**FINANCIAL MANAGEMENT FOR CHURCHES**

**INTRODUCTION**

These notes are intended for persons who have received little or no financial accounting or bookkeeping training. This group could include recent graduates from seminaries who have been well trained in theological matters but have received little instruction in finance and do not fully understand the financial statements of their church.

The objective of early Chapters will be to show how financial statements are developed and to provide some understanding on the interpretation of these statements. Latter chapters deal with Corporate Governance including internal control procedures as well as the organization of church management.

These notes are an outline to introduce these subjects and for the reader who wishes to study in more detail, there are many suitable books or courses available.

As we develop an understanding of basic financial statements, we will look at some of the specific requirements for church accounting and then cover other financial management topics covering the following:

 Financial Statement preparation

 The Balance Sheet and Income Statement Chapter 1

 The Cash Book Chapter 2

 The General Ledger Chapter 3

 The Journal. Chapter 4

 Petty Cash Chapter 5

 The Journal Chapter 5

 Fund accounting Chapter 6

 Corporate Governance

 Define Chapter 7

 Internal accounting controls Chapter 8

 Organization structure Chapter 9

 Annual Financial Statements. Chapter 10

**CHAPTER 1 - The Balance Sheet & Income Statement**

If a group decided to start a new church, their first task would be to find seed capital to fund various initial costs. These basic costs involved were the cost of purchasing required office furniture, pay rent a facility to hold services as well as offices, stationery and to pay initial staff wages. Let us make the following assumptions on behalf of our Christian entrepreneurs. After four months of operation, the amounts received, and the costs incurred are summarized as follows:

 Capital raised $ 50,000

 Office furniture $ 2,000

 Office rent at rate of $250 per month 1.000

 Rent of school hall for services 2,000

 Stationery 500

 Secretary salary 8,000

 Honorarium to pastor 11,000

 Office supplies 500

 Postages 100

 Plate income 11,000

 Donations received 1,000

 $ 25,100 $ 62,000

 Cash at bank 36,900

 Total after 4 months $ 62,000 $ 62,000

If we compare our plate receipts to the expenses incurred, we will see that we received $12,000 but incurred the following expenses:

 Office rent at rate of $250 per month $ 1.000

 Rent of school hall for services 2,000

 Stationery 500

 Secretary salary 8,000

 Honorarium to pastor 11,000

 Office supplies 500

 Postages 100

 Total $ 23,100

The result is the expenses exceeded income by $ 11,100 ($23, 100 – $12000)

These results can be presented to church members in the form of an income statement, also referred to as a profit and loss account, generally called a Statement of Income for a defined period, as it out below

 NEW CHURCH OF ABC

 STATEMENT OF INCOME AND EXPENDITURE

 For the four months ended August 31,20xx

 INCOME $12,000

 Donations received $ 1,000

 Plate collections 11,000

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 EXPENDITURE 23,100

 Salaries 19,000

 Rent paid 3,000

 Office expenses 1,000

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 EXCESS OF EXPENDITIURE OVER INCOME $ 11,100

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Note that this statement covers a period, here for the four months ended August 31, 20XX. On the other hand, a Balance Sheet presents assets and liabilities at a specific date, in this case it would be “on August 31,20XX”. It is the balance sheet that shows the book value of assets and liabilities with the difference between the two being the book value of net asserts. Using the numbers in the trial balance (as used in the Income Statement), would be as follows:

 NEW CHURCH OF ABC

 Balance Sheet at August 31,20XX

FIXED ASSETS $2,000

 Furniture & equipment, at cost

CURRENT ASSET 36,900

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 $ 38,900

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CAPITAL ACCOUNT $38,900

 Contributed capital 50,000

 Excess of Expenditure over Income. (11,900)

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 $ 38,900

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You will note that the balance sheet does not include any income or expense items. We often hear a layman refer to the expenses in the Balance Sheet and the reader should not proceed reading if one does not understand that this is impossible.

 The one exception to this rule is in respect of income received or expenditure paid for a period applicable to a future date. For example, if the rent was paid for the month of September, i.e., after the balance sheet date, it would be inappropriate to include this as an expense to end of August and the payment would be a current asset, a prepayment. Similarly, income received for May would be deferred as a liability.

Basic Accounting Rule

Before we try and consider the accounting for this church, there are a few basic accounting rules, which we want to emphasize for you.

1. All money received and banked must be allocated to an account to record the nature of the receipt – In bookkeeping or accounting terms, this is called credited to an account. If cash is received and banked, it must be received for a purpose and must be accounted for by debiting the bank account and crediting another account with the same total amount. A credit will generally be to an income account (e.g., Contributions received, or Interest received) or less frequently, to a Capital account i.e., contributed capital.

