

SAMPLE - Review all financial documents with your own counsel.

FINANCIAL STATEMENTS
For
FANCY TECHNOLOGIES LIMITED
For year ended
JULY 31, 2013

A review engagement is one of three types of reports an accountant can issue to accompany your financial statements. The other two are an independent audit report or a notice to reader.

REVIEW ENGAGEMENT REPORT

To the shareholders of

FANCY TECHNOLOGIES LIMITED

The report is one of the key parts in a set of financial statements where an external accountant has been involved. This tells you the level of scrutiny that has been applied to them.

We have reviewed the balance sheet of Fancy Technologies Limited as at July 31, 2013 and the statements of income and retained earnings and cash flows for the year then ended. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of inquiry, analytical procedures and discussion related to information supplied to us by the company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian accounting standards for private enterprises.

Generally Accepted Accounting Principles (GAAP) is the common language and criteria in accounting, which make financial statements understandable and comparable.

Chartered Accountants
Licensed Public Accountants

Place _____
Date _____

The balance sheet is one of the key financial statements.

FANCY TECHNOLOGIES LIMITED
(Incorporated under the laws of Ontario)
BALANCE SHEET
JULY 31, 2013

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 225,000	\$ 110,000
Accounts receivable	280,000	295,000
Investment tax credits receivable	89,939	87,175
Inventories (note 2)	47,500	38,500
Prepaid expenses	7,000	6,000
	649,439	536,675
INVESTMENT IN XYZ LTD. (note 2)	10	10
EQUIPMENT AND SOFTWARE (note 4)	115,620	173,600
INTANGIBLE ASSETS (note 5)	1,600	2,000
	\$ 766,669	\$ 712,285
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 88,825	\$ 95,000
Government remittances payable	25,000	27,000
Deferred revenue	-	100,000
Current portion of loan payable (note 6)	75,000	12,000
Owing to shareholder (non-interest bearing and due on demand)	28,000	10,000
	216,825	244,000
LOAN PAYABLE (note 6)	-	75,000
	216,825	319,000
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	155,000	160,000
Retained earnings	394,844	233,285
	549,844	393,285
	\$ 766,669	\$ 712,285

Some assets have very specific criteria that dictate if they can be recorded and the value that is attributed to them.

If you receive funds and do not meet the revenue recognition criteria, a deferred revenue must be recorded.

If you pay for corporate expenses personally, you should record it as a payable. This is money the corporation owes you.

Approved by the Board:

MRS. X
..... Director

(See accompanying notes)

PREPARED WITHOUT AUDIT

FANCY TECHNOLOGIES LIMITED
STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED JULY 31, 2013

	<u>2013</u>	<u>2012</u>
Revenue	<u>\$ 1,014,500</u>	<u>\$ 993,000</u>
Expenses		
Advertising and promotion	3,000	5,000
Amortization of tangible assets	67,980	59,400
Amortization of intangible assets	400	400
Bad debt expense	2,000	-
Interest on long-term debt	5,000	5,500
Office expenses	13,000	12,500
Professional fees	8,500	8,000
Rental	35,000	30,000
Repairs and maintenance	8,000	8,100
Salaries and wages research and development (note 9)	52,424	46,896
Salaries and wages sales and administration	230,000	220,000
Salaries and wages solutions implementation (note 10)	180,000	75,000
Supplies	145,000	155,000
	<u>750,304</u>	<u>625,796</u>
Income before income taxes	264,196	367,204
Income taxes	<u>42,637</u>	<u>30,929</u>
Net income	221,559	336,275
Retained earnings (deficit), beginning of year	233,285	(102,990)
	454,844	233,285
Dividends	<u>(60,000)</u>	<u>-</u>
Retained earnings, end of year	<u>\$ 394,844</u>	<u>\$ 233,285</u>

Depending on the type of business, an income statement can be formatted in different ways.

