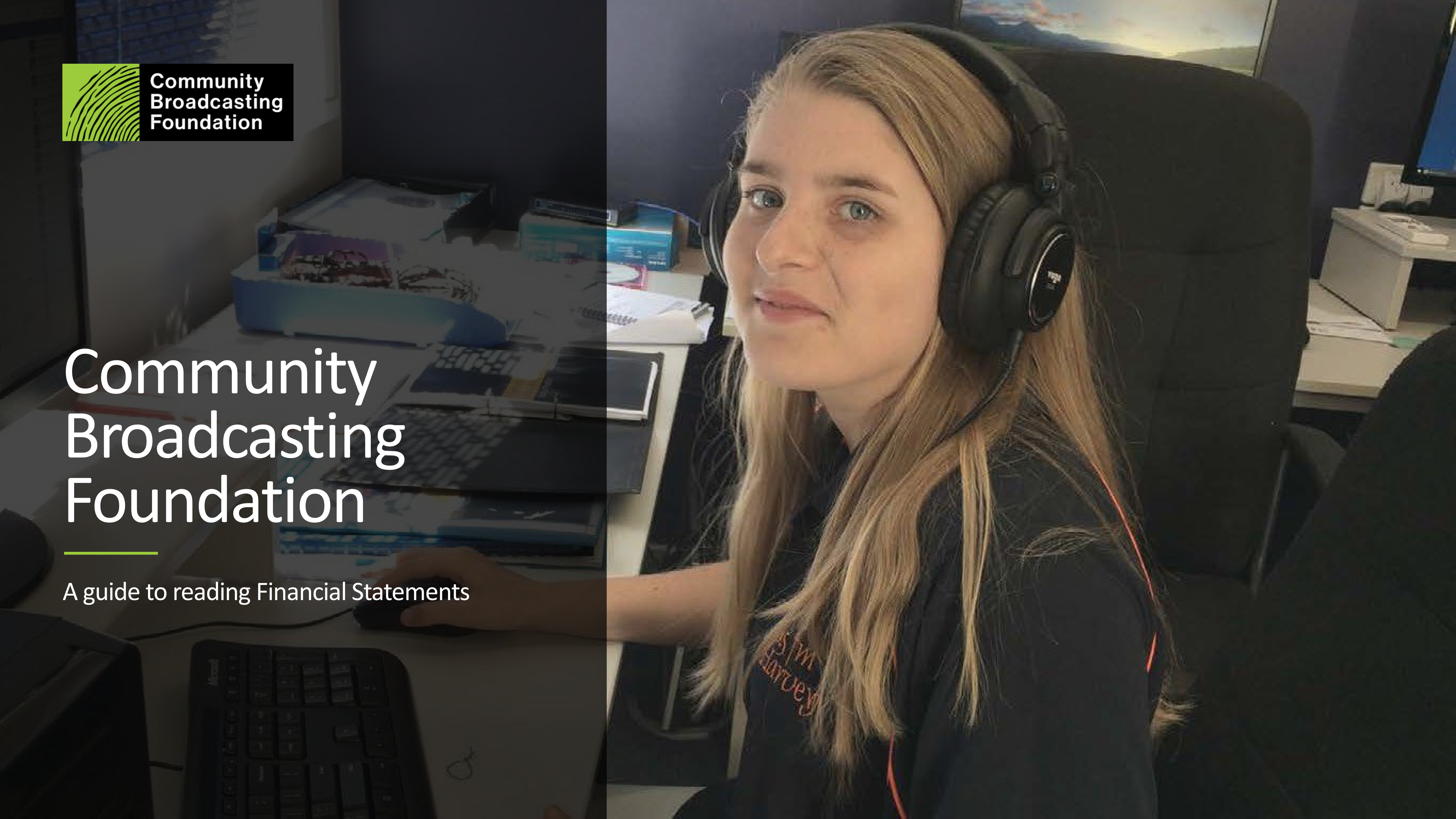


Community Broadcasting Foundation

A guide to reading Financial Statements

What are Financial Statements?

