

Hi everyone.

Thanks for taking the time to join us today.



Lunchtime WEBINAR SERIES

STATEMENT OF CASH FLOWS FOR TIER 1, 2 AND 3 CHARITIES

The webinar will begin shortly.

- Make sure your computer is un-muted
- We recommend using headphones for better sound quality

CHARITIES SERVICES
Ngā Kaitiaki Kōwhiri Aotearoa

Deloitte Advisory

I'm Julia from Charities Services, and I have a number of my colleagues in the room to assist me with the webinar today.



CHARITIES SERVICES
Ngā Kaitiaki Kōwhiri Aotearoa

INTRODUCTION



WELCOME

Julia Fletcher will present the webinar on the Statement of Cash Flows for Tier 1, 2 and 3 charities.

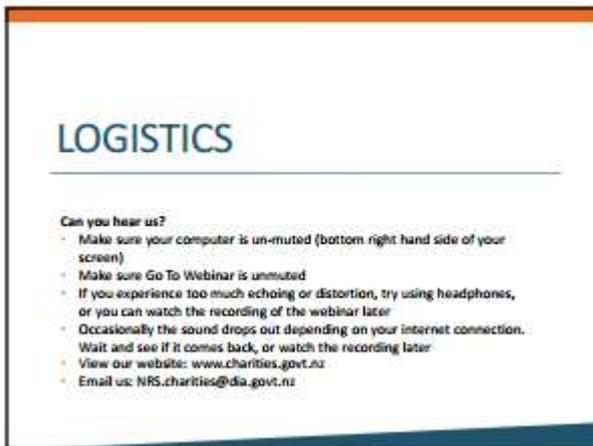
Julia is a Chartered Accountant with a background in audit and business advisory at Deloitte. One of her roles is to help charities and the sector get to grips with the new reporting standards. Julia has a strong interest in the not-for-profit sector including research at university and volunteering for several different charitable organisations as treasurer.

www.charities.govt.nz
www.facebook.com/CharitiesServices

This is the second in our Lunchtime Webinar Series and today we're going to look at the Statement of Cash Flows.

Please sign up to our newsletter on our website: www.charities.govt.nz or sign up to the Charities Services Facebook page so you know when the next webinars are coming up.

We are just going to talk a little bit about logistics here and let you know how the webinar will run.



Some people tend to experience echoing with the sound of the webinar.

You can try using headphones to reduce this, or if it doesn't improve, you can watch the webinar recording later.

If you haven't downloaded the slides yet and you would like to, you can find them on the panel on the right hand side of your screen.

It looks like a little document icon.

After the webinar we will send out links to all documents referred to during the presentation.

You can ask questions throughout the webinar and we will try and respond to them as we go.

We will not publish the question to other participants.

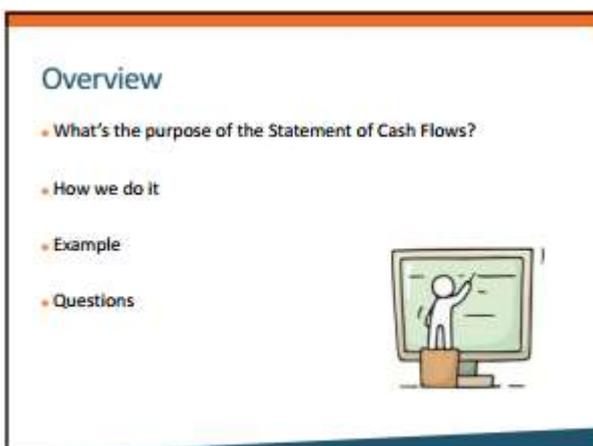
To ask a question, look at the panel on the right hand side of your screen.

There is an icon with a question mark (?) on it. Just click that and type your question.

We usually get more questions than we can get through, so if by the end of the session your question hasn't been answered, please feel free to e-mail us on: nrs.charities@dia.govt.nz

If we have any technical difficulties during the webinar, I'll mute the microphone until we have resolved the issue and then come back to you.

So let's get started.



The Statement of Cash Flows is both complex and very simple, so I'm going to do my best to explain it to you today.

It is possible that you may end up feeling like you need the help of accountant after this session, but our aim today is to give you some understanding of what a statement of cash flows is, and give you the tools to attempt it yourself.

We have a lot of information to cover but don't worry if you miss anything - all the information referred to in the webinar is on our website, and the webinar itself will be published to our website for future viewing.

