TRANBY NATIONAL INDIGENOUS ADULT EDUCATION & TRAINING

SINCE 1957

BSB41021
Certificate IV in Aboriginal and Torres Strait Islander Governance

Module 3

Learner Manual

LGACOR011 Analyse financial reports and budgets

Contents

Introduction

This Learner Manual addresses the Unit of Competency LGACOR011 Analyse financial reports and budgets.

The Learning Objectives are:

- Summarise the purpose of a Profit and Loss Statement.
- Summarise the purpose of a Balance Sheet.
- Summarise the purpose of a Cash Flow Statement.
- Summarise the legal requirements for financial management of organisations.
- Describe the purpose of financial policies and procedures in an organisation.

Interpreting Financial Reports

Profit and Loss Statement

A Profit and Loss Statement is, perhaps, the most important financial statement and may also be known as:

- Income and expenditure statement.
- Operating statement.
- Revenue statement.
- Monthly profit and loss report.

This statement shows all of the income and expenditure during a specified period usually a month, a quarter or fiscal year of the organisation's operations. This means everything that the organisation received and spent.

It also shows how much was budgeted for each item, that is, how much money is put aside to be spent or how much money the organisation thought it would receive.

Terms used in the Profit and Loss Statement:

Account Name	Each goal identified by the organisation has its own separate funding. The funding monies are put into a separate account and given their own account name.
Selected Period	This will indicate the period of time when the figures were calculated. This usually occurs on a monthly basis.
Year to Date	The total amount for the whole year.
Budget	The estimated amounts that the Committee thought they would spend on this item.
Actual	The amounts actually spent by the organisation. Having the Budget column next to the Actual column allows a committee to immediately see whether they have overspent on an item.

	If the Budget amount is kept separate from the Actual amount, it is less likely that problems will be seen.
Income	The money the organisation receives or is shortly due to receive. In this case money is being received from a grant, membership fees, donations, some bank interest and wages recovery. Another term often used instead of income is Revenue.
Total Income	If all the figures under Income are added together it will equal this number.
Expenses	Everything that has been spent on this project or committed to be spent in this period. In this case money has been spent on advertising, bank charges, catering etc. Expenses can also be known as Expenditure.
Cost of Sales	Cost of sales (COS) represents all the costs that go into providing a service or product to a customer. It may also be called cost of goods sold (COGS).
Total Expenditure	The total amount spent in expenses.
Net Profit or Loss	The most useful number to look at. This is often referred to as "the bottom line." It says how much there is left after deducting all the expenses from the income or revenue. If too much has been spent the number may have a minus sign in front of it or have brackets around it. For example: ($5,366)

If the organisation has gone over budget for a selected period too much money has been spent or less money has come in than was expected. If this is the case the Board would ask for an explanation. Perhaps there is money due to come in, but without asking no one will know whether there is money available or you are about to go out of business.

Another word for *loss* is, D*eficit*. They both mean the same thing.

Net Loss may also be represented as *Net Deficit*.

Please see below for an example of a Profit and Loss Statement:[1]

[1] https://business.vic.gov.au/__data/assets/excel_doc/0004/1009516/Financial-statements-template.xlsx

Example Profit and Loss Statement

Joe's Motorbike Tyres			
Profit and Loss Statement			
For the Period ended Year One			
Income			
	Sales	$52,000	(1,000 tyres @ $52 each)
	Total Sales	$52,000	
Cost of Goods Sold			
	Opening Stock	0	
	Stock Purchases	$34,320	
	Less Closing Stock	$3,120	
Total Cost of Goods Sold (COGS)		**$31,200**	(see note below)
Gross Profit		$20,800	
Expenses			
	Advertising	$500	
	Bank Service Charges	$120	
	Insurance	$500	
	Payroll	$13,000	
	Professional Fees (Legal, Accounting)	$200	
	Utilities & Telephone	$800	
	Other: Computer Software	$480	
	Expenses total	$15,600	
Net Profit before Tax		**$5,200**	

