

# Balance Sheet and Income Statements



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# Overview

- Balance sheet and income statement are the main financial reports in both internal reporting and the annual audit.
- Income statement (profit and loss, statement of operations, statement of revenue and expenses) shows revenue, expenses and surplus or deficit and is used to assess financial performance of the organization and of the programs it runs.
- Balance sheet (statement of financial position) shows the current financial position including assets (what we own), debt (what we owe) and equity (net worth, also called accumulated surplus). Balance sheet is used to assess the financial health of the organization.
- Financial reports are produced using the accrual basis of accounting – amounts owing from customers and to vendors are tracked in accounts receivable (AR) and accounts payable (AP) respectively, regardless of when a payment is received or made.
- Internal balance sheet and income statement are produced automatically by the accounting software and are used for reporting to funders and as the basis for the annual audit.
- Financial reports tell a story about the organizations' operations.



## Income Statement Terms

- Revenue or income – total of funding and/or sales received or receivable.
- Operating expenses – expenses used in running the programs or the business.
- Other income or expenses – not recurring or directly related to the organization's operations. Examples: lawsuit loss, gain or loss on sale of assets (building, land, vehicle etc.), investment income.
- Operating income/loss – profit/loss from operation, before other income/expenses.
- Net income/loss or surplus/deficit – the bottom-line profit or loss.
- Amortization or depreciation – calculated expense to recognize the aging of capital assets (major assets such as building, vehicles and equipment).
- Consolidated financial statements – more than one entity is included.



## Income Statement Terms for Business

- **Cost of Goods Sold** – Direct expenses related to sales.
  - Examples: cost of fuel at a gas station, cost of groceries at a grocery store, materials and production labour in a manufacturing business. These costs would vary based on sales; they're referred to as variable costs.
- **Gross Profit or Margin** – Sales minus cost of sales, profit from direct business activities available to cover overhead costs.
- **Overhead Costs** – Expenses not directly related to producing income such as office rent, utilities and admin costs. These costs don't change based on sales and are referred to as fixed costs.
- **Income Taxes** – Shown below other income/loss.



## Income Statement for First Nations

- Income statement in the annual audit shows revenue by funder and expenses by program.
- Net profit/surplus can be restricted – we may be showing a large surplus, but it belongs to a capital project and can only be spent on the specific project.
- Important to review program schedules – income statements for individual programs.
- Segment disclosure note shows income statement by program area such as administration, education, health, housing, and capital – can see surplus by program area and whether it is restricted.



# Income Statement Examples

- Household
- Business
- Non-profit
- First Nation







## Balance Sheet Terms – Assets (what we own)

- Cash – bank accounts and petty cash.
- Investments – cash used to earn investment income (interest and dividends) – GIC's, saving accounts, stock market investments. Can also refer to investments in businesses.
- Accounts receivable – amounts owing from customers.
- Inventory – goods available for sale in a business.
- Prepaid expenses – amounts paid this year for future periods, such as insurance and last month's rent.
- Capital assets – land, buildings, equipment and vehicles.
- Loans receivable.
- Due from related parties – loans to related organizations and individuals.



## Balance Sheet Terms – Liabilities/Debt (what we owe)

- Bank indebtedness – line of credit.
- Accounts payable – amounts owed to vendors.
- Deferred revenue – income received this year for future periods such as customer deposit.
- Loans payable.
- Due to related parties – loans from related organizations and individuals.





## Balance Sheet Terms – Equity/Net Worth

- Equity = total assets minus total liabilities.
- Retained earnings/accumulated surplus – accumulated profits since the start of operations.
- Share capital (only applicable to a business) – owners' (shareholders') share in the company based on their investment.
- Dividends (only applicable to a business) – distributions of the accumulated surplus to business owners. Dividends reduce the equity.
- Restricted surplus (only applicable to non-profits) – surplus that can only be used for a certain program/purpose.
- Unrestricted surplus – accumulated surplus that can be used for any purpose.

