Financial Management and Business workshop

Presented by Sue Raw
Not For Profit Accounting Specialists
April 2013
HELLO
Welcome & Introduction

• Expected learning outcomes
  – Understanding financial literacy and governance
  – How to interpret financial reports
  – The basic components of budgeting and forecasting
  – Update on the Australian Charities and Not-for-profits Commission (ACNC)
  – Overview of the Standard Chart of Accounts (SCOA)
Session Outline

• Financial Literacy and Governance
  – The Association Incorporations Act
  – ACNC requirements
• Understanding Financial Reports
• Budgeting and Forecasting
• ACNC update
• Overview of the SCOA
Financial Literacy and Governance

- Financial Literacy and Governance
  - Rules of Incorporation
  - The Association Incorporations Act (SA) 1985
  - ACNC requirements
  - Sports Governance Principles
Associations Incorporations Act

- Officer of the association
- s.39C Keeping of records
- s.35 Accounts to be kept
- s.39A Duties of officers
- s.49AD Trading whilst insolvent
ACNC Governance Regulations

• Standard 1  purposes and not-for-profit nature of a registered entity
• Standard 2  accountability to members
• Standard 3  compliance with Australian laws
• Standard 4  suitability of responsible entities
• Standard 5  duties of responsible entities
Sports Governance Principles

**Principle 4.4:** That the board should receive timely reports that are presented regularly (preferably monthly)
Good Financial Health Checklist

• Financial Management
• KPIs / Ratios
• Reserves
• Policies and Procedures
• Staff Turnover
• Delegations
Good Financial Health Checklist

• Financial Management
• KPIs / Ratios
• Reserves
• Policies and Procedures
• Staff Turnover
• Delegations
Understanding Financial Reports
For-profit vs. not-for-profit entity

- Legal framework differences
- Accounting treatment/requirements
- Commercial objective vs Service delivery
- Role of strategic planning /monitoring
Management vs. Statutory reports

- Management reports – usually compared to budget/rolling forecast, monthly
- Statutory report – compared to the prior year, annual
Elements of Financial Reports

• **Statement of Financial Position** (Balance Sheet)
• **Statement of Financial Performance** (Income and Expenditure Statement)
• **Statement of Cash Flows**
Elements of Financial Reports

• **Statement of Financial Position (Balance Sheet)**
  – reports the organisation’s assets/liabilities at a point in time

• **Current vs. non-current**

• **Cash vs. non-cash**
Elements of Financial Reports

• **Statement of Financial Performance (Income and Expenditure Statement)**
  – reports the organisation’s operating performance for a period of time
  – Organised by type of income / expense
  – Cash vs. non-cash expenses
Elements of Financial Reports

• **Statement of Cash Flows**
  – reports the organisation’s cash flows for a period of time

• **Cash flows from:**
  – Operations
  – Investments
  – Financing
Interpreting Financial Information

- Items to consider when reviewing financial statements:
  - Recurrent vs. non-recurrent funding
  - Sources of funding
  - Controllable vs. non-controllable costs
  - Variances against budget
  - Net surplus / deficit
  - One-off/unusual income or expenditure
  - Do the results line up with the strategic direction?
Key Ratios

• Financial ratios to consider
  – Net Assets
  – Working Capital
  – Cash balances – trends
  – Liquid funds indicator
  – Results against budget and forecast
  – Capital expenditure levels – investing for the future
Other aspects to consider

• Performance indicators
  – What are the key indicators of the organisation meeting the strategic direction
  – Leading vs. lagging indicators
  – Often these are not financial – the financial effects are the outcomes of other indicators being met
Budgeting and Forecasting

• Why plan or forecast
• Key elements
• Where to start
• Budget vs. Forecast
Budgeting and Forecasting

• Why plan or forecast
• Key elements
• Where to start
• Budget vs. Forecast
ACNC update

• Commenced December 2012
• What the ACNC does
Not for Profit Reform Agenda

• The National Compact
• Regulatory reform
• Tax reform
• Funding reform
• Statutory definition of charity
• National fundraising legislation
Standard Chart of Accounts

- Assets
- Liabilities
- Income
- Expenses
- Equity
- Cost of Sales
Why implement a SCOA?

