

Financial Statements: A Perspective for Lawyers



Legal Education
Society of Alberta

Bryan E. Bailey, FCA, CA•CBV, CFP
Bailey Valuations Inc.
Edmonton, Alberta



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Presenter

Bryan E. Bailey
Bailey Valuations Inc.
Edmonton, Alberta

LEGAL EDUCATION SOCIETY OF ALBERTA

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Understanding Financial Statements

A Perspective for Lawyers

Prepared for: Legal Education Society of Alberta

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For Presentation by: Bryan E. Bailey, FCA, CA•CBV, CFP
Bailey Valuations Inc.
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Seminar objectives

- Provide a general understanding of financial statements
 - Focused on privately-owned business enterprises
- Help you conduct more effective discovery examinations
- Provide a framework for dealing with experts

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Seminar Outline

- Part I - Financial statement assumptions and generally accepted accounting principles ("GAAP")
- Part II - Financial statements
- Part III - Basic financial analysis
- Part IV - Levels of assurance
- Part V - Soft spots
- Part VI - Valuation and damage quantification
- Part VII - Information gathering

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Why financial statements?

- Best starting point
- Financial statements exist for all businesses
 - Required for tax purposes
 - Required by lenders
- Summary data
- Established information presentation

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Part I

Financial statement assumptions & GAAP

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Financial statement assumptions

- General purpose use
- Going concern
- Historical cost
- Conservative
- Consistency
- Stable dollar
- Accrual based
- Use of GAAP (unless otherwise indicated)
- Substance over form

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GAAP

- CICA Handbook and related pronouncements usually primary source of GAAP in Canada
- Significant guidance from US sources
- GAAP is evolving:
 - Harmonization with international standards
 - Movement toward "fair value" accounting
 - Moving from "principles based" to "prescriptive" (US model)
- Adequate informative disclosure requirement
- Optional (differential) reporting in some areas of GAAP for non-publicly traded entities

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Fair value accounting

- Relatively new (since July 2001)
- Highly complex
- Fair value generally = FMV (not Fair Value)
- Evolving standards
- Expert pool limited

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Substance over form

- Lawyers usually deal with "form" (i.e., legal structures)
- GAAP deals with substance over form
 - Consolidation of subsidiaries (controlled entities)
 - Proportional consolidation (joint ventures)
 - Equity method (recognizes proportional interest in income of significantly influenced entities)
 - Capital leases (treated as debt)
 - Future income taxes (not payable or receivable)
 - Continuity of interest accounting (no culmination of the earnings process)

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