Financial Statements are the records a company keeps to explain how **much funding they receive, how much they spend and what they have spent it on**.

They also record a snapshot at a point in time – normally the position at ‘year end’. **How much cash the company has, the value of assets, how much money it owes to its suppliers.**

The main reports in Financial Statements are called the **Balance Sheet and Income Statement**, although there can be many other pages which are intended to explain the information in these two reports.

Most companies prepare financial statements at least once a year, although large companies will report at least monthly.

Community Broadcasting Foundation

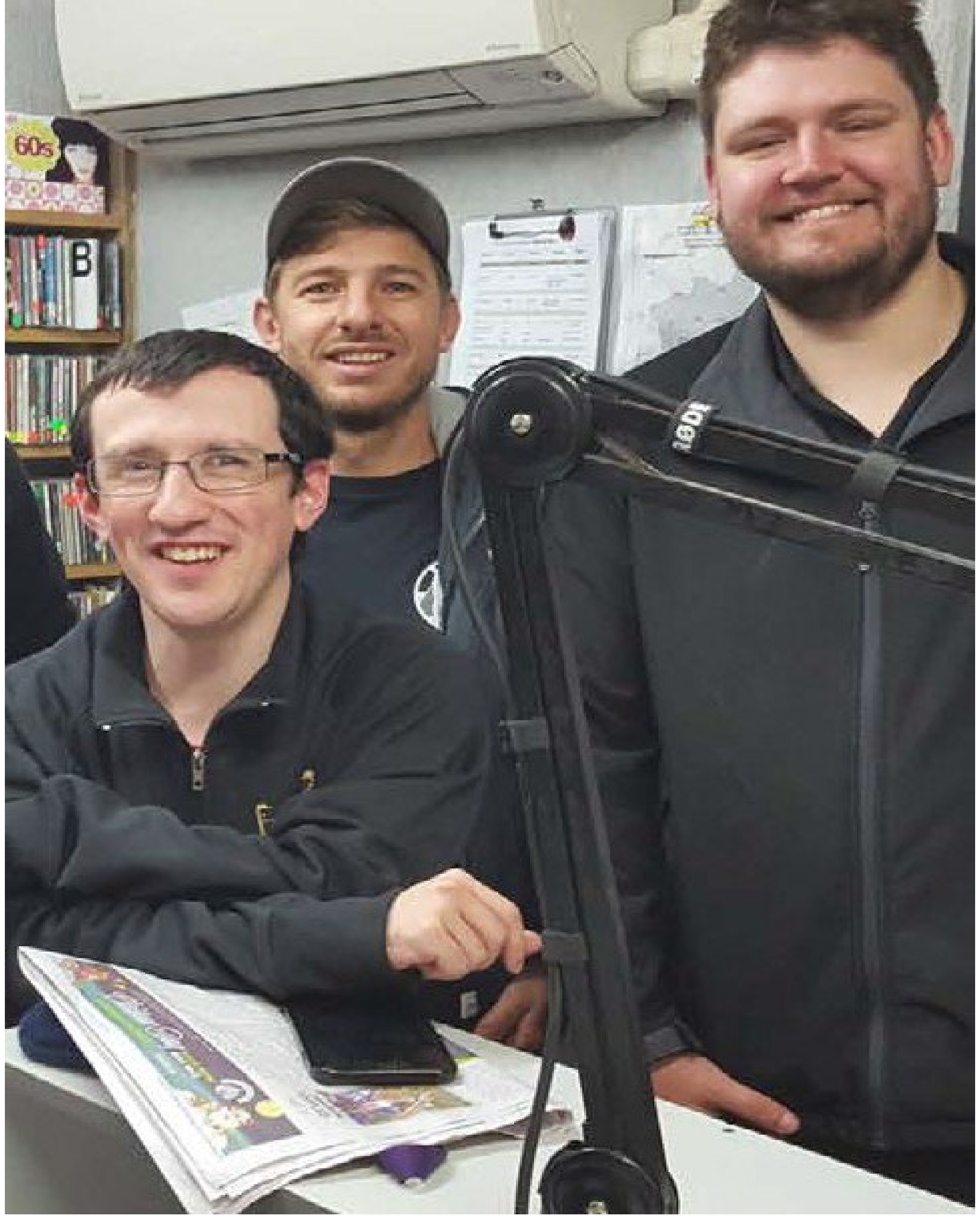
How do financial statements get prepared and are they all the same?

