

Appendices

> Summary of tips > Glossary of terms > Incorporation explained
> Sample financial management policy > Sample chart of accounts

Appendix A - Summary of hints and tips *cont.*

Section	Comment	Topic	Hint	Tip
Setting the scene	Having good financial information and understanding how it is put together, what it is telling you and how you can use it to plan for the future are critical for all not-for-profit managers.			
Understanding financial statements	Financial statements provide information about how the club is operating financially and why. Once this is understood, the information can be analysed to show the areas of financial strengths and weaknesses	Balance sheet	The club requires assets to operate and these assets are either funded by accumulated funds from the operations of the club or by borrowing money from external parties (liabilities).	The categories in the balance sheet will highlight those items that can be converted to cash quickly.
	The club requires assets to operate and these assets are either funded by accumulated funds from the operations of the club or by borrowing money from external parties (liabilities).	Income and expenditure statement	Only those clubs that have products to sell will use the calculation of cost of goods sold.	Segment reporting will provide transparency about each distinguishable operating activity of the club.
		Statement of cash flows	The statement of cash flows only shows the historical data and differs from a cash flow forecast.	The statement of cash flows will provide three warning signals: <ul style="list-style-type: none"> • Cash receipts less than cash payments – the club is running out of money • Net operating cash flow is an 'outflow' • Net operating cash flow is less than profit after tax, which means the club is spending more than it is earning.
		Financial ratio analysis	Using financial ratio analysis regularly will assist in monitoring the financial health of the club.	By comparing each of these ratios after each reporting period, you will be able to see the strengths and weaknesses of your club's operations.

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Record keeping for improved financial information	Only accurate data that is recorded systematically will provide the financial information that is necessary for improved financial performance	Chart of accounts	Keep your chart of accounts simple to start with and review and revise it as the need arises.	
		Accounting method		If you are not sure which accounting method to use, speak to an accountant.
Budgeting and forecasting	Budgeting and forecasting encompass the future financial plan of the club. They are where the strategic plans are translated into dollars and cents to ensure that plans are financially viable.		Only those clubs that have products to sell will use the calculation of cost of goods sold.	Segment reporting will provide transparency about each distinguishable operating activity of the club.
		Income and expenditure budget	For programs that have a lifespan of more than one year, you may need to extend the budget to match the life of the program.	You may want to consider presenting the key assumptions to the management committee for approval before developing the new budget. This way, committee members will be fully informed of what has been estimated for the key events of the budget year and they will be able to see clearly what is going on. If you do seek approval, then at each committee meeting you should also advise the management committee of any changes that may have occurred (or that might occur) that could have an impact on your assumptions.
		Forecasting	Forecasting is different to budgeting. A forecast is where the budget is updated with actual events to show what has happened and the impact of these events on the predicted outcomes.	The key to successful forecasting is to review results regularly, identify variances and implement strategies early to ensure that the approved budget will be met.

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Financial management	Good financial management means that the financial information provided in the financial statements and budgets and forecasts can be used to improve operational activities and accomplish important daily and future financial objectives.			
Managing profitability and cash flow		Profitability	Improved profitability will be achieved through the following three key areas: <ul style="list-style-type: none"> • Regular monitoring • Knowing the impact of discounting • Tight management of expenses 	By focusing on improved profitability, additional funds will be generated that can be used to support the operations and goals of the club.
		Cash flow management	By undertaking active cash management your club can ensure that funds are available to pay all debts when they fall due.	By reviewing the variances between the expected and actual cash flows, you can minimise any unexpected changes in cash flows
Working capital management	Working capital is the short-term capital that works for the club. It includes stock, work in progress, and payments to suppliers and receipts from customers. By managing your account payment cycle it should ensure that there is sufficient monies to meet all payments.	Stock	Setting up good stock control procedures will ensure that cash is not tied up unnecessarily in holding stock.	
		Suppliers	Setting up good management procedures will ensure that you get the most out of your suppliers.	
		Work in progress	The key to managing work in progress is to have a good record-keeping system.	
		Debtors	Ensure that you have good procedures in place to encourage prompt payment.	