Note: Cost of Goods Sold Calculation:		
Towards the end of the year, Joe manages to purchase 100 more tyres on credit from his supplier for an order in the new year. This leaves him with $3,120 of stock on hand at the end of the year.		
Joe's Cost of Goods Calculation		
Opening Stock	Nil	(1100 tyres @ $31.20 each)
Add Stock Purchased during the year	$34,320	
Equals Stock available to sell	$34,320	
Less Stock on hand at the end of year	$3, 120	(100 tyres @ $31.20 each)
Cost of Goods Sold	**$31,200**	
Where a business is a service business, that is, you are selling services, not goods or products, then the profit and loss statement will generally not have a cost of goods sold calculation. In some instances, where labour costs can be directly attributed to sales, then you may consider including these costs and a cost of goods (services) sold.		

Balance Sheet

Balance Sheet may also be known as Statement of Financial position. The Balance Sheet shows the organisation's complete financial position by detailing the organisation's total Assets, Liabilities and Equity.

Terms used in the Balance Sheet:

Assets	The land, buildings, cars, equipment and cash that the organisation owns.
Liabilities	The debts, staff leave entitlements, overdrafts and loans that an organisation owes or is liable to pay in the future. This includes any future expenses that need to be paid or is owed to the bank.
Equity	Any additional funds can be placed in reserve for important expenditure in the following year if funding bodies allow. This could be retained earnings, which means money set aside for future use.
Total Equity	The total amount an organisation is worth. The total equity of an organisation will always balance with the Net Worth.
Net Worth	What the organisation is worth. The amount of money that the members have invested in the organisation. If you take away what the organisation owes (liabilities) from what it owns (assets) the result is the net worth.

This report always needs to balance, which is why it is known as a balance sheet.

Some organisations only look at the Balance sheet on a yearly basis as part of their annual audit report, but it is best to review the Balance sheet more often if possible. It helps the Board stay informed about the organisation's overall performance.

An example of a Balance Sheet:[2]

Joe's Motorbike			
Balance Sheet			
As At end of year One			
Current Assets			
Cash	$5,100		
Debtors	$18,000		
Stock	$3,120		
Total Current Assets		**$26,220**	
Non-current Assets			
Computer	$5,500		
Store Fit Out	$8,100		
Office Equipment	$15,000		
	Total Non-current Assets	$28,600	
Total Assets		**$54,820**	
Current Liabilities			
Credit Card	$5,500		
Creditors	$4,120		
Total Current Liabilities		$9,620	
Non-current Liabilities			
	Total Non-current Liabilities		
Total Liabilities		**$9,620**	
Net Assets			**$45,200**
Shareholders' Equity			
Owners' Funds		$40,000	
Current Year Profit		$5,200	
Total Shareholders' Equity			**$45,200**

[2] https://business.vic.gov.au/__data/assets/excel_doc/0004/1009516/Financial-statements-template.xlsx

Statement of Cash Flow

The Statement of Cash Flow indicates the flow of cash within an organisation and assists in planning how and when money can be spent.

Cash Flow is essential for the survival of the organisation. Without cash an organisation can get into financial difficulty very quickly and will not be able to pay its bills.

The Statement of Cash flow enables an organisation to budget for the future, to foresee any critical periods when funds might be limited. It can also assist in determining if a large cash outlay on capital expenditure is affordable or whether it would be more appropriate to lease an item.

Terms used in statement of Cash Flow

Expenditure	The amount the organisation has spent during the month.
Balance	The amount that is left to be spent. This amount can be carried over to the next month and spent then instead.
Brought Forward	The balance amount may be carried over to the next months and spent then instead.
Income	The money the organisation receives or is shortly due to receive. In this case money is being received from a grant, membership fees, donations, some bank interest and wages recovery. Another term often used instead of income is Revenue.