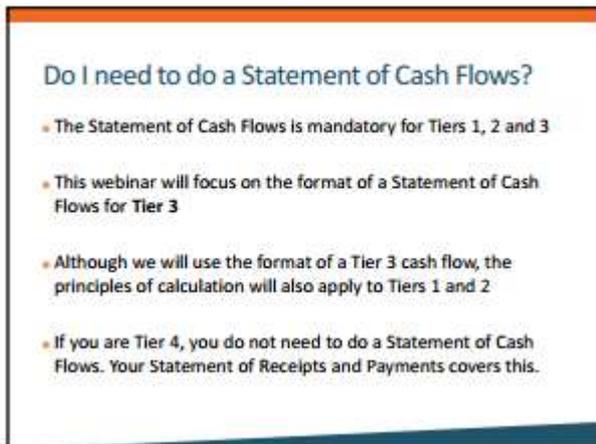
So today we are going to look at the purpose of the Statement of Cash flows and discuss the principles behind it so you can understand how to do it for yourself.

Then I'm going to show you an example which you will be able to download later and tailor to your own organisation.

At the end we'll answer some questions that we've received throughout the session that we think might be relevant to a lot of you.

These will be anonymous.

Before we get into the webinar properly, I just want to make sure that everyone is on the same page and you know whether you need to actually do a statement of cash flows.



A Statement of Cash Flows is mandatory for Tiers 1, 2 or 3.

These are charities that have annual operating expenditure of over \$125,000 per year.

Charities with less than \$125,000 who use cash accounting can use the Tier 4 standard which does not include a Statement of Cash Flows.

So if you are a Tier 4 charity, you do not need to attend this webinar.

This webinar is based on the format of a Tier 3 Statement of Cash Flows.

The Tier 1 and 2 Statement of Cash Flows has a slightly different format, but the principles applied are the same.

For Tier 1 and 2, you should review IPSAS 2 which is the Statement of Cash Flows Standard for Tiers 1 and 2.

I'm just going to spend a little bit of time showing you where the Statement of Cash Flows fits into the Performance Report.



Remember that for Tier 3, the Performance Report is the new name for the financial report that you attach to your Annual Return which you file with Charities Services each year.

The Performance Report consists of a number of statements - non financial and financial.

Both Tiers 3 and 4 charities are required to provide two non-financial information statements as well as 2 or 3 financial statements (depending on which tier you're in), and there's also a notes section available to provide more context to the financial information if it's needed.

As I said before the financial information for Tier 3 consists of three statements:



The Statement of Financial Performance records the revenue, expenses and surplus or deficit for the year.

The Statement of Financial Position records the assets, liability and equity of the charity.

And the Statement of Cash Flows records the actual cash that went through the charity during the year.

It's the Statement of Cash Flows that we are looking at today.

What's the purpose of the Statement of Cash Flows?

- To show how much actual cash went through the charity
- Removes non-cash accounting entries e.g. depreciation
- Accounting surplus vs. cash at bank
- The Statement of Cash Flows will clearly show whether more cash was received or spent for the year

The purpose of a Statement of Cash flows is to show the reader, really clearly, how much cash went through the charity during the year.

This is different to the Statement of Financial Performance, because the Statement of Financial Performance includes income that may have been earned but not yet received, and expenses incurred but not yet paid.

It may also include some non-cash accounting entries such as depreciation.

So it might look like you have a really healthy accounting surplus, yet have less cash in the bank at the end of the year than at the beginning.

For example, my friend and I have a business that rents out Christmas trees at Christmas time.

It's a fairly new business so we have been investing and purchasing a lot of Christmas Trees.

Last year, we made a profit of a couple of thousand dollars, yet, we only had a couple of hundred left in the bank at the end of the year.

That's because, when we buy Christmas Trees, they are recorded as an asset in the Statement of Financial Position, not as an expense in the Statement of Financial Performance which is where the surplus is calculated.

So, even though we made a decent profit, we don't have the same amount of cash as profit because we have used accrual accounting.

The Cash Flow Statement also helps the reader to determine whether a charity is solvent - in other words, does it have enough cash to pay its debts as they become due?

So, how do we prepare a Statement of Cash Flows?

How do we do it?

- In Tier 3, there are minimum categories that cash receipts (money paid into the bank), and cash payments (money paid out of the bank) must be sorted into
- We recommend using the optional template to make sure you get the format correct
- The objective is to get the cash receipts and the cash payments, to reconcile to the closing bank balance

To start with, I'm going to show you what a Statement of Cash Flows looks like, and then I'll show you how to calculate the numbers that go in it.

