

Winds of change gaining strength

There is intense competition among international accounting bodies looking to grow their own global brands and market share.

Even the planned use of chartered professional accountant in Canada is gaining attention elsewhere. Two accounting organizations in the UK have filed for use of the chartered professional accountant name and CPA designation.

But the challenges facing the accounting profession involve more than maintaining a strong international presence. Factors such as consolidation or eroded self-regulation are other possibilities.

In the UK, a jurisdiction with multiple accounting designations, a House of Lords’ committee noted that the “regulation of accounting and auditing is fragmented and unwieldy.” The committee is expecting the profession to provide impetus for “rationalisation and reform,” but if things take too long, it has recommended “that the government stand ready to impose a remedy.”
In Canada, specifically Quebec, the CA, CMA and CGA orders announced in October that their respective boards of directors have recommended moving forward with a merger of their organizations. The provincial government is expected to introduce legislation to establish the new organization in early 2012, and it is expected to come into force in April 2012.

Confusion about accounting designations
Furthermore, research indicates that the lines of distinction between the accounting bodies in Canada are blurring. As a former regulator, Waitzer is emphatic that the growing private and public sector confusion about the different domestic accounting designations — CA, CMA and CGA — and what they mean is weakening the profession at a critical time.

“If Canadian accountants want to maintain the argument for self-regulation they have to present a strong, united front,” he says.

That warning is echoed by Jack Mintz, a tax expert who currently chairs the University of Calgary School of Public Policy.

“Self-regulation is a practice that’s really waned over the last few years, in part because governments stepped in to bolster
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consumer confidence in the aftermath of various scandals,” he notes, pointing specifically to the experience in the US.

“You need a strong, credible, unified body to reinforce the case for self-regulation. It’s the ultimate ‘trust me’ at a time when trust is rare.”

Former senator and business executive Michael Kirby concurs that the accounting profession’s vulnerability is as pronounced domestically as it is internationally.

“Going back to the late 1990s, the Senate was asking why there were so many accounting organizations and bodies in Canada,” he notes. “Those aren’t questions that actually have a positive answer — especially more than a decade later.”

A clearer picture about the Canadian accounting profession would benefit the business community.

“Owners of small and medium-sized companies want things as clear, simple and efficient as possible. They don’t want to have to figure out all the differences between CAs, CMAs and CGAs — they just want it done,” says Catherine Swift, CEO of the Canadian Federation of Independent Business.

Attracting the next generation of accountants

“We do a lot of recruiting right out of universities, and there’s no question that the competition between the various accounting designations adds to the confusion,” says Michael Burch, a CA and managing partner at Welch LLP in Ottawa. “The fact that we are battling one another and trying to push our designation over another doesn’t really serve anyone well. Not them, not us. And it’s also a waste of money and energy.”

O’Neill heartily agrees.

“Over my career, my most effective partners have had degrees in history, political and social sciences. The accounting profession hurts itself by not encouraging a more eclectic background,” he says.

“There’s a real demographic squeeze and it’s going to get worse. Even with immigration, the Canadian labour force is stagnant,” says Mintz. “It’s going to be harder to recruit and to retain than ever before.”

This is particularly challenging because regulated professions, such as accounting, have a responsibility to maintain standards to protect the public interest. The credentials of internationally trained accounting professionals must be fairly assessed but there must also be efficient and accessible routes for these individuals to join the Canadian workforce.

The bottom-line impact

A united accounting profession should produce cost savings and improved efficiencies — something dear to the heart of any accountant.

“There are just so many obvious efficiencies with one set of standards, one oversight body and a national reach,” says Randy Garvey, FCMA, executive vice-president at Canadian Western Bank in Edmonton. “The bottom line is that the world just isn’t the same as it was when three accounting organizations were established.”

That said, the effort to unite Canada’s accounting bodies has been a tough sell over the years.

“Mark Twain once said that everyone’s in favour of progress; it’s change they don’t like,” says Kirby. “And that’s what we’re dealing with here.”

Furthermore, he notes, “Emotional arguments are always the hardest to overcome.”

Both Kirby and O’Neill agree that “CAs tend to have an attitude of superiority about their credentials and want to preserve that perception” and that “misplaced elitism” is a serious stumbling block.

Maintaining specializations

Roger Martin, dean of the Rotman School of Management at the University of Toronto, doesn’t agree that such an ingrained hierarchy is entirely out of place. Nor, in his eyes, is a merger and the creation of a single designation a panacea for addressing the issues at hand.

“The process of unification will succeed only if there’s an acknowledgement of the differences,” he insists.

“In medical practice, they are all doctors but some are general practitioners, some are brain surgeons,” Martin argues. “Levels of specialty are clear and are helpful to the end-user: you don’t call a brain surgeon when you have a cold.”

“The training is very different for CAs and CMAs and they have different purposes,” says Don Lewtas, a CA and CFO at Onex Corp., in response to comments made during the CA-CMA consultation process. “But can we live together under one umbrella? Yes.”

In fact, Lewtas suggests that overall, governance of the profession could improve through a unification that creates an organization more broadly reflective of the accounting profession.

“I think that new breadth would diminish the influence that’s inevitably exercised by a few large players. It would create a more sustainable balance,” he says.

As for the view held by some CAs that a merger would dilute their professional brand and status, Lewtas insists that perspective is too narrow.

“In many businesses, there are different accounting skills sets that represent the greatest value to an operation,” he states. “In manufacturing, for example, people who do cost accounting and analysis can bring far more value than the ones who focus on external financial reporting.”

The conclusion based on his experience? “We can and should live together.”

It appears that Canada’s accounting profession does not have the luxury of time if it wants to control its own destiny. Change is coming. But just how and when that will happen will be determined by a process subjected to multifaceted scrutiny.

Note: In an effort to provide both CA and CMA members with an external, informed perspective on the proposed merger, both magazines are running shared content. Deirdre McMurdy, a well-respected Canadian business writer, prepared a similar article for CMA magazine
Setting the record straight

Kevin Dancey, FCA, CICA president and CEO

The planned use of a Canadian CPA designation, known as chartered professional accountant, is attracting attention south of the border and overseas.

While the proposed designation is generating some buzz, one thing is clear: the unification concept being explored for the Canadian accounting profession is strictly a made-in-Canada solution. An October article stateside by the media outlet Accounting Today was misleading by asserting that the American Institute of Certified Public Accountants (AICPA) has been part of discussions focusing on bringing the CPA designation north to Canada.

“It is important that the record be set straight,” says Kevin Dancey, FCA, CICA president and CEO. “There is no deal, there is no plan to combine or merge operations with our American friends south of the border. The Canadian CPA would be distinct.”

Dancey notes that the exploration of a merger between legacy accounting designations in Canada is intended to strengthen the Canadian accounting profession and sustain its value and independence in an increasingly competitive global professional environment.

Globally, a number of accounting bodies are looking to grow, such as the AICPA. The Accounting Today article touched on how the AICPA has been expanding its footprint internationally.

“An increased focus on international growth is precisely why it is so important for us to proactively take steps to strengthen the Canadian profession,” says Dancey.

“The goal is to build and sustain a strong, independent Canadian profession and designation under the Canadian CPA banner.”

In fact, a key aspect of the Canadian CPA designation is continued alignment with key chartered bodies around the world. “This is not something that will be allowed to fade or become muddied,” stresses Dancey.

Barry Melancon, AICPA president and CEO, was quoted in Accounting Today as saying: “The world is sort of going back and forth between CA being predominant and the CPA being predominant, with the CPA nudging ahead.”

“We are not making the bet today on what will emerge as the global designation of choice — we simply want to be aligned with both CA and CPA,” says Dancey.

The framework being looked at to unify the Canadian profession would ensure:

• it becomes one of the world’s largest independent accounting bodies so it can control its own destiny in the face of global competition;
• it controls both the CA and CPA designations in Canada;
• it is large enough to have a strong voice to best represent the interests of Canadian businesses and members in international standard-setting processes and on policy, regulations and other issues that affect the accounting profession in Canada;
• it has relationships (mutual recognition agreements) with leading accounting bodies around the world; and
• it is aligned with the global designation of choice, should one emerge.

The proposed use of chartered professional accountant is gaining attention overseas as well. Two accounting organizations in the UK have filed for use of the chartered professional accountant name and CPA designation in Europe.

The designation may be a Canadian creation but it is definitely of interest internationally.

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Corporate Reporting Awards program celebrates 60 years of excellence

Fifteen publicly listed companies and Crown corporations were honoured in Toronto last month at a gala event that marked the diamond anniversary of the Chartered Accountants of Canada’s Corporate Reporting Awards (CRA).

