



End of year financial reporting

Preparation

Prepare for the financial year. In May check the actual financial position against the budgeted position for 2005-2006. Make decisions about budget surpluses and/or deficits. Ideally there should be neither a surplus nor a deficit.

Before you compare the actual financial position of your organisation with the budgeted position it is important to ensure that all income and expenses, including non-cash items, are included in the accounts for the current financial year.

Income

Possible scenarios

- 1 You have received all the income for the financial year in that same financial year.
- 2 You are waiting for some income for the current financial year. You may receive the funds this financial year or in the next financial year. Send an invoice to the funding body and request to be paid before 30 June. If you do not receive these funds before 30 June, enter this entitlement in the accounts under income and then show it as an amount to be received as an asset.
- 3 You have received income belonging to the next financial year in this financial year. Exclude the amount from the current year income and show it as an amount "grants in advance" as a liability on your balance sheet.

Allocating funds in two financial years

Here is an example. You received a quarterly instalment of \$3000 on 1 June 2006 for the months of June, July, August 2006. The financial year ends on 30 June 2006. So you allocate \$1000 (the funds for June 2006) as income in the 2005-2006 year. You then allocate \$2000 (the funds for July, August 2006) to the 2006-2007 year (refer scenario 3 above).

Expenses

Possible scenarios

- 1 You have paid all the expenses for the financial year in that same financial year.
- 2 You are expecting an invoice or a bill for the 2005-2006 year but in fact you receive it in the 2006-2007 financial year. So you pay it after 30 June 2006. Include it as an expense in the 2005-2006 year and show it as an amount to be paid (ie. it is a liability).
- 3 You have paid an expense belonging to the 2006-2007 year in the 2005-2006 year. Exclude the amount from the expenses and show it as an amount payable in the 2006-2007 year (ie. it is an asset).

Allocation of expenses over two financial years.

Here is another example. You received an insurance premium account of \$6,000 on 1 May 2006 for the period 1 May 2006 - 30 April 2007 (ie. \$500 per month). The financial year ends on 30 June 2006. So you allocate \$1,000 (the expenses for May and June) to the 2005-2006 year and \$5,000 to the 2006-2007 year (refer scenario 3 above).

Review all income and expense accounts

Check that you have not overlooked any income or expenses. Go through the chart of accounts item by item.

Creating purchase orders

You can create a purchase order before receiving goods or services. Where the goods or services were received before 30 June 2006 include the cost of the goods or services in the 2005-2006 financial year.

Depreciation

Depreciation always applies to fixed (durable) assets. Depreciation is a non-cash expense. Some examples of durable assets are office equipment, furniture and fixtures, and motor vehicles.

Accounting for the depreciation serves two purposes:

- It recognizes the contribution of the assets to the work of the organisation during the 2005-2006 financial year. This is called depreciation expense.
- It reduces the book value of an asset. The book value is the remaining value of an asset after deducting its accumulated depreciation.

For example, you bought a photocopier for \$7000 in the 2005-2006 financial year. You intend to use the photocopier for three years. After the three years its disposal value is \$1000. The annual depreciation is \$7000 less \$1000 divided over three years ie \$2000 each year. After one year, the accumulated depreciation is \$2000 and the book value is \$5000. After two years, the accumulated depreciation is \$4000 and the book value is \$3000. And so on.

Depreciation and investment

To provide for the replacement of durable assets sometime in the future you could set up an investment bank account. At the end of each financial year, transfer a sum equivalent to the depreciation expense, from your day to day account to an investment bank account. Repeat this action each year until the durable assets are fully depreciated.

Long service leave

Long service leave is another non-cash expense. It becomes a cash expense when staff members take up their long service leave. Consider setting aside the amount which is the gross pay for long service leave. For more information contact an employer organisation such as Jobs Australia.

Create a long service leave expense account (expense) and a long service leave provision account (liability).

The long service leave expense account reflects the contribution made by staff to the work done in the financial year. The long service leave provision account reflects the future obligation to pay long service leave. You might consider putting the long service leave funds in an investment bank account.

Logic

As a general rule, where your organisation has been operating for a period of twelve months, the accounts must reflect the income and expenses belonging to that same period of twelve months.

Budget comparisons

Compare your budgets with reality. Budgets are simply a plan. Things do not always go according to plan. Check your budget regularly with real life events. Review and revise the budget to accommodate what has already happened and to anticipate what may happen. For example if you see that your expenses are much higher than budgeted you will need to take some necessary action.

Include the non-cash expenses in the budget.

Budget comparisons may be affected by income and expense scenarios 1,2, 3 described above.

Use the same model for both the budget and the accounts. For example the itemisation of the wages should be the same in the budget and the accounts to make the budget comparison meaningful.

Where joint expenses cover multiple programs or projects, decide the proportion in the budget to be allocated to each program or project. Again use the same allocation in the budget and the accounts.

Pooling of joint expenses

For example, you have budgeted telephone expenses for Project 1 \$2,000, Project 2 \$800, Project 3 \$500. Under a project heading 'Administration' show an income account 'telephone' with a total of \$3,300. When you pay the telephone account, show the entire amount paid in an expense account 'telephone' under the project heading 'Administration'.

For more information telephone the Illawarra Forum 02 4236 1333.