It's important to note, that in Tier 3 there are minimum categories that your cash receipts and cash payments must be grouped into.

These categories are similar to the minimum categories which are used in the Statement of Financial Performance however there are fewer categories on the payments side.

If this is the first time you are doing this, we highly recommend using the optional template as this will help you to get the format correct.

You can access the template on our website.

You will need to download it and save it so you can fill it out.

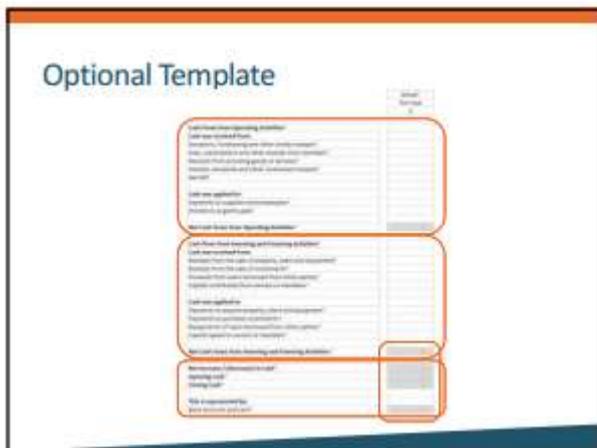
We will provide you with the link to the template after the session.

Overall, what you are trying to do is take the bank balance at the beginning of the year, add money that came into the bank and take away money that went out of the bank and then the total should match what you have in the bank at the end of the year.

I'll show you the template now so you know what it should look like.

After I've shown you the template, we're going to work through an example together that will show you how to populate the template, so hang in there - it will all become clear.

This is the Cash Flows tab from the Excel template on our website:



There are some smart features included and they are shown by the grey boxes.

The grey boxes indicate where the spreadsheet is calculating a sum, or where it is pulling a figure from another part of the spreadsheet.

The Tier 3 Statement of Cash Flows is divided into 3 sections:

Number one: Cash flows from operating activities

Number two: Cash flows from Investing and Financing Activities

And number three: A reconciliation of the cash balances

Let's start from the top.

Optional Template – Operating Activities

	Actual ¹ This Year \$	Budget This Year \$	Actual ¹ Last Year \$
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from operating activities			
Receipts from the sale of property, plant and equipment			
Receipts from the sale of investments			
Dividends from investments			
Interest, dividends and other investment receipts			
Net GST			
Cash was used for:			
Payments to suppliers and employees			
Dividends or grants paid			
Net Cash Flow from Operating Activities			

In the cash flows from operating activities section, there is a space for cash receipts and for cash payments.

You can see that there are 4 minimum categories of receipts which are similar to the minimum categories in the Statement of Financial Performance.

There are just two categories of operating cash payments which means that you can group some of the minimum expenses categories from the Statement of Financial Performance together here.

You will also notice that there is a line called “net GST”.

If you are registered for GST, then you may have chosen to prepare your Performance Report on a GST exclusive basis.

If this is the case, then the amounts recorded in your Statement of Cash Flows will also be GST exclusive.

However, the amounts that go in and out of the bank will include GST, so this is the place where you would record the net amount of GST that was paid or received from the IRD throughout the year.

I will show you how to do this when we come to the example.

Alternatively, there is also the option to prepare your entire Performance Report on a GST inclusive basis even if you are registered for GST.

You just need to state that you have done this in the policies section of the template.

Optional Template – Investing and Financing Activities

	Actual ¹ This Year \$	Budget This Year \$	Actual ¹ Last Year \$
Cash Flows from Investing and Financing Activities			
Cash was received from:			
Receipts from the sale of property, plant and equipment			
Receipts from the sale of investments			
Dividends from investments			
Capital contributions from investors or members			
Cash was used for:			
Payments to acquire property, plant and equipment			
Payments to purchase investments			
Payments of loans borrowed from other parties			
Capital repaid to investors or members			
Net Cash Flow from Investing and Financing Activities			

In the investing and financing activities section of the template, you record cash receipts and cash payments that relate to items that are recorded as assets or liabilities in your Statement of Financial Position.

For example, if you bought some new office equipment during the year, the payment would go here... or if you took out a loan, the receipt of money into the bank would go here.

In a Tier 1 or 2 Statement of Cash Flows, the investing and financing activities are recorded separately so you need to read the Tier 1 and 2 standard carefully to check the definition of those terms.

