

2024

Reading Financial Statements

Handout Pack



PRESENTED BY
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**GROWER
GROUP
ALLIANCE**
Together we grow

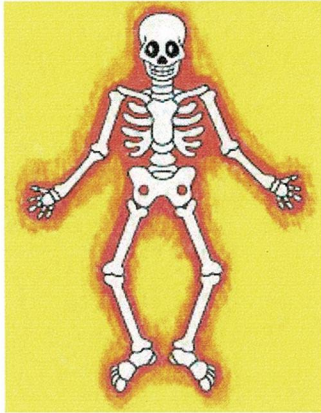


CBHGROUP

Finance questions directors should ask

The following questions are to assist board members with limited financial knowledge fulfil their obligations to interrogate financial information.

1. Is there a reliable budget that management are held accountable for?
2. Is the organisation reliant on one funder or customer?
3. Does the organisation have a robust system of internal control? Are audit structures and processes appropriate?
4. Are the management accounts presented on a timely basis?
5. Are the management accounts well presented with narrative as well as numbers?
6. Does the cash flow forecast support that the organisation will be able to repay its debts as and when they fall due?
7. What significant accounting practices and standards apply? Have they changed?
8. Have asset values been independently verified?
9. Has the board met with the external auditors in camera? Did the auditors raise any issues?
10. Are the financial statements consistent with your knowledge of the organisation?
11. What are the areas of significant financial judgements and estimates?
12. Do the financial statements make sense? Do they present a realistic view of the results, cash flows and state of affairs?
13. Are there any disputes with third parties for which provisioning may be needed?
14. Are significant items clearly explained?
15. Are related party transactions fully documented?
16. Have the board approved any changes in accounting policies?



STRATEGIC LINKAGES

WHY

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Value Proposition

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Vision

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Key Strategic Objectives

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Strategic Plan (1 Page)

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Business Plan

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Budget

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Income Statements (P&L)

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Cash Flow Forecast

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Changes in Equity

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Balance Sheet

RATIO INTERPRETATION

Ratio	Computation	Example	Meaning
<u>LIQUIDITY</u>			
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.50	I have \$1.50 in current assets to pay every dollar in current liabilities
Quick Ratio	$\frac{\text{Cash} + \text{Accounts Receivables}}{\text{Current Liabilities}}$.85	I have \$0.85 in quick assets (liquid) to pay every dollar in current liabilities
<u>FINANCIAL HEALTH</u>			
Debt to Equity	$\frac{\text{Total Liabilities}}{\text{Equity}}$	2.75	For every dollar I (the owner) put into the business, the creditors have put in \$2.75
Interest Cover	$\frac{\text{EBIT}}{\text{Financial Expenses}}$	2.5 times	I have profits that can meet interest payments by 2.5 times
<u>PROFITABILITY</u>			
Gross Profit Ratio	$\frac{\text{Gross Profit}}{\text{Sales}}$	35.0%	For every dollar of sales I generate I make I make 35c at the gross profit level
Pre-tax Profit Ratio	$\frac{\text{Pre-tax Profit}}{\text{Sales}}$	3.0%	For every dollar of sales I generate, I make 3c at the net profit level.
EBIT Margin	$\frac{\text{EBIT}}{\text{Revenue}} \times 100$	12.0%	I have 12% revenue remaining after paying all expenses
Sales to Assets	$\frac{\text{Sales}}{\text{Total Assets}}$	2.60	For every dollar in assets employed in my business, I generate sales of \$2.60
Net Profit Margin	$\frac{\text{Net Surplus} \times 100}{\text{Revenue}}$	9.5%	How much is each dollar earned is translated into profit
Return on Assets (ROA)	$\frac{\text{Pretax Profit}}{\text{Total Assets}}$	10.0%	For every dollar in assets employed in my business, I generate 10c in profits
Return on Equity a (ROE)	$\frac{\text{Net Profit}}{\text{Equity}}$	22.0%	For every dollar I've invested in the business, I generate a return of 22c.
<u>OPERATING EFFICIENCY</u>			
Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Inventory}}$	6 x	On average, I turn my inventory 6 times a year
Days in Inventory	$\frac{365 \text{ Days} \times \text{Inventory}}{\text{Cost of Sales}}$	61 Days	On average I turn my inventory every 61 Days
Accounts Receivables Turnover	$\frac{\text{Sales}}{\text{Accounts Receivables}}$	9 X	On average I collect my accounts receivables 9 times a year
Days Receivable	$\frac{365 \text{ Days} \times \text{Receivables}}{\text{Revenue}}$	41 Days	Average of 41 days to turn receivables to cash
Days Payable	$\frac{365 \text{ Days} \times \text{payables}}{\text{Total Cost}}$	52 Days	On average I pay my accounts payable every 52 days
Business Efficiency	$\frac{\text{Revenue}}{\text{Net Operating Assets}}$	0.5	\$0.50 cents is spent for every \$1 earned in revenue
Return on Capital Employed	$\frac{\text{EBIT}}{\text{Net Operating Assets}}$	20%	20 cents is generated out of every \$1 of capital Employed
Total Asset Turnover	$\frac{\text{REVENUE}}{\text{TOTAL ASSETS}}$	1.7 TIMES	The line of revenue being supplied by each \$1 of assets.

