

**SEE BIRD KAYAK INC.**

**EXAMPLE OF  
FINANCIAL STATEMENTS**

(Using IFRS)

**FOR A  
SMALL AND MEDIUM-SIZED ENTREPRISE (SME)**

prepared by

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This guide is designed to assist students to understand financial statements of a small and medium-sized enterprise (SME) using IFRS accounting standards (not IFRS-SME). This guide is prepared primarily for university students taking financial accounting or entrepreneurship courses or seminars.

**See Bird Kayak inc.**  
**Financial Statements**  
**December 31, 20X2**

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## AUDITOR'S REPORT

To the Shareholders of See Bird Kayak inc.

I have audited the statement of financial position of See Bird Kayak inc. as at December 31, 20X2 and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 20X2 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

*Karl KODIAK, C.A.*

Chartered Accountant

Ottawa  
February 28, 20X3

See Bird Kayak inc.  
Income Statement  
Year ended December 31, 20X2

	20X2	20X1
SALES	\$ 300,000	\$ 100,000
COST OF GOOD SOLD (Appendix A)	150,000	50,000
GROSS PROFIT	<u>150,000</u>	<u>50,000</u>
OPERATING EXPENSES		
Advertising and promotion	5,000	4,000
Depreciation	8,250	3,500
Bad debts	2,500	500
Insurance	3,600	3,200
Interest and bank charges	7,800	3,850
Licences and permits	500	500
Office rent and utilities	12,000	5,000
Office supplies and stationery	2,000	2,000
Professional fees	2,000	2,000
Salaries	75,000	15,000
Telephone and telecommunications	2,500	2,500
	<u>121,150</u>	<u>42,050</u>
INCOME BEFORE INCOME TAXES	28,850	7,950
Income Tax Expense (note 11)	--	--
NET INCOME	<u>\$ 28,850</u>	<u>\$ 7,950</u>

See Bird Kayak inc.  
Statement of Changes in Equity  
Year ended December 31, 20X2

	Share capital	Retained earnings	Total equity
BALANCE AT JANUARY 1, 20X1	\$ 10,000	\$ (3,150)	\$ 6,850
CHANGES IN EQUITY FOR 20X1			
Issue of share capital	-		-
Dividends		-	-
Net income		7,950	7,950
BALANCE AT DECEMBER 31, 20X1	<u>\$ 10,000</u>	<u>\$ 4,800</u>	<u>\$ 14,800</u>
CHANGES IN EQUITY FOR 20X2			
Issue of share capital	-		-
Dividends		(5,000)	(5,000)
Net income		28,850	28,850
BALANCE AT DECEMBER 31, 20X2	<u>\$ 10,000</u>	<u>\$ 28,650</u>	<u>\$ 38,650</u>

See Bird Kayak inc.  
Statement of Financial Position  
As at December 31, 20X2

	20X2	20X1
<b>ASSETS</b>		
Non-current assets		
Capital assets (note 3)	\$ 29,250	\$ 22,500
Investments - Available-for-sale (note 4)	21,000	1,000
	50,250	23,500
Current assets		
Inventories	50,000	30,000
Accounts receivable (note 5)	61,750	14,250
Prepaid expenses	600	600
Cash	3,050	3,450
	115,400	48,300
	\$ 165,650	\$ 71,800
<b>EQUITY AND LIABILITIES</b>		
Equity		
Share capital (note 6)	\$ 10,000	\$ 10,000
Retained earnings	28,650	4,800
	38,650	14,800
Long-term debt (note 7)	85,000	15,000
Current liabilities		
Accounts payable and accrued liabilities	32,000	12,000
Bank loan (note 8)	10,000	10,000
Current portion of long-term debt	--	20,000
	42,000	42,000
	127,000	57,000
	\$ 165,650	\$ 71,800

See Bird Kayak inc.  
Statement of Cash Flows  
Year ended December 31, 20X2

	20X2	20X1
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 28,850	\$ 7,950
Items not requiring an outlay of funds		
Depreciation	8,250	3,500
Changes in non-cash working capital		
Accounts receivable	(47,500)	(9,500)
Inventories	(20,000)	(25,000)
Prepaid expenses	--	(400)
Accounts payable and accrued liabilities	20,000	5,000
	(10,400)	(18,450)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(15,000)	(25,000)
Payments for investments	(20,000)	--
	(35,000)	(25,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(5,000)	--
Proceeds from long-term debt	70,000	20,000
Repayments of long-term debt	(20,000)	--
	45,000	20,000
<b>INCREASE (DECREASE) IN CASH</b>	(400)	(23,450)
<b>CASH, BEGINNING OF YEAR</b>	3,450	26,900
<b>CASH, END OF YEAR</b>	\$ 3,050	\$ 3,450

See Bird Kayak inc.  
Notes to the Financial Statements  
Year ended December 31, 20X2

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

See Bird Kayak inc. (the Company) was incorporated under the *Canada Business Corporations Act* on June 30, 20X0. It distributes sea kayaks and related equipment.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and reflect the following policies:

Revenue recognition

The Company recognizes revenue from product sales upon shipment if a signed customer contract exists, customer accepts the goods, and collection of the resulting receivable is probable.