Cash payments are all deemed to have been made from a bank account and the bookkeeping entry is a credit to bank account and a debit to another account for example one of the following entries:

 An expense. This would be the cost of a service or expendable asset

 acquired. Rent paid and salaries paid are good examples of

 expense

 Capital expenditure The cost of an asset acquired e.g., furniture

 purchased

 In accounting, the results are a well-known concept of “Double entry” ***Each debit must have a credit and vice versa, each credit must have an equal amounted debit.***

1. In the example above, all transactions were transacted through a bank account in terms of which the receipts were received in cash and banked while the expenses were paid from the bank account in the period incurred. In everyday life, we know that not all revenue is received immediately and not all expenses are paid in the period incurred. The most straight forward example of this is that the church could purchase office equipment for payment at a later date and could also incur current liabilities for expenses incurred.
2. An accrual must be made for any expense incurred so that it is recorded in the same period as the credit is recorded resulting of another accounting concept called the **matching concept.**  This is accounting term designed to ensure that income and related expenditure are recorded in the same period. A good example of this would be if income were received through a fund-raising business who were paid a commission, this concept requires that both the income and the related cost are recorded in the same period. If there was clear confirmation of the receipt of $2,000 after a deduction of $200 commission, at a month end, a journal accrual would be made as follows:

 Account receivable $1,800

 Commission expense 200

 Donation income $2,000

When the cash is received and banked, the accounting entry is to debit the bank account and credit the receivable.

 If we make the assumption that our cashbook was as follows after nine months:

 Capital raised $ 50,000

 Legal expenses $ 3,000

 Office furniture 3,000

 Office rent at rate of $250 per month 2,250

 Rent of school hall for services 4,500

 Stationery 900

 Secretary salary 18,000

 Honorarium to pastor 18,000

 Office supplies 800

 Postages 300

 Plate income 70,000

 $ 50,750 $120,000

 Cash at bank 69,250

 **$ 120,000 $ 120,000**

In addition to these cash transactions, the new church had also entered into the following transactions:

 1. Assets purchased, and obligations incurred in August and paid in September

 Office equipment purchased $2,000

 Office furniture purchased 1,000

 Advertising services in local newspaper 300

The required journal entry is as follows:

 Office furniture & equipment. $ 3,000

 Advertising expense 300

 Accrued liabilities 3,300

The Office furniture and equipment are added to the Fixed assets and the accrued liabilities are introduced to the liabilities side (before Capital) to the liabilities side of the Balance Sheet. The advertising expense is added to the expenses listed on the Income Statement and increases the excess of expenditure.

2 Tax of $ 300 had been deducted from salaries paid but had not been paid to the tax authorities.

The required journal entry is as follows:

 Salaries $300

 Accrued liabilities 300

The additional salary cost is added to salary expense and increases the excess of expenditure over income. Accrued liabilities on the Balance Sheet is also increased.

3 A firm of fundraisers was employed to collect funds for the church. They did not charge a fee but would deduct 10% commission on receipts. They reported that $2,000 had been received before the end of August, 20XX

The required journal entry is as follows:

 Accounts receivable $1,800

 Commission expense 200

 Donations receivable 2,000

 The account receivable is added to the caption classified as a current asset. The donation is added as income on the income statement and the commission expense is added to expenditure on the Statement of Income and Expenditure

4. All furniture purchased had a limited life and was to be depreciated to amortize the cost over the estimated life of the asset. If this was agreed and the depreciation calculated at $100, the journal entry would be as follows:

 Depreciation expense $900

 Provision for depreciation of Furniture & equipment. 900

The expense increases the total expenditure and is disclosed on a separate line while the provision for depreciation is disclosed in a separate line and deducted from the Fixed Asset total.

After Journal entries are posted General entries would have a record of all transactions and a list of general ledger balances is made. This list is called the trial balance and all debits must equal all credits. summary of income and expenses to prepare a statement showing the results of operations for the period.

Using the trial balance, we extract a summary of income and expenditure to list in the Income Statement. The Statement of Income or Expenditure is sometimes referred to as the Profit and Loss Account.

The account would cover the cash transactions as expanded to accrue for transactions applicable to the period covered by the Income Statement.

This account must clearly define the period covered by the statement whereas; the Balance Sheet is a statement at a specific date.

XYZ CHURCH

STATEMENT OF INCOME AND EXPENDITURE

FOR NINE MONTHS ENDED SEPTEMBER 30,20XX

INCOME $72,000

 Plate collections $ 70,000

 Donations received 2,000

EXPENDITURE 49,450

 Advertising $ 300

 Commission paid on donations received 200

 Depreciation – office furniture 600

 Depreciation – Office equipment 300

 Legal expenses 3,000

 Office supplies 800

 Postages 300

 Rent – Office 2,250

 Rent – Sanctuary 4,500

 Salaries 36,300

 Stationery 900

EXCESS OF INCOME OVER EXPENDITURE $ 22,550

XYZ CHURCH

BALANCE SHEET AS AT ……..date ……..