Please see below for an example of a Cash Flow Statement:[3]

[3] https://business.vic.gov.au/__data/assets/excel_doc/0004/1009516/Financial-statements-template.xlsx

Example of a Cash Flow Statement

Joe's Motorbike Tyres
Balance Sheet
As at end of Year One

Current Assets			
Cash	$5,100		
Debtors	$18,000		
Stock	$3,120		
Total Current Assets		$ 26,220	
Non-Current Assets			
Computer	$5,500		
Store Fit Out	$8,100		
Office Equipment	$15,000		
Total Non-Current Assets		$ 28,600	
TOTAL ASSETS		**$ 54,820**	
Current Liabilities			
Credit Card	$5,500		
Creditors	$4,120		
Total Current Liabilities		$ 9,620	
Non-Current Liabilities			
Total Non-Current Liabilities			
TOTAL LIABILITIES		**$ 9,620**	
NET ASSETS			**$ 45,200**
Shareholder's Equity			
Owners Funds		$ 40,000	
Current Year Profit		$ 5,200	
TOTAL SHAREHOLDERS EQUITY			**$ 45,200**

Joe's Motorbike Tyres
Statement of Cash Flows
For the period ending Year One

Cash flows from operating activities		
Receipts from Income	$52,000	
Payments of expenses	-$15,600	
Funding to Debtors	-$18,000	
Stock Movement	-$34,320	
Funding from Creditors	$4,120	
Net cash from operating activities		-$11,800
Cash flows from investing activities		
Payments for property, plant and equipment	-$28,600	
Net cash from investing activities		-$28,600
Cash flows from financing activities		
Increase in short term Debt	$5,500	
Increase in Long Term Debt		
Proceeds from owners (equity)	$40,000	
Net cash from financing activities		$45,500
Net increase in cash		$5,100
Cash balance as at start of year		
Cash balance as at end of year		**$5,100**

Joe's Motorbike Tyres
Profit and Loss Statement
For the period ending Year One

Income	
Sales	$52,000
Total Sales	$52,000
Cost of Goods Sold	
Opening Stock	$0
Stock Purchases	$34,320
Less Closing Stock	$3,120
Total Cost of Goods Sold(COGS)	$31,200
Gross Profit	$20,800
Expenses Total	$15,600
Net Profit before Tax	$5,200

Legal Requirements for Financial Management of Organisations

Companies

A company must keep up-to-date financial records that correctly record and explain transactions and the company's financial position. Larger companies have additional obligations to lodge financial reports with ASIC.

Generally, companies need to lodge financial reports when:

- There are large sums of money involved.
- The public has invested in the company, or
- The company exists for charitable purposes only and is not intended to make a profit.

All companies must keep some form of written financial records that:

- Record and explain their financial position and performance, and
- Enable accurate financial statements to be prepared and audited.[4]

Co-operatives

Co-operatives must keep written financial records that correctly record and explain their transactions and financial position and performance. The records must enable financial statements to be prepared and audited.

Financial records must be retained for seven years after the transactions covered by the records are completed. If kept in an electronic form the records must be able to be converted into hard copy within a reasonable time.

Reporting requirements

Different reporting requirements apply for small and large co-operatives.

Co-operatives that are disclosing entities [5]have additional reporting requirements and should consult their legal or financial adviser regarding these obligations.

Determining if you are a small co-operative

A co-operative is small if it satisfies at least two of the following criteria:

- The consolidated revenue of the co-operative and the entities it controls (if any) is less than $8 million for the financial year.
- The value of the consolidated gross assets and the entities it controls (if any) is less than $4 million at the end of the financial year.
- The co-operative and the entities that it controls (if any) has fewer than 30 employees at the end of the financial year.

The co-operative must also have:

- No securities on issue to non-members during that year other than securities issued to former members on the cancellation of their membership; or

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[4] https://asic.gov.au/for-business/small-business/starting-a-small-business-company/legal-requirements-for-companies/#records

[5] A business entity is the legal structure of a business, which can be a sole trader, partnership, or company, among others.

- Not issued shares to more than 20 members in a financial year. Or if it is has done this, the amount raised by issuing those shares does not exceed $2 million.

