

MAY 2023

# Reading Financial Statements

Handout Pack



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

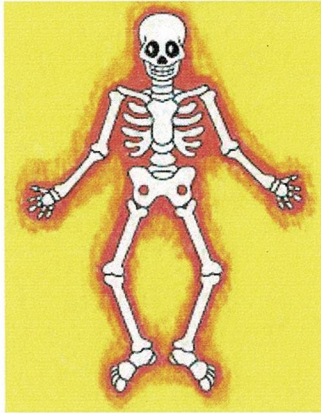


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## **Finance questions directors should ask**

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**

↓  
Value Proposition

↓  
Vision

↓  
Key Strategic Objectives

↓  
Strategic Plan (1 Page)

↓  
Business Plan

↓  
Budget

↓  
Income Statements (P&L)

↓  
Cash Flow Forecast

↓  
Changes in Equity

↓  
Balance Sheet



**Accounting standards:** Standards applied in preparing financial statements. In Australia, these standards are issued by the Australian Accounting Standards Board.

**Assets:** Items of value which the entity can trade or use to conduct its activities.

**Assurance:** The expression of a conclusion that is intended to increase the confidence of users in financial statements.

**Audit report:** The final report setting out the auditor's opinion.

**Charity:** A type of not-for-profit entity that conducts activities that are for the public benefit.

**Constitution:** The document that sets out the rules by which an entity should operate and the objectives of the entity.

**Emphasis of matter:** A paragraph included in the auditor or reviewer's report referring to a matter appropriately presented or disclosed in the financial statements, that in the auditor's or reviewer's judgement, is of such importance that it is fundamental to the user understanding of the financial statements.

**Equity:** Total assets less total liabilities, represented by accumulated reserves or funds.

**Fair value:** The monetary or financial value that an entity could obtain on the sale or disposal of an asset in an open market scenario.

**Fundraising:** Generating revenue through soliciting and gathering voluntary contributions.

**Going concern assumption:** The ability of the entity to continue to operate into the foreseeable future (usually a period of 12 months from the date the financial statements are approved).

**Historical cost:** The original monetary or financial value of an asset or item acquired by an entity.

**Incorporated association:** A type of not-for-profit entity formed under the incorporation laws of an Australian state or territory.

**Impairment:** A downward valuation of an asset when the carrying value exceeds the recoverable value of an asset.

**Liabilities:** Amounts which the entity is obliged to pay to others.

**Liquidity:** The ease with which assets can be converted into cash.

**Loss/deficit:** The excess of expenses over revenue.

**Material misstatement:** An inaccuracy or omission in the financial statements that is significant enough to affect the decisions made by users of the financial statements.

**Modified opinion:** A modification by the auditor or reviewer of their report that results in a qualified opinion, adverse opinion or disclaimer of opinion, or the addition of an emphasis of matter paragraph.

**Profit/surplus:** The excess of revenues over expenses.

**Review report:** The final report setting out the reviewer's opinion.

**Solvent:** An entity's capacity to continue to pay its debts as they fall due.

**True and fair:** Presenting an accurate and unbiased picture of an entity's financial position and performance in the financial statements.

## RATIO INTERPRETATION

| Ratio                              | Computation  | Example   | Meaning  |
|------------------------------------|--|-----------|--|
| <b><u>LIQUIDITY</u></b>            |  |           |  |
| 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      |
| <b><u>FINANCIAL HEALTH</u></b>     |  |           |  |
| 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                            |
| <b><u>PROFITABILITY</u></b>        |  |           |  |
| 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.            |
| <b><u>OPERATING EFFICIENCY</u></b> |  |           |  |
| 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 \$        |
|--------------------------------------|------|----------------|----------------|
| <b>Income</b>                        |      |                |                |
| 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          |
| <b>Total income</b>                  |      | <b>386,374</b> | <b>308,316</b> |
| <b>Expenditure</b>                   |      |                |                |
| 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            |
| <b>Total expenditure</b>             |      | <b>302,348</b> | <b>293,630</b> |
| <b>Operating surplus/(deficit)</b>   |      | <b>84,026</b>  | <b>14,686</b>  |



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

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

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

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

|  | 20XC \$        | 20XB \$        |
|--|----------------|----------------|
| <b>Cash flows from operating activities</b>          |                |                |
| 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)      |
| <b>Net cash flows from operating activities</b>      | <b>63,118</b>  | <b>3,858</b>   |
| <b>Cash flows from investing activities</b>          |                |                |
| Purchase of investments                              | 15,481         | 6,441          |
| Disposals of investments                             | (5,432)        | (2,124)        |
| <b>Net cash flows from investing activities</b>      | <b>10,049</b>  | <b>4,317</b>   |
| <b>Cash flows from financing activities</b>          |                |                |
| Bank loan repayment                                  | (6,157)        | (5,724)        |
| <b>Net cash flows from financing activities</b>      | <b>(6,157)</b> | <b>(5,724)</b> |
| Net increase/(decrease) in cash and cash equivalents | 67,010         | 2,451          |
| Cash and cash equivalents at beginning of year       | 24,798         | 22,347         |
| <b>Cash and cash equivalents at end of year</b>      | <b>91,808</b>  | <b>24,798</b>  |



**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 \$      |
|----------------------------|--------------|--------------|
| <b>NOTE 2: INVENTORIES</b> |              |              |
| Equipment for sale         | 6,232        | 5,248        |
| Donated goods              | 202          | 636          |
|                            | <b>6,434</b> | <b>5,884</b> |

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

|                                |               |               |
|--------------------------------|---------------|---------------|
| <b>NOTE 4: INVESTMENTS</b>     |               |               |
| Term deposits – fixed interest | 42,382        | 42,382        |
| Shares                         | 21,991        | 11,942        |
|                                | <b>64,373</b> | <b>54,324</b> |

**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.