Accountants follow an international set of standards and procedures when preparing financial statements.

Some matters are quite simple and easy to understand, eg: cash shown in the Balance Sheet should be the amount of cash the company has.

However, **there can be a lot of judgement involved in determining some items,** eg: income is not always recorded when cash is received, it depends on what the income was received for, has the work been done yet, is there any risk that the money will need to be returned.

Financial Statements can vary widely between organisations. Depending on the size of an organization they may be more than 50 pages long or they may just be a one-page record of money received and money spent.



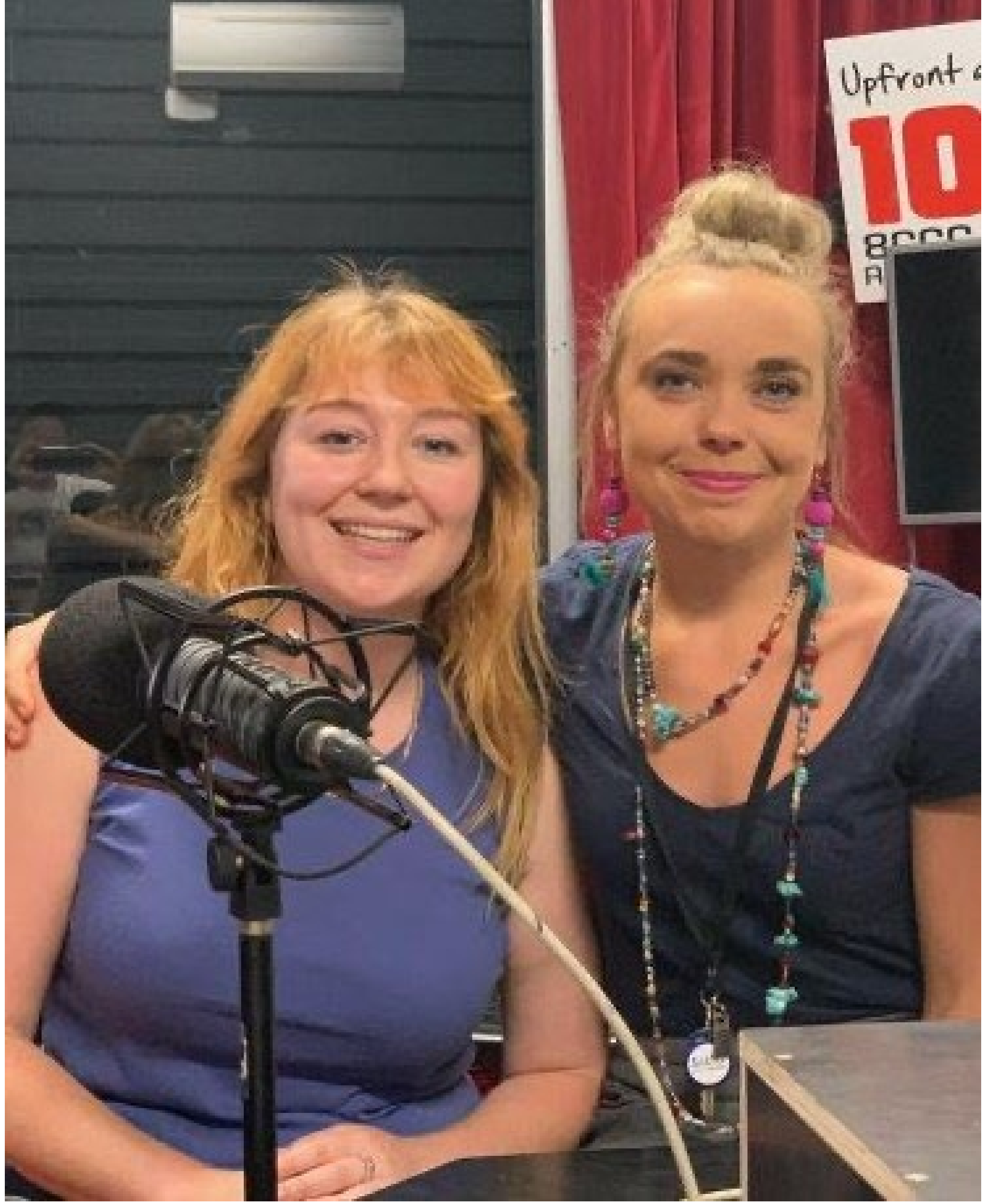
Community Broadcasting Foundation

What are some key accounting concepts?

Cash vs accruals

Small companies can record funds on a ***cash* basis** (when money is paid it is an expense and when money is received it is income).

Larger companies report on an ***accrual* basis** (when a debt is due even if it is not paid it should be recorded), eg: if the electricity bill covers power for the month and has not been paid at the end of the month, it should be recorded as an expense.



Community Broadcasting Foundation

What are some key accounting concepts?

Double entry bookkeeping

Every transaction has two sides to it, eg: when money is received it is recorded into the bank and it is also recorded as income. When money is spent it is recorded as coming out of the bank and as an expense or the purchase of an asset. These two entries have to 'balance' each month.

