

FINANCIAL STATEMENTS

A Primer for Expropriation Professionals

OVERVIEW

- Case Study
- Components of Financial Statements
- External Accountant Assurance

CASE STUDY: BC BUD'S

- BC Bud's Hydroponics Ltd. is a private company, owned by Bud Tuglee and his wife, Nat Tuglee.
- Following an unpromising modelling career, in 2002, Bud founded BC Bud's, with an initial focus on retail street-level sales of hydroponics equipment, seeds, fertilizers and accessories.
- BC Bud's is located on an arterial road on the outskirts of Kamloops. BC Bud's owns the land and building on which the business operates. The property includes a retail sales floor, manufacturing premises, warehouse, administrative offices, and parking lot.
- In recent years, BC Bud's has commenced manufacturing of its own private label brand goods, and has added wholesale and online distribution channels.

CASE STUDY: BC BUD'S (CONT.)

- In early 2012, a road realignment resulted in a strip taking of BC Bud's property. A Section 3 agreement was signed on October 31, 2012. The project caused traffic congestion and a lack of access to the parking lot starting in or around February 2012. As part of the project, a concrete divider was installed in the middle of the street, making it impossible for drivers to make left hand turns onto the property.
- BC Bud's has initiated a claim for disturbance damages under the BC Expropriation Act.
- BC Bud's has provided its financial statements for the years ended December 31, 2012 and 2013 in connection with the damages claim.

FINANCIAL STATEMENT COMPONENTS

- Balance Sheet
- Income Statement
- Statement of Cash Flows
- Notes

BALANCE SHEET

- Also called:
 - Statement of Assets, Liabilities & Equity
 - Statement of Financial Position
- Shows three economic measures of a business:
 - What it owns – Assets.
 - What it owes – Liabilities.
 - What's left over – Equity.
- Why it's called a “balance sheet”:
 - **Assets** are equal to, or are in balance with,
 - **Liabilities + Equity.**
- A **point in time, mostly historical** summary of the financial position of the company.

INCOME STATEMENT

- Also called:
 - The “P&L”, for “Profit & Loss”
 - Statement of Revenues and Expenses
 - Statement of Earnings
- Shows the **economic results** of operations of the company **over a period of time**: usually monthly, quarterly or annual.
- Main components:
 - Revenues
 - Expenses
 - Other items (e.g. gain/loss on sales of capital assets, gain/loss from foreign exchange)
 - Net Income

CASH FLOW STATEMENT

- Also called:
 - Statement of Changes in Financial Position
- Shows the components of **changes in the cash balance over a finite period of time**, as a result of the three primary activities of a company:
 - Operating.
 - Financing.
 - Investing.
- Serves as a reconciliation from accrual-basis accounting to cash-basis accounting.

FINANCIAL STATEMENT NOTES

Narrative and numerical elaboration of information contained in the balance sheet, income statement and cash flow statement, including:

- Accounting policies followed.
- Nature of capital assets owned such as land, equipment, and vehicles.
- Nature of inventory on hand as amongst raw materials, work in progress, and finished goods.
- Details of repayment and interest terms of any debt.
- Operating lease obligations.
- Related party transactions.
- Much more

EXTERNAL ACCOUNTANT ASSURANCE

- External accountants can provide formal assurance based on three different types of engagements:
 - Compilation
 - Review
 - Audit
- Used to be a statutory requirement for an audit - Now, can usually get an exemption.
- CRA does not require audited or review engagement statements.
- Unrelated to the type of conclusion/opinion received in an expert's report for Court or other tribunal.

COMPILATION

Characteristics

- Most basic level of assurance.
- Assembly of financial statements only.
- No assurance as to:
 - Appropriate measurement or valuation of transactions or assets.
 - Completeness or accuracy of data.
 - Nature of accounting principles followed, or consistent application thereof.

Report format

- “Notice to Reader”.

REVIEW

Characteristics

- Mid level of assurance, between Compilation & Audit.
- Limited analytical procedures and confirmation of balances.
- Inquiries and discussion with management.
- Assessment of the accounting standards followed, including disclosure and presentation (e.g. notes to financial statements)
- Negative assurance / plausibility test:
 - Did anything come to the accountant's attention that would cause accountant to conclude the financial statements were not fairly presented?

Report format

- "Review Engagement Report".

AUDIT

Characteristics

- Highest level of assurance, over both Compilation & Review.
- Deeper analytical procedures and confirmation of balances.
- Inquiries and discussion with management.
- Testing and confirming balances with third parties.
- Assessment of the accounting standards followed, including disclosure and presentation (e.g. notes to financial statements)
- Positive assurance test:
 - Assertion of whether the financial statements fairly present the financial position and economic results of the company.

Report format

- “Auditor’s Report/Opinion”.

ACCOUNTING DESIGNATIONS

Canada

- Historically, three:
 - Chartered Accountant (“CA”).
 - Certified General Accountant (“CGA”).
 - Certified Management Accountant (“CMA”).
- Recent agreement to merge into one:
 - Chartered Professional Accountant (“CPA”).

United States

- Certified Public Accountant (“CPA”).

UK and Commonwealth

- Chartered Accountant (“ACA”).

QUESTIONS ?