Co-operatives that do not meet the above criteria are large co-operatives.

Small co-operatives – financial reporting

Each financial year, a small co-operative must prepare a report for its members containing:

- An income and expenditure statement setting out the appropriately classified individual sources of income and individual expenses incurred in the operation of the co-operative.
- A balance sheet, including appropriately classified individual assets and liabilities of the co-operative.
- A statement of changes in equity.
- A cash flow statement is required if the co-operative and any of its controlled entities has consolidated revenue of $750,000 or greater, or if the value of the consolidated gross assets is $250,000 or greater.

The financial statements must present a true and fair view of the co-operative's financial position, performance and cash flows. They must also include:

- Comparative figures for the previous financial year.
- A statement of significant accounting policies.

An audit or review of a small co-operative's financial statements and /or additional financial reports, may be required if it is:

- Specified in the co-operative's rules.
- Requested by its members or the Registrar under the Co-operatives National Law.

Small co-operatives need to report to members within five months of the end of the co-operative's financial year.

Small co-operatives must lodge a C12 Annual return form within five months after the end of their financial year.

Large co-operatives – financial reporting

Each financial year, a large co-operative must prepare and present to its members:

- The financial report for the year.
- The Board of Directors' report for the year.
- An independent auditor's report on the financial year.

OR

- A concise report.

The financial report must be prepared in accordance with the Australian Accounting Standards. It must include the co-operative's:

- Income statement.
- Balance sheet.
- Statement of changes in equity.
- Cash flows statement.
- Board of Directors' declaration.

- Notes to the financial statements. These must include:
    - Notes required by the accounting standards.
    - Disclosure required by the National Regulations.
    - Any other information necessary to give a true and fair view.

A concise report consists of:

- A concise financial report in accordance with accounting standards.
- The Board of Directors' report for the year.
- A statement by the auditor that the financial report has been audited and whether the concise financial report complies with the relevant accounting standards.
- A copy of any qualification in the auditor's report and
- A statement that the report is a concise report and a full report is available upon request and free of charge.

Large co-operatives need to report to members within five months after the end of the financial year.

Large co-operatives must lodge a C13 Annual Report Large Cooperative form, within five months after the end of their financial year.[6]

Associations

Associations must keep records that correctly record and explain their financial transactions and financial position. Where any of the financial records are kept in a language other than English, an English translation must also be kept with the documents.

Tier 1 and Tier 2 associations

An association's reporting obligations under the *Associations Incorporations Act 2009* (the Act) is based on its status as either a Tier 1 (large) or Tier 2 (small) association.

Tier 1 associations are those whose:

- Total revenue as recorded in the income and expenditure statement (i.e. gross receipts) for a financial year is more than $250,000 or
- Current assets* are more than $500,000.

Before the Annual General Meeting (AGM)

As soon as practical after the end of the association's financial year the committee must:

1. Prepare financial statements in accordance with Australian Accounting Standards. See information below on Complying with Australian Accounting Standards.
2. Arrange for the statements to be audited in time for submission to members at the AGM.

[6] https://www.fairtrading.nsw.gov.au/associations-and-co-operatives/co-operatives/running-a-co-operative/co-operatives-financial-reporting

3. Consider the financial statements and confirm that they provide a true and fair view of the association's financial performance. It is good practice to record this confirmation in the minutes of the committee meeting.
4. Ensure the AGM is held within 6 months of the end of the financial year.

At the Annual General Meeting (AGM)

The committee must:

1. Arrange for the financial statements and auditor's report to be submitted to the meeting.
2. Ensure a copy of the financial statements, auditor's report and a record of any resolution passed concerning the statements or auditor's report is included in the minutes of the AGM.

After the Annual General Meeting (AGM)

Within 1 month following the AGM the committee must lodge with NSW Fair Trading*:

1. The Annual summary of financial affairs.
2. A copy of the audited financial statements.
3. A signed and dated auditor's report.
4. A copy of the terms of any resolution passed at the AGM concerning the statements and audited report.
5. Payment of the prescribed lodgement fee.