Inventories

Inventories are valued at the lower of cost and realizable value, the cost being determined using the first in, first out method.

Investments - Available-for-sale

Investments - Available-for-sale are accounted for at cost (shares not traded on an active market).

Capital assets

Capital assets are recorded at cost less accumulated depreciation. Depreciation is provided annually at the following rates calculated to write off the assets over their estimated useful lives:

Automotive	30%	diminishing balance
Computer equipment	30%	diminishing balance
Office equipment	20%	diminishing balance

In the year of acquisition, one half of the rate is used.



See Bird Kayak inc.  
Notes to the Financial Statements  
Year ended December 31, 20X2

3. CAPITAL ASSETS

			20X2	20X1
	Cost	Accumulated depreciation	Net book value	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Automotive	\$ 20,000	\$ (8,100)	\$ 11,900	\$ 17,000
Computer equipment	15,000	(2,250)	12,750	--
Office equipment	<u>5,000</u>	<u>(1,400)</u>	<u>3,600</u>	<u>4,500</u>
	40,000	(11,750)	28,250	21,500
Land	<u>1,000</u>	<u>--</u>	<u>1,000</u>	<u>1,000</u>
	<u>\$ 41,000</u>	<u>\$ (11,750)</u>	<u>\$ 29,250</u>	<u>\$ 22,500</u>

4. INVESTMENTS - AVAILABLE-FOR-SALE

	20X2	20X1
Shares in private firm Fun Kayaks Ltd. (market value \$20,000)	\$ 20,000	\$ --
Investment in Sport Equipment Co-op inc.	<u>1,000</u>	<u>1,000</u>
	<u>\$ 21,000</u>	<u>\$ 1,000</u>

5. ACCOUNTS RECEIVABLE

	20X2	20X1
Trade	\$ 65,000	\$ 15,000
Allowance for doubtful accounts	<u>(3,250)</u>	<u>(750)</u>
	<u>\$ 61,750</u>	<u>\$ 14,250</u>

See Bird Kayak inc.  
Notes to the Financial Statements  
Year ended December 31, 20X2

6. SHARE CAPITAL

Authorized

Unlimited number of Class A shares without par value,  
participating and voting

Unlimited number of Class B shares without par value,  
non-participating and voting, with a cumulative dividend  
of 10%

Unlimited number of Class C shares without par value,  
non-participating and non-voting, with a non-cumulative  
dividend of 8%

	20X2	20X1
Issued		
5,000 class A shares	\$ 5,000	\$ 5,000
5,000 class B shares	5,000	5,000
	\$ 10,000	\$ 10,000
	\$ 10,000	\$ 10,000

7. LONG-TERM DEBT

	20X2	20X1
Loan, repayable at maturity, maturing September 30, 20X9, interest at 13%, secured by the company's capital assets	\$ 50,000	\$ 20,000
Due to a director, without interest or fixed repayment conditions	35,000	15,000
	85,000	35,000
Current portion	--	(20,000)
	\$ 85,000	\$ 15,000
	\$ 85,000	\$ 15,000

See Bird Kayak inc.  
Notes to the Financial Statements  
Year ended December 31, 20X2

#### 8. BANK LOAN

The bank loan is secured by accounts receivable and inventories. The bank loan is due on demand and bears interest at 1% over the bank prime rate.

#### 9. FINANCIAL INSTRUMENTS

The company's financial instruments consists of cash, accounts receivable, bank loan, accounts payable and accrued liabilities, and debt. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

#### 10. INCOME TAXES

The company is exempt of income taxes for the first three years of its existence.

The company can carry forward losses totalling \$1,250 for income tax purposes. The expiration date for using these losses to reduce income taxes is in 20X7.

#### 11. CONTINGENCIES

During the year, a former client instituted proceedings in the amount of \$100,000 against the company for damages allegedly incurred using company's products. The company has contested this claim and, in the opinion of its legal counsel, the lawsuit is groundless. Neither the possible outcome nor the amount of possible settlement can be foreseen. Therefore, no provision has been made in the financial statements.

#### 12. COMMITMENTS

The company leases its premises for \$750 per month. The lease expires in June 30, 20X4. Future minimum lease payments will aggregate \$13,500 including the following payment over the next 2 years: 20X3, \$9,000; 20X4 \$4,500. Additional amounts may be payable in respect of percentage-of-sales clauses in the lease.

See Bird Kayak inc.  
Notes to the Financial Statements  
Year ended December 31, 20X2

#### 13. EVENTS AFTER THE REPORTING PERIOD

On January 15, 20X3, the company made an offer to purchase land near the existing one. The land is valued at \$25,000.

#### 14. COMPARATIVE FIGURES

Certain figures for 20X1 have been reclassified to make their presentation identical to that adopted in 20X2.

See Bird Kayak inc.  
Cost of goods sold  
Year ended December 31, 20X2

	20X2	20X1
INVENTORIES, BEGINNING OF YEAR	\$ 30,000	\$ 5,000
PURCHASES	170,000	75,000
COST OF GOODS AVAILABLE FOR SALE	<u>200,000</u>	<u>80,000</u>
INVENTORIES, END OF YEAR	(50,000)	(30,000)
COST OF GOODS SOLD	<u>\$ 150,000</u>	<u>\$ 50,000</u>