For 60 years, the CRA has been Canada’s only national program shining a spotlight on the country’s best corporate reporting models. The program offers publicly listed companies, and now federal and provincial Crown corporations, a unique opportunity to showcase their commitment to quality corporate reporting. Entrants demonstrate confidence in their reports by submitting them to an independent panel of judges, who are experts in their respective areas.

“Successful companies understand it is good business to get their story out in a useful, understandable, relevant and reliable way,” said Kevin Dancey, FCA, CICA president and CEO. “The CRA program goes beyond identifying and honouring the best reporting practices; it aims to spread the best to the rest.”

When the program started in 1941, the focus was the annual financial report. Over the years, it has evolved to keep pace with the capital markets and the expectations of Canadian investors for greater transparency and better information on which to base their investment decisions. Today’s CRA includes separate categories for corporate governance reporting, sustainable development reporting and electronic disclosure. The criteria have helped drive the development of best practices in all these areas, which are now regarded as essential components of the corporate reporting model.
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<table>
<thead>
<tr>
<th>CICA Handbook – Accounting</th>
<th>Date issued†</th>
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<tbody>
<tr>
<td><strong>Part I</strong></td>
<td></td>
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<tr>
<td>IFRS 10, Consolidated Financial Statements</td>
<td>September 2011</td>
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<tr>
<td>IFRS 11, Joint Arrangements</td>
<td>September 2011</td>
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<td>IFRS 12, Disclosure of Interests in Other Entities</td>
<td>September 2011</td>
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<tr>
<td>IFRS 13, Fair Value Measurement</td>
<td>November 2011</td>
</tr>
<tr>
<td>IAS 19, Employee Benefits (revised)</td>
<td>November 2011</td>
</tr>
<tr>
<td>IAS 27, Separate Financial Statements (revised)</td>
<td>September 2011</td>
</tr>
<tr>
<td>IAS 28, Investments in Associates and Joint Ventures (revised)</td>
<td>September 2011</td>
</tr>
<tr>
<td>Amendments to IAS 1 Regarding Presentation of Items of Other Comprehensive Income</td>
<td>September 2011</td>
</tr>
<tr>
<td>IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine</td>
<td>December 2011</td>
</tr>
<tr>
<td><strong>Parts II and III</strong></td>
<td></td>
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<tr>
<td>2011 Improvements to Part II</td>
<td>October 2011</td>
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<tr>
<td><strong>Part IV</strong></td>
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<td>Section 4600, Pension Plans (revised)</td>
<td>November 2011</td>
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<tr>
<td>Amendments to Sections 7110, 7115 and 7200 Regarding Securities Regulations</td>
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RECENTELY ISSUED DOCUMENTS FOR COMMENT (to November 30, 2011)

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**Accounting**

- EDI Government Loans (proposed amendments to IFRS 1) January 5, 2012
- EDI Investment Entities January 5, 2012

**Public Sector**

- ITC Related Party Transactions — Definition and Disclosure November 14, 2011

WATCH FOR

**Documents for Comment**

- IASB Exposure Draft Regarding Annual Improvements 2010-2012
- IASB Re-exposure Drafts Regarding Leases and Revenue Recognition

Legend

- CP – Task Force Consultation Paper
- DII – IASB Draft Interpretation
- ED – Exposure Draft
- EDI – ED based on IFRS/ISA
- ITC – Invitation to Comment
- IP – Issues Paper

† Refer to each Handbook pronouncement for the effective date and transitional provisions. The information published above reflects best estimates at press time. Please visit our website for the most recent information.
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BDO. MORE THAN YOU THINK.
Professional development isn’t what it used to be. Like the information it imparts, continuing education for CAs—and the type of knowledge that’s in demand—is changing.

by Mary Teresa Bitti

AMANDA IACOVETTA WAS THE ONLY CA IN SALES AND ACCOUNT management at HR consulting firm Morneau Shepell Inc. in Toronto (she has since moved to recruitment firm Madison MacArthur in Toronto). In addition to seeking out professional development to help her in her career, she is also interested in business etiquette and networking, and has looked into a social networking course through the CICA. “Social networking is

illustration by GÉRARD DuBOIS
Upgrading knowledge, focus, communication, skills, context, coaching
on the rise; it’s a way to promote anything and I think it’s important,” she says.

Welcome to the changing scope of continuing education for CAs. While ongoing professional development is now a requirement to keep the CA designation current and in good standing, the highly competitive economic climate and complexity of business in a global environment means that technical proficiency alone is not enough to be effective and help take a career or a practice to the next level. Throw in the rise of social media and networking, the need to keep pace with fast-changing technology and the fact that no one can rely on the last project to land them the next, and the new reality is that what a CA needs to know goes well beyond the expectation that he or she will stay up to speed with changing standards and new tax rules.

It was precisely for this reason that in October 2010, KPMG Business School was launched. Until that point, a large part of the firm’s learning and development was focused on technical skills. “We were developing highly proficient technical practitioners but there was this thirst, this pent-up demand from our people who wanted to really understand their clients’ business in order to provide that value add,” says David Connal, executive director of the KPMG Business School. “At the same time, there is so much time pressure on our practitioners we decided to look closely at the different modalities and the way we deliver training.” The result: KPMG focused on weaving industry knowledge into the technical training. One example is the creation of industry knowledge podcasts that can be easily downloaded and divided into small pieces available any time, anywhere on any smart device.

What KPMG has done with its business school reflects what is happening in professional development in general. “There are two kinds of professional development taking place,” says Jeffrey Gandz, a professor and managing director of program design for the executive development division of the Richard Ivey School of Business at the University of Western Ontario in London, Ont. “On the one side is upgrading of knowledge and skills via shorter, more compressed efficient delivery systems. On the other, there is a growing focus on developing judgment and much more recognition that context and effective developmental experiences are critical.”

As a result, the provincial institutes/ordres and the CICA have moved in the same direction with their course offerings. While technical courses are still their mainstay and the majority of the CICA’s professional-development programs remain focused on income-tax training and financial reporting, the profession is seeing an increased demand for leadership training and all that encompasses: effective communication skills, the ability to give feedback, build relationships and help newer CAs move up the ranks. “With all our course offerings, our guiding principle is to blend academic rigour and real-life business application,” says Frank Colantonio, director of continuing education at the CICA. “Context is key.”

Historically, CAs have been required to maintain their professional competence, but it wasn’t until the early 1970s that the provincial institutes looked at implementing mandatory continuing professional development. However, voluntary reporting

“There was this thirst, this pent-up demand from our people who wanted to really understand their clients’ business in order to provide that value add”

Marketing 2.0: Learning how to build your personal brand

Paul Copcutt, founder of Square Peg Solution in Hamilton, Ont., describes himself as a personal brand architect. He is a speaker and consultant to professionals and executives and the teams they lead. “CAs spend so much of their time studying and training in technical areas,” he says, “but very little on what will end up differentiating them in the marketplace and even in their own firms.”

When it comes to marketing, says Copcutt, CAs want to know what they can do to ensure they get noticed for the right projects and job opportunities. The best way to differentiate? Build your personal brand. The key is to get clear about your personal brand, then communicate it effectively. “In the reality of today’s world it is up to all of us to own the definition of who we are. Personal branding lets us do this,” he says. Beyond technical skill sets it is important to identify and understand emotional attributes — those character traits that make you stand out and are the reasons people will hire you, want to work with you and for you.

Here are Copcutt’s five Rs of personal branding:

Relevance — is it right for your industry and vocation? What might be right for someone in advertising could be over the top for an accountant.

Resonance — does it make sense to your target audience?

Relation — is there a connection for everyone? This has to feel right not just for the target audience but also for you and the people who will be involved in delivering the work.

Remarkability — does it stand out? Will it get noticed? Are you leveraging your key skill and attribute differences? Dare to be different.

Real — does the personal brand come through? This is an opportunity to design the life/career you want. It is not asking you to do anything that you feel uncomfortable with or that compromises who you are; it’s all about the real you.

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revealed that for the most part, CAs were already undertaking professional development far in excess of any standard and there was no apparent need to mandate continuing education. Fast-forward to the early part of the 2000s and the business environment had changed, lending itself to high-profile failures such as Enron and WorldCom. “It was no longer enough to simply say CAs were staying on top of things,” says Susan Cox, director of professional development at the Institute of Chartered Accountants of Ontario. “We had to show that we were monitoring the profession.”

Today, harmonized requirements across provinces mean that all CAs must complete 120 hours of continuing education over a three-year period. Half that has to be verifiable continuing education (think a classroom setting or elearning modules with assessment built in) but the rest is wide open, as long as it is relevant to the work CAs do. As a result, it can be much more informal (think reading industry journals, accessing podcasts, teleconferences and webinars, for example) than traditional modes of education.