FANCY TECHNOLOGIES LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED JULY 31, 2013

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 221,559	\$ 336,275
Adjustments for:	67,980	59,400
Amortization of tangible assets	400	400
Amortization of intangible assets	<u>289,939</u>	<u>396,075</u>
Changes in non-cash working capital components:		
Accounts receivable	15,000	8,000
Investment tax credits receivable	(2,764)	(87,175)
Inventories	(9,000)	(4,000)
Prepaid expenses	(1,000)	500
Accounts payable and accrued liabilities	(6,175)	(25,500)
Government remittances payable	(2,000)	1,000
Deferred revenue	(100,000)	100,000
Cash flows from operating activities	<u>184,000</u>	<u>388,900</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(10,000)	120,000
Cash flows from investing activities	<u>(10,000)</u>	<u>120,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of shareholder loan	18,000	(241,900)
Dividends paid	(60,000)	-
Repayment of loan payable	(12,000)	(12,000)
Redemption of capital stock	(5,000)	-
Cash flows from financing activities	<u>(59,000)</u>	<u>(253,900)</u>
INCREASE IN CASH	115,000	15,000
CASH AT BEGINNING OF YEAR	<u>110,000</u>	<u>95,000</u>
CASH AT END OF YEAR	<u>\$ 225,000</u>	<u>\$ 110,000</u>

(See accompanying notes)

PREPARED WITHOUT AUDIT

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FANCY TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2013

The notes to the financial statements provide background and added disclosures and are generally required by Generally Accepted Accounting Principles.

1. NATURE OF OPERATIONS

The company is incorporated under the Business Corporations Act of the Province of Ontario. The company's principal business activity is the development and implementation of innovative technological solutions.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

Generally Accepted Accounting Principles (GAAP) is the common language and criteria in accounting, which make financial statements understandable and comparable.

The accounting policies of the company are in accordance with Canadian accounting standards for private enterprises.

Revenue recognition

Revenue recognition policies are an important part of accrual basis accounting.

Sales and income from long-term contracts are recognized in accordance with the percentage-of-completion method of accounting. Degree of completion is generally established based on achieving predetermined milestones within the contract. The effect of changes to total estimated income for each contract is recognized in the period in which the determination is made and losses, if any, are recognized fully when anticipated.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is generally determined on an average cost basis. The company's inventory consists of computer hardware that is sold as part of certain customer installations.

The supplies expense amount presented in the income statement represents the inventory amount expensed in the year.

Financial Instruments

The company's cash is initially and subsequently measured at fair value. All other financial instruments are subsequently measured at amortized cost at the balance sheet date.

Investment in XYZ Ltd.

The company accounts for its investment in XYZ Ltd. using the cost method. The company owns 19% of the outstanding shares of XYZ Limited and is in a position to exert significant influence over that company.

Equipment and software

Equipment and software are stated at acquisition cost. Amortization is provided at the following methods and annual rates:

Computer software	- 50% declining balance
Computer hardware	- 30% declining balance
Test equipment	- 20% declining balance

One-half of the above rates are used in the year of acquisition.

FANCY TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES

Intangible assets

Some assets have very specific criteria that dictate if they can be recorded and the value that is attributed to them.

Intangible assets consist of patents which are accounted for at cost and are amortized on a straight line basis over their useful life. The useful life is expected to be 10 years.

Income taxes

The company uses the taxes payable method to account for income taxes.

Investment tax credits

The company claims investment tax credits as a result of incurring scientific research and development expenditures. Investment tax credits are recognized when the related expenditures are incurred and there is reasonable assurance of their realization. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim and the amount could be materially different from the recorded amount upon assessment by the Canada Revenue Agency.

Research and development and other government assistance

Research and development costs are expensed as incurred. Government assistance and income tax credits relating to ongoing research and development costs are offset against the related research and development expenses when earned and where such assistance is reasonably assured.

Other government assistance is similarly offset against the related expenses.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The company makes estimates when it estimates the useful life of its equipment and software and intangible assets, determines the amount of its accrued liabilities, its allowance for doubtful accounts and the carrying value of its inventory.

(See accompanying notes)

PREPARED WITHOUT AUDIT

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FANCY TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 2013

3. FINANCIAL INSTRUMENTS

Credit Risk

The company is exposed to credit risk on its accounts receivable. The company provides credit to its clients in the normal course of operations. It carries out, on a continuing basis, credit checks on its clients, a review of outstanding amounts and maintains provisions for estimated uncollectible accounts. The allowance for doubtful accounts was \$3,000 (2012 - \$6,000).

Interest Rate Risk

The company's loans bear interest at variable rates. As a result, the company is exposed to interest rate risk.

Currency risk

Approximately 20% of the company's sales are transacted in US dollars and consequently the company's cash, accounts receivable and revenues are exposed to foreign currency fluctuations. As at July 31, 2013 approximately \$18,000 (2012 - \$14,000) of the company's cash and \$15,000 of the company's accounts receivable (2012 - \$12,000) are exposed to fluctuations in the US dollar.