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Financing	Ensuring that all types of financing available are fully understood and matched to the club's needs will result in good financial management.	Grants	Before accepting reciprocal grants, ensure that all conditions are fully understood and can be met.	
		Debt financing	In a competitive market, financiers will package finance products under different names and introduce a range of features to differentiate themselves.	It is important to consider the purpose of the financing, together with security and repayment requirements and applicable fees, to ensure that the chosen facility is the best for the club's particular requirements.
		Refinancing your debt	When considering refinancing of borrowings, there are many factors to consider. The decision should not be based on pricing alone, but on the overall package available to the club.	
		Preparing a loan application	When preparing a loan application, ensure that all relevant information is provided and presented to the bank in person. The bank will not only be reviewing the application, it will also be making an assessment of management and its ability to run the club.	If the loan application is denied, find out as much as you can about why. This will assist you with any future loan applications.
Transactional banking to suit the needs of your club	The relationship with your bank is as important as any of your other business relationships. If it's good, it will assist you to achieve good financial management.	Managing banking relationships	A good banking relationship depends on both parties. You need to keep the bank fully informed at all times about all key aspects of the operations of the club.	One of the advantages of a good banking relationship is that the experienced bank manager can assume some of the role of an unpaid financial adviser. Bank managers have experience with many types of clubs and, since they are not closely involved, they can give impartial advice.

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Transactional banking to suit the needs of your club <i>cont.</i>		Transactional banking	Transactional banking services can incur large unnecessary fees. Regular review will ensure that the services are being provided at the best available cost.	Your banker can help you to choose the transactional services best suited to your club.
		How to switch banks	Before changing your banking arrangements, make sure that a number of alternatives are considered and compared to your current arrangements.	Before switching banks, see if your current bank is prepared to offer you a better deal. Often the current bank will be willing to match the offer made by the alternative bank.
Financial management governance	Good financial management must be supported by the appropriate policies and procedures to ensure that the financial information is complete and accurate and will lead to the correct decisions.			
Financial controls			Financial control procedures ensure that all financial information is recorded and accurate. If it is not accurate or complete, then wrong decisions could be made.	Review those questions in the checklist that are applicable to your club but to which you have not answered 'yes'. Ask management to implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. This checklist should be reviewed annually by the management committee.
Board financial management			The oversight role of the board or management committee includes ensuring that the club has good financial management practices in place to achieve the objectives of the club.	Review those questions in the checklist that are applicable to your club but to which you have not answered 'yes'. Ask management to implement appropriate policies and procedures, including naming the people who will be responsible for them and a completion date. This checklist should be reviewed annually by the management committee.

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Appendix B - Glossary of terms

There is a wealth of jargon and terminology associated with financial management. It is helpful for you to understand these terms when reading financial statements or when talking to finance professionals, e.g. bank managers. The most basic and useful of these are described as follows:

Accrual accounting	Recognising income and expenses when they occur rather than when income is received or expenses paid.
Accounting entry	The basic recording of business transactions as debits and credits.
Accounting period	A period for which financial statements are prepared – normally monthly then annually.
Amortisation / Depreciation	The process by which the value of an asset is gradually reduced (based on its expected life)
Asset	Anything having a commercial value that is owned by the club.
Break even	The amount in either units or dollar value that the club needs to achieve before a profit is generated.
Budget	A financial plan for a club, typically done once a year.
Capital expenditure	The amount of money that is allocated or spent on assets.
Cash accounting	Accounting for income and expenses as they are received or paid, or a system that records only cash receipts and cash payments (<i>also see Accrual accounting</i>).
Cash flow	The flow of cash into and out of the club.
Cost of goods sold	The total cost of all goods sold during the period (COGS).
Creditors	The money which you owe your suppliers.
Current	Refers to a time period of less than 12 months from the current time which assists in allocation of assets and liabilities.
Debtors	The money which is owed by your customers to you.
Deferred tax	The postponement of tax payable to a future period.
Depreciation expenses	The write-off of a portion of a fixed asset's value in a financial period.
Financial accounting	The costs associated with earning the club income.