	Actual This Year	Budget This Year	Actual Last Year
Net Increase / (Decrease) in Cash			
Opening Cash			
Closing Cash			
This is supported by Bank Accounts and Cash			

In the third section of the template, there is a reconciliation of the bank account.

You can see that there are grey boxes here so the spreadsheet will automatically calculate the difference between all the cash receipts and all the cash payments.

You can see there is a box called "Opening Cash".

This number will be pulled through from your figures from last year, or if this is the first year you are preparing a Statement of Cash Flows, you will need to enter the opening balance into the spreadsheet in the prior year column.

Your opening bank balance is the amount you actually had in the bank on the first day of your financial year.

Remember, the objective of this sheet is to take the opening balance of cash, add cash receipts, subtract cash payments and the total should be the closing balance in your bank at the end of the financial year.

This amount should be the same amount of bank and cash that is recorded in your Statement of Financial Position.

Here's a tip: the numbers in the template should be rounded to the nearest dollar.

For example, \$10.53 would be rounded to \$11.

If your working ended up being out by \$1 or \$2 then it's perfectly fine to adjust one number by a dollar or two to make it work.

If your Statement of Cash Flows doesn't balance, then the spreadsheet will say "false" at the very bottom.

If it does this, then there is an error in the sheet.

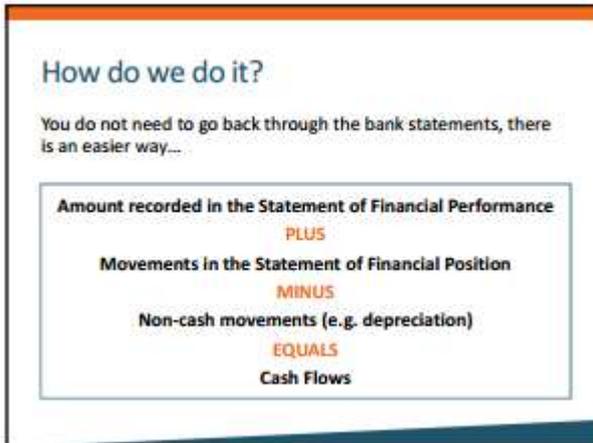
Quite often it's because there is no opening cash balance entered.

You will need to go back and check the numbers you have entered are correct.

Also, double check the opening and closing bank balances against your bank statement.

They should match exactly.

So now you can see the end product that we are trying to produce, I'm going to show you how to calculate the cash receipts and payments that go into the template.



You don't need to trawl through your bank statement to calculate the numbers in the Statement of Cash Flows.

You can do it by adjusting the amounts in your Statement of Financial Performance by removing or adding accounting entries which are recorded in the Statement of Financial Position.

You can see from the image on the screen that the basic formula is:

- The amount in the Statement of Financial Performance
- Plus movements in the Statement of Financial Position
- Less non cash movements
- Equals cash flows.

I'm not going to talk too much about the theory of it here, as it's actually easier if you just look at an example – bear with me, it's not as scary as it sounds!

We have taken the actual numbers from a charity, and put them into an excel worksheet so you can see how to calculate the cash flows.

You will be able to download this spreadsheet after the webinar.

It has an instructions tab which explains how to use it.

Just to be really clear – the spreadsheet I'm about to show you is not a Statement of Cash Flows.



It's a worksheet that will enable you to calculate the figures that go in to the Statement of Cash Flows in the Tier 3 template.

This worksheet is designed to help you complete your Performance Report, but it's not the template itself.

I'm going to bring the Excel sheet up on screen now, so follow along as I show you how we filled it out.

It might look a little bit small on your screen, but don't worry as we're going to send you the workbook later.

Just try to follow along with my explanation.

The way this works, is by taking the figures from the Statement of Financial Performance and Financial Position and calculates out how much of what has been recorded is actually cash.

So before you start, you will need to prepare your Statement of Financial Performance and Statement of Financial Position and make sure that these balance.

If you use the optional Excel template, it will tell you if your accounts don't balance.

You can use our Tier 3 guidebook to help you complete these two statements.

As I said before, this is both complex and simple so for the purposes of showing you how to calculate the Statement of Cash Flows, I'm just going to show you how to do it, and I'm not going to attempt the theory behind it because I don't want this to be overwhelming.

If you want to understand the mechanics in more depth, it might make sense to enlist the services of an accountant.

I'm going to talk you through the worksheet now, but see down here on the left hand side, there is an instructions tab which you can use to follow along when you come to do your own workbook.

Look down the left hand side here.