What CAs want
When it comes to professional development, the needs and wants of CAs depend on a number of factors — their unique role, the needs of the client, the sector they serve — and, on the most basic level, where they are in their career. Recognizing this, MacKay LLP, a midsize accounting firm in Western Canada with a staff of 250 including 43 partners, is in the process of developing a learning ladder with in-house workshops, external seminars and courses for staff. “When it comes to newer CAs, the demand is for courses on improving delegation skills and sales skills,” says Jackie Morton, the firm’s HR director. “If they want to become partners, they need to build a practice and they want help learning how to do that — how to get things done through others, how to build their network and start to establish a client base. So we are working on programs around how to promote your

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“When you look at what it takes to execute a strategy, you need the right people on the bus, the right skill sets, the right culture, the right motivation. These are people issues that CAs need to be concerned with.”

business, capitalize on opportunities with existing clients and expand the work you do by cross-selling services.” MacKay also works with US-based training provider The Growth Partnership, sending future managers to its The Reluctant Salesperson course. “My weakness has always been in the marketing or sales side,” says Bill Gill, partner at MacKay. “How can I as an accountant develop clients? That’s the kind of sales training I’m looking for.”

Five to 10 years into a career, the focus shifts and becomes much more people-centric, says Jim King, national director of professional practice at Collins Barrow, an association of 21 member firms across the country, many of them smaller firms. “Now that we’ve been through the adoption of IFRS and private entity GAAP and we are becoming comfortable with them, we are seeing a growing demand for leadership training, communication and team-building skills training,” says King. “People who have a few years in practice under their belts want and need the so-called soft skills so critical in today’s business environment.”

For good reason. There has been an ongoing shift from the very hierarchical organization where the boss would say jump and you asked how high, to today’s organization, where the leader doesn’t decide everything and is much more of a coach, says Bill Greenhalgh, CEO of the Human Resources Professionals Association, which offers some 200 professional development programs a year, including courses on project management, talent acquisition and retention, team building, coaching and performance management — all open to CAs. “How do you create the right organizational culture?” he says. “Twenty years ago employee engagement wasn’t of major interest. Today the best talent has an incredible number of options.”

This shift coincides with the evolution of the CA’s role, which is much more managerial today than it was 20 or 30 years ago. “CAs act as consultants to companies; they look at strategy and the implications of it,” says Greenhalgh. “When you look at what it takes to execute a strategy, you need the right people on the bus, the right skill sets, the right culture, the right motivation. These are people issues that CAs need to be concerned with.”

Beyond talent management, increasingly professional development is focused on what goes into decision-making. “We spend a lot of time talking about operational, reputational and quantitative risk and the impact of rapid change and turbulent environments on the kinds of business decisions being made in our executive programs,” says Gandz. “The time from 2008 to today has seen a lot of uncertainty, so we talk much more about strategic options rather than strategies cast in stone. Certainly there is more humility about being right and greater focus on making good decisions but recognizing that circumstances

Where to turn for continuing professional development

In June, the CICA launched the CA Learning Centre (www.calearningcentre.ca), a web portal that is the central hub of all of its professional development activities. “We record most sessions at our conferences and most of our continuing education events and presentations and unbundle them so you can log in, create a profile and access what you need,” says Frank Colantonio, CICA director of continuing education. “You can also register for conferences and access articles and white papers. As well, we are going to keep your electronic bookcase for you, so the information is always there and you can stream it or download it whenever you like.”

The provincial institutes also provide an extensive suite of continuing education programs. And many universities and colleges offer continuing education programs both in residence and via distance learning. As well, many of the large and midsize accounting and law firms offer free seminars and webinars. In September, Deloitte launched the Deloitte Learning Academy, a web-based application that is open to the public for a fee.

Here is a sample of other continuing professional development sources:

- CRA: www.cra-arc.gc.ca
- Canadian Association of Family Enterprise: www.cafecanada.ca
- Conference Board of Canada: www.conferenceboard.ca
- CIO Association of Canada: www.ciocan.ca
- Federated Press: www.federatedpress.com
- Financial Accounting Standards Board: www.fasb.org
- Financial Executives International: www.feicanada.org
- Financial Management Institute of Canada: www.fmi.ca
- Government Finance Officers Association: www.gfoa.com
- Human Resources Professionals Association: www.hrpa.ca
- Institute of International Auditors: www.theiia.org
- IFRS Foundation and International Accounting Standards Board: www.ifrs.org
- International Federation of Accountants: www.ifac.org
- IT Alliance: cax.org
- Treasury Management Association of Canada: tmac-toronto.ca

— MTB
vary greatly.” In other words, he says, judgment is used.

When it comes to CAs, says Gandz, they are looking for a connection with their customers and to understand the business not just from their role as CAs but as their clients see it. “It’s the real connection to the broad world of business. They want to understand and feel what their clients are feeling and dealing with. The best accountants have always been wired that way.”

What the Big Four are doing

Alan Booth, associate partner, learning at Deloitte, agrees. “Clients assume you are going to be technically good. What they are looking for is your point of view and we are seeing demand for learning geared to helping them shape that point of view.”

As a result, Deloitte is developing programs to help its people build industry eminence. “Clients perceive themselves in terms of the industry they live in,” he says. “They are interested in more than an audit or risk assessment. At the more senior levels, industry eminence means you understand what the players’ agendas and strategies are and you get to the point where you can help clients make sense of the forces that shape the trends.”

How do you gain industry eminence? “A CA needs to understand where the clients are going for information — industry associations and journals, websites, commentators — and connect themselves to the same sources,” says Booth. “That’s how you build the foundational knowledge of an industry. Beyond that, there are a lot of vendors out there that can deliver good learning around negotiating skills, communications skills and relationship-building skills.”

Another key component of leadership training is coaching and mentoring, and increasingly firms are tapping into their own knowledge base by positioning partners to be coaches to guide those on their way up. As a result, the ability to share knowledge to develop others and give feedback is important. “One of the pieces we are focused on is ensuring there is transfer of learning so that the learning lives and breathes on the job,” says Connal. “How do we arm everyone to support the application of learning on the job? How do we deliver learning so our people can get it when they need it?”

Ernst & Young offers internal courses to help its people improve their coaching abilities. “When CAs move into more senior management positions, we have a three- or four-day training period to prepare them for this role,” says Charles Marful, director, Canada people team, assurance practice at Ernst & Young. “Everyone here has a counselor or coach and coaching is something that everyone has to be good at. We look at people development in three pillars: formal learning, which is the courses you take; experience; and coaching, which involves sharing insights and experiences with others so they can learn. Coaching is the glue that ties the formal learning and the experience together.”

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“Rather than have someone attend a seminar or eLearn session, we now have a structure and specific techniques we can use when an opportunity arises. So we’ve addressed the learning gap and provided support”

Technology
Ray Desjardins, CA•IT, and his wife, Donna, set up Desjardins & Co. as a sole proprietorship in 1979 in St. Paul, Alta. It was the first firm in the region, if not the province, to embrace microcomputers for accounting and bookkeeping. “As accounting software for microcomputers started becoming available, we became certified consultants for Simply Accounting, QuickBooks, BusinessVision, NewViews, etc.,” says Desjardins. “Many, many years ago, I attended one of the early CICA micro conferences, where the head speaker warned CAs that the ‘technology locomotive is coming down the track and if we don’t get on very soon we’ll be left behind.’”

Far from being left behind, Desjardins obtained his information technology specialist certification in 2004. Still, professional development in the area of technology, particularly as a specialist, is hard to come by, he says. “My IT professional development education has to come from seminars, conferences and webinars offered by vendors of software and hardware, online courses offered through, for example, CICA Extensions and SmartPDOnline, along with conferences of IT professionals who are not necessarily chartered accountants.” Additionally, he says there are a number of trade and other publications (many of them available at no charge) as well as websites such as www.cnet.com that offer good information relating to the latest trends and products.

Desjardins also makes extensive use of the IT Alliance CA-Xchange (CAX) (www.cax.org), an online forum, where he also serves as a moderator and TechTips author, that helps CAs across the country access informal, shared-experience-type learning around technology.

