

Expenses and Accounts Payable



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Expense Types

1. Program Delivery Costs

- Payroll and subcontracts
- Purchases and supplies
- Travel

2. Administration/Overhead

3. Other Expenses – legal settlements, interest, loss on sale of assets, etc.



Expense Accounts

- Expense accounts are below revenue on the income statement; other expense accounts can be at the bottom, below program and admin expenses
- Accounts can be set up by expense type
- It's best to set up accounts based on funder and audit requirements; important to consider what makes most sense for the user
- On the audit - expenses are presented in total by program
- Non-profit vs for-profit income statement presentation – gross profit/margin concept



Cost of Sales and Gross Profit

- In a business that sells goods and services expenses are tracked as direct (cost of sales) or indirect (overhead).
- Cost of sales is expenses directly related to selling the goods or services, such as cost of gas at a gas station or cost of groceries at a grocery store. These are normally variable costs; they directly depend on the number of sales.
- Cost of sales expenses are presented right after sales and are followed by a gross profit/margin:

Sales	10,000		
Cost of sales	<u>8,500</u>		
Gross profit	1,500		
Gross profit %	15%	Gross profit/sales	

- Gross profit is an important measure of business profitability and its ability to cover overhead costs. It can be used to analyze how profitable different product lines are.
- Overhead costs are not directly related to sales and are considered fixed costs.
- A business has to generate sufficient gross profit to cover overhead costs.

Recording Expenses

- Vendor invoice – used when there's a time lag between billing and payment (two-step approach).
- Expense – used when billing and payment happen at the same time (one-step approach).
- Journal entries – can be used to record expenses; auditors will review a 100% of journal entries.
- Journal entry to record expenses: Debit expense/credit bank.



Accounts Payable

- Amounts owed to vendors – a liability (debt) on the balance sheet.
- When we record a vendor invoice, the amount is held in AP until payment is made.
- Accrual basis of accounting requires recording AP.
- Aged AP report shows amounts owing by vendor and their aging; important to update and review on a regular basis to ensure accuracy and timely payments.



Accounting Walk-Through

Bill

	Expense	AP	Bank	JE
Invoice	1,000	1,000		DR expense/CR AP
Payment	<u>-</u>	- <u>1,000</u>	- <u>1,000</u>	DR AP/CR bank
	1,000	-	- 1,000	

Expense

	Expense	Bank	JE
Expense	<u>1,000</u>	- <u>1,000</u>	DR expense/CR bank
	1,000	- 1,000	

Accounts Payable – Continued

- Adjusting AP has to be through individual vendor accounts, otherwise adjustments will be unapplied and can create a discrepancy.
- Best way to adjust AP is through vendor credit.
- Review aged AP report regularly to manage payables and cash flow.
- If unsure about a vendor balance, compare to the vendor statement.



Expense Allocation

- Allocate as much as possible to program costs as opposed to administration.
- Most programs would allow for up to 15% in admin costs.
- Watch for costs shared among multiple programs – allocation should have a basis – amount of time spent, number of clients served, etc.
- Having a small deficit in a funded program is preferred.
- Important to understand eligible costs for every program.



Expenses – Best Practices

- Two-step approach is always preferred; must be used at year-end.
- Record vendor invoices as soon as received to ensure program spending is up to date.
- Ask program managers and staff for vendor invoices they haven't submitted or are expecting.
- Make a contact with major vendors and ask they email vendor statements and invoices to you directly.
- Program managers should receive and review monthly budget-to-actual reports.
- All expenses should be approved by program managers – use cheque requisitions.



Expenses – Best Practices Continued

- Dual signatures on cheques/EFTs with supporting documents initialed for approval.
- Set up online access to bank and credit card statements and reconcile on a monthly basis.
- C&C/management should review AP listing on a regular basis.
- Allocation of expenses to programs – use program budgets and proposals as guidelines.
- Consider allocating indirect costs related to programs – such as C&C honorarium and travel.
- Consider charging admin fees for band administration.

Practical Application for First Nations Finance

Thank you for your time



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