

On the preparation of corporation financial statements

A corporation's primary reporting obligations under statute include financial statements prepared for presentation to its shareholders, in addition to the Canada Revenue Agency ("CRA"). The financial statements presented to the shareholders are pursuant to the relevant corporations act (which may be federal or provincial). The same financial statements are provided to CRA and are formatted into standardized schedules called General Index of Financial Information or "GIFI" schedules, which correspond to a traditional financial statement including a Balance Sheet, an Income Statement and a Statement of Retained Earnings. The GIFI schedules are the basis of the corporate tax return.

Both the Canada Business Corporations Act (CBCA) and the Ontario Business Corporations Act (OBCA) provide for the appointment of a financial statement auditor, however in the case of a corporation that is not offering its shares widely, the auditor may be dispensed with by the directors and shareholders. This will generally be the case for a small corporation that does not otherwise require an audit and for which the payment of substantial audit fees to a public accountant, specifically licensed for that purpose, would not be cost effective.

The types of financial statement engagements undertaken by qualified Chartered Professional Accountants include : A) Audit Engagements, B) Review Engagements and C) Compilation Engagements. An Audit Engagement is intended to provide positive "Assurance" with regard to the accuracy of the financial statements and it is planned and carried out accordingly. A Review Engagement is intended to provide "Limited" or "Negative Assurance". Compilation Engagements are undertaken at a more basic level and do not provide assurance.

For corporations which do not require an audit, the most cost effective financial statement to have a Chartered Professional Accountant prepare is frequently an unaudited financial statement, which carries the accountant's "Notice to Reader", pursuant to a Compilation Engagement. The accountant places this standard notice on the financial statements to inform the reader that they have not been audited or reviewed. The accountant prepares the financial statements based on information provided by management. The accountant may use some judgment in preparing the financial statements, however he does not attest to their accuracy.

Many banks and other users will accept Notice to Reader financial statements for their purposes.

Bay Street Accounting and Tax Services is operated by a Chartered Professional Accountant and is qualified to provide compilation services, such as Notice to Reader financial statements and T2 corporation tax returns.