

Reading and understanding financial statements – Plain English

Understanding Financial Reports

All organisations prepare financial reports for their Board. Financial reports give details about the money an organisation has and what it has spent.

The Treasurer is responsible for presenting the financial reports to the Board. The Treasurer might be supported by other people such as the organisation's bookkeeper or accountant, the Executive Officer, a Financial Committee, or a financial advisor. Bookkeepers and accountants are trained to understand how to record money as it goes in and out of an organisation, and to understand what this means.

The Board usually checks the financial records at every Board meeting. Every Board member should understand the financial reports so that they can make good financial decisions for the organisation.

Most organisations get their financial records checked by someone outside of the organisation once a year. This check is called an audit. The person doing this check is called an auditor. They are trained to do this. They are not part of the organisation. They will write an Auditor's Report that goes in the Annual Report.

There are 5 reports that most organisations use.

1. Treasurer's Report
2. Profit and Loss
3. Balance Sheet
4. Cash Flow
5. Budget

1. Treasurer's Report

This report is written by the Treasurer. This report

- tells you about the organisation's **finances**. Finances are about the organisation's money. It is about money coming in (income), and money being spent (expenses)
- tells you if the finances are different to what was expected
- it tells you about any problems

Any questions?




2. Profit and Loss Report

This report tells you what money the organisation has received (**income**) and what money has been spent (**expenses**).

Sometimes it is called an Income and Expenditure Report

If you spend less than your income, you have a profit.

If you spend more than your income, you have a loss.

		Last month	So far this year
 in	Income money we received		
 out	Expenses money we spent		
	Income – Expenses = Profit (+) or Loss (-)		

Question to ask yourself: Are we spending more than we are earning?




My questions or comments for the Treasurer:

3. Balance Sheet

This report is in 2 parts. It tells us about our assets. Assets are the things an organisation owns. This includes money and equipment and other things.

It also tells us about our liabilities. Liabilities are the money the organisation owes to someone else. This includes debts and other amounts we would have to pay if we closed the organisation.

The difference between assets and liabilities is the equity.





		So far this year
	Total Assets value of everything we own (money in bank, money owed to us, value of things we own)	
	Total Liabilities everything we owe other people (bills, tax, money to pay what we owe staff)	
	Equity Total assets – Total liabilities	

Question to ask yourself: Do we have more assets than liabilities? (Do we own more than we owe?)

My questions or comments for the Treasurer.

4. Cash Flow Report

This report tells us what money has gone in and out of the bank.

		For the month	So far this year
 \$	Opening Balance money in Bank at start of month or year		
 +	Receipts money we put into the bank		
 -	Payments money we spent		
 \$ =	Closing Balance money in bank at end of month or year		

Question to ask yourself: Do we have enough money in the bank to pay our bills?

My questions or comments for the Treasurer.




5. Budget: How we plan to spend our money






The budget has 2 parts.

The first is what money the organisation thinks it will earn or receive in a year (money in)

The second part is a plan of how the organisation will spend this money (money out)

It is worked out each year by senior staff and the Treasurer. The Board has to agree to this plan.

	Money we think we will receive for the whole year 	So far this year – what money we thought we would receive 	So far this year – what we have received 
Grants			
Donations			
Interest			
Add any other income source			
 Total			

 out	Money we plan to spend for the whole year 	So far this year - money we planned to spend 	So far this year - What money we have spent  out
Staff costs			
Office			
Travel			
Equipment			
Add any other expenses			
 Total			

Question to ask yourself: Are we keeping to our budget?

My questions or comments for the Treasurer.