

This guide is designed to help committee members gain a basic understanding of how to read and interpret financial statements so they are able to assess the financial health of their organisation. For more information regarding the terms used in this resource, see the *Financial terminology* guide.

## The Balance Sheet

The Balance Sheet (which can also be known as the Assets and Liabilities Statement) provides a snapshot of the organisation's financial position at a specific point in time. It lists the organisation's assets, liabilities and members' equity.

### What are you looking for in the Balance Sheet?

The balance sheet tells you about the liquidity of the organisation (i.e. whether you have enough money to pay your bills as they fall due), whether assets are overstated or whether liabilities are understated, and the organisation's financial risk. The main points to look for in the balance sheet include:

- Is the total of your **current assets** greater than the total **current liabilities**? If yes, good! This generally means the organisation can cover its debts as they fall due. In accounting terms, we call this positive working capital.

**Trade debtors**, also known as accounts receivable, are the amounts of money owed to the organisation for goods or services provided on credit. They're considered an asset because they represent funds that will be received in the near future. For sports organisations, this is typically where you'll see the value of any outstanding fees.

**Inventory** is your stock on hand, such as the food and drink you have in the canteen.

- Do you know how **non-current assets** are valued? It is important for management committee members to understand how their non-current assets are valued so that they are not under- or over-valued. A finance professional can give your organisation more advice regarding asset valuation and how it may affect your organisation.
- Is the total **members' equity** larger than it was in last year's balance sheet? If so, do you know what has caused the increase in assets or decrease in liabilities?

**Accounts Payable** refers to bills the organisation needs to pay in the next 12 months. Similar to trade debtors, accounts payable can also be called trade creditors. These are typically unpaid invoices for goods or services that the organisation has received, but not yet paid, such as an unpaid invoice from the local butcher for sausages used at last month's fundraising event.

**Members' Equity** or Members' Funds represents the current financial value of the organisation. It is what is left over after liabilities are subtracted from assets.

### Balance Sheet (Simplified example)

Organisation Name  
As at DAY MONTH YEAR

#### ASSETS

##### Current Assets

Bank accounts

Trade debtors

Inventory

Prepaid expenses

##### Total Current Assets

##### Non Current Assets

Land, buildings, plant and equipment

##### Total Non Current Assets

#### Total Assets

#### LIABILITIES

##### Current Liabilities

Accounts payable

GST payable

Employee entitlements

##### Total Current Liabilities

##### Non Current Liabilities

Long-term loans

#### MEMBERS' EQUITY

Retained earnings

#### Total Equity

# Basic understanding of financial statements

## Profit and Loss Statement

Your profit and loss statement (which can also be known as an income statement) summarises your organisation's financial profit or loss by providing a record of income, expenses and net profit for a specific period.

### What are you looking for in the Profit and Loss Statement?

The profit and loss statement tells us where your organisation receives money from and where it is spent. The main points to look for are:

- Does the statement tell you where **income** is coming from? For example, membership fees, canteen, grants or sponsorship? Are the income accounts detailed enough to tell you this? Do you need more explanation from the treasurer, bookkeeper, accountant or auditor around categorising income?
- Can you see where there have been any increases or decreases for both **income** and **expenses** from previous periods? Calculate the dollar or percentage amount to see if there is anything that you cannot explain. For example, if membership fee income has decreased by 20%, has there been a significant drop in membership numbers? If expenses for repairs and maintenance have increased by 30%, do you know what repairs and maintenance caused the increase?
- Compare the profit and loss statement against your organisation **budget** for that financial year, or request a report showing the variances. Are there any major differences that you cannot explain?
- Have there been any significant **one-off receipts or payments**? For example, grant income or significant infrastructure repairs. It is worth considering how the income statement would appear if these items were removed. Would the organisation still have made a profit?
- Review the **net profit** percentage from this period to other recent periods. Can you explain why there is a difference?

**Net profit**, also referred to as net income or net earnings, represents the total income minus all expenses.

### Income Statement (Simplified example)

Organisation Name  
For the year ended DAY MONTH YEAR

#### Income / Revenue

##### Income

Membership

Donations

Fundraising

Gate takings

##### Total Income

#### Gross Income

##### Expenditure

Land, buildings, plant and equipment

##### Total Non Current Assets

#### Total Assets

#### LIABILITIES

##### Current Liabilities

Accountancy fees

Advertising

Electricity

Repairs and maintenance

##### Total Expenditure

#### Net Profit / (loss)

In financial statements, red numbers or numbers in brackets are **negative or a loss**.

# Basic understanding of financial statements

## The Cash Flow Statement

The cash flow statement explains the change in your bank balance through the financial year. Having enough money in the bank is critical to the survival of your organisation and to ensuring that the lights can stay on!

Not all organisations will present a cash flow statement as part of the organisation's annual financial reports. Discuss with your auditor whether it would benefit your organisation to receive this report.

### What are you looking for in the Cash Flow Statement?

The cash flow statement shows you how your organisation's money has come in and where the money has gone over the year. The main points to look for are:

- The net cash flows from **operating** activities should be positive. If this figure is negative, it means that you have spent more on operations than you have made from operations. This is a financial 'red flag' and the management committee should understand why.

**Operating activities** are your day-to-day business operations. These include income and expenses that have been collected and paid during the year in relation to running your organisation.

Check that the payments in the **investing activities and financing activities** section have been previously approved by the management committee.

**Investing activities** involve the purchase or sale of fixed assets that support the organisation's business, including property, plant and equipment.

- Have there been any **unusual payments or receipts**? Compare this year's statement to last year's. Can you see anything unusual?

### Statement of Cash Flow (Simplified example)

Organisation Name  
For the year ended DAY MONTH YEAR

#### Operating Activities

Receipts From Members

Receipts From Other Sources

Payments to Suppliers, Employees and Others

#### Net cash flows from operating activities

#### Investing Activities

Payments for fixed assets  
e.g. property or equipment

Proceeds of sales of fixed assets  
e.g. property or equipment

#### Net cash flows from investing activities

#### Financing Activities

Proceeds from borrowing

Repayment of borrowings

#### Net cash flows from financial activities

#### Total Cash Flow

**Net Cash Flows** from Operating Activities represent the total amount of money an organisation generates or spends through its core business operations, providing a key indicator of the organisation's financial health.