

Business Advisory Letter

A Change in Licensing for Public Accountants

On December 5, 2002 the Ontario Legislature passed into law Bill 213 the Justice Law Amendment Act 2002. For those of you that have not followed these developments, this Bill has the effect of changing the governance of public accounting in Ontario. Its intent is to allow equal access to public accounting licenses to the members of all three accounting bodies operating within Ontario: the Institute of Chartered Accountants of Ontario, the Certified General Accountants Association of Ontario and the Society of Certified Management Accountants of Ontario. Currently, only members of the Institute of Chartered Accountants of Ontario are allowed to hold public accounting licenses.

Ron Daniels, the Dean of the Faculty of Law at the University of Toronto, has been appointed to develop the regulatory infrastructure to implement this legislation. All three accounting bodies will be represented in this change process. We anticipate there will be standard examination and practical experience requirements. A governing body will be convened with representation from across the profession and possibly the capital markets and other stakeholders.

It is critical that Ontario maintains a very high standard of public accounting. Our access to international investment and the stability of our capital markets depend upon investor confidence in the financial information they use. Daniels must pay close attention to American and other international accounting standards to maintain worldwide confidence in our investment climate.

Here at VMSW we have 2 of the 3 accounting bodies represented, Chartered Accountants and Certified General Accountants. We have also employed Certified Management Accountants in the past. We have people who do not have, or are not pursuing, an accounting designation. Our philosophy has been that letters do not necessarily equate to success. We value ethics, commitment, knowledge and customer focus in our team members. That being said, the attainment of any one of the 3 professional accounting designations is a major accomplishment in a person's life. It represents that person's commitment to excellence. It demonstrates self discipline and a command of the knowledge of the profession. To combine these skills with the personal attributes we so highly value is a formula for success.

Obviously this change in legislation will have an impact on our profession. Although we do not know what form that impact will take, we do know that we will still need to compete in our market. We will continue to develop innovative services to meet the needs of our clients, and we will seek out and retain those people who can make a meaningful contribution to VMSW, regardless of their designation.

Our Core Values and our Mission Statement define the way we do business. This evolution in the governance of public accounting will not change these fundamental principals. We will adapt to whatever comes out of this process, and VMSW will continue to provide the highest quality of professional service to our clients.♦

Brent VanParys



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In the Firm

We welcome Ed Lamers to the firm. Originally from Tillsonburg, Ed holds a Bachelor of Arts in Economics from the University of Western Ontario and a Diploma in Accounting from Wilfrid Laurier University. He will be pursuing the Chartered Accountants designation and works as a Client Accountant out of the Woodstock office.

Jenny Hahn has relocated to the Norwich office, which puts her about 3 blocks from her home.

Our congratulations go to Greg Bruce, Team Leader-Agriculture, who was married November 2nd to Laura Elford of Kitchener.

Brent VanParys has been appointed to the Board of Directors of the Independent Accountants Financial Group Inc. IAFG is a mutual fund dealership and investment council owned by 14 mid-sized firms of Chartered Accountants in Ontario.

VMSW team continue to develop their skills!

Jessica Losier, our Marketing Co-ordinator, has completed the CoreIDRAW 10 Level 2 course. This program is used for our internally generated marketing material and the development of our website.

Trade Show News

Dino Micacchi and staff attended a number of trade shows this past season.

Every year, industry leaders from the Golden Horseshoe, Southwestern Ontario and beyond congregate for the Technology Information Show, a trade show featuring the latest software, hardware and related services, organized to help business be more competitive. The show is targeted at the most influential group of managers, accountants and business owners in the region.

The Financial Technology Show is one of the few forum's in Canada that provides a one-stop exhibition for accounting-related technology.

Canadian Manufacturing and Welding Expo showcased hundreds of international exhibitors presenting a full range of manufacturing solutions. It is held every two years in Toronto, and offers manufacturing decision-makers the full spectrum of technology; products, ideas and innovations to meet requirements for all aspects of their operations.♦

Management

Debt Ratios

A ratio is the mathematical relationship between two amounts on the financial statements expressed in the form of a fraction, a percentage, or a decimal. Understanding the meaning of key financial statement ratios can help the owner/manager evaluate the company's performance as well as better plan for the future.