10 RULES FOR NOT-FOR-PROFIT DIRECTORS

- Know what the objects of your organisation are and make sure everyone is working towards them. If you are unsure, ask yourself whether your actions promote your purpose.
- Be clear about your role and make sure that the roles and responsibilities of everyone are well understood, whether these are volunteers, members, board members, clients, or employees.
- Understand your organisation's financial position and be familiar with its financial statements – everyone on the board shares a responsibility to make sure finances are managed well.
- Keep your responsibilities and legal duties as a board member in mind when making decisions as a board member, particularly difficult ones.
- Have a copy of your constitution or rules and read them, understand them, follow them and if you are ever unsure, ask other board members or get professional advice.
- Although board members act as a group, do not just follow the crowd. You should always do what you think is best for your organisation, even if sometimes it means taking a different view to other board members.
- Understand your obligations to government agencies and make sure your organisation is meeting them.
- Listen to the other board members and work as part of a team. The board shares a collective responsibility and you should see board members as colleagues.
- Be confident to declare and manage conflicts of interest responsibly. Most members of a board will encounter conflicts of interest and you should feel confident to handle them responsibly.
- Always act in the best interests of your organisation – as a board member you have a responsibility to put the interests of your organisation above your own personal interests.

Financial Case Study

KOALA RIDGE BEACH LIFE SAVERS INCORPORATED
 STATEMENT OF COMPREHENSIVE INCOME FOR THE
 YEAR ENDED 30 JUNE 20XC

	Note	20XC \$	20XB \$
Income			
Member fees		30,622	37,389
Fundraising appeals		50,842	61,111
Government and other grants	5	152,348	67,142
Donations		46,735	42,954
Beach cricket tournament collections		10,244	8,433
Subsidies		7,848	4,834
Bar income		4,223	4,782
Equipment hire		1,523	1,718
Gym fees		5,232	6,225
Hire of hall		39,422	38,284
Inventory sales		31,823	29,384
Dividends received		2,978	2,432
Interest received		2,534	3,628
Total income		386,374	308,316
Expenditure			
Fundraising expenses		31,111	42,342
Beach cricket tournament expenses		11,482	10,342
Bar expenses		5,924	4,848
Catering		10,721	8,777
Inventory purchases		15,423	14,284
Hall maintenance		29,842	27,482
Depreciation		22,284	20,342
Gas and electricity		12,423	11,484
Employee costs		99,836	90,145
Insurance		15,222	17,842
Motor vehicle expenses		2,224	3,897
Printing, postage and stationery		798	642
Repairs and maintenance		29,784	26,642
Security		3,484	3,121
Professional fees		7,824	7,523
Telephone		1,742	1,548
Loan interest		1,642	1,872
Bank charges		582	497
Total expenditure		302,348	293,630
Operating surplus/(deficit)		84,026	14,686