For example…

A company has $20,000 in the bank and needs to buy a transmission tower. The tower costs $5,000. The company pays $5,000 to the supplier, this reduces the cash balance to $15,000.

The other side of the entry is an asset which is recorded in the balance sheet as fixed assets – transmission tower for a value of $5,000. The total value of both cash and the asset is still $20,000.

	Cash at Bank		Fixed Assets - Transmission tower	
	Debit	Credit	Debit	Credit
Opening balance	$ 20,000		$ -	
Purchase Transmission tower		$ 5,000	$ 5,000	
Closing balance	$ 15,000		$ 5,000	

Community Broadcasting Foundation

What about depreciation?

When an asset is purchased or built its value reduces over time. This reduction in value is called depreciation and is recorded as an expense in the income statement until the value of the asset reduces to zero.

For example…

In the case of the transmission tower which was bought for $5,000. The company thinks this tower will be operational for ten years, at which time they will need a new tower.

The value of the tower is 'depreciated' over ten years by $500 a year. At the end of the ten years the value of the asset will be zero.

	Fixed Assets - Transmission tower		Depreciation Expense	
	Debit	Credit	Debit	Credit
Opening balance	$ -		$ -	
Purchase Transmission tower	$ 5,000			
Depreciation - year 1		$ 500	$ 500	
Depreciation - year 2		$ 500	$ 500	
Balance at end of year 2	$ 4,000		$ 1,000	

