

SEE DOG KAYAK INC.

**EXAMPLE OF
FINANCIAL STATEMENTS**

**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). This guide is prepared primarily for university students taking financial accounting or entrepreneurship courses or seminars.

See Dog Kayak inc.
Financial Statements
December 31, 20X2

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AUDITOR'S REPORT

To the Shareholders of See Dog Kayak inc.

I have audited the balance sheet of See Dog Kayak inc. as at December 31, 20X2 and the income statement, the statement of retained earnings 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.

Kid KODAK, CA

Chartered Accountant

Ottawa
February 28, 20X3

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

	20X2	20X1
SALES	\$ 300,000	\$ 100,000
COST OF GOOD SOLD (Appendix A)	<u>150,000</u>	<u>50,000</u>
GROSS PROFIT	<u>150,000</u>	<u>50,000</u>
 OPERATING EXPENSES		
Advertising and promotion	5,000	4,000
Amortization	8,450	3,700
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	<u>2,500</u>	<u>2,500</u>
	<u>121,350</u>	<u>42,250</u>
INCOME BEFORE INCOME TAXES	28,650	7,750
Income Tax Expense (note 11)	<u>--</u>	<u>--</u>
NET INCOME	<u>\$ 28,650</u>	<u>\$ 7,750</u>

See Dog Kayak inc.
Statement of Retained Earnings
Year ended December 31, 20X2

	20X2	20X1
BALANCE, BEGINNING OF YEAR	\$ 6,500	\$ (1,250)
NET INCOME	<u>28,650</u>	<u>7,750</u>
	35,150	6,500
DIVIDENDS	(5,000)	--
BALANCE, END OF YEAR	<u>\$ 30,150</u>	<u>\$ 6,500</u>

See Dog Kayak inc.
Balance Sheet
As at December 31, 20X2

	20X2	20X1
ASSETS		
Current assets		
Cash	\$ 3,050	\$ 3,450
Accounts receivable (note 3)	61,750	14,250
Inventories	50,000	30,000
Prepaid expenses	600	600
	115,400	48,300
Investments (note 4)	21,000	1,000
Capital assets (note 5)	29,250	22,500
Deferred charges (note 6)	1,500	1,700
	\$ 167,150	\$ 73,500
LIABILITIES		
Current liabilities		
Bank loan (note 7)	\$ 10,000	\$ 10,000
Accounts payable and accrued liabilities	32,000	12,000
Current portion of long-term debt	--	20,000
	42,000	42,000
Long-term debt (note 8)	85,000	15,000
	127,000	57,000
SHAREHOLDERS' EQUITY		
Share capital (note 9)	10,000	10,000
Retained earnings	30,150	6,500
	40,150	16,500
	\$ 167,150	\$ 73,500

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

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 28,650	\$ 7,750
Items not requiring an outlay of funds		
Amortization	8,450	3,700
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)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(15,000)	(25,000)
Payments for investments	(20,000)	--
	(35,000)	(25,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(5,000)	--
Proceeds from long-term debt	70,000	20,000
Repayments of long-term debt	(20,000)	--
	45,000	20,000
INCREASE (DECREASE) IN CASH	(400)	(23,450)
CASH, BEGINNING OF YEAR	3,450	26,900
CASH, END OF YEAR	\$ 3,050	\$ 3,450

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

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

See Dog 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 generally accepted accounting principles, 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 replacement cost, the cost being determined using the first in, first out method.

Investments

Investments are accounted for at cost.

Capital assets

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

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

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

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

3. ACCOUNTS RECEIVABLE

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

4. INVESTMENTS

	20X2	20X1
Shares in Fun Kayaks Ltd. (market value \$ 22 000)	\$ 20,000	\$ --
Investment in Sport Equipment Co-op inc.	1,000	1,000
	\$ 21,000	\$ 1,000

5. CAPITAL ASSETS

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

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

6. DEFERRED CHARGES

Deferred charges are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over a period of ten years.

	20X2	20X1
Organization expense	\$ 2,000	\$ 2,000
Accumulated amortization	(500)	(300)
Net book value	<u>\$ 1,500</u>	<u>\$ 1,700</u>

7. 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.

8. 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
	<u>85,000</u>	<u>35,000</u>
Current portion	--	(20,000)
	<u>\$ 85,000</u>	<u>\$ 15,000</u>

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

9. 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
	<u>\$ 10,000</u>	<u>\$ 10,000</u>

10. 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.

11. 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.

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

12. 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.

13. 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.

14. SUBSEQUENT EVENTS

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

15. COMPARATIVE FIGURES

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

See Dog 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>