- Lack of consistency in accounting categories and terms used between Government departments and NFPs.
Benefits of implementation

• Reduced cost
• Best Practice
• Supports Benchmarking
• Consistency for users
• Standard Definitions
• Ease of understanding
• Transparency
• Mandatory for Government
# Understanding the SCOA

<table>
<thead>
<tr>
<th>6-0595</th>
<th>Repairs &amp; Maintenance - Rental Properties</th>
<th>This account includes all repairs and maintenance incurred by the nonprofit organisation that relate to rental properties including make good expenses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-0600 to 6-0649</td>
<td>Salaries &amp; Wages</td>
<td>This account is a header account and represents all salaries and wages paid to all staff employed by the nonprofit organisation on a permanent or casual basis (including replacement staff) by the nonprofit organisation. These accounts tie into the organisation's payroll system and links should be re-checked on implementation or upgrade of both a Standard Chart of Account and the Payroll System.</td>
</tr>
<tr>
<td>6-0601</td>
<td>S&amp;W Annual Leave Expense</td>
<td>This account represents annual leave paid for the current year for employees. Generally this account is for the paid activities in each year and any leave accrued will be accounted for in the payroll system and liability accounts.</td>
</tr>
<tr>
<td>6-0602</td>
<td>S&amp;W Fringe Benefits Tax</td>
<td>This account represents the amount of fringe benefits tax paid by the nonprofit organisation.</td>
</tr>
<tr>
<td>6-0603</td>
<td>S&amp;W Long Service Leave Expense</td>
<td>This account represents long service leave paid for the current year for employees. This account is the actual expenses in the year - some organisations undertake a probability calculation or record the movement from their payroll system.</td>
</tr>
<tr>
<td>6-0604</td>
<td>S&amp;W Recruitment Expense</td>
<td>This account represents recruitment expenses during the current year for employees incurred by the organisation for recruiting staff.</td>
</tr>
<tr>
<td>6-0605</td>
<td>S&amp;W Salary Sacrifice</td>
<td>This account represents amounts provided by the nonprofit organisation as part of employees' remuneration e.g. vehicle lease, credit cards.</td>
</tr>
<tr>
<td>6-0606</td>
<td>S&amp;W Sick Leave Expense</td>
<td>This account represents sick leave paid for the current year for employees.</td>
</tr>
<tr>
<td>6-0607</td>
<td>S&amp;W Superannuation</td>
<td>This account covers all expenses relating to superannuation, as paid for salaried or casual staff.</td>
</tr>
<tr>
<td>6-0608</td>
<td>S&amp;W Termination Payments</td>
<td>This account covers all termination payments paid such as bona fide redundancies, invalidity payments and golden handshakes.</td>
</tr>
<tr>
<td>6-0609</td>
<td>S&amp;W Workers' Compensation</td>
<td>Amounts paid for workers' compensation paid in respect of employees employed by the nonprofit organisation. Where an organisation self-insures, this account and as many extra accounts for specific costs should be constructed in the chart of accounts.</td>
</tr>
</tbody>
</table>

Note: the ATO has an extensive site relating to Salary Sacrificing in Nonprofits at: [http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33638.htm](http://www.ato.gov.au/nonprofit/content.asp?doc=/content/33638.htm)

Harmonisation of workers compensation legislation has commenced and changes to accounts are required from 1 July 2010 to accommodate this harmonisation as well as changes will be required for new harmonisation activities.
SCOA – where to now?

- Mapping process
- Conversion
- Cost / Benefit
Further Information

• Not For Profit Accounting Specialists
  (08) 8215 0022
  sue@nfpas.com.au
  www.nfpas.com.au