It was at CAX that Desjardins met Dwayne Bragonier, CA•IT, of BAI Bragonier & Associates Inc. in Mississauga, Ont., which provides technology training to public accountants on the systemized use of tools and software. “CAX is a peer-to-peer online learning network where people can post questions and get answers from others who have dealt with the same issues,” Bragonier says. He points out that although CA•ITs need structured learning, now, thanks to technology, they have a forum to communicate their mistakes and successes. “We start with structure and then we talk to one another,” says Bragonier. “It’s what the large accounting firms have always done, but now that ability is available to CAs widely. That’s what CAX is about. The social net is providing us that forum and learning opportunity. From a professional development perspective, it’s going to be interesting to see what happens in the next 10 years. We are learning how to share and how to learn from people sharing — online.”

Social media
Of course, the reach of the social net and social networking goes well beyond technology and how we learn. It also has implications for how business is conducted. “Talks around the water cooler were the earliest forms of social networking. It is relevant now to the areas of marketing, crisis management, reputational management, management of information and misinformation,” says Gandz. Social networking cannot be ignored and CAs have to be thinking about it and learning how to use it, he says.
“It is producing fascinating accounting questions, not the least of which is, how can LinkedIn be worth billions when it hasn’t made any money?”

And CAs are thinking about it. “As a firm, we are looking at the options and re-evaluating where we want to go on this road,” says Gill. “Most of our staff is savvy and thinks it’s something we should be doing. The question is how to use it effectively.”

Deloitte is also seeing a lot of interest in social media, particularly among newer CAs who have been much more connected and are comfortable using social media in their personal lives. “The trick is to discern useful insight from speculative commentary,” says Booth. “At the moment social media is being used as an information tool to keep abreast of what’s happening with clients and industry and within the profession.”

That was exactly what drew Iacovetta to the CICA’s social networking course. “It’s a personal interest and it is a great tool to help you stay connected,” she says. And the fact that the course is one way to meet the continuing professional development requirement is fitting. “As a CA working in industry, the CPD requirement is my link to the broader CA community,” says Iacovetta.

“Becoming a CA is a rigorous process and I know I bring depth to the table because of my training,” she says. “The profession itself requires that you continue to move forward and prove yourself. Lifelong learning is part of that process and it’s important to me personally. I see professional development as a way to stay connected to the profession and my colleagues and to continue to push myself in my own continuous learning.”

Mary Teresa Bitti is a freelance writer based in Oakville, Ont.

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CAmagazine | December 2011 31
Modern technology has made it possible to work while on the move. Many CAs today work away from the traditional office: some are like house doctors of old and visit clients; others travel long distances and have to work while travelling; yet others may work from some beach or patio somewhere. What’s out there for such CAs? Are there gadgets and tools on the market that serve the needs of untethered accountants? The answer is a resounding yes. Today’s portable gadgets offer a lot that their predecessors didn’t — better battery life, higher quality and sturdiness. Not to mention that every year gadgets get faster, stronger and smaller. Here are some of the best on the market for the CA running a mobile office.
**Toshiba Tecra R850 laptop**  
Manufacturer’s suggested retail price (MSRP): $1,199

**Summary:** This is a sturdily built, 15-inch, Windows 7 laptop with added safety.

**Pro:** It provides protection and function at the right price.

**Con:** Though forgivable, the Tecra is a slightly heavy device at 2.4 kilograms due to its built-in safety features.

**Why you need this:** This is a laptop with power that is advanced enough to last for years without becoming outdated. Its many security functions include a fingerprint scanner and a mechanism to protect, or “lock up,” the hard drive when it detects sudden movement, preventing damage to the hard drive and its valuable data should it fall to the floor. The keyboard features a number pad, but not at the expense of shrinking the keys to an uncomfortable size. This is a very capable laptop for all your professional needs.

**Motorola ATRIX 4G smartphone**  
MSRP: $599

**Summary:** The Atrix is a smartphone with add-on capabilities to convert the device to a laptop.

**Pro:** This is a powerful phone, with a large four-inch touch screen and excellent battery life.

**Con:** As cool as the lapdock accessory (which turns it into a laptop) is, it may be cost prohibitive at $329, given the power of other laptops on the market that can be had at a similar or slightly higher price.

**Why you need this:** You can send and receive email, edit documents and browse the web with the computer power of a laptop, all in a cellphone. The lapdock accessory provides a full keyboard, a large screen at 13.1 inches, two USB ports, a touch-pad device found on all laptops and its own rechargeable battery. The software comes with the ability to convert speech into text very accurately, making edits or composition easier. Just consider your neighbours when you’re on a plane.
**Fujitsu LIFEBOOK T901 tablet PC**  
*MSRP: starting at $1,899*

**Summary:** This Windows 7, 13.3-inch device goes from tablet to laptop with a turn of the screen.  
**Pro:** The Lifebook has a great deal of computer ability and versatility that is not found in many tablets or laptops.  
**Con:** Though the laptop tablet is handy, it is not the ideal handheld to use for long durations of time due to its weight.  
**Why you need this:** This device is made for power users who want their device to do just about anything and everything. It features plenty of USB ports, a flash-card reader, DVD-ROM and even a handy stylus with its own docking station below. For those looking to take advantage of the tablet, there are several buttons along the side of the screen to help you scroll through documents and turn pages.

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**Olympus LS-20M Linear PCM video camera/audio recorder**  
*MSRP: $299*

**Summary:** Versatile professional audio recording device with high-definition video recording capacity.  
**Pro:** Impressively small and lightweight, the Olympus LS-20M records audio as well as video in HD.  
**Con:** Recording requires a steady hand or some guesswork when pointing at your subject. You have to hold it flat with the screen facing up.  
**Why you need this:** This versatile device may be aimed at those looking for portable, professional-quality audio capturing; it can take high-resolution photos and capture 1080p HD video. The device can also be used as a web camera for those who already have a laptop or desktop computer. If you need to record a recital or a keynote speech, it has the ability to capture live audio via two microphones located on top of the device.

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**Fujitsu ScanSnap S1500 and S1100 scanners**  
*MSRP: $529 and $289 respectively*

**Summary:** These scanners provide high-quality colour scans quickly in small packages.  
**Pro:** The S1500 is fast and built to move. The S1100 is light enough that you wouldn’t notice it in your bag.  
**Con:** At three kilograms, the S1500 is large enough that its weight may be prohibitive. The S1100 is not the fastest device around, with a scanning rate of eight pages per minute, and each item to be scanned must be fed by hand.  
**Why you need this:** The ScanSnap S1500 can handle bulk scanning at a rate of 20 pages per minute, scans double-sided, and can hold up to 50 pages in its document feeder. Its little brother ScanSnap S1100 is a powerful, light scanner that you could easily forget you have on you — it’s as small as a one-litre carton of milk. It is powered by connecting to your computer via USB, eliminating the need for an often chunky power adapter in your bag. Image quality from both is excellent for all your electronic backup needs.
**Kobo eReader Touch**  
**MSRP:** $139

**Summary:** This e-reader is the latest iteration of ebook technology.

**Pro:** Light and sturdy with impressive battery life, the Kobo eReader Touch can carry a charge for up to a month.

**Con:** Loading documents onto the reader may require other types of software and research on how to do so online.

**Why you need this:** As a dedicated device for reading PDFs and other popular ebook formats, it is much lighter than any of the technical manuals and texts offered for the profession. Plenty of battery life and memory allow for a virtual library at your fingertips, all in the size of a personal organizer. The electronic ink screen uses very little power and allows the documents to be read under any lighting condition.

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**HP Officejet 100 mobile printer**  
**MSRP:** $279

**Summary:** This portable colour printer is smaller than a shoebox, with very impressive connectivity capabilities.

**Pro:** It does exactly what you would want from a mobile printer and then some.

**Con:** The print quality of the Officejet 100 can be outclassed by printers aimed at the home or office.

**Why you need this:** This is a truly mobile printer for those who need one that can print almost anywhere. The Officejet 100 comes with a built-in battery providing a charge allowing you to print up to 500 pages before a recharge. No USB or power cable is required. Need to print a document from any Bluetooth-enabled device? Sync the printer to your smartphone, laptop or tablet and print away.

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**BlackBerry PlayBook tablet**  
**MSRP:** starting at $499

**Summary:** The PlayBook is a light and portable seven-inch tablet that can enhance your BlackBerry experience.

**Pro:** The size and weight are perfect for a carry-on bag. If you have a BlackBerry with a data plan, you can wirelessly link, or “tether,” the PlayBook to your phone for increased functionality.

**Con:** You get the feeling that if your smartphone is not a BlackBerry product you may be missing out on the tablet’s strengths.