The owner/manager should review the company's financial data on a regular basis to ensure ratios are within the norms for similar businesses or if the industry data is complete enough, within the industry average. Creditors analyze a company's financial statements when determining a company's ability to meet its obligations. Ratios that compare favourably or exceed the norms can enhance the company's credit rating and its ability to obtain financing.

Working Capital

Working capital, which is the amount by which current assets exceed current liabilities, serves as an indicator of a company's ability to meet its short-term obligations.

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

This ratio should be at least 2:1. The higher the ratio (e.g., 4:1, 5:1), the happier the creditors.

Debt Ratios... Continued

Quick Asset

Creditors will often review a company's liquidity to determine its ability to turn assets into cash. An important measurement, the quick asset ratio (sometimes referred to as the acid test) compares assets that may be turned into cash in 30 days or less to meet the liabilities that must be paid within 30 days.

$$\frac{\text{Cash + temporary investments + 30 day accounts receivable}}{\text{30 day accounts payable}}$$

Any ratio that is less than 1:1 would be of concern as it implies an inability to meet current debt.

Debt to Equity

The debt to equity ratio measures the company's debt versus the amount of investment the owner/manager has in the business.

$$\frac{\text{Total debt (long-term and short-term)}}{\text{Equity}}$$

This ratio helps creditors evaluate how secure the business is. If total debt amounts to \$500,000 and equity \$50,000, this ratio of 10:1 means that for every \$10 of debt, the company only has \$1 available to meet its obligations. Not a good sign.

Accounts Payable Turnover

Accounts payable turnover is an indicator of whether a company is meeting its obligations to creditors within normal time frames.

$$\frac{\text{Accounts payable}}{\text{Cost of goods sold x 365 days}}$$

This ratio indicates the number of days it takes the company to pay its bills. For example, $\$95,000/\$370,000 \times 365$ indicates that it takes the company 93.7 days to pay its suppliers. If the trading terms are 30-60 days, the company is likely experiencing cash flow problems.

Interest Coverage

Interest coverage shows whether or not a company can meet the fixed interest charges on the debt. This is an especially useful ratio to examine if you are contemplating a significant loan.

$$\frac{\text{Profit before taxes + Interest}}{\text{Interest}}$$

Generally the acceptable ratio is 3:1; that is, if profits before taxes are not at least 3 times the interest cost, the company may need to make some adjustments in its operations.

Applying Ratios

A single ratio will not help you determine the relative health of your business. Neither will a ratio provide a solution to a problem. However, by understanding the significance of various ratios, you will be in a better position to address operational difficulties and work towards improvements that make a difference when seeking credit.

Owner/managers seeking additional credit or wanting to ensure their debt obligations are within the norms of similar businesses are well advised to build an historical chart of the company's debt ratios. With today's computerized accounting systems, you can mine your data for information that can help you monitor your debt structure on an ongoing basis.

As consistency is necessary to avoid skewing the results, discuss your reporting systems with your chartered accountant. With a consistent model and accounting allocation format in place, you can monitor the company's debt in the best interest of the bottom line and ultimately the shareholders. ♦

Management

Buying a Franchise?

Buying a franchise is an increasingly popular means of starting a business. Although most common in the food and retail sectors, franchises are also successful in service businesses such as travel and personnel agencies, lawn care and consulting services.

If you are contemplating the purchase of a franchise, you will need to thoroughly research the offering and seek professional advice to ensure the soundness of your investment. Carefully research the capital costs, the fees and royalties, the marketing program, training commitments, the parent organization and other aspects of the franchise structure. You should review a franchise operation with the same due diligence accorded any personal investment in a business venture.

Due Diligence

While the franchisor will likely provide glowing reports on the success of its outlets, you need to view these claims objectively. Look at the company's growth patterns and assess the potential for future growth.

Compare the franchise's popularity, performance, price and quality to that of its competitors.

What is its market share?

Why would a customer buy this product or service and not the competitor's?

Have there been marketing, public relations, or product/service problems? If yes, how has the franchisor resolved these?

What indicators suggest that the franchise will continue to hold its value?

Are there any indications that the franchise has peaked?

