

## Understanding Basic Financial Statements

During the accounting cycle, the accounting system is used to track, organize and record the financial transactions of an organization. At the close of each period, the information is used to prepare the financial statements, which are usually composed of a balance sheet (statement of financial position); income statement (statement of income and expenses); statement of retained earnings (owners' equity); and a statement of cash flow.

*A sample set of financial statements) is shown below.*

Financial statements prepared by a Chartered Accountant with a Review Engagement Report or Audit Opinion attached, are prepared (unless noted otherwise) according to "Canadian generally accepted accounting principles", or GAAP. Financial statements that are only compiled or that have a "Notice to Reader" attached, are not necessarily prepared according to GAAP.

### Balance Sheet

The balance sheet is based on the equation: assets = liabilities + owners' equity. It indicates everything the company owns (assets), everything the company owes to creditors (liabilities) and the value of the ownership stake in the company (shareholders' equity, or capital). The balance sheet date is the ending date of the period or year, and is a continuation of the amounts recorded since the inception of the company or organization. The balance sheet is a "snapshot" of the financial position of the company at the balance sheet date and shows the accumulated balance of the accounts. Assets and liabilities are separated between *current* and *long-term*, where current items are those items, which will be realized or paid, within one year of the balance sheet date. Typical current assets are cash, prepaid expenses, accounts receivable and inventory.

### Income Statement

An income statement is a type of summary flow report that lists and categorizes the various revenues and expenses that result from operations during a given period - a year, a quarter or a month. The difference between revenues and expenses represents a company's net income or net loss. The amounts shown in the income statement are the amounts recorded for the given period - a year, a quarter or a month. The next period's income statement will start over with all amounts reset to zero. While the balance sheet shows accumulated balances since inception, the income statement only shows the amounts earned or expensed during the period in question.

### Statement of Retained Earnings

The statement of retained earnings shows the amount of accumulated earnings that have been retained within the company since its inception. At the end of each fiscal year-end, the amount of net income or loss is added to the opening amount of retained earnings to arrive at the closing retained earnings. Retained earnings can be decreased by such items as dividends paid to shareholders. On the sample financial statements shown below, the statement of retained earnings is combined with the income statement presentation.

### Statement of Cash Flow

The statement of cash flow shows all sources and uses of a company's cash during the accounting period. Sources of cash listed on the statement include revenues, long-term financing, sales of non-current assets, an increase in any current liability account or a decrease in any current asset account. Uses of cash include operating losses, debt repayment, equipment purchases and increases in current asset accounts.

**XYZ COMPANY LIMITED**  
**BALANCE SHEET**  
**AS AT**  
**JUNE 30, 2023**

**UNAUDITED - See "Notice to Reader"**

|  | <u>2023</u>       | <u>2022</u>       |
|--|-------------------|-------------------|
| <b><u>ASSETS</u></b>                     |                   |                   |
| CURRENT                                  |                   |                   |
| Cash                                     | \$ 11,552         | \$ --             |
| Accounts receivable                      | 42,970            | 50,595            |
| Deposits and prepaid expenses            | 2,942             | 2,688             |
| Inventory                                | <u>159,144</u>    | <u>156,657</u>    |
|  | 216,608           | 209,940           |
| PROPERTY, PLANT AND EQUIPMENT (Note 2)   | 59,890            | 76,318            |
| INVESTMENTS                              | <u>--</u>         | <u>45,001</u>     |
|  | <u>\$ 276,498</u> | <u>\$ 331,259</u> |
| <b><u>LIABILITIES</u></b>                |                   |                   |
| CURRENT                                  |                   |                   |
| Bank overdraft                           | \$ --             | \$ 9,474          |
| Bank loan                                | --                | 60,000            |
| Accounts payable and accrued liabilities | 82,053            | 91,343            |
| Long-term debt - current portion         | 25,200            | --                |
| Income tax payable                       | <u>14,387</u>     | <u>--</u>         |
|  | 121,640           | 160,817           |
| DUE TO SHAREHOLDER (Note 3)              | 51,591            | 231,791           |
| LONG-TERM DEBT (Note 4)                  | <u>86,100</u>     | <u>--</u>         |
|  | <u>259,331</u>    | <u>392,608</u>    |
| <b><u>SHAREHOLDER'S EQUITY</u></b>       |                   |                   |
| STATED CAPITAL (Note 5)                  | 1                 | 1                 |
| RETAINED EARNINGS (DEFICIT)              | <u>17,166</u>     | <u>(61,350)</u>   |
|  | <u>17,167</u>     | <u>(61,349)</u>   |
|  | <u>\$ 276,498</u> | <u>\$ 331,259</u> |
| APPROVED                                 |                   |                   |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**XYZ COMPANY LIMITED**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2023**