 FIXED ASSETS $ 5,100

 Office furniture, at cost $ 4,000

 Accumulated depreciation (600)

 Office equipment, at cost 2000

 Accumulative depreciation (300)

 CURRENT ASSETS 71,050

 Receivable 1,800

 Cash at bank 69,250

  **$ 76,150**

 ACCUMULATED FUNDS $ 72,550

 Contributed capital $ 50,000

 Excess of Expenditure over Income 22,550

 CURRENT LIABILITIES 3,600

 Accounts payable 3,300

 Tax withholding payable 300

 **$ 76,150**

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**CHAPTER 2 The Cash book**

The first book referred to above is the cashbook serves two purposes of which the one is to be one side of the entry for the books of account and the other purpose is to determine the balance in the bank account. It is confusing that this book is called the cash book whereas, it is really the record of transaction through the bank account. Cash transactions should be avoided except for small amounts which are discussed in Chapter 5, as the Petty Cash Book.

The cash book is part of the general ledger process i.e., the cashbook must be looked upon as a separate general ledger account. In terms of double entry. convention, for each debit there must be a credit. Insofar as cash is concerned, a bank deposit entered on the left or debit side and the same amount must be allocated in an account and posted to the right side i.e., the credit of that allocated account.

Most credits are to income accounts but, in rare cases, it could be to an expense account where, for example there is a refund received for an expense payment overpaid. Similarly, for each disbursement which is credit to cash (bank) will be a debit to an asset account for asset purchases or more usually, to an expense account. This will be described more fully in the next chapter.

The other purpose of the cashbook is to determine the bank account balance. The balance in the bank is the excess of the debits (bank deposits recorded on left side of cash book) and the withdrawals, (right side of the cash book). While most payments are by check, there are also other payments made through the bank account such as transfers done electronically or those processed by the bank. All transaction in the bank account needs to be entered into the cashbook.

Reconciling the Cash Book

Equally important, one must ensure that the balance reflected in the cash book, agrees with the balance shown by the bank and reported on the bank statement. The process for checking this is called reconciling the bank account. This is done by working from the cashbook and agreeing each cashbook entry with the bank statement entry. There could be cashbook entries that are not on the bank statement, so a memorandum note is kept of cashbook entries not yet recoded by the bank. These will usually be checks issued which have not been banked until after the bank statement date. There could also be bank statement entries, which are not in the cashbook. Examples of these are deposits made directly into the church bank account, interest credited by the bank, bank charges debited by the bank and other authorized payments, which are made by the bank. These records on the bank statement must be recorded in the cashbook.

At this point, there are cash book entries, which are not on the bank statement, but all the bank statement entries will be recorded in the cashbook to arrive at the true cashbook balance. One then reconciles the two balances using fictitious numbers for illustration, as follows:

 Balance per Cashbook $ 69,250.00

 Add Checks not yet presented.

 Number 123 45.00

 126 123.50 168.50

 Balance per Bank Statement $ 69,418.50

It is extremely important to reconcile the bank account at least once a month.

In addition, as an important internal control feature, the bookkeeper’s supervisor should review the bank statement and check the bookkeeper prepared reconciliation each month to ensure that there are no unrecorded and possibly unauthorized, transactions through the bank statement.

In the above comments we assume each entry is made in the cash book and then the same entry is recoded in the General Ledger. As many entries of the same account classification, the number of entries in the general ledger can be reduced by using a columnar cash book is used as shown below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Date | Description | No |  Bank  |  Stationery  |  Salaries  |  Sundry  |
|  |  |  |  |  |  |   |
| 1-Sep | IRS Employee tax Aug | 122 |  300.00  |  |  |  300.00  |
| 2-Sep | Staples | 123 |  125.67  |  125.68  |  |  |
| 6-Sep | Landlord - rent paid | 124 |  250.00  |  |  |  250.00  |
| 15-Sep | Best Buy | 125 |  100.00  |  100.00  |  |  |
| 30-Sep | A Jones | 126 |  900.00  |  |  900.00  |  |
| 30-Sep | B Smith | 127 |  1,800.00  |  |  1,800.00  |  |
| 30-Sep | I R S - employee tax | 128 |  300.00  |  |  300.00  |  |
|  | Bank charges |  |  15.50  |  |  |  15.50  |
|  | Balance carried forward |  |  11,500.67  |  |  |  11,500.67  |
|  |  |  |  ---------------  |  ---------------  |  ---------------  |  ---------------  |
|  |  |  |  15,291.84  |  225.68  |  3,000.00  |  12,066.17  |
|  |  |  |  -------------  | ---------- |  ------------  | ------------ |
|  |  |  |  |  |  |  |

As a result of using the columnar approach the number of postings to the general ledger are decreased in this small example from posting all eight entries to posting the salaries $3,000 and stationery $225.68 as one amount for the month instead of each individual payment. Columnar cash books of 10 columns or more were popular before computerization was introduced. In computer bookkeeping software, each entry is recorded separately as the posting is done electronically.