Determine the number of franchise outlets now operating and the number of locations that have opened in the past year. Rapid growth is not necessarily the sign of a healthy franchise. It may be the first sign that the franchisor is seeking cash to support a failing infrastructure.

Relationships with Franchisees

Consider not only the franchisor's reputation with its consumers but also with its franchisees. Talk to the operators of existing franchises to determine the reliability of the franchisor and the profitability of the product or service. Ask the franchisees about the various aspects of their operations and their relationship with the franchisor.

What was the total cost for their initial purchase?

Is the return on their investment satisfactory?

If there is continuing fee or royalty, is the amount reasonable?

If there is a minimum sales quota, is it difficult to achieve?

Do they feel the training and other supports adequately prepared them for the first year?

What are the sales patterns of a typical day, week, and month?

When procedures or processes change, does the franchisor offer further training?

Are they aware of any franchises that have closed?

How does the franchisor help its franchisee promote the product/service?

Examining how the franchise system actually works is essential to making a purchase decision. After all, the system will support the success or failure of your initial investment and determine the operations of your business for years to come.

Location

Ask the franchisor how it selects areas for franchising and how successful they have been. Research the demographics and buying patterns in your intended location. What makes this location promising?

Financial Track Record

When you enter into any business, it is your money and your future that are at risk. A franchise is no exception. Ask your chartered accountant to examine the financial information the franchisor has provided.

Is the franchisor financially stable?

How does it make its money? (Money should come from successful franchises and not from selling unprofitable franchises).

How long has the franchisor been in business?

If the franchisor is a subsidiary, where is the parent company located? Who are the principals?

On what facts is the profit projection based?

Buying a Franchise?...Continued

What is the reputation and credit record of the franchisor? Will it help you obtain the necessary financial backing you will need to purchase a franchise?
Where will new franchises be located?

Your chartered accountant can help you analyze why the company is successful and determine any potential weaknesses that could hinder future success.

Financing

Getting caught up in the excitement of a new venture sometimes overshadows the realities of the business operations. Consult with your chartered accountant when determining your financing needs. As with most small businesses, your financing requirements will likely include working capital (operating loan), long-term assets (term loans or leasing) and equity (your investment).

How much capital can you invest?
What are your operating costs for the first year of operations?
How much financing will you require?
How much income do you and your family need to survive?

In preparing your business plan, anticipate and respond to the lender's concerns. Many of the costs incurred in a franchise are considered “soft” as they have little realizable value on liquidation. Make sure your proposal includes information about the franchisor's track record and experience with other members of the franchise group.

Before You Sign

Be sure to seek legal advice before you sign on the dotted line. Make certain any additional items you discussed during your meetings with the franchisor are included in the agreement. Your lawyer will carefully review all provisions in the franchise agreement and may suggest that some provisions be renegotiated.

Does the contract clearly define the duration and renewal of the agreement and all costs?
Must you purchase a minimum amount of merchandise per year?
Under what terms can you terminate the franchise agreement?
Do you have the right to resell or reassign the franchise?
Does your family have the right to continue the operation in the event of your death?
Is there a renewal option for both the franchise contract and the lease of the building? Do they expire concurrently?
Is the business restricted to only the franchisor's products and services?

Franchise operations provide a wonderful opportunity for entrepreneurs to start a business that has a proven brand, a well-established distribution system and a loyal customer base. However, the ultimate success of the franchise depends on your sound business practices. These begin with thoroughly investigating the operation and the legal and financial structures before you make the purchase commitment.♦

Einstein and an assistant, having finished a paper, searched the office for a paper clip. They finally found one, too badly bent for use. They looked for an implement to straighten it, and after opening many more drawers came upon a whole box of clips. Einstein at once shaped one into a tool to straighten the bent clip. His assistant, puzzled, asked why he was doing this when there was a whole box of useable clips. “Once I am set on a goal it becomes difficult to deflect me,” said Einstein.

Marketing

Do You Have Marketing Myopia?

Most companies we encounter don't market their product correctly. It's been 42 years since Theodore Levitt first introduced the term Marketing Myopia, and our marketing eyesight has not gotten much better. At the heart of the issue is focus: marketing should focus not on products but on customers. You may have Marketing Myopia as well. Let's find out.