**UNAUDITED - See "Notice to Reader"**

|   | <u>2023</u>             | <u>2022</u>               |
|---|-------------------------|---------------------------|
| <b>REVENUE</b>                                    | \$ <u>1,104,786</u>     | \$ <u>1,133,736</u>       |
| <b>COST OF SALES</b>                              |                         |                           |
| Opening inventory                                 | 156,657                 | 146,278                   |
| Delivery  | 1,607                   | 1,249                     |
| Purchases   | <u>740,994</u>          | <u>794,101</u>            |
|   | 899,258                 | 941,628                   |
| Closing inventory                                 | <u>159,144</u>          | <u>156,657</u>            |
|   | <u>740,114</u>          | <u>784,971</u>            |
| <b>GROSS PROFIT</b>                               | <u>364,672</u>          | <u>348,765</u>            |
| <b>OPERATING EXPENSES</b> (schedule)              | <u>286,817</u>          | <u>339,905</u>            |
| <b>INCOME FROM OPERATIONS</b>                     | <u>77,855</u>           | <u>8,860</u>              |
| <b>OTHER INCOME (EXPENSES)</b>                    |                         |                           |
| Loss on disposal of property, plant and equipment | --                      | (387)                     |
| Gain on sale of investment                        | 16,149                  | --                        |
| Miscellaneous                                     | <u>(1,101)</u>          | <u>337</u>                |
|   | <u>15,048</u>           | <u>(50)</u>               |
| <b>NET INCOME BEFORE TAX</b>                      | 92,903                  | 8,810                     |
| <b>INCOME TAX EXPENSE</b>                         | <u>14,387</u>           | <u>--</u>                 |
| <b>NET INCOME</b>                                 | 78,516                  | 8,810                     |
| <b>(DEFICIT) - Beginning of Year</b>              | (61,350)                | (54,160)                  |
| <b>DIVIDENDS</b>                                  | <u>--</u>               | <u>(16,000)</u>           |
| <b>RETAINED EARNINGS (DEFICIT) - End of Year</b>  | \$ <u><u>17,166</u></u> | \$ <u><u>(61,350)</u></u> |

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**XYZ COMPANY LIMITED**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2023**

**UNAUDITED - See "Notice to Reader"**

|   | <u>2023</u>      | <u>2022</u>        |
|---|------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |                  |                    |
| Net income for the year                                 | \$ 78,516        | \$ 8,810           |
| Adjustment for:   |                  |                    |
| Amortization  | 17,854           | 16,856             |
| Loss on disposal of property, plant and equipment       | --               | 387                |
| Gain on disposal of investment                          | <u>(16,149)</u>  | <u>--</u>          |
| Cash derived from operations                            | 80,221           | 26,053             |
| <br>  |                  |                    |
| Decrease (increase) in working capital items            |                  |                    |
| Accounts receivable                                     | 7,625            | 23,380             |
| Deposits and prepaid expenses                           | (254)            | 688                |
| Inventory   | (2,487)          | (904)              |
| Accounts payable and accrued liabilities                | (9,290)          | 34,543             |
| Long-term debt - current portion                        | 25,200           | --                 |
| Income tax payable                                      | <u>14,387</u>    | <u>2,206</u>       |
| Cash flows from operating activities                    | <u>115,402</u>   | <u>85,966</u>      |
| <br>  |                  |                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>             |                  |                    |
| Acquisition of property, plant and equipment            | (1,426)          | (10,342)           |
| Proceeds from disposal of property, plant and equipment | --               | 3,113              |
| Proceeds from disposal of investment                    | 61,150           | --                 |
| Dividends   | <u>--</u>        | <u>(16,000)</u>    |
| Cash flows from investing activities                    | <u>59,724</u>    | <u>(23,229)</u>    |
| <br>  |                  |                    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |                  |                    |
| Advances from (repayments to) shareholder               | (180,200)        | (150,000)          |
| Acquisition of (repayment of) long-term debt            | <u>86,100</u>    | <u>--</u>          |
|   | <u>(94,100)</u>  | <u>(150,000)</u>   |
| <br>  |                  |                    |
| <b>NET INCREASE (DECREASE) IN CASH RESOURCES</b>        | 81,026           | (87,263)           |
| <br>  |                  |                    |
| CASH (DEFICIENCY) RESOURCES - Beginning of Year         | <u>(69,474)</u>  | <u>17,789</u>      |
| <br>  |                  |                    |
| <b>CASH RESOURCES (DEFICIENCY) - End of Year</b>        | <u>\$ 11,552</u> | <u>\$ (69,474)</u> |
| <br>  |                  |                    |
| <b>Cash resources (deficiency) is comprised of:</b>     |                  |                    |
| Cash  | \$ 11,552        | \$ --              |
| Bank overdraft  | --               | (9,474)            |
| Bank loan   | <u>--</u>        | <u>(60,000)</u>    |
|   | <u>\$ 11,552</u> | <u>\$ (69,474)</u> |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**XYZ COMPANY LIMITED**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2023**

