CPA Way Presentation – May 25, 2017

CPA Way- Example #2

Tania Mogen is the proprietor of Mogen Flowers ("Flowers") in Regina, Saskatchewan. Tania is 37 years old, married and has three children (ages 3, 7 and 9). Tania's husband, Aaron, is 43 and is a salesperson for a Toyota car dealership. Tania was a high school teacher for 12 years when she decided to embark on a career change and opened Mogen Flowers, which has been in business for two years. Tania's only source of income is from the business. Aaron earns between $25,000 and $80,000 a year, depending on the demand for automobiles. Tania's current marginal tax rate is 25%.

The CPA firm of Paget and Sorkin ("P&S") provides a number of services for Tania and her business, including a review engagement on the proprietorship's financial statements, preparation of personal tax returns, business consulting and general financial planning.

Tania plans to expand her business by moving to a larger location with more pedestrian traffic. At the end of last year, Tania had P&S prepare a cash flow forecast for the current year and it was determined that she would need $45,000 in cash to expand the business. Until now, Tania has relied on other family members for financing. While they have been very supportive, Tania does not wish to burden them with any additional financial responsibility or risk. After trying unsuccessfully at the other charter banks, she has approached the BDC bank for a loan and the bank appears to be willing to provide the $5,000 at an interest rate of 9% per annum.
You are an Associate at P&S and this morning you open up an email from Stuart Kellogg, the partner in charge of the Mogen Flowers account.

To: Associate
From: Stuart
Date: January 14, 2015
RE: Tania Mogen, Mogen Flowers

Tania is having second thoughts about taking out a bank loan for her business expansion, because she believes the interest cost is too expensive. As an alternative, she has approximately $65,000 in her teacher's pension that she could withdraw. Under the terms of the pension plan, Tania must withdraw the entire amount and forego any entitlement to regular pension payments when she turns 60. If she transfers her pension to an RRSP, it would have to be transferred to a locked-in RRSP where she could not withdraw any funds until the age of 60. Tania currently does not have an RRSP. Aaron, her husband, has an RRSP currently worth approximately $255,000. Tania is not sure whether it is better to cash in her teacher's pension now — to avoid the bank loan interest — or to keep the pension intact to receive pension payments starting at age 60. She is worried that she won't have enough money saved for retirement.

Please prepare a brief two-page memo to Tania outlining the implications of her decision. She has a meeting with her banker in a couple of days and she is wondering if she should cancel it.