The Yellow or Blue Test

Gather up all your marketing materials and strategic documents everything you use to market your product. Get two highlighters (we like yellow and blue). Go through everything.

When you encounter what we'll call "you" words (that talk about your product or your company or something else about you) highlight them in yellow. When you encounter "them" words (that talk about the needs and problems of your marketplace, or something else about them), highlight them in blue.

Which colour do you see most often?

1. If you see a whole lot of blue and not much yellow, you're a 20/20 marketer. Go ahead and do something more useful than read this article: You already have this topic nailed.
2. If you see a whole lot of yellow and not much blue, read on.

Focus Marketing on the Marketplace

If marketing were supposed to focus on your product, it would be called "producing." But it's not is it? It's called "marketing," which means that marketing is supposed to focus on the market place and the marketplace is made up of people: customers and prospects. This focus on marketplace instead of product must form the basis of your strategic and tactical marketing when you lose this focus your marketing loses its meaning. Products exist only to satisfy a need or solve a problem. They have no inherent meaning outside of how well they do that for the marketplace. It doesn't matter if your product uses advanced technology, or the latest alloys, or durable finishes or patented whiteners and brighteners. It only matters that it solves a problem or satisfies a need.

When you sit down to devise your marketing strategy, or when you begin to assemble the tactical components you'll use to execute that strategy, this basic principle must guide every decision you make. Look at the thing you're trying to market. Turn it around in your hand. Look behind it. Underneath it. Touch it. Use it. Understand it. Then ask yourself the simple question: What does this do for my customer?

The answer to that question is not simple to arrive at, but once you've got it, it forms the foundation of everything marketing that you do.

Force Yourself to Say So What

Here's a little drill we always use to reach that answer. Ask a very simple question with unrelenting insistence. So what?

Don't give up until you really can't answer it anymore when you reach that point, you've likely reached the true value of your product to your marketplace. Here's what I mean:

Q: So tell me, what does your toothpaste do for the marketplace?

A: Well, it contains our newly patented Gluricil 234, a new and powerful whitening agent that removes plaque and stains from teeth.

Q: So what?

A: That means that when you use it over a sufficient period of time a lot of the yellow stains on your teeth will be removed.

Q: So what?

A: That means that your teeth will be whiter.

Q: So what?

A: Well, that means that when people see your teeth, your teeth will look better.

Q: So what?

A: Well, if you're a young person you'll be more attractive to people you want to be attractive to.

Q: So what?

A: You'll have more fun. And if you're older, you'll look younger.

Q: So what?

A: Well, you'll feel better about yourself.

Do You Have Marketing Myopia?...Continued

Q: So what?

A: What do you mean so what . . . that's it: more fun and a better self image.

Q: Ah, I understand now. You sell fun and self-confidence.

That's something the customer wants. Something you can position a product on. Something that sells.

This kind of exercise is essential to good marketing. Getting out of the yellow and into the blue is the best way to craft a marketing strategy and a marketing message that will hit the marketplace where it counts right between the eyes of its own self interest.♦

Source: MarketingProfs - www.marketingprofs.com

Virus Protection - Three Layers of Protection

The need to monitor computer born viruses has never been more evident. The most deadly viruses can cripple your email servers and corporate network in minutes. What's more, these debilitating viruses are being distributed worldwide via email in a matter of hours (remember the world famous Klez virus).

The threat from viruses changes constantly. More than 300 new viruses are discovered each month. Since the virus threat is actively shifting, shouldn't your defensive strategy be pro-active? With a solid, comprehensive Anti-Virus protection system in place your network should remain operational through any wave of virus.

Anti-Virus on the Desktop

The most commonly used form of protection against computer viruses is Anti-virus software. Running in the background, this software will constantly scan your computer for infected files. Once detected, the Anti-virus software renders the virus inoperable and works to repair any damage that may have been caused. In some cases an infected file cannot be repaired and user input will be required to either quarantine or delete the infected file.

There are two ways of installing and managing Anti-Virus software on the desktop. The first is to install the Anti-Virus software on each individual machine. Some packages offer a feature that will automatically update the Anti-virus signatures, while other vendors require manual updates by the user.