You can see we have listed the revenue, expenses, assets, liabilities, and equity of the organisation using the minimum categories required in the standard.

These numbers here are for the current year that we are calculating the cash flows for, (in this example for March 2016) so we have taken the numbers straight from the Statement of Financial Performance and Statement of Financial Position.

Here are some tips for entering the numbers correctly: revenue, liabilities, and equity should be entered as negative numbers.

That's why they have brackets around them.

You do this by typing a minus sign (-) in front of the number when you enter it.

Expenses and assets should be entered as positive numbers.

Fixed assets such as Property, plant and equipment or vehicles usually appear as one line in the Statement of Financial Position, but it makes it easier if you break it down into cost and accumulated depreciation.

You should be able to get this breakdown from your fixed asset register.

You also need to break this information down in Note 4 of the template, so it would be helpful to complete this note first.

There is a sum within this column that adds up the revenue and expenses to get the surplus or deficit.

Check this number against your Statement of Financial Performance to make sure it matches.

At the bottom of the column, all the numbers should total to zero.

If they don't there is something wrong.

For example, you might have entered a positive number as a negative.

In the next column over, you will see that we have entered only the numbers from the Statement of Financial Position for the previous financial year.

Again, this should add to zero.

In the next column over, we have a "movement" column.

Movement in this context just means the amount that was recorded during the year.

For the Statement of Financial Performance this is just the balance of the account for the year.

For the Statement of Financial Position, it is the difference between last year's and this year's balance.

You will see across the top of the spreadsheet, we have listed the minimum categories that I showed you in the template on the previous slides.

There is also a non-cash column, which is where you put your depreciation.

Additionally there is a "bank" column - this is where you put the movement in the bank account.

On the far right hand side there is a "variance" column.

This column checks that you have put each movement into one of the columns across the top.

It should sum to zero.

If it doesn't, there is an error.

As you can see, there is a number in this column, as I have not allocated this figure to a minimum category column.

I'm going to do this now.

This line relates to "donations, fundraising and other similar revenue" so I'm going to allocate it to the "donations, fundraising and other similar receipts" column.

It is the number in the "movement" column that I am allocating.

I do this by pressing equals (=), clicking on the number, and then hitting enter.

If I then go back to the variance column, I can see that this is now zero.

You need to do the same thing for each item on the list.

For example: Interest Income would go into the "Interest, dividends and other investment receipts column."

The surplus or deficit line always gets allocated to the "non-cash" column.

When we get to the fixed assets we need to be careful here.

The changes in the Property, Plant and Equipment account could be a mixture of items bought and sold.

You need to split the allocation between items you have sold for cash and items you have purchased for cash.

You will be able to get this information from your fixed assets register, or Note 4 in the Performance Report if you have already completed that.

Make sure you check the variance column to ensure it all sums to zero.

The change in the accumulated depreciation accounts goes in the non-cash column.

You will need to allocate your debtors or creditors to whichever category is most appropriate.

So for this example, the creditors all related to payments to employees and suppliers, so we put it in the payments to employees and suppliers column.

This is also where you calculate the “net GST” for the year.

The net GST is simply the difference between last year’s and this year’s balance of the GST account in the statement of financial position.

You put the movement in the GST column.

You allocate the change in retained earnings to the non-cash column.

To check that everything is working correctly, look at the bottom right hand corner of the worksheet.

If everything is correct, then this should sum to zero.

If it doesn't, I've added comments to particular cells to help you check for errors.

These are indicated by the little red triangles.

If you hover the mouse over the triangle you will be able to see the comment.

When everything is entered correctly, the spreadsheet then adds the columns down.

In this example, the payments to employees and suppliers column, includes the amounts that were recorded in the Statement of Financial Performance, less the amount that was unpaid at the end of the year that was included in creditors.

That means that \$20,862 actually went through the bank during the year (that relates to payments to suppliers and employees).

It is this amount here that gets included in the Statement of Cash Flows.

At the bottom of this worksheet, we have set up a mini Statement of Cash Flows which mirrors the format in the optional template.

So going back to the example I just showed you, the sheet automatically inserts the amount from the worksheet above into the correct place.

Similar to the worksheet above, if everything is working correctly, the balance at the very bottom should be zero.

If it isn't, then there is an error and you will need to go back and check your figures.

When everything has balanced, you can then copy the numbers from here, into your Performance Report template.

So, as you can see, calculating the numbers in the Statement of Cash Flows is just a mathematical exercise.