Tier 2 associations are those whose:

- Total revenue as recorded in the income and expenditure statement (i.e. gross receipts) for a financial year is $250,000 or less, and
- Current assets* are $500,000 or less.

Before the annual general meeting

As soon as practical after the end of the association's financial year the committee must:

1. Prepare financial statements that include:
    - An income and expenditure statement that sets out appropriately classified individual sources of income and individual expenses incurred in the operation of the association.
    - A balance sheet that sets out current and non-current assets and liabilities.
    - A separate income and expenditure statement and balance sheet for each trust for which the association is the trustee, and
    - Details of any mortgages, charges and other securities affecting any property owned by the association.
2. Consider the financial statements and confirm that they provide a true and fair view of the association's financial performance. It is good practice to record this confirmation in the minutes of the committee meeting.
3. Ensure the AGM is held within six months of the end of the financial year.

Audit of financial statements

NSW Fair Trading does not require Tier 2 association's financial statements to be audited however, it may direct an association to conduct an audit and request an auditor's report.

An association's constitution or funding arrangements may require an audit.

At the Annual General Meeting (AGM)

The committee must:

1. Arrange for the financial statements to be submitted to the meeting.
2. Ensure a copy of the financial statements and a record of any resolution passed concerning the statements is included in the minutes of the AGM.

After the Annual General Meeting (AGM)

Within 1 month following the AGM the committee must lodge with Fair Trading*:

1. The Annual summary of financial affairs.
2. Payment of the prescribed lodgement fee.

The financial statement presented to members at the AGM and other documents such as the minutes, agenda and notice of meeting are not required to be lodged, unless specifically requested by Fair Trading.[7]

Indigenous Organisations Incorporated Under the CATSI Act

Responsibility for reporting

Corporation directors, as well as secretaries of large corporations, are responsible for ensuring their corporation meets its reporting obligations. They must ensure the corporation keeps appropriate financial records that enable true and fair financial statements to be prepared; the corporation prepares and lodges appropriate reports and within the appropriate timeframes; and that the information in the reports is true and correct.

All corporations must lodge reports with the Registrar every year within six months of the end of the corporation's financial year. Most corporations end their financial year on 30 June which means their reports are due between 1 July and 31 December.

[7] https://www.fairtrading.nsw.gov.au/associations-and-co-operatives/associations/running-an-association/financial-reporting-requirements

Types of reports

The reports each corporation is required to prepare and lodge vary depending on its registered size and income.[8]

Size and Income	Reports Required
Small corporations with a consolidated gross operating income of less than $100,000.	1. General report only.
Small corporations with a consolidated gross operating income of $100,000 or more but less than $5 million.	1. General report. 2. Financial report and Audit report OR Financial report based on reports to government funders (if eligible).
Medium corporations with a consolidated gross operating income of less than $5 million.	1. General report. 2. Financial report and Audit report OR Financial report based on reports to government funders (if eligible).
Large corporations or any size corporation with a consolidated gross operating income of $5 million or more.	1. General report. 2. Financial report. 3. Audit report. 4. Directors' report.

Financial Policies and Procedures for Organisations

Financial management is not only about understanding the financial information in the organisation and using this information to improve organisational operations, it is also about ensuring that the right policies and procedures are in place to ensure that the financial information the organisation is using is accurate and can protect the investments within the organisation. For complete financial management of the organisation, good financial controls should be present.

A financial control is a procedure that is implemented to detect and prevent errors, theft or fraud, or policy non-compliance in a financial transaction process. Financial control procedures can be implemented by either an individual or as part of an automated process within a financial system.

Benefits of financial controls

By implementing good financial controls, the organisation will benefit by understanding the financial position of the organisation:

- Providing accurate financial information that can be used by those responsible for the operations of the organisation (e.g. Sales numbers can be provided to sales representatives to monitor targets and budgets).

