TAB 7

Fundamentals of Estate Accounting

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Fundamentals of Estate Accounting

- Estate accounting has little semblance to common accounting formats
- Tedious and time consuming
- Fundamentals:
  - ❑ Users
  - ❑ Objectives
  - ❑ Various elements that make-up the statements
  - ❑ Basis of accounting used
  - ❑ Cut-off
  - ❑ Classification of transactions
  - ❑ Basis of measurement used

Users of Estate Accounts:

- Court
- The Office of the Public Guardian and Trustee
- The Office of the Children's Lawyer
- Fiduciaries (trustees, attorneys, guardians, etc)
- Beneficiaries: Life tenants vs. Remaindermen

Objectives:

- To provide to the court information, in prescribed format, about the financial activity of an estate during a specified period of time.
- To provide to beneficiaries the results of their financial interest in an estate for a specified ended period of time.
- To enable an accurate computation of compensation due to the trustee, attorney, guardian, etc.

Elements of a Trustee's Statement of Accounts:

- Statement of Original Assets @ D.O.D.
- Statement of Original Liabilities @ D.O.D.
- Statement of Unrealized Original Assets @ end of accounting period
- Statement of Original Liabilities @ end of accounting period
- Statement of Trustee's Investments and Estate Assets @ end of accounting period
- Statement of Liabilities @ end of accounting period
- Reconciliation Summary
- Capital Receipts
- Capital Disbursements
- Trustee's Investments
- Revenue Receipts
- Revenue Disbursements
- Statement of Estate Trustee's Compensation

Basis of Accounting:

- Hybrid of Cash and Accrual Basis
- Recording of financial events based on cash flows and cash position.
- Recognizing and recording of income and expenses only when cash is received or paid out.
- However, it's necessary to present and disclose receivable and payable amounts at the beginning and end of accounting period.

Cut-off:

- An accounting period begins at a point-in-time and ends at a point-in-time.
- Refers to the dates on which the flow of transactions start and stop.
- Only transactions occurring within the accounting period are relevant.
- Ensures transactions have been recorded in the proper period.

Classification of Transactions:

- Capital Receipts/Disbursements vs. Revenue Receipts/Disbursements
- Classification matters especially when the capital beneficiaries are not the same as the income beneficiaries.
- Remaindermen want capital preservation.
- Life tenant may want to maximize income distribution during life tenant's life time.

Basis of Measurement:

- Historical cost (i.e. book value) and market value.
- In some cases, using tax values.
- Market values are important as they are used:
  - To assess the performance of trustees during the period covered by the estate accounts; and,
  - By beneficiaries to assess whether their financial interest is protected.

Documentation:

- Terminal T1 personal tax return of the deceased with CRA's Notice of Assessment, if available.
- Trust T3 tax returns covering the accounting period with CRA's Notices of Assessments, if available.
- List of Original Assets as at the date of death (d.o.d.)
- Will
- Certificate of Appointment of Trustee
- Probate documents
- Portfolio valuation of securities investments held at the d.o.d.
- Broker securities statements from the d.o.d. to end of accounting period
- Bank account statements with cancelled cheques or bank images of cancelled cheques from d.o.d. to end of accounting period
- Portfolio valuation of securities investments held at the end of the accounting period
- Invoices/vouchers/receipts supporting disbursements made during the accounting period
- Vouchers/slips supporting deposits made during the accounting period
- Supporting documents for major transactions (e.g. purchase and sale agreement of real estate, including related disbursements)

Recording Income Trust Distribution and ROC:

- Cash distribution –
  - Normal recording of revenue receipt
  - When ROC information becomes available, reflect adjustments in Accounts to subtract amount from revenue receipt and subtract corresponding amount from cost of investment
- Non-cash distribution –
  - Record as an increase to the cost of the investment and record a corresponding amount in revenue receipt
  - When ROC information becomes available, reflect adjustments in Accounts to subtract amount from revenue receipt and subtract corresponding amount from cost of investment

Common Errors:

- Inclusion of cash transactions in the Accounts which fall outside of the accounting period.
- When transitioning from a guardianship period to the trusteeship period the guardian's end-of-period assets do not match the trustee's original assets.
- Recording transactions on a net basis.
- Recording unrealized gains/losses in Accounts.