Community Broadcasting Foundation

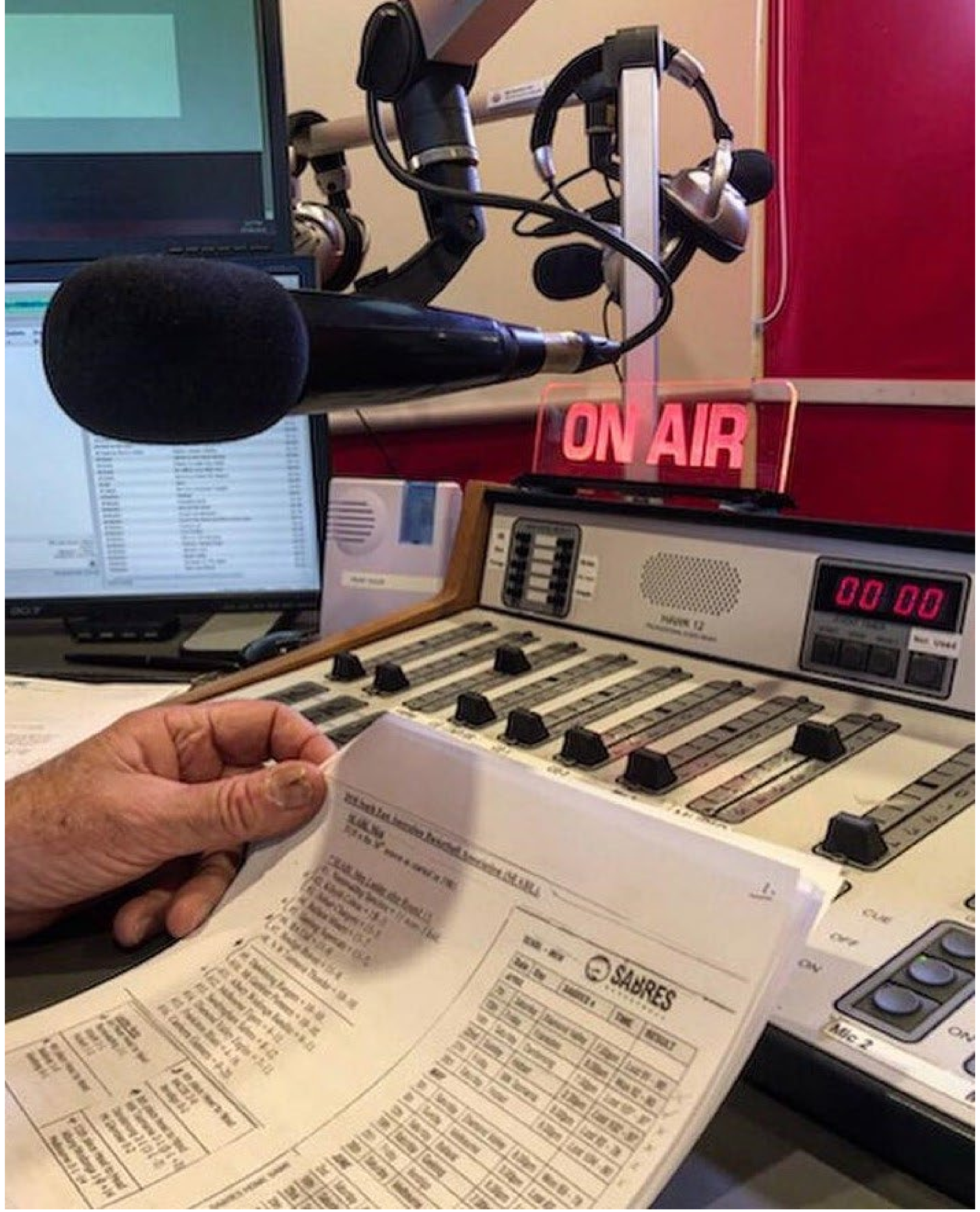
What is the Balance Sheet?

The **Balance Sheet** (also called **'Statement of Financial Position'**) **is a picture at a point in time.** It shows what the company owns and what it owes.

The Balance Sheet is divided into three sections:

- **Assets - these are things that the company own,** eg: cash or investments, assets that they have bought, money that they are due to receive (accounts receivable).
- **Liabilities** – **these are things that the company owes to other entities,** eg: tax due to the government, salary due to be paid, rent payable.
- **Equity** – this represents how much the owners of the company have invested in the company plus/minus any profits or losses has earned since the business started.

The Balance Sheet must always BALANCE. This means Assets minus Liabilities (Net Assets) will always equal Owners Equity.