Alternatively, Corporate Anti-virus software can be installed on a network system (most commonly on the server) and distributed and managed by the network itself. This product saves time by working in the client server mode, automatically installing software and virus updates when a workstation logs on to the network. Software and virus signatures are updated automatically by the server daily. The server manages client settings, maintains records on all client machines and sends administrative messages upon virus infection.

Anti-Virus Software for Email Servers

The majority of viruses are distributed via email. Anti-Virus software should be installed on the mail server to scan all incoming and outgoing messages for infected files. Mail containing dangerous attachments, certain file types or those tagged with a common subject line will be quarantined and checked before being distributed to the email users. When an email is quarantined, it can be reviewed by the network administrator for approval or rejection. Some brands of software will even scan email for offensive content.

User Education

Many viruses circulate before Anti-Virus signatures are developed or updated. The user is sometimes your only defence. All staff who receive email should not open unknown attachments or view unsolicited email. Even email from known origins can be dangerous as viruses often attach themselves to the entire contact list of infected systems.

Quick Fact: In 2001 email viruses, worms and Trojans caused worldwide damages worth US\$13.2 billion.

Quick Fact: The number of reported virus attacks hiked 52,658 in 2001 from 21,756 the year before.

Your computer system is very much like your own body. It is constantly being attacked by viruses that would cause illness or even death. Anti-virus software enhances your network's immune system. It protects your valuable information from the ravages of disease. Review your Anti-virus strategy. Make sure your solution is the best you can afford and covers all facets of your Information Systems. Your company's liveliness depends on a healthy computer network.♦

A Solid Comprehensive Anti-Virus Solution = Greater Security!

Brad Bembridge is a Systems Engineer with Oxford Technology Group, the Computer Network Design and Maintenance division of VanParys Micacchi Shippey & Warnick LLP

NISA Developments

In Ontario, producers are now eligible to deposit up to 5% of their Eligible Net Sales (ENS). This represents an increase from 4% in previous years. Deposits for Edible Horticulture and Self Directed Risk Management commodities have also been increased by 1%, to 7% and 11% of Eligible Net Sales, respectively.

ENS is calculated by subtracting purchases of qualifying commodities (livestock purchases and a percentage of seed, feed) from gross sales of qualifying commodities.

The Ontario and Federal governments have introduced a program they have entitled Bridge Funding. This is a two-year federal-provincial transitional program with details as follows:

1. The Federal government is delivering its entire share (\$600 million) of the Bridge Funding in the form of NISA deposits. All NISA participants will receive an automatic deposit to their Fund II equal to 4.25 per cent of their 2001 Eligible Net Sales.
2. The Ontario Bridge Funding Payment (OBFP) is part of the transition to the Agricultural Policy Framework (APF), a comprehensive agricultural policy that is designed to increase the profitability of the entire agri-food sector. The Ontario payments are based on a grower's participation in the Market Revenue Insurance (MRI) and Net Income Stabilization Account (NISA) programs.
3. The OBFP will provide cash payments to grain and oilseed producers based on the difference between 90 per cent of the 15-year indexed average and 93.2 per cent of the 15-year indexed average for their 2001 crop acreage. Payments will also be made on acres that producers were unable to plant in 2001 due to wet conditions. This payment is expected to total nearly \$64 million. Many producers will have received their OBFP payments by now.
4. OBFP payments to NISA participants will be based on 0.335 per cent of a producer's 2001 stabilization year Eligible Net Sales to a maximum of \$250,000 of Eligible Net Sales. This payment is expected to total about \$8.5 million.

Funds have also been set-aside for new participants to the program. To receive this assistance, new participants must register with NISA before December 31, 2002.

Many NISA participants will have already received their Federal Bridge Funding contributions, and have also received amended Deposit/Withdrawal Notices. In many cases these extra deposits have increased the amount a NISA participant may withdraw in 2002. The Federal contributions are not taxable until they are withdrawn from Fund II. Many Ontario cash payments have also been issued. They are taxable in the year they are received.

NISA is intended to be a key component of the Business Risk Management approach that the Federal government is developing within the Agricultural Policy Framework. It has a well-developed administration and an infrastructure of relevant data upon which to base the allocation of government contributions to agriculture.♦

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