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Financial ratio	The method by which a club can measure its financial health and compare the club's operations to those of similar clubs in the same industry.
Forecasting	The process of predicting the future financial performance of a club.
Intangibles	Assets that don't have a physical form, e.g. patents.
Inventory	The stock that a club holds to sell.
Liability	The amount the club owes to external stakeholders.
Margin	Profit from sales before deducting overheads (often referred to as gross margin), or after all expenses are paid, often referred to as net margin.
Mark-up	The percentage by which the sales price exceeds the cost.
Mutuality principle	A person's income consists only of monies derived from external sources. Accordingly, subscriptions and contributions from members for particular services provided by a club or association are generally excluded from the assessable income of that club or association.
Non-current	Refers to a time period of greater than 12 months from the current time which assists in allocation of assets and liabilities.
Overheads	Costs not directly associated with the products or services sold by the club.
Profit (surplus)	Revenue minus expenses.
Purchase order	A commercial document issued by a buyer to a seller, indicating the type, quantities and agreed prices for products or services the seller will provide to the buyer.
Receivables	Amounts that are owed to a club by its debtors.
Revenue	The income the club earns from its activities, including grants, donations, fundraising and any trading income.
Retained earnings	Profits that have remained in the club.
Stock	Goods that the club purchases to sell.
Transaction	An event that affects the financial position of a club.
Working capital	The excess of current assets over current liabilities.
Work in progress	Where an order has been taken from the customer and is in the process of completion.

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Appendix C - Incorporation explained

One of the main problems that face administrators in the running of their club or association is the issue of incorporation. There is no legal necessity for a sport or recreation club to become incorporated if it remains a voluntary association. However, remaining unincorporated does leave the club in a difficult situation in regard to the law. If a club is not incorporated, legal rights and obligations can fall onto individual members.

Whether to incorporate (or not) is an important decision that should be reviewed from time to time, especially if the size or nature of your club's activities changes (for example, your club wants to employ a paid staff member). This is one of the most important legal decisions you will face as a group. It is particularly important for people who are, or have been approached to be, involved on the board or committee of a sporting club, or who have decision-making functions.

Why incorporate?

The advantage of incorporation is that the club becomes 'registered' as an incorporated club. This means that the club has a legal identity, separate and distinct from the individuals who formed or make up the club. With the club having a legal existence, it can conduct business in its own name, for example:

- Incorporation protects club members, to a certain extent, from being sued individually
- Office bearers can sign documents and enter into contracts
- The club can buy, sell, own, lease and rent property and other assets
- The club can sue and be sued in its own right
- It can receive grants from government and other philanthropic groups
- It can borrow money.

One of the main benefits of incorporation for a club is that the group has 'limited liability'. This means that in most cases, the responsibility for debts or any legal proceedings or costs, is limited to the amount of money and assets held by the club. This protects individuals in the club from being personally liable if anything goes wrong. However there are exceptions to limited liability, with the main one being that if a person or persons on the committee act improperly or unlawfully, then they will not be protected. It is imperative then that all committee members are fully aware and understand their responsibilities as office holders.

What are the dangers of remaining unincorporated?

If your club chooses to remain unincorporated, it is important to understand that the club will not have its own legal status. Incorporation creates a legal 'identity' that is separate and distinct from that of the individual members. It is therefore important that a club and more importantly the office bearers are made fully aware of the risk of personal liability for any debts or legal costs incurred.

Groups should also consider the other practical difficulties that arise by remaining unincorporated, including:

- An inability to receive grants from government or philanthropic trusts and foundations
- An inability to enter into contracts or agreements under the group's name (including applications for tax concessions)
- An inability to own/lease property in the group's name
- An inability to sue or bring a legal action in the group's name.

A group should think about how much financial risk it might be exposing itself to through its actions. Incorporation should be viewed as an opportunity to limit personal risk, and unincorporated groups should therefore consider whether they are putting their members in a position where they may become personally liable for the actions of the group.

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Remaining unincorporated

If your club intends to remain informal and focus on simply entering teams into competitions, for example, then there is not necessarily a need to become incorporated. Some of the benefits of remaining unincorporated are that the club doesn't have to hold meetings in a specific format, register with government, make public who its members are or its financial position, or pay any annual fees to government. However, it is strongly recommended that unincorporated clubs develop a set of rules, similar to a constitution that assists with governing the club and particularly decision making. It is also best practice to regularly review the decision to incorporate at least every year and particularly as your club changes and grows.

Steps to incorporation

If your group decides to incorporate, you should visit the relevant authority in your state that deals with not-for-profit clubs and incorporation. In addition this website will provide you with the relevant information, paperwork, costs and a template constitution for your club to use; the relevant website is www.cbs.sa.gov.au/associations-and-cooperatives/incorporated-associations/



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Appendix D - Sample Financial Management Policy

Purpose:

To ensure that the club's finances are handled responsibly and to enable the implementation of sound day-to-day financial management practices with clear parameters.