Example Balance Sheet

Money that is owed to the company

Assets such as computer equipment and office fitout

Money that is committed to be paid in the next 12 months

This should always be positive – should always have enough assets to pay liabilities

	$ 2020	$ 2019
Current assets		
Cash and cash equivalents	6,323,308	6,221,525
Receivables	134,314	185,121
Investments	26,575	26,050
Total current assets	**6,484,197**	**6,432,696**
Non current assets		
Property, plant and equipment	83,227	107,223
Right of use asset	268,216	-
Total non current assets	**351,443**	**107,223**
TOTAL ASSETS	**6,835,640**	**6,539,919**
Current liabilities		
Financial liabilities	4,957,330	4,811,775
Trade and other payables	40,593	10,882
Provisions	403,403	228,179
Premises Lease - current	61,379	23,138
Total current liabilities	**5,462,705**	**5,073,974**
Non current liabilities		
Premises Lease - non current	259,382	-
Total current liabilities	**259,382**	**-**
TOTAL LIABILITIES	**5,722,087**	**5,073,974**
NET ASSETS	**1,113,554**	**1,465,945**
Retained surpluses	1,113,554	1,465,944
TOTAL EQUITY	**1,113,554**	**1,465,944**

What is the Income Statement?

Income Statement or Statement of Profit and Loss - shows what funds have been received and what funds have been spent/committed over the past 12 months.

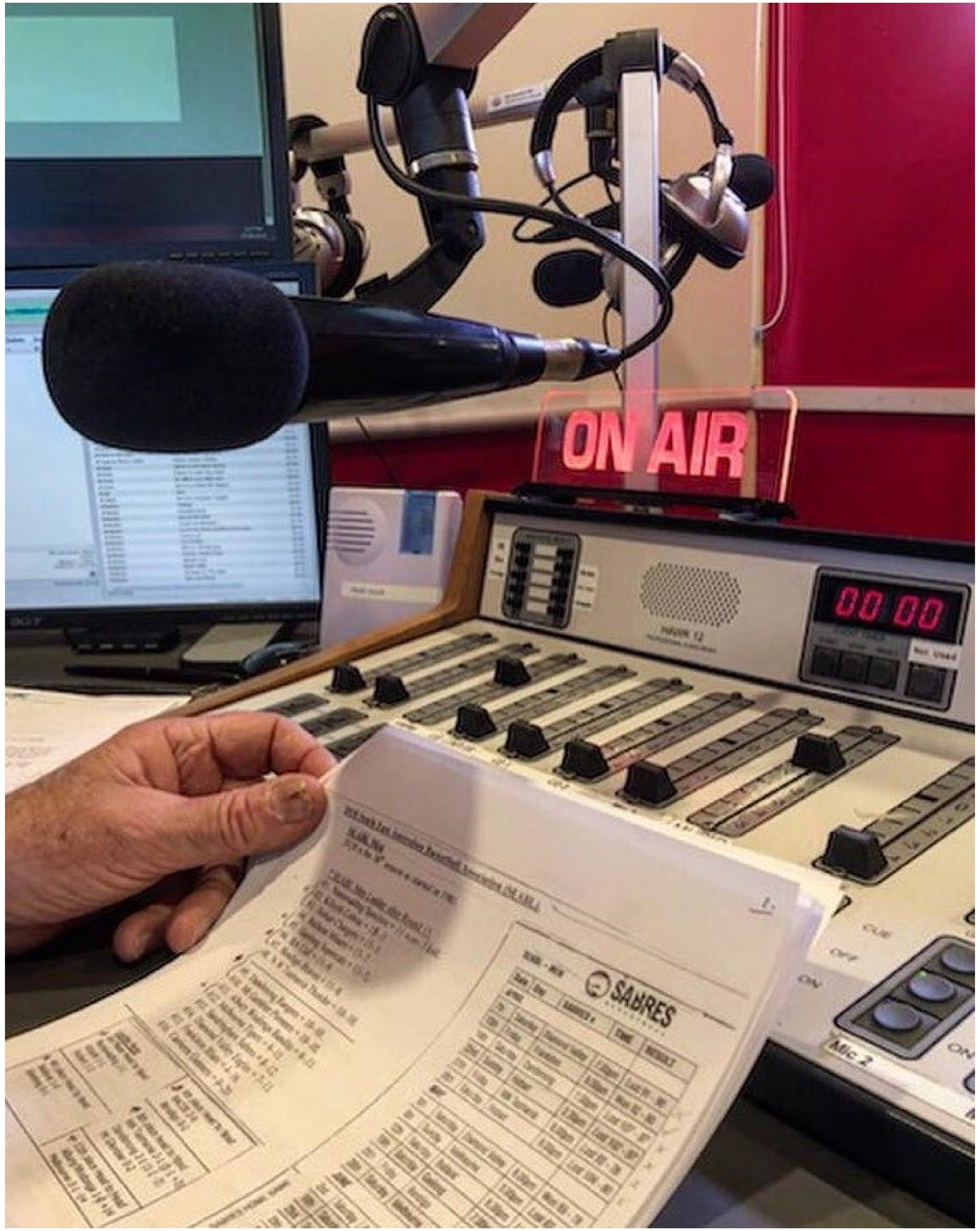
Income or Revenue represents funds that a company has earned – this may be revenue from selling goods or services, grant income, donation income, revenue from advertising.