KOALA RIDGE BEACH LIFE SAVERS INCORPORATED
 STATEMENT OF FINANCIAL POSITION FOR THE YEAR
 ENDED 30 JUNE 20XC

KOALA RIDGE BEACH LIFE SAVERS INCORPORATED
 STATEMENT OF COMPREHENSIVE INCOME FOR THE
 YEAR ENDED 30 JUNE 20XC

	Note	20XC \$	20XB \$
Current assets			
Cash at bank		91,808	24,798
Inventories	2	6,434	5,884
Other assets		7,552	4,646
Total current assets		105,794	35,328
Non-current assets			
Property, plant and equipment	3	159,058	181,342
Investments	4	64,373	54,324
Total non-current assets		223,431	235,666
TOTAL ASSETS		329,225	270,994
Current liabilities			
Trade creditors		6,439	14,846
Other creditors		6,115	18,988
Total current liabilities		12,554	33,834
Non-current liabilities			
Bank loan		17,827	22,342
Total non-current liabilities		17,827	22,342
TOTAL LIABILITIES		30,381	56,176
NET ASSETS		298,844	214,818
Funds		298,844	241,818
TOTAL MEMBERS FUNDS		298,844	214,818

KOALA RIDGE BEACH LIFE SAVERS INCORPORATED
STATEMENT OF CHANGES IN FUNDS FOR THE YEAR
ENDED 30 JUNE 20XC

	General funds \$
Balance at 1 July 20XA	200,132
Operating surplus/(deficit)	14,686
Balance at 30 June 20XB	214,818
Operating surplus/(deficit)	84,026
Balance at 30 June 20XC	298,844

KOALA RIDGE BEACH LIFE SAVERS INCORPORATED
 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
 30 JUNE 20XC

	20XC \$	20XB \$
Cash flows from operating activities		
Receipts from donations and gifts	46,937	43,590
Grant receipts	148,230	49,270
Fundraising receipts	50,842	61,111
Member and customer receipts	102,765	118,391
Dividend income	2,724	2,040
Interest income	2,642	3,506
Payments to suppliers and employees	(291,022)	(274,050)
Net cash flows from operating activities	63,118	3,858
Cash flows from investing activities		
Purchase of investments	15,481	6,441
Disposals of investments	(5,432)	(2,124)
Net cash flows from investing activities	10,049	4,317
Cash flows from financing activities		
Bank loan repayment	(6,157)	(5,724)
Net cash flows from financing activities	(6,157)	(5,724)
Net increase/(decrease) in cash and cash equivalents	67,010	2,451
Cash and cash equivalents at beginning of year	24,798	22,347
Cash and cash equivalents at end of year	91,808	24,798

**KOALA RIDGE BEACH LIFE SAVERS INCORPORATED
(EXTRACT OF) NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 20XC**

NOTE 1: (EXTRACT OF) SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared on the accruals basis and are based on historical cost. The financial statements are special purpose financial statements prepared in order to satisfy the requirements of the financial reporting requirements under the Associations Incorporation Act (QLD) 1981. In the opinion of the management committee, Koala Ridge is not a reporting entity because there are no users dependent on general purpose financial statements.

	20XC \$	20XB \$
NOTE 2: INVENTORIES		
Equipment for sale	6,232	5,248
Donated goods	202	636
	6,434	5,884

NOTE 3: PROPERTY, PLANT AND EQUIPMENT		
Freehold land and buildings	168,340	168,340
Less accumulated depreciation	(40,950)	(28,250)
	127,390	140,090
Equipment	36,402	36,402
Less accumulated depreciation	(12,851)	(7,351)
	23,551	29,051
Motor vehicles	17,550	17,550
Less accumulated depreciation	(9,433)	(5,349)
	8,117	12,201
Total property, plant and equipment	159,058	181,342

NOTE 4: INVESTMENTS		
Term deposits – fixed interest	42,382	42,382
Shares	21,991	11,942
	64,373	54,324

NOTE 5: GOVERNMENT AND OTHER GRANTS (EXTRACT)

Baywatch grant

During the year, Koala Ridge received a grant of \$100,000 from Hofferson Council. The council has stipulated that the grant should be used to provide themed uniforms to lifeguards and other support staff and volunteers, provide advanced training in life-saving skills to lifeguards and other support staff and volunteers, and to purchase life-saving equipment. As the grant was received in the final quarter of the year, Koala Ridge intends to commence fulfilling the grant requirements in the period commencing the second half of 20XD and intends to complete the activities in relation to the grant by the following year.