

KEEPING RECORDS AND FINANCIAL STATEMENTS

POLICY STATEMENT

Small Business Venture Capital Act (SBVCA)
s.28.97, 29 of the Act, s.14, 20 of the Regulation

Financial statements are essential for determining the value of a small business at a given point in time. It is important to understand the different types of financial statements, when independent review is required and whether your statements satisfy the annual filing requirements of the SBVCA, your investors or relevant tax authorities.

Company prepared annual statements are usually prepared in-house, without involving an independent professional accountant. They are often prepared on a cash basis and not adjusted for items such as accounts receivable, accounts payable or actual inventory levels. These statements are generally not relied upon and are insufficient when submitted to the Investment Capital Branch, your investors or relevant tax authorities. However, they may be used when a small business is applying for registration.

Notice to Reader financial statements involve a professional accountant taking information provided by the small business and compiling it – potentially making no adjustments to the records received. The accountant may not be independent of the small business and the accuracy of the financial statements depends on the quality of information provided by the small business. In statements of this standard, the accountant provides no assurance on the reliability of the statements.

The **Review Engagement** report attached to the financial statements provides assurance of a higher standard of preparation. A professional accountant, who is independent of the small business, performs procedures that indicate whether the financial statements are plausible. This gives the reader moderate assurance that the statements are correct and are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

In an **Audit Report**, a professional accountant, who is independent of the small business, provides reasonable assurance that the financial statements are true and free of material misstatements by management and that they are presented in accordance with GAAP.

In 2010, the Investment Capital Branch introduced a new extension of time for all small businesses, registered as an Eligible Business Corporation (EBC) raising capital through our venture capital programs. Businesses that have raised less than \$500K may file a **Notice to Reader** to satisfy the annual reporting requirements under the SBVCA. Once funds raised exceeds \$500K then section 28.97 of the SBVCA requires that within 6 months after fiscal year end, an EBC must prepare a copy of financial statements that have been reviewed by a chartered accountant, certified general accountant, certified management accountant or other person who is a licensed or registered member of an accounting association. In summary, once an EBC raises \$500K or more from investors under the program, a review engagement report will be required with each annual return filing.

The Investment Capital Branch, and other tax authorities, may audit your small business to ensure that your operations comply with the *Small Business Venture Capital Act*. The following best practices enable us to work with you efficiently and quickly so you can resume your day to day work with minimal interruptions.

Recommended bookkeeping policies:

- Deposit books should contain a detailed description of the source of the deposit. This will assist in verifying eligible investments occurred.
- Maintain a numerical sequence of cancelled cheques, including the cheque stub and a copy of the cancelled/cleared cheque. This will assist verifying eligible use of funds.
- Maintain an adequate employee reimbursement form with all supporting receipts. This will assist by ensuring transactions are classified properly.
- Regularly maintain a credit card reconciliation form with supporting receipts. Bank reconciliations should be regularly performed.
- Invoices should be clearly addressed, well organized and billed to the small business.
- Detailed descriptions should be used in the general ledger to ensure that transactions can be sourced to ensure eligible use of funds.

The ways that you can keep records:

- Books, records, and supporting documents produced and kept in paper format;
- Books, records, and supporting documents produced on paper, and later converted to and stored in an electronically accessible and readable format; and
- Electronic records and supporting documents produced and kept in an electronically accessible and readable format.

Your records whether in paper or electronic format, must:

- Be reliable and complete;
- Provide you with the correct information you need to assist in fulfilling your tax obligations and to calculate your entitlements;
- Be supported by source documents to verify the information contained in the records; and
- Include other documents, such as appointment books, logbooks, income tax and goods and services tax/harmonized sales tax (GST/HST) returns, scientific research and experimental development (SR&ED) vouchers and records, and certain accountants' working papers, that assist in determining your obligations and entitlements.

Note: If you carry on more than one business you must keep separate records for each business.

Location of records

Your records must be kept at your place of business or at your residence **in British Columbia**, unless we give you permission to maintain them elsewhere. To request permission, write to the Investment Capital Branch.

When we have given you permission to maintain your business records outside of British Columbia, they must be made available in British Columbia for review upon request. Otherwise, you must allow Investment Capital Branch officials to review the records by traveling to the country where they are maintained at the expense of your business.

Retention and destruction

You have to keep all of the records and supporting documents that are required to determine your tax obligations and entitlements for a period of **six years**.

This six-year period starts **at the end of the tax year to which the records relate**. The tax year is the fiscal period for corporations and the calendar year for all other taxpayers.