The Treasurer has direct responsibility for looking after the club's financial affairs, however, overall financial responsibility rests with the club's management committee.

Incorporated clubs will have information in their constitutions that outlines the procedures for financial management and reporting. The club's financial year operates from 1st July to 30th June.

Policy Statement

The club's management committee will ensure that:

- A suitably qualified person is recruited to the role of Treasurer
- The club will assess its obligations in relation to income tax each year
- The club will ensure that all requirements of the Australian Taxation Office in relation to GST are met (e.g. acquiring an ABN if annual turnover is above \$150,000, etc.)
- If the club is incorporated and over \$500,000 in income, it will lodge an annual return with Consumer Affairs (or other relevant body) by the specified date each year if club income is greater than \$500,000 as it will be a 'Prescribed Association'.
- An approved budget for the year is determined and that expenditure is within budget
- A budget is available to purchase up-to-date financial software if needed
- Sufficient income is available to meet the budget requirements
- All funding agreements are adhered to and acquitted as required
- Monthly financial management reports are produced and presented to the next management committee meeting
- All investment decisions are ratified by the management committee
- An audit is completed, if necessary, in accordance with the Associations Incorporation Act and the club's constitution.

Policy Procedures

- Decide whether to use cash or accrual-based accounting
- Two signatures are required on all cheques as a minimum to authorise any payment, i.e. cheque or electronic facility
- The Treasurer and two other committee members (Treasurer, President & Secretary) are authorised to operate the club's bank accounts
- A limit of \$_____ may be authorised by the Treasurer or President, without approval from the full committee
- A petty cash system may be used for the reimbursement of small cash expenses. A petty cash book will be kept to record all payments and money will only be reimbursed on the production of a receipt
- The maximum petty cash reimbursement is \$_____
- The club's financial recording will include the following:
 - Use of a receipt book
 - Bank deposit book
 - Cheque book
 - Cash receipt journal
 - Cash payment journal
- At the end of each month, a bank reconciliation will take place, ensuring the total of all receipts and payments equals all bank deposits and withdrawals,
- The Treasurer will prepare an annual budget for the club, 3 months before the beginning of next financial year, predicting expected income and expenditure,
- Sufficient income is available to meet the budget requirements,
- Any variances to the budget are explained to the management committee,
- The Treasurer will:
 - Provide a profit-loss statement and balance sheet for the annual report each year,
 - Appoint a suitably qualified Auditor if required,
 - After audit, develop a subsequent action plan to respond to the auditor's report,
 - If a Prescribed Association the club will submit an annual return to Consumer Affairs by the given date.

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Appendix E - Sample General Ledger

Sample General Ledger Accounts

Ownership Equity

Accumulated members funds

Assets

Bank account

Debtors

Motor vehicles at cost

Office equipment at cost

Stock (Clothing)

Stock (Equipment)

Liabilities

Accumulated depreciation on motor vehicles

Accumulated depreciation on office equipment

Creditors

PAYG tax withholding

Cost of sales

Purchases of clothing for resale

Purchases of equipment for resale

Canteen purchases

Income

Fundraising income

Bar sales

Canteen sales

Soccer program revenue

Membership fees

Government grants

Sales - Clothing *Use for any type of clothing sales*

Sales - Equipment *Use for sales of e.g. footballs etc.*

Sponsorship

Other income

Expenses

Bar purchases

Fundraising Costs

Club program costs

Overheads

Audit fees

Bad debts

Computer expenses

Electricity

Maintenance of clubhouse

Maintenance of fields and tractor

Photocopier lease payment

Postage

Printing and stationery

Purchases - Clothing

Purchases - Equipment

Rates

Salaries

Telephones

Travel and accommodation

Revenues (Income)

Fundraising Income

Bar sales

Canteen sales

Soccer program revenue

Membership fees

Government grants

Sales - Clothing *Use for any type of clothing sales*

Sales - Equipment *Use for sales of e.g. footballs etc.*

Sponsorship

Other income

Note:

1. *It is possible to further split certain expense categories if the club wishes to group costs under specific headings.*
2. *Further information is available at the following website: <https://www.acnc.gov.au>*

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