**Why you need this:** If you like your BlackBerry but wish it had a larger screen, your wish has been granted. It easily extends the use of your BlackBerry phone in addition to being a very user-friendly tablet. Reading and editing attachments, as well as dealing with email, become easier on the larger screen. Battery life exceeds seven hours with regular email/browsing usage, which will suffice for most trips. WiFi is a breeze to connect to any network. There are both front- and rear-mounted cameras for video-conferencing capabilities. For those with more multimedia demands, the PlayBook has the capacity to allow a linkup to a monitor, projector or HD televisions for videos or presentations. Though this is not a Windows-based device, the PlayBook had no trouble with any edits to any Microsoft Word, Excel or Powerpoint file thrown at it.
Transfer-pricing implications

Treasury-related transactions pose problems for taxpayers and authorities in applying arm’s-length pricing

Over the past few years, taxing authorities and certain judicial bodies have given considerable attention to intercompany treasury-related transactions — particularly loans and guarantees.

There are several reasons for this heightened concern over treasury-related transactions by taxing authorities and tax courts. One source of concern is the potentially large magnitude of many intercompany loans. Another is the complex nature of these transactions and the difficulties they pose for taxpayers and taxing authorities in interpreting and applying the arm’s-length principle.

There are a variety of related-party treasury transactions that are common amongst members of a multinational group and a number of recent court cases and developments as they relate to the arm’s-length principle to intercompany loans and guarantees.

Common intercompany treasury transactions

Although not exhaustive, some of the more common intercompany treasury transactions that are entered into by related members of a multinational group include intercompany loans, guarantee fees (financial as well as performance), factoring arrangements, cash pooling, risk transfers through the use of options, swaps, reinsurance and trade finance. For our purposes, intercompany loans and financial guarantees will be discussed.

Perhaps the most common related-company treasury transactions are related-party loans. Intercompany loans are typically issued from one member of a multinational group that has excess capital to another related entity that is in need of funds. The primary operational reason why multinational companies enter into related-party loans is to maximize the efficient use of internal cash and to eliminate external funding costs. In many instances the lending entity is a centralized treasury entity that is mandated with the management of the consolidated funds for the multinational group.

Some of the more salient issues for taxpayers to consider when issuing intercompany debt include:

• the purpose of the debt from the borrower’s perspective;
• the terms and conditions of the debt should be consistent with those that arm’s-length parties would have entered into under similar facts and circumstances. Some issues to consider include decisions on the term of the loan, whether the interest rate will be floating or fixed, the loan’s seniority, collateral, currency, frequency of payment and embedded options;
• capacity of the borrower to take on additional debt and the ability of the borrower to cover interest payments. Although controversial, consideration should also be given to the payment of the principal and the possibility of refinancing or rolling forward the intercompany debt;
• once the quantum of the debt is addressed the next issue for consideration is the set-
At the core of this case is the definition of “arm’s-length” for Electric Capital Canada Inc. v. R.

announcements by various taxing authorities relevant to the con-

There have been some recent decisions by judicial bodies and

• finally, consideration should be given to the interest rate that

These issues are generally what should be considered but others may be important, depending on the specific nature of the intercompany loan in question.

Guarantees are also common among related companies. The main reason why guarantees are used among members of a multinational group is to reduce the group’s financing costs when one member requires external financing. The savings arise when the guarantor, usually the parent, has a stronger credit rating than the borrowing entity. The guarantee provided by the guarantor, in most cases, reduces the borrowing costs of the borrowing entity by effectively substituting the parent’s stronger credit rating with that of the subsidiary’s lower rating.

Some of the more important issues for taxpayers to consider regarding the use of guarantees include:

• evidence that the guarantee provided a benefit to the recipient in terms of lowering its cost of external borrowing;

• consideration should be given to other related-party trans-

actions that could affect the determination of the guarantee fee — especially related-party loans that reduce the borrowing capacity and lower the credit rating of the guarantee recipient;

• another issue for consideration involves the determination of the guarantee fee to be applied. The process for the guarantee fee is in many respects similar to the setting of the interest rate on a loan. It starts by first evaluating the guarantor and guaranteed entities’ credit ratings and adjusting for the passive benefits of being part of a multinational. Once the credit rating is established, analysis is then required to determine the guarantee fee. The primary basis for determining a guarantee fee is to take the interest-rate spread based on the difference in credit rating between the parent and subsidiary; and

• consideration should be given to the rate that will be selected, taking into consideration the bargaining position of both the guarantor and the guarantee. Other methods to consider include credit default swaps and possibly actuarial analysis. When selecting a method it is important to account for all the risks and benefits that are provided to the guaranteed entity by the guarantor.

Recent developments

There have been some recent decisions by judicial bodies and announcements by various taxing authorities relevant to the concept of arm’s-length. The most notable court decision was General Electric Capital Canada Inc. v. R., [2010] 2 C.T.C. 2187 (the Crown). At the core of this case is the definition of “arm’s-length” for the purpose of determining a payment for a guarantee that was provided by GE Capital US to its subsidiary GE Capital Canada.

The more salient facts surrounding this case are as follows. During the years under appeal (1996 to 2000), GE Capital Canada was a financial services company that conducted a number of businesses in Canada, including equipment, vehicle and real estate financing, and technology-management services. GE Capital Canada was a wholly owned, indirect subsidiary of GE Capital US. It financed its operations by borrowing funds from capital markets through the issuance of debt in the form of commercial paper and unsecured debentures. GE Capital US began guaranteeing the Canadian taxpayer’s debt in 1988, but only started charging guarantee fees, calculated at a rate of 1% per annum of the principal amount of debt outstanding, in 1995.

On December 4, 2009, the Tax Court of Canada allowed the taxpayer’s appeal, vacated all of the Minister’s assessments and rejected the taxpayer’s argument that its credit rating should be determined on a stand-alone basis. In reaching this conclusion, the court consulted with relevant authorities on the meaning of “arm’s-length” and concluded in its decision that the concept refers to “how independent parties negotiating with each other

When selecting a guarantee method, it is important to account for all the risks and benefits that are provided to the guaranteed entity by the guarantor.
iary of a multinational group should be considered and adjusted for when determining an arm’s-length price for the guarantee.

The decision of the court was appealed by the Crown. On December 15, 2010, the Federal Court of Appeal released its reasons for dismissing the Crown’s appeal in GE Capital, 2010 FCA 344. In so doing, the appeal court agreed with the Crown and the tax court judge that the “halo” effect, or “implicit support,” of a parent corporation is a relevant factor in transfer pricing cases, at least those involving financial transactions such as guarantees or loans between nonarm’s length parties.

Another relevant development was the issuance of a white paper by the Australian Tax Office (ATO) in June 2008 and most recently, a series of draft tax rulings on intercompany debt and guarantee fees. The white paper considers four possible funding scenarios. As part of this analysis, three broad principles and key factors should be considered.

The commercial rationale should be considered as part of the analysis from a regional as well as a consolidated perspective. Incidental benefits should be considered as part of the analysis when determining the price of the financial transaction. The extent and impact of this aspect will depend on whether the borrower is considered to be a core and strategic subsidiary. And considerations should be given to the financial state of the borrower.

Based on the above criteria, the white paper considers two multiple scenarios for determining an arm’s-length price for either a guarantee or a loan: whether the subsidiary is financially viable (independent) and whether it is deemed to be a core and strategic subsidiary. In the event that the subsidiary is not deemed to be financially independent, the white paper concludes that the quantity of intercompany debt needs to be considered — meaning the intercompany debt should be adjusted to place the subsidiary in a position of financial independence. Then, to the extent that the subsidiary is a core or strategic subsidiary, the stand-alone credit rating should be moved a notch up to be closer to the parent’s. The white paper also indicated that the proposed economic approach to pricing related-party debt and guarantees should take precedence over the country’s thin-capitalization rules.

Conclusions
As taxing authorities continue to aggressively review and audit all intercompany transactions, taxpayers are advised to determine and use arm’s-length transfer-pricing policies and to contemporaneously document all material transactions.

Andrei Tarassov is a senior manager, Jaime Nemeth is a manager and Thomas Tsiopoulos is a partner with Ernst & Young’s international transfer pricing services practice in Toronto.

Technical editor: Jay Hutchison, tax managing partner, Canada, E&Y
A major multinational firm in Toronto received a disturbing message on its confidential whistleblower hotline. A muffled voice, probably distorted by the caller placing a cloth or some other material over the mouthpiece to disguise his or her voice, said that a large number of senior employees were colluding to falsely inflate revenue reports in order to increase their annual bonuses.

“It’s happening in several locations in Canada and the US,” the caller said. “Maybe also in Europe but I’m not sure. It’s been going on for two years and I can’t keep quiet anymore. It’s making me sick. You also need to know that some of our auditors are in on it.”