Liquidity risk

Liquidity risk is the risk that the company cannot meet its debts when they become due. The company's management manages this risk by reviewing its expected future cash flow requirements.

Changes in risk from prior year

There have been no changes in the company's risk profile from the previous year.

4. EQUIPMENT AND SOFTWARE

Equipment and software consist of the following:

	2013		2012	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Computer hardware	\$ 90,000	\$ 48,180	\$ 80,000	\$ 32,400
Computer software	120,000	75,000	120,000	30,000
Test equipment	50,000	21,200	50,000	14,000
	260,000	\$ 144,380	250,000	\$ 76,400
Accumulated amortization	144,380		76,400	
	\$ 115,620		\$ 173,600	

FANCY TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Cont'd
YEAR ENDED JULY 31, 2013

5. INTANGIBLE ASSETS

The company's amortized intangible assets consist of the following:

	2013		2012	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
Patents	\$ 4,000	\$ <u>2,400</u>	\$ 4,000	\$ <u>2,000</u>
Accumulated amortization	<u>2,400</u>		<u>2,000</u>	
	<u>\$ 1,600</u>		<u>\$ 2,000</u>	

6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
Loan Payable - bearing interest at prime plus 3%, due March 31, 2014, principal repayments of \$1,000 plus interest due monthly.	\$ 75,000	\$ 87,000
	<u>75,000</u>	<u>12,000</u>
Less current portion	<u>\$ -</u>	<u>\$ 75,000</u>

Principal repayments over the next five years are as follows:

2014	\$ <u>75,000</u>
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The loan is secured by a general security agreement covering all of the assets of the company.

FANCY TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Cont'd
YEAR ENDED JULY 31, 2013

7. INCOME TAXES

The Company accounts for income taxes using the taxes payable method. As a result, the company's income tax expense varies from the amount that would otherwise result from the application of the statutory income tax rates as set out below:

	<u>2013</u>	<u>2012</u>
Income before taxes	\$ 264,196	\$ 367,204
Expected income tax expense at the combined tax rate of 26.5% (2012 - 27.23%)	\$ 70,012	\$ 99,990
Increase (decrease) in income tax expense resulting from:		
Amortization in excess of CCA (CCA in excess of amortization)	15,810	(19,871)
SR&ED expenditures claimed for tax credits	(12,993)	(25,847)
Other adjustments	(2,684)	64
Small business deduction	(27,508)	(23,407)
Income tax expense	<u>\$ 42,637</u>	<u>\$ 30,929</u>

8. CAPITAL STOCK

The company is authorized to issue an unlimited number and classes of shares:

40,000 class A - voting, discretionary dividends, redeemable at the option of the company at stated value.

20,000 class B - voting, discretionary dividends, redeemable at the option of the company at stated value.

Shares issued and outstanding are:

	<u>2013</u>	<u>2012</u>
Class A shares - 20,000 shares	\$ 100,000	\$ 100,000
Class B shares - 5,500 (2012 - 6,000) shares	55,000	60,000
	<u>\$ 155,000</u>	<u>\$ 160,000</u>

During the year the company redeemed 500 shares for cash of \$5,000. There are no scheduled repemtions for the next five years.

FANCY TECHNOLOGIES LIMITED
 NOTES TO THE FINANCIAL STATEMENTS - Cont'd
 YEAR ENDED JULY 31, 2013

9. RESEARCH AND DEVELOPMENT

The company performs research and development activities and the company qualifies for investment tax credits on such activities. The results are summarized below:

	<u>2013</u>	<u>2012</u>
Research and development salaries	\$ 185,000	\$ 165,000
Research and development tax credits	<u>132,576</u>	<u>118,104</u>
Net research and development salaries	<u>\$ 52,424</u>	<u>\$ 46,896</u>

There are no unclaimed research and development expenditures available for carry forward at the end of either year.

10. GOVERNMENT GRANTS

In 2012, the company received a government grant to develop their solutions implementations processes. The results are summarized below:

	<u>2013</u>	<u>2012</u>
Salaries and wages - solutions implementation	\$ 180,000	\$ 165,000
Government grants	<u>-</u>	<u>120,000</u>
Net salaries and wages - solutions implementation	<u>\$ 180,000</u>	<u>\$ 75,000</u>

11. COMMITMENTS

The company has entered into a 10 year lease on its facilities beginning August 1, 2012. The minimum lease payments are as follows:

	\$ 35,000
2014	35,000
2015	35,000
2016	35,700
2017	35,700
2018	142,800
Thereafter	