**UNAUDITED - See "Notice to Reader"**

|                            | <b><u>2023</u></b> | <b><u>2022</u></b> |
|----------------------------|--------------------|--------------------|
| <b>OPERATING EXPENSES</b>  |                    |                    |
| Advertising                | \$ 18,801          | \$ 30,715          |
| Amortization               | 17,854             | 16,856             |
| Bad debts                  | 199                | 179                |
| Bank charges and interest  | 5,510              | 9,356              |
| Insurance                  | 4,779              | 4,035              |
| Interest on long-term debt | 11,876             | --                 |
| Legal and accounting       | 13,155             | 11,766             |
| Management fees            | --                 | 12,525             |
| Memberships and licences   | 3,212              | 3,413              |
| Office and general         | 12,382             | 15,155             |
| Rent and utilities         | 18,795             | 21,955             |
| Repairs and maintenance    | 4,289              | 4,979              |
| Subcontracting             | 19,825             | 18,692             |
| Supplies                   | 4,571              | 8,557              |
| Travel                     | 3,736              | 8,003              |
| Wages and benefits         | 142,713            | 168,806            |
| Vehicle                    | 5,120              | 4,913              |
|                            | <u>\$ 286,817</u>  | <u>\$ 339,905</u>  |

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**XYZ COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2023**

**UNAUDITED - See "Notice to Reader"**

**1. SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

**Nature of Business**

The company is a Canadian-controlled private corporation subject to the Business Corporations Act, 1982 (Ontario), was incorporated in May 1995 and operates as a manufacturer of widgets in Anytown, Ontario.

**Significant Accounting Policies**

**INVENTORY**

The inventory is valued at the lower of cost or market, with cost being determined on a first-in, first-out basis.

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at cost less accumulated amortization. Amortization is recorded at rates designed to amortize the cost of capital assets over their estimated useful lives.

Amortization rates used are as follows:

|                         |                       |
|-------------------------|-----------------------|
| Furniture and equipment | 20% declining balance |
| Vehicle                 | 30% declining balance |
| Computer equipment      | 30% declining balance |
| Leasehold improvements  | straight-line 5 years |

**2. PROPERTY, PLANT AND EQUIPMENT**

|                         | <u>Cost</u>      | <u>Accumulated<br/>Amortization</u> | <u>Net<br/>Book<br/>Value<br/>2023</u> | <u>Net<br/>Book<br/>Value<br/>2022</u> |
|-------------------------|------------------|-------------------------------------|--|--|
| Furniture and equipment | \$ 21,500        | \$ 11,300                           | \$ 10,200                              | \$ 12,750                              |
| Vehicle                 | 26,486           | 15,460                              | 11,026                                 | 15,752                                 |
| Computer equipment      | 22,210           | 6,457                               | 15,753                                 | 20,466                                 |
| Leasehold improvements  | 37,350           | 14,439                              | 22,911                                 | 27,350                                 |
|                         | <u>\$ 47,986</u> | <u>\$ 26,760</u>                    | <u>\$ 59,890</u>                       | <u>\$ 76,318</u>                       |

**XYZ COMPANY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2023**

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**3. DUE TO SHAREHOLDER**

The amount due to the shareholder bears interest at a rate determined annually and has no fixed terms of repayment.

Interest paid for 2023 was \$1,823 (2001 - \$6,831)

**4. LONG - TERM DEBT**

Bank term loan bearing interest at prime plus 2%, repayable in monthly principal instalments of \$2,100.00 plus interest to November 2027, secured by a general security agreement on the assets of the company and a personal guarantee from the shareholder.

|  | <u>2023</u>      | <u>2022</u>  |
|--|------------------|--------------|
|  | \$ 111,300       | \$ --        |
| Less current portion                             | <u>25,200</u>    | <u>--</u>    |
|  | <u>\$ 86,100</u> | <u>\$ --</u> |
| Approximate principal repayments are as follows: |                  |              |
| 2004   | \$ 25,200        |              |
| 2005   | 25,200           |              |
| 2006   | 25,200           |              |
| 2007   | <u>10,500</u>    |              |
|  | <u>\$ 86,100</u> |              |

**5. STATED CAPITAL**

Authorized:

- Unlimited number of Common shares
- Unlimited number of non-cumulative, redeemable, voting, Class "A" Special shares

|                 | <u>2023</u> | <u>2021</u> |
|-----------------|-------------|-------------|
| Issued:         |             |             |
| 1 Common shares | <u>\$ 1</u> | <u>\$ 1</u> |