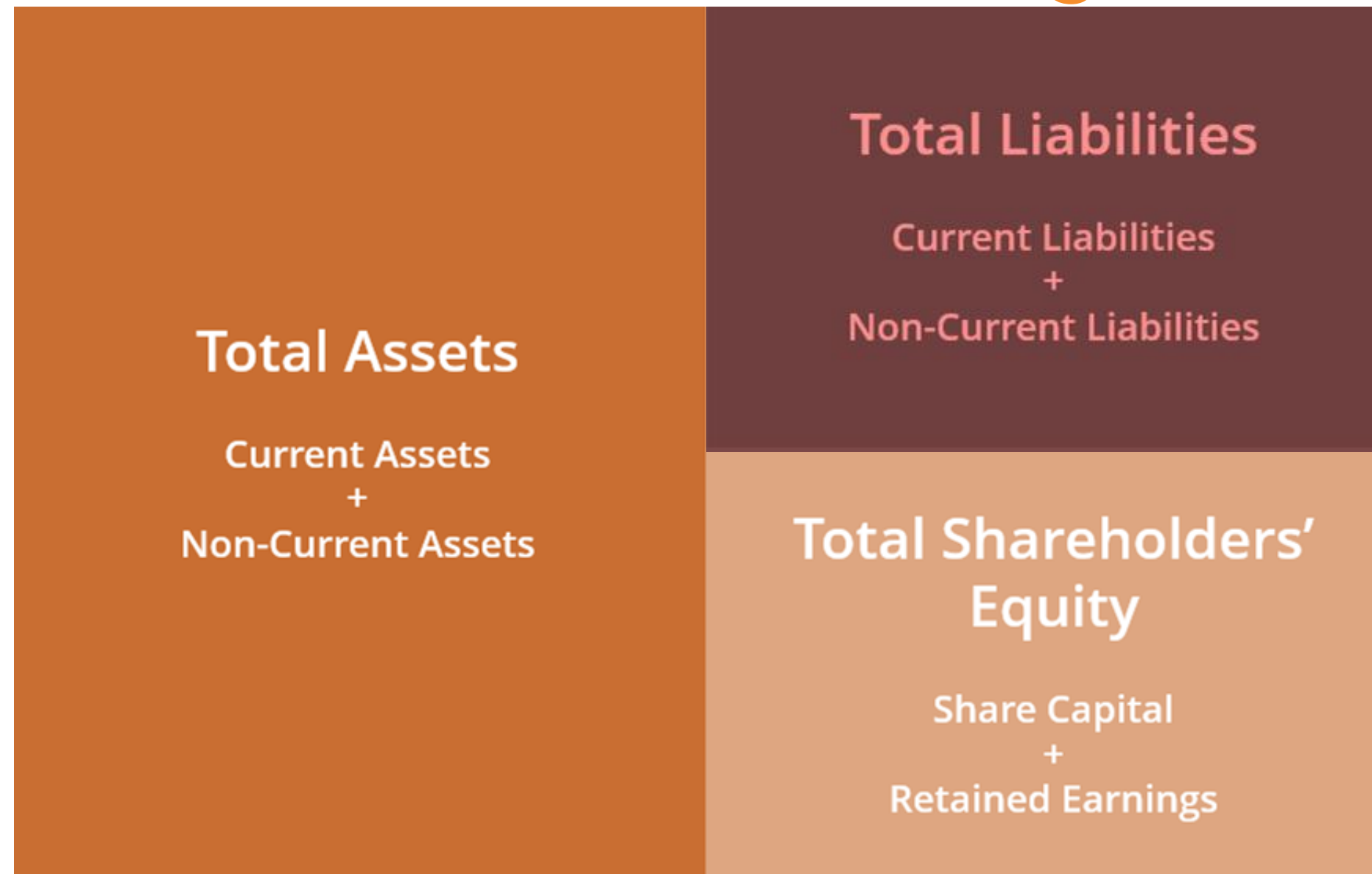


## Balance Sheet Terms – Current vs. Long-Term

- Current – will be or can be converted into cash within one year.
  - Examples: accounts receivable will be collected within a year and accounts payable paid within a year.
- Long-term – conversion into cash within one year isn't intended.
  - Examples: land and buildings are held for multiple years, long-term loans such as mortgages that won't be paid off in a year.
- Current assets and liabilities are presented separately to show the organization's ability to access cash.



# Balance Sheet Diagram



Source: <https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/>



# Balance Sheet – First Nations

- Special presentation per government requirements.
- Assets are grouped as financial or non-financial.
- Non-financial assets are the ones that cannot be converted to cash easily – capital assets and prepaid expenses.
- Balance sheet presentation for First Nations:
  - Financial Assets
  - All liabilities
  - Net debt – difference between financial assets and total liabilities
  - Non-financial assets
  - Accumulated surplus – net debt plus non-financial assets



# Balance Sheet Examples

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# Practical Application for First Nations Finance

Thank you for your time



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