It might seem a little bit overwhelming at first, but if you download this spreadsheet and have a play with it, it should make sense.

When you have done it once, you'll get the hang of it and it will become easier the next time.

Remember, there is an instructions tab here and you can always re-watch the recording of the webinar and pause it as you work through the spreadsheet with your own figures.



This is obviously quite a tricky part of the Performance Report and we know that it will be challenging if you've never had to do it before.

We have also written a blog piece on this topic which you might find useful if you learn better by reading.

You will also be able to download the example spreadsheet with instructions from this blog.

Remember also that this webinar will be available from our website shortly so you will be able to watch it again at your own pace, and perhaps with your own copy of the spreadsheet in front of you.

We urge you to give it a try using the spreadsheet, but if it's really too difficult then you may want to try seeking professional accounting advice, at least for the first year.

An accountant may be able to set the worksheet up for you so that you can do it yourself next time.

You are also welcome to send us queries to the e-mail address on the screen.

So that completes my presentation and I'm now going to read out a couple of the questions that we've received during the session that we think might be useful for a few of you.



My colleague Charlotte is just handing me some questions now...

So the first question:

"Is a term deposit a bank account and should it be included in the Statement of Cash Flows?"

That's a really good question and it's one that we get quite a lot.

The closing bank balance in your Statement of Cash Flows should be the same bank balance that is included in your Statement of Financial Position.

So, if you have classified a term deposit as a bank account in your Statement of Financial Position then you should also include it in the Cash Flows.

Usually you would only do that if the term deposit had an original maturity date of 90 days or less.

So term deposits that are actually really short in nature, those are the kind of ones that you would include in the Statement of Cash Flows.

The second question is:

"What is the difference between the Statement of Cash Flows in Tier 3 and the Statement of Receipts and Payments in Tier 4?"

Not much really, the principle is the same.

They both show the cash receipts and payments in and out of the bank account however the format is slightly different between the two so you can't substitute one for the other.

For Tier 4 the idea is to provide a very simple format of accounting for very small charities, so that they can present their financial results in a consistent manner.

Tier 4 is also a cash standard, whereas Tier 3 is an accrual standard.

So for Tier 3, the Statement of Cash Flows is a supplementary statement which adds more transparency to the Statement of Financial Performance and Statement of Financial Position.

But at the end of the day both statements show whether more cash was received than spent during the year.

The third question is:

"Our organisation is registered for GST – can you please repeat the instructions on how to treat GST in the Statement of Cash Flows?"

Yes, sure - you've got two options really:

If you are registered for GST, either you can prepare your Performance Report on a GST inclusive basis throughout, or you can prepare it on a GST exclusive basis.

You just need to state which method you've used in the accounting policies section of the report.

If you prepare it on an exclusive basis, then the amounts in your Statement of Cash Flows won't be the full amounts that have actually gone in and out of the bank during the year.

Therefore you need to include the net GST for the year in the Statement of Cash Flows.

This is simply the difference between last year's and this year's balance of your GST liability account in your Statement of Financial Position.

So I showed you in the worksheet how to calculate that number, so it's just the difference between the opening and closing balances of your GST account.

And, I've got one more question here:

"Can I use my accounting software to produce a Cash Flow Statement?"

Yes you can. You can use the cash flow statement in various accounting packages, but - I would really recommend having a double check of the figures as in my experience I have found that some packages like MYOB and Xero often don't categorise the inflows and outflows automatically.

So, you really need to give it a sense check and make sure that it's all logical, so for example does the bank balance in the Statement of Cash Flows match the bank balance in the Statement of Financial Position and the actual bank statement?

So it might be a good idea to use the spreadsheet that we just went through before, and then check your numbers against the software.

If you find that the coding in the software is too complex, then what you could do is use the template to create your Statement of Cash Flows, and attach that to your performance report, or in some cases you might be able to calculate your Statement of Cash Flows and then override the numbers that have come through in the software.

That brings us to the end of the session today.

If we haven't managed to answer your question today and you still really need an answer, then do feel free to e-mail us at the address on screen, and somebody will get back to you.

Our next webinar is going to be on the 25th of May and it's going to be on the Minimum Revenue and Expense Categories in Tiers 3 and 4 so we'd really love it if you could join us for that one.

If you sign up to our newsletter which you can access through our website, or like us on Facebook then you'll get the updates on the next webinar.

I hope this has been a useful session and I'd like to say thank you very much for the effort that you are putting in to your Performance Report and well done for all of the work that you do in your charities.

Thank you very much.