Expenses are funds that the company has committed to pay - for example salary and wages, insurance expenses, bank fees.

The difference between income and expenses is the profit/loss of the company. This can also be called the surplus/deficit. Normally a profit/surplus is shown as a positive number and a loss/deficit is shown as a negative number (in brackets).

Ideally a company will receive more income than it pays out and they will make a profit. This allows them to increase their cash to either pay back to shareholders or to invest for future growth.

There are many reasons why a company might make a loss. They may be a start-up company working to generate income while they establish the business, or have incurred unusual expenses in a particular year. If a company makes continued losses it is a sign that they may not be able to continue operating into the future.



Revenue and income are similar – revenue is the main thing you make money from. Income is other things such as interest earned.

Operating costs are the main costs of an organisation – includes salaries, rent, utilities.

Depreciation expense to reduce the value of assets as they get older

Expenses paid out of prior years profits

Income Statement

	$ 2020	$ 2019
Revenue	1,485,544	1,319,838
Other income	289,950	369,424
Total revenue and other income	**1,775,494**	**1,689,263**
Fundraising project costs	(29,979)	-
Fundraising costs	(118,881)	(63,841)
Operating costs	(1,370,855)	(1,233,300)
Finance costs - interest expense premises lease	(21,259)	-
Depreciation	(27,284)	(25,036)
Depreciation right of use asset premises lease	(61,896)	-
Total administration expenses	(1,600,174)	(1,322,177)
Operating surplus/(deficit)	**145,341**	**367,086**
Expenses and activities from company reserves	(497,732)	(142,869)
Net surplus/(deficit) before income tax	(352,391)	224,217

Should be a surplus (positive)

