

Global Accounting Concepts for Bookkeepers

Analyzing Financial Statements

Cash Basis versus Accrual Basis Accounting.

Cash Basis Method:

Cash Basis is an accounting method where transactions are recorded only when there is a change in cash.

Revenues are recorded when cash is received.
Expenses are recorded when cash is disbursed.

Revenues are recorded as of the date of the receipt of funds, no matter when the sale was made. Expenses are recorded at the date payments are made, regardless of when the cost was incurred.

This system does not recognize any promises to pay (Account Payables) or expectations to receive money or service (Account Receivable) in the future.

Buildings, Land, Vehicles, Equipment, or Inventory are also not recorded.

In conclusion, important accounting information does not appear in the books and is missing for a complete and accurate financial picture of the entity.

The Cash Basis Method was used by ADOM entities until the switch to Logos and later Connect Now.

Accrual Basis Method:

Accrual Basis is an accounting method where transactions are recorded only when they occur. It is not related to change in cash.

Revenues are recorded when they are earned.
Expenses are recorded when they are incurred.

Revenues are recorded in the period in which they are earned and expenses in the period in which they are incurred. Cash can be received or disbursed at a different date.

After revenues and expenses have been recorded, receivables and payables are set up if cash has not been received or paid. Therefore, this method allows the tracking of payables and receivables.

Revenues and Expenses are shown on the **Income Statement**
Receivables and Payables are shown on the **Balance Sheet**

The Accrual Basis method also records Buildings, Land, Vehicles, Equipment, or Inventory.

In conclusion, Accrual Basis accounting provides a fairly complete and accurate financial picture of the entity.

The Accrual Basis Method is currently used on Connect Now by ADOM entities.

The Financial Statements

On the Accrual Basis System, accounting information is allocated to various Financial Statements: the Statement of Activities and the Statement of Financial Position.

Financial Statements are a decision-making tool.

The Statement of Activities or Income Statement or Profit and Loss Statement

Statement of Activities shows only Revenues and Expenses for a 1 year period maximum.

This report measures profitability over a period (maximum 1 year).

The Net Income (Total Revenues – Total Expenses) is computed at the bottom of this schedule.

Here is a summarized Income Statement for either church or school:

Income:

- Offertory (Churches) **(1)**
- Tuitions & Fees (Schools) **(1)**
- Fund Raising **(2)**
- Gifts and Donation **(2)**
- Financial Income **(1)**
- Gift Shop **(3)**
- Subsidies (ADOM, Parish to School, School to Parish) **(4)**
- Other Non-Operating Income **(4)**

Expenses:

- Salaries **(1)**
- Supplies **(1)**
- Repairs and Maintenance **(1)**
- Debt Service **(1)**
- Fund Raising **(2)**
- Gift Shop **(3)**
- Assessment (Churches & High Schools), P&L, Pension **(1)**
- Subsidies (Parish to School, School to Parish) **(4)**
- Other Non-Operating Expense **(4)**

(1) : **Operating activities**

(2) : **Fund Raising activities**

(3) : **Gift Shop**

(4) : **Non-Operating activities**

Net Income (Income minus Expenses)

The Statement of Financial Position or Balance Sheet

This report is a snapshot of Assets, Liabilities and Net Asset.

Data is organized according to the following equality known also as the Accounting Equation:

$$\text{Assets} = \text{Liabilities} + \text{Net Asset}$$

Here is a summarized Statement of Financial Position for either church or school:

Assets:

- Cash & Cash Equivalent
 - Cash Accounts (Checking, Petty Cash)
 - Savings Accounts
- Marketable Securities (Endowment Funds including CCF and Corpus)
- Receivables
- Prepaid Expenses
- Fixed Assets
 - Land
 - Buildings
 - Equipment

Liabilities:

- Accounts Payables
- Bank Loans
- ADOM Advances
- ADOM Liabilities (Assessment, P&L, Health, Pension)
- Deferred Revenues (Prepaid Tuitions)
- Trust Accounts (Student Clubs)
- Non-Parochial Collections (ABCD, others)
- Mass Intentions

Fund Balance or Net Assets:

- Unrestricted Net Assets
- Temporarily Restricted Net Assets
- Permanently Restricted Net Assets

Budget: one year projection of the statement of activities.

Financial Statements are reflecting historical data only.

On the other hand, Budgets give financial guidelines up to one year in the future.

Budgets must be conservative:

- not overstating Income
- not understating Expenses

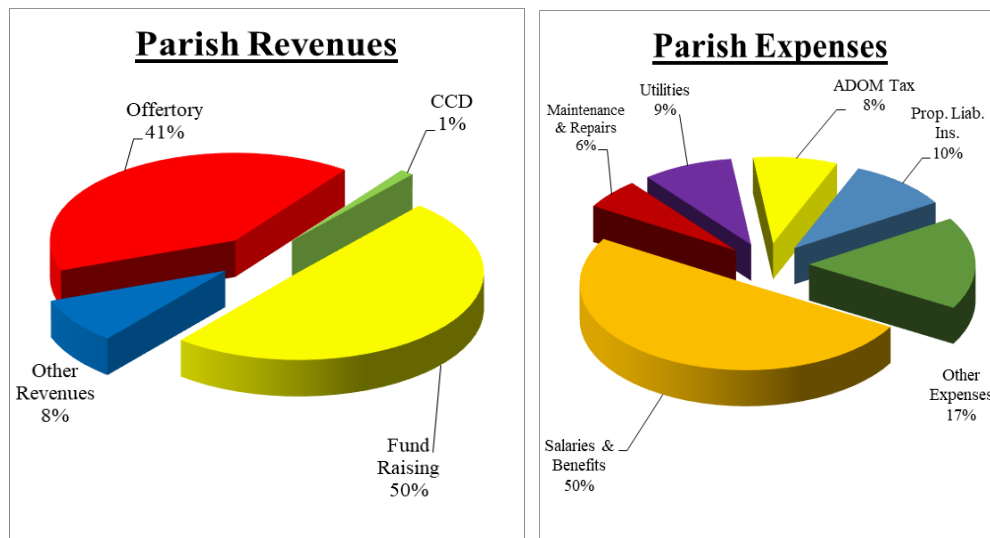
Types of Analysis

Several ways of analysis are available to get a complete picture of the financial wealth of an entity

- **Horizontal Analysis:** Growth/decline over time: year-to-year, month-to-month, or both.

Description	2024	2025	Variance	% Variance
ORDINARY REVENUES				
OFFERTORY				
Offertory Collections	708,031	700,001	(8,030)	-1%
Non-Parochial Collections Due Pastoral Center	-	23,011	23,011	NS
TOTAL OFFERTORY	708,031	723,012	14,981	2%

- **Vertical Analysis:** Weight of each item in a total (i.e., % of salaries over total expenses). Use of graphs (pie chart for example).



- **Ratio analysis**

Various ratios could be computed on the different statements.

Below are some examples of useful ratios. Using too many is not always necessary.

- Income Statements: Payroll & Benefits / Offertory (church)
Payroll & Benefits / Tuitions (school)
- Balance Sheet: Liabilities / Cash & Cash Equivalent

- **Trend Analysis:** mainly for budget purposes

