

Basic understanding of financial statements



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 club.

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 club's financial position at a specific point in time. It lists the club'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 club (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 club'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 club 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 club 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 clubs, 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 club more advice regarding asset valuation and how it may affect your club.
- 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 club 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 club has received, but not yet paid, such as an unpaid invoice from the local butcher for sausages used at last month's fundraising event.

Balance Sheet (Simplified example)

Club 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

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



Queensland
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Profit and Loss Statement

Your profit and loss statement (which can also be known as an income statement) summarises your club'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 club 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 club **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 club 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)

Club Name
For the year ended DAY MONTH YEAR

Income / Revenue
Income
Membership
Donations
Fundraising
Gate takings
Total Income
Gross Income
Expenditure
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**.

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 club and to ensuring that the lights can stay on!

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

What are you looking for in the Cash Flow Statement?

The cash flow statement shows you how your club'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 club.

- 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 club'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)

Club 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 a club generates or spends through its core business operations, providing a key indicator of the club's financial health.