The multinational took all calls to its hotline seriously. Its senior executive team began its investigation in Canada, as that’s where the contact originated. It established a small team to explore whether the allegations could be true. The team included the Canadian CEO, the chief information officer, the head of corporate security, internal and external counsel and external forensic accountants.

“Whatever we do must be conducted in utmost secrecy,” the CEO told the team. “If the allegations prove false, and the people we target discover they’ve been investigated, not only do we face possible constructive dismissal lawsuits, more importantly, we will likely lose some very valuable employees. So tread cautiously.”

At the team’s initial brainstorming meeting, the lead forensic accountant was asked how he thought the investigation should unfold. “There are two key things to consider,” he said. “First, which employees are the most likely candidates to look at? Obviously, we can eliminate anyone who doesn’t get a bonus. We can also eliminate anyone who has neither the expertise nor access to the accounting records required to falsify revenue statements. That will leave a fairly small number of possible culprits, if indeed any fraud is taking place. Second, if there is collusion, there has to be some interaction between the colluders. Maybe none has left a trail in the workplace, but my experience says otherwise. Especially if the colluders have been getting away with their scam for a couple of years. People tend to get cocky and/or lazy.”

Identifying a shortlist of possible colluders was a straightforward task. Finding evidence of collusion and revenue inflation was trickier. The forensic accounting team formed two groups to tackle those challenges. One group focused on examining the financial statements. The other analyzed emails sent to and from the suspected colluders. To ensure that secrecy was maintained, the CIO arranged for copies of all the electronic documents to be provided to the two groups, so they could be worked on at an offsite location where the chain of custody could be maintained.
The lead forensic accountant analyzed the massive volumes of emails, PDFs, spreadsheets and other files the CIO had produced. He instructed them to use a word-indexing program that would search all types of documents exchanged by the suspects to identify unusual words, words that came up frequently and word combinations. Although that process made it somewhat easier to delve into the unwieldy amount of communications, it required several team members to visually slog through a seemingly endless amount of printouts.

Before doing so, the lead forensic accountant gathered his group to go over some of the acronyms and code words they might encounter as they read the emails. The youngest member considered this unnecessary. “UGzBK [you’ve got to be kidding],” she said. “I’m not kidding,” he replied. “You know what that means but I don’t think the others do.” His comment was met with nods of agreement. Most knew that LOL meant “laughing out loud.” No one decoded WAI as “what an idiot,” a phrase that could be used by a colluder.

One reference no one knew was “420,” a frequently used term for marijuana. Popular theory has it that 420 is a section of the US penal code for marijuana possession. Another is that 420 is the number of a bill put before Congress to legalize pot. Yet another explanation claims there are 420 chemical compounds in cannabis.

“None of these is accurate. They’re all urban legends. The actual story dates to the early 1970s when a group of teenagers in California decided to search for some abandoned marijuana crops they’d heard about. They met every day at 4:20 after classes. Then some guy wrote an article about it years later and from that 420 evolved into a code for smoking pot.”

“A fascinating story,” the youngest member said. “You learn that from personal experience?”


The team did indeed come across several 420 references in emails between two suspects, one male and one female, in the accounting department. It seemed evident the pair, both of whom were married, were having an affair and liked to enhance their activity with some soft drugs.

“Some of the responses played off the theme. ‘Love cookies so much!’ one wrote. ‘Can’t get enough cookies from the jar!!!!’ another wrote, using even more exclamation marks. However, one was especially revealing: ‘Made some more cookies last night. When you work late it’s amazing how much you can cook up.’

The date of that email was incredibly helpful to the team’s investigation. It was able to match it to the timing of some suspicious entries the other group had found that, when analyzed, seemed to expose the reporting of substantial revenue that was backed up by what appeared to be falsified documentation. When the “cookie jar” phrase was run through the rest of the emails, several references came up that corresponded to questionable entries.

In the end, the multinational’s legal counsel used the forensic accounting findings to justify conducting interviews with the key suspects. When confronted with the evidence and knowing that criminal charges might be laid against him, one man confessed. His testimony exposed a major collusion involving small groups in three North American cities.

“How did it come about that so many of you did this?” counsel asked.

“We met at a company conference a couple of years ago,” the man said. “We were put together on some stupid, humiliating team-building exercise. None of us wanted to do it. We went drinking instead. And we were all pissed off at the company because it was putting so much pressure on us to boost revenue. The idea to inflate the revenue started as a joke and then it just became real.”

When the final accounting was done, the colluders had obtained more than $6 million in fraudulent bonuses. “OMG,” the youngest team member said, “that would have bought a lot of 420.”

Another fraud was uncovered thanks to deciphering text codes, albeit of a much smaller scale.

Two women at a medium-size manufacturing company became friends when they discovered they shared a hatred for their exes, neither of whom was regularly meeting his monthly support payments, and a love for gambling, at which they lost more often than they won. Both worked in the procurement department at jobs they found boring. Gambling had become the one aspect in their lives that brought them pleasure and excitement, but it also took a heavy toll on their finances.
One day they decided to augment their salaries by taking kickbacks from certain top suppliers. They had heard through the grapevine that two of their suppliers were not above assuring that they maintained their favoured status, so they approached their contacts at each company and in clumsy, coded language made it clear what was required.

They were clever enough, however, to conduct their communications through a Hotmail account. The women created an account using completely false information. They gave the suppliers the password and informed them to log on at certain times when the suppliers would find instructions as to what to pay and where to turn over the cash. Once the message had been read, the supplier was to delete it from the account. If the supplier failed to do so, one of the women would log on and erase it. It was a smart plan as it’s virtually impossible to trace such an account back to a specific user.

The women’s conniving hit a snag after a year or so when one of their exes overheard part of a conversation between his former wife and her coconspirator. His ex was not aware he could hear what the other woman was saying. He had been suspicious lately of what seemed to be a recent upgrade in his ex’s standard of living. A former employee of the manufacturing company, he sussed out what might be happening based on what he overheard. In a fit of anger, he sent a poison pen letter to the owner of the privately held company outlining his suspicions. The owner called his sister, a forensic accountant, for her help.

The forensic accountant was not able to find a paper trail that suggested any wrongdoing was taking place. “Even if we could get an order to examine their banking records, which I doubt we could, they likely were being paid in cash and I doubt they had deposited it,” she said.

Nor were there any incriminating emails from either of the women to any of the company’s suppliers. “Everything looks above board,” she said.

When she examined the messages between the two women, nothing stood out as beyond the normal communications of coworkers. Some of the messages were personal but nothing suggested they were plotting or enacting a kickback scheme.

One message, though, did catch her attention. “Let’s meet at the usual *$. Some AR. LMTC but he is MIA.”

“What on earth does that mean?” the company’s owner asked.

His sister translated: “Let’s meet at the usual Starbucks. Some action required. Left a message to contact but he’s missing in action.” It may mean nothing, she said, but if they are involved in a scheme, it sounds as if they meet to discuss any problems at a Starbucks, probably the same one every time.

Based on that lead, the forensic accountant helped her brother retain a private investigator, who quickly discovered that the women did get together on a regular basis at a Starbucks about halfway between where they both lived.

He began a surveillance regime that soon exposed the scam. The investigator surreptitiously photographed the women meeting at the coffee shop on several occasions with men who worked for the suppliers. On each occasion, an envelope was exchanged in a somewhat furtive manner — a newspaper containing the envelope was passed from a man to one of the women, who slipped something from inside it into her purse. The videotaped evidence was used to confront the women, who soon admitted to what they were doing.

Investigators such as the forensic accountants in these two disguised case histories need to always stay abreast of new tactics fraudsters might use to enact or cover up their plans. IMO they need to know the 411 on what some people are saying to each other in a TXT or IM.

David Malamed, CA·IFA, CPA, CFF, CFE, CFI, is a partner in forensic accounting at Grant Thornton LLP in Toronto. He is also CAmagazine’s technical editor for Fraud.
New standards for NFPOs

The AcSB and PSAB joined forces to update financial reporting frameworks for NFPOs, which have diverse needs.

Over the past few years, financial reporting frameworks have changed significantly in both the private and public sectors. Publicly accountable enterprises have transitioned to international financial reporting standards (IFRS), and most privately owned enterprises now follow a framework created to meet their needs. In the public or government sector, government business enterprises have transitioned to IFRS, while other government organizations now follow either IFRS or the CICA Public Sector Accounting (PSA) Handbook.

The remaining piece of the puzzle affected not-for-profit organizations (NFPO). A significant part of Canada’s makeup, NFPOs have diverse financial statement needs and users. Some operate internationally with both domestic and foreign users; others are controlled by governments with users similar to those of other government organizations, such as universities, hospitals and colleges; still others are member-oriented with limited users, such as private clubs.