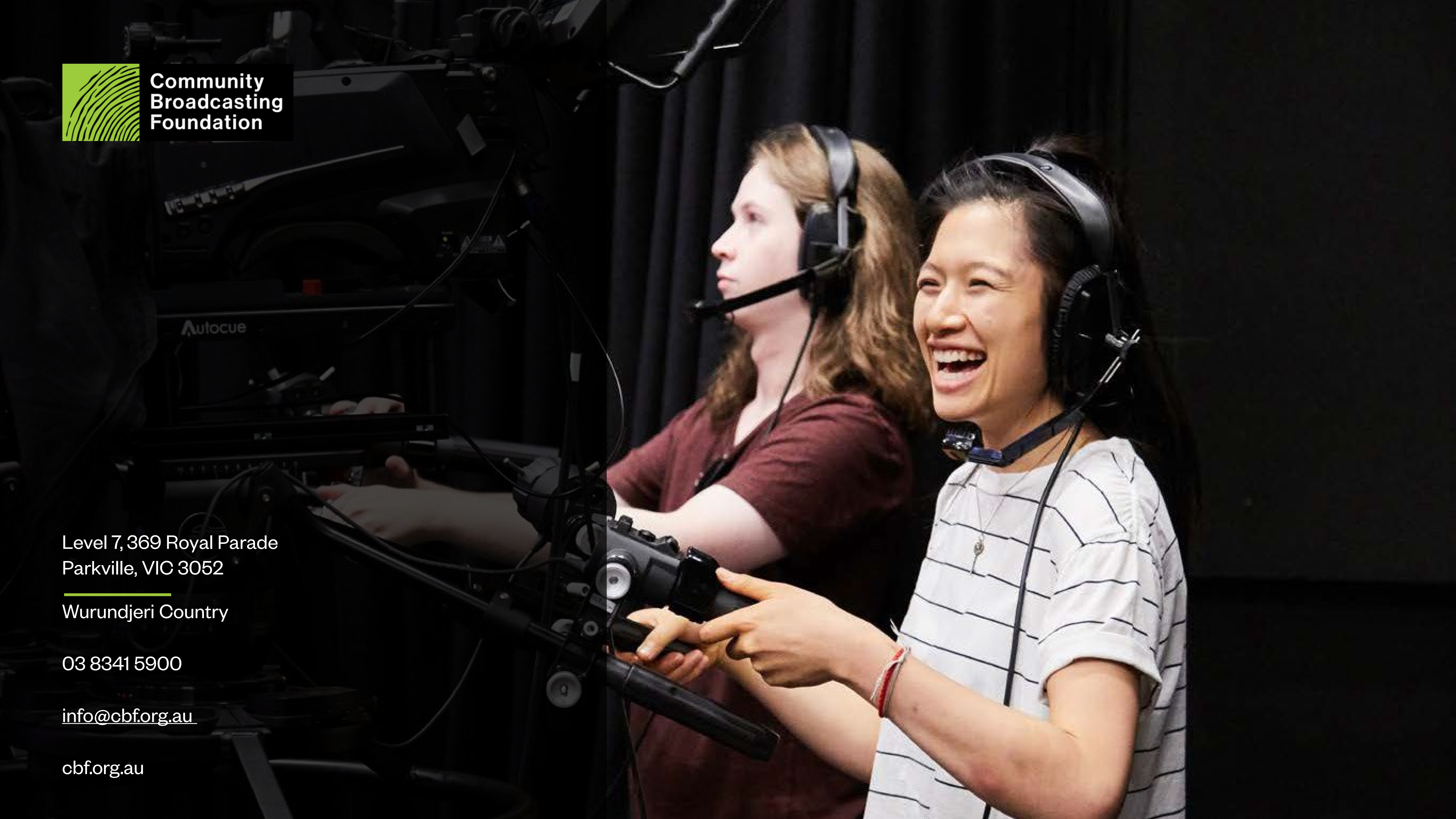
What are all the other pages?

There are certain other financial pages that most companies include:

- **Statement of Cash Flows** – what cash the company received and what cash it paid. This can differ to the Income Statement which may record items on an accrual basis or also non-cash items such as depreciation (refer below).
- **Changes in Equity**
- **Fixed Asset detail**

Financial Statements also include **'notes'** to help explain what is in the numbers pages. This will explain the accounting policies used and will include more information on certain items in the Income Statement and Balance Sheet.

Community Broadcasting Foundation



Community Broadcasting Foundation

Level 7, 369 Royal Parade
Parkville, VIC 3052

Wurundjeri Country

03 8341 5900

info@cbf.org.au

cbf.org.au