[8] https://www.oric.gov.au/sites/default/files/documents/06_2020/Corporation-reporting-guide_v8_June2020.pdf

- Enabling organisations to make informed decisions on budgets and spending.
- Providing documentary proof for compliance requirements (e.g. GST calculations).
- Setting standards and informing all persons within the organisation of these standards through reporting.

To support the preparation and reporting of financial information, financial controls that consist of policies and procedures that align with the objectives of the organisation are vital. The board or management committee also have a role in good financial management. They must know how to oversee the finances of the organisation. This means that they must understand the financial information that is prepared and presented. They are ultimately responsible for transparency, accountability and stewardship of all financial matters to ensure that the social objectives of their community organisation are met.[9]

A financial policy is a formal description of how your Board handles issues like paying down debts, rationing cash reserves, who can handle money and how you deposit and withdraw funds. The goal of financial policies is to protect donor funds, promote financial stability and hold the board and executives accountable for financial expenditures and oversight.

Financial policies are useful as a guideline for accepting gifts, dividing duties, authorising financial transactions, obtaining proper receipts and disbursing funds.

Your financial policies may be as broad or detailed as you think you need. It's a good idea to review your financial policies (and all your policies) at least annually and revise them as you see fit. You can always revise your policies by a board vote if you run into a situation that prompts you to change the policy right away.

Who establishes your financial policies? Ultimately, your Board is responsible for developing, implementing and overseeing financial policies. It is common for Boards to take up the task, but your Board could just as easily delegate the task to a financial planning committee.

The individual or group that is developing your financial policies should keep the following key components of financial policies in mind:

- Assigning authority for financial actions and decisions.
- Delegation of authority for financial decisions and transactions to staff and volunteer leaders.
- Procedures for conflicts of interest and insider transactions.
- Procedures for authority to spend funds and write checks.
- Procedures for managing payroll.
- Assignment of authority to enter into contracts.
- How financial records are to be documented.

While financial policies are the "what" of financial management, financial procedures are the "how". Financial procedures are a collection of statements that describe how to handle funds. Financial procedures outline how to handle financial practices for things like:

- Receiving and endorsing cheques.

[9] https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/not-for-profit-and-public-sector/not-for-profit/financial-management-nfp-organisations.pdf?rev=1eed68f994ba43ba9ee26be2a059e639

- Documenting cash and preparing cash receipts.
- Storing deposit and withdrawal slips.
- Training staff and volunteers on following financial policies.
- Authorising people to open accounts, sign checks, etc.
- Borrowing funds and establishing lines of credit.
- Detailing prohibited financial practices.
- Handling online payments, petty cash, credit cards and debit cards.

Accounting and reporting are central to an organisation's financial procedures. Your Board may require or at least, make it a practice to hear a reporting of the organisation's financial position and statement of activities at every board meeting.

Financial procedures include statements for how to manage:

- Cash flow statements.
- Statement of activities.
- Statement of financial position.
- Reports of assets.[10]

In conclusion you are now introduced the core financial documents that every Board member must understand to effectively govern an Aboriginal or Torres Strait Islander organisation. We explored the structure and purpose of the Profit and Loss Statement, Balance Sheet and Cash Flow Statement - three essential tools that show how money moves through an organisation, how assets and liabilities are managed and whether the organisation is operating sustainably. Understanding these reports enables Board members to make informed decisions, identify risks early and ensure the organisation remains financially healthy.

You now have knowledge of the legal requirements for financial management across different organisational structures, including companies, co-operatives, associations and corporations incorporated under the CATSI Act. Each structure has specific reporting, record-keeping and auditing obligations that Board members must comply with to meet regulatory standards and maintain transparency. Being aware of the importance of financial policies, procedures and internal controls - these systems protect the organisation from errors, fraud and non-compliance, support accurate reporting and reinforce the Board's responsibility for accountability and custodianship of community resources.

Together, these skills and knowledge areas equip you with the financial literacy and governance capability needed to contribute confidently and responsibly to the leadership of your organisations.

[10] https://In www.boardeffect.com/blog/sample-financial-policies-procedures-for-nonprofits/