To help meet their unique requirements, the Public Sector Accounting Board (PSAB) and Accounting Standards Board (AcSB) worked together to reach sound and practi-
Decisions, decisions: public-sector GNFPs

For the public sector, PSAB determined that GNFPs controlled by governments (GNFPs) should apply the CICA Public Sector Accounting (PSA) Handbook. However, PSAB recognized that a number of topics, such as accounting for contributions and collections, have been dealt with differently in the existing CICA PSA Handbook than in the standards followed currently by GNFPs. Furthermore, other topics such as accounting for endowments are not addressed in the CICA PSA Handbook.

To ease the transition, PSAB introduced NFPO-specific standards into the CICA PSA Handbook as the 4200 series that GNFPs can elect to follow. GNFPs may continue to follow those specific standards for NFPOs or come into the CICA PSA Handbook without those standards. But having a choice means GNFPs are facing some tough decisions.

Assess the definition

In the public sector, organizations controlled by government are categorized as one of three types. Classifying organizations allows those that are similar in nature to be directed to the same and most appropriate basis of generally accepted accounting principles (GAAP), thus enhancing comparability. See the chart on page 42 for the decision process a government organization undergoes in determining what category it best fits into and the resulting basis of GAAP it will follow.

As illustrated, each government-organization type is directed to particular accounting standards. An organization determines the accounting standards that are available for it only once it has confirmed its organization type.

With or without the 4200 series

After an organization confirms it meets the definition of a GNFP, it can either follow the CICA PSA Handbook with or without the 4200 series — each of which has advantages and disadvantages that need to be considered.

CICA PSA Handbook with 4200 series

A GNFP that adopts the CICA PSA Handbook with the 4200 series will face fewer changes in accounting policies and financial statement presentation on transition.

For all matters covered in the 4200 series, the accounting policies and presentation of a GNFP will not change. Instead, only matters not covered by the 4200 series require accounting policy changes during the transition from the CICA Handbook — Accounting to the CICA PSA Handbook, such as the accounting for financial instruments and employee future benefits.

However, the financial statements of these organizations are less comparable to those of governments and other government organizations in the public sector. Reduced public sector comparability results in the need for increased consolidating adjustments when the GNFP's financial statements are included in those of its government reporting entity. It also raises issues about the measurement of financial performance before and after consolidation.

CICA PSA Handbook without 4200 series

Alternatively, organizations that adopt the CICA PSA Handbook without the 4200 series may encounter more accounting adjustments on transition. They may need to change their accounting for contributions and financial statement presentation, in addition to changes on matters not covered in the 4200 series.

GNFP financial statements following the CICA PSA Handbook without the 4200 series are more comparable to those of their government and other government organizations. In addition, resource allocation decisions and assessments of performance are more straightforward when one set of accounting principles is used. British Columbia, for many of these reasons, directed all its GNFPs to apply the CICA PSA Handbook without the 4200 series.

GNFPs adopting the CICA PSA Handbook without the 4200 series may still refer to certain guidance in the 4200 series as a secondary source for matters not covered in the remaining standards of the CICA PSA Handbook — but only when the guidance is consistent with the conceptual framework in the CICA PSA Handbook. For example, the guidance on collections in the 4200 series cannot be referred to as there is already guidance in the CICA PSA Handbook on works of art, historical treasures and similar items. Alternatively, the guidance on disclosure of allocated expenses could be used as this matter is not covered in the remaining standards of the CICA PSA Handbook and is consistent with its conceptual framework.

The first set of annual financial statements prepared following the CICA PSA Handbook for a GNFP is for the fiscal period beginning on or after January 1, 2012. Early adoption is an option.

Private-sector NFPOs

The AcSB's Strategic Plan contained the overarching strategy of setting separate standards for different categories of reporting entities — agreeing that one size does not necessarily fit all. Each category will continue to have its own set of financial reporting standards that best suits the needs of the users of financial statements of entities in that category, having due regard to the benefits and costs of the standards.

As such, the CICA Handbook — Accounting was restructured with a separate part for each of the categories of reporting entity. The accounting standards NFPOs currently follow in Part V were replaced by accounting standards for private-sector NFPOs in Part III or IFRS (Part I).

Assess the definition

A private-sector NFPO is defined as an entity normally without transferable ownership interests, organized and operated for social, educational, professional, religious, health, charitable or other not-for-profit purpose. An NFPO's members, contributors and other resource providers don't receive any financial return directly from the organization. Only a private-sector entity that meets the definition of an NFPO may apply the standards in Part III.
Passing comments on PACs

The tax and legal communities may have to wait to get a clear picture of appropriate PAC provisions.

A typical estate freeze generally works like this: Mr. X owns 100% of the common shares of Opco with a fair-market value of $1 million. Mr. X exchanges his common shares for fixed-value preferred shares, also worth $1 million. Within the share attributes of the preferred shares there is usually a PAC. A family trust then typically subscribes for the common shares of Opco for a nominal amount of cash consideration.

The Canada Revenue Agency (CRA) position on PACs is outlined in Interpretation Bulletin IT-169 — Price Adjustment Clauses, which is based on Guilder News Co. v. Her Majesty the Queen (FCA 1973 DTC 5048). Based on the foregoing, the standard PAC states if the CRA determines the fair-market value of the preferred shares to be of a higher or lower quantifiable number than its redemption amount, then the redemption amount per share shall be retroactively (nunc pro tunc) adjusted to reflect that higher or lower CRA determination, as the case may be.

The PAC has traditionally been present in such “freeze
shares” in order to prevent shareholder benefit issues for Mr. X. It therefore follows, as shall be seen by the facts in the St. Michael Trust case, that if the CRA makes no such definitive fair-market determination on the preferred shares then the standard PAC will remain deactivated and unforeseen tax consequences may arise.

The relevant and condensed summary of the facts of St. Michael Trust for the purposes of this article is as follows: in 1996, the shareholders were Mr. Dunin, who owned 50% of the common shares of PMPL Holdings Inc., and Garron Holdings Ltd., which owned the other 50% of the common shares of PMPL. And PMPL owned all the common shares of two operating companies.

In 1998, Dunin transferred his common shares of PMPL in to a holding company he controlled (Dunin Holdings) on a tax-deferred basis. An estate freeze transaction then took place where essentially the common shares of PMPL were frozen into preferred shares worth in aggregate $50 million. Two new Canadian holding companies were formed, New Garron Holdings and New Dunin Holdings. Those two companies became the common shareholders of PMPL.

The shareholder of New Garron Holdings and New Dunin Holdings was the Fundy Settlement (Garron Trust) and the Summersby Settlement (Dunin Trust) respectively. Both trusts were created offshore by an arm’s-length nonresident settlor and their common arm’s-length trustee, St. Michael Trust Corp., was a resident of Barbados. One purpose of this reorganization was that the future growth of PMPL not be taxed in Canada by virtue of the Canada-Barbados tax treaty, because the growth of its common shares would be owned indirectly by the Garron and Dunin trusts, which were resident in Barbados. Barbados does not levy a tax on capital gains, so a large portion of the sales proceeds would not be taxable at all.

In 2000, a third-party buyer valued PMPL at $532 million. The purchaser would acquire indirect interests in PMPL for $482 million while Dunin and the Dunin Trust would retain $50-million postclosing. The Dunin Trust and Garron Trust sold their interests in New Dunin Holdings and New Garron Holdings respectively to the purchaser for an aggregate value of $457 million.

In order to comply with Section 116 of the Income Tax Act, as it then read, the purchaser withheld approximately $152 million of the sales price from the two Barbados vendor trusts and remitted it to the CRA. St. Michael Trust took the position that because the Dunin and Garron trusts were resident in Barbados, their capital gains were exempt from Canadian tax pursuant to the Canada-Barbados Income Tax Treaty.

The Garron and Dunin trusts filed Canadian income tax returns for the taxation year to claim a treaty exemption from their large capital gains and obtain an income tax refund equal to the amounts withheld and remitted by the purchaser to the CRA. The minister rejected the claims for treaty exemption and assessed St. Michael Trust accordingly.

In the event its main argument was defeated, the Crown had advanced an alternative argument to prove that the Dunin and Garron trusts were residents of Canada and their capital gain was therefore subject to Canadian tax. The Crown argued that Section 94 of the Income Tax Act, as it then read, deemed the otherwise nonresident trusts to be Canadian residents. This argument could only be supported if the Garron Trust and the Dunin Trust acquired property directly or indirectly from a Canadian resident beneficiary or a person related to that beneficiary (the contribution test).

Garron and Dunin were beneficiaries of their respective family offshore trusts. Garron Holdings and Dunin Holdings were each related for income tax purposes to Garron and Dunin respectively. Thus, the contribution test would be met if the Garron and Dunin trusts each acquired property, either directly or indirectly in any manner whatever, from Garron and Dunin holdings respectively.

The valuation for the estate freeze of $50 million was a contentious issue at trial. The taxpayers had obtained a professional valuation at the time of the 1998 reorganization. The Crown's

The Crown advanced an alternative argument to prove that the Dunin and Garron trusts were residents of Canada and their capital gain was subject to Canadian tax

expert had valued PMPL at $102 million in 1998. Both the Tax Court of Canada and Federal Court of Appeal implicitly felt the $50-million freeze value was undervalued in 1998 because PMPL was sold based on an aggregate valuation of $532 million within two years.

The Kieboom case (FCA 1992 DTC 6382) stands for the well-established proposition that an economic transfer of property can indirectly occur by shifting value from one class of shares to another.

For example, in the St. Michael Trust case, when Dunin Holdings and Garron Holdings froze the fair-market value of their common shares at $50 million in aggregate, assuming the actual fair-market value was indeed $102 million at the time of the reorganization, these two corporations shifted value of $52 million to the subscribers of the common shares of PMPL, New Dunin Holdings and New Garron Holdings. Kieboom clearly dictates that Dunin Holdings and Garron Holdings transferred property indirectly to New Dunin Holdings and New Garron Holdings respectively.

The Federal Court of Appeal then applied Kieboom one step further to say that Dunin Holdings and Garron Holdings transferred property indirectly in any way whatever to the Dunin Trust and Garron Trust, respectively, by increasing the share value of the shares these two trusts owned in New Dunin Holdings and New Garron Holdings respectively. Therefore, the contribution test was met because Dunin Holdings and Garron Holdings, which were related to Dunin and Garron respectively,
which were beneficiaries of their own family Barbados trust, transferred property to the Dunin and Garron Trusts respectively. Section 94 therefore deemed these two trusts to be Canadian resident trusts and subject to Canadian tax on their capital gains on the sale of PMPL.

The key distinction between the St. Michael Trust and Kieboom cases is that there was no PAC in Kieboom. Had the PAC been operational in St. Michael Trust, there would have been no undervaluation of the common shares of PMPL in 1998 and therefore no economic transfer of value that would have triggered the contribution test in Section 94 to deem the Dunin and Garron trusts Canadian residents.

The Federal Court of Appeal stated that the PAC was not activated because CRA never made a determination of the fair-market value of the common shares of PMPL. This strongly suggests a problem with the wording of a standard PAC, which as a corollary means that St. Michael Trust is exposing a serious limitation of the Guilder News Co. (1963) case insofar as the protection mechanism of a PAC.

There has been an increase in the CRA’s assessing position in this regard on other estate freeze transactions since St. Michael Trust. (See CRA Views 2010-0363017.) In light of the foregoing, the boilerplate wording will need to be revised for PACs to become activated regardless of whether a final determination of fair-market value is made by the CRA or any other authority. If this fundamental change in the wording of the PAC is not done by the legal community then the CRA has an open door to assess any legal person doing an estate freeze as an economic taxable disposition that can then lead to other unexpected income tax consequences.

As legal precedence indicates, what is considered suitable wording for a PAC can only be validated by the courts. Hopefully the upcoming Supreme Court of Canada decision on St. Michael Trust can shed some light on this issue.

Unfortunately, this PAC issue will likely not get settled at the Supreme Court because the comments made by the lower courts in this regard were obiter.

It is likely the tax and legal community will have to wait for future litigation of cases to provide clarity as to what are appropriate PAC provisions to protect the freezer from the risk of an economic disposition.

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Standards
continued from page 43

Part III or IFRSs
Given the diversity of NFPOs, the AcSB agreed that a private-sector NFPO could choose freely to apply the accounting standards for NFPOs in Part III of the Handbook, or IFRSs in Part I of the Handbook. As there are significant differences between the two sets of standards, a private-sector NFPO will want to carefully consider the implications of its choice of reporting model.

As with GNFPOs, having a choice means private-sector NFPOs are also facing some tough decisions.

Part III
There remain similarities between the pre-changeover accounting standards in Part V and accounting standards for NFPOs in Part III of the CICA Handbook — Accounting. Many of the principles and concepts underlying the two sets of standards that apply specifically to NFPOs are identical.

Private-sector NFPOs will be able to continue their existing accounting for matters covered in the 4400 series on their transition to accounting standards for NFPOs, with a few exceptions. Areas that are not addressed in the 4400 series, where NFPOs are directed to apply the standards in Part II, may result in a change in their accounting policies. For example, post-employment and retirement benefits and financial instruments, policy changes may be required. Hence, an NFPO applying Part III should also become familiar with accounting standards for private enterprises in Part II that are applicable in its particular circumstances and also monitor changes to those standards.

IFRS
A private-sector NFPO may choose to follow IFRS. This option may appeal to organizations that are part of an international organizational structure or that have significant international operations. However, an NFPO that chooses to apply IFRS instead of Part III will take on more significant accounting changes. For example, IFRS does not permit some of the approaches permitted in Part III with respect to accounting for controlled and related entities and imposes different requirements in areas such as tangible capital assets and financial statement presentation.

For fiscal years beginning on or after January 1, 2012, NFPOs in the private sector will be required to follow either accounting standards for NFPOs or IFRS. Early adoption is permitted.

What’s next
The AcSB and PSAB have formed a joint not-for-profit task force to review and update the accounting standards for NFPOs in the public and private sectors while maintaining, to the extent appropriate, consistency between the sectors. Stay up to date on the joint task force’s work by visiting www.psab-ccsp.ca and www.acsbcanada.org.

Brian Barrington, CA, is a consultant with the AcSB. Jim Keates, CA, MBA, is a principal with the PSAB. Both provide support to the Joint Not-for-Profit Task Force established by the AcSB and the PSAB.

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New ideas about innovation

The main structural problem with the Canadian economy lies in the slow growth of its productivity. Canada has one of the worst performances on that front among member countries of the OECD. For the past 25 years, this problem has been manifested in the growing gap between the Canadian and US per capita GDP.

Canada’s slow productivity growth does not stem from a lack of investment or workforce deficiencies, two areas where Canada scores high. Rather, the Canadian economy suffers from a dearth of innovation. Governments are well aware of the problem, but the initiatives they have put forward to correct it over the decades have been ineffective. In particular, governments have succumbed to the R&D lobby, investing billions of dollars to support R&D without moving the needle on productivity.

Canada is one OECD country that provides the most support to corporate R&D. Paradoxically, Canadian business expenditures on R&D as a percentage of GDP are among the lowest among OECD members. Contrary to popular belief, it has never been proven that massive support for R&D stimulates innovation. What’s more, R&D-intensive industries that absorb most of the support account for a small portion of the GDP: the technology and communication sector generates less than 4% of the GDP, and the pharmaceutical industry — another R&D hotbed — less than 1%. Add aerospace, the chemical sector and raw materials, and the total doesn’t exceed 10% of GDP. These industries have the lion’s share of financial support for R&D, but the problem with Canadian productivity essentially resides in the other 90% of the economy.

The challenge facing our country is to provide impetus to hundreds of thousands of Canadian companies to pursue productivity improvements in their operations. Healthy competition should normally stimulate such improvement, but it’s obvious this is not the case in Canada. How can we do better? There’s no magic formula. First and foremost it’s a question of culture, both in companies and with their customers. Canadians do not seek excellence; they are too often satisfied with the status quo. Ottawa should develop programs that motivate companies to look outside the box and outstrip the competition.

More than one-quarter of the Canadian economy operates under the thumbs of treasury boards, under strict government control: public administration, Crown corporations, education, hospitals, etc. Although treasury board regulations are effective in controlling spending, they do nothing to boost productivity and their red tape kills personal initiative. For example, to avoid overlaps, deemed costly, treasury board regulation set up monopolies in all sectors where they apply, closing the door to competition.

It’s unfortunate that our governments have failed miserably in their attempts to stimulate innovation and productivity. We need to go back to the drawing board. The recent Jenkins report, which reviewed federal support to R&D, didn’t dare make that recommendation. We need to step off the beaten track. Our innovation policies should target the entire economy, not just the R&D-intensive companies that lobby for more federal support. We need to create a better competitive spirit throughout the economy. Competition is what will enhance customer satisfaction, ensuring more efficient use of resources. Until Canada reverses productivity trends, governments should focus on rethinking their programs.

Marcel Côté is founding partner at SECOR Consulting in Montreal.
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