In summary, most of the transactions completed by an entity are done by receiving or paying through the entities bank account. The so-called cash transactions are recorded in a cashbook with receipts on the left and half of the book and payments on the right. In accounting terminology, receipts are debited to cash and payments are a credit to cash. The balance held in the bank account at any time is the difference between receipts and payments.

**CHAPTER 3 The General Ledger**

To use the information in the cashbook to prepare financial statements, one needs to accumulate all like transactions. To achieve this accumulation, we use a General Ledger with a separate page for each account. An account or separate page is kept for each caption whether it be an income or expense item or a balance sheet caption which is required to be shown in the financial statements. One can readily recognize that the accounts needed are those, which will give meaningful description of the income source or the nature of expense or the asset.

For example, we could record all income in one account called “Income”. This would be sufficient to tell us the total revenue and could be used in the Income Statement, but it would be far better to have an analysis of the income and we could have as many accounts as you wish. For example, we could have a separate account for Plate income from Donations received and you may wish a separate account for pledged donations to other donations. Similarly, income will be received from various other sources and an account could be kept for each. Examples are Fees for tuition, fees for each different fund-raising activities such as Cake sales, transportation recovery etc. The list is unlimited, and the bookkeeper will soon learn which accounts are meaningful and useful. The over-riding decision is made to ensure sufficient detail is available for the bookkeeper to prepare meaningful financial statements.

In the same way as, separate accounts are kept for income, we also keep separate accounts for expenses. These accounts will include for example Advertising, Legal expenses, Salaries in whatever detail one wishes (generally by type of service rendered), Office supplies, Rent, Stationery etc. etc. So as to assist the reader of the statements to avoid micromanaging, the financial statements often combine similar expenses in more general headings e.g., Stationery, postages, and office cleaning materials are reported as Office expenses.

It is important that the accumulation is accurately done so we use a General Ledger

 to accumulate these transactions. I showed earlier that cash received was debited to the cashbook, which really is a stand-alone general ledger account. For each debit entry in the cashbook there will be an identical entry as a credit in the account representing the nature of the revenue item. More than one account would apply when a check payment was for more than one type of expense e.g., payment could be for stationery and advertising material, so those two accounts would be debited.

In a similar way, all the payments must be accumulated in their expense accounts. As these payments are credits in the cash account (cash book), they will be accumulated in the General Ledger as debits.

**Accounting convention requires for every debit there must be a credit.**

The format of the General Ledger is standard and has a Date, Details and Amount column on the left half of the page to record the debits and the same three columns on the right half of the page to accumulate the credits. There is often a reference column on each side to locate the source of an entry the format of the General Ledger is as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
|  |  |  **PLATE COLLECTION RECEIVED** |  |
|  |  |  |  |  |  |
| Date | Debit details |  Amount  | Date | Credit details |  Amount  |
|  |  |  |  |  |  |
|  |  |  | 31-Jan | Cash | 1, 400.00  |
|  |  |  | 28-Feb | Cash | 1, 600.00  |
|  |  |  | 31Mar | Cash |  1,000.00  |
|  |  |  | 30-Apr | Cash |  1,500.00  |
|  |  |  | 31May | Cash |  2,000.00  |
|  |  |  | 30-Jun | Cash |  2,200.00  |
|  |  |  | 31-Jul | Cash |  2,800.00  |
|  |  |  | 31Aug | Cash |  3,500.00  |
|  |  |  | 30-Sep | Cash |  4,000.00  |
|  |  |  |  |  |  ----------------  |
|  |  |  |  |  |  20,000.00 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
|  |  |  **STAFF SALARIES**  |  |  |
|  |  |  |  |  |  |
| Date | Debit details |  Amount  |  | Credit details |  Amount  |
|  |  |  |  |  |  |
| 29Jan | Cash - A Jones |  2,000.00  |  |  |  |
| 25Feb | Cash - A Jones |  2,000.00  |  |  |  |
| 25Mar | Cash - A Jones |  2,000.00  |  |  |  |
| 25Apr | Cash - A Jones |  2,000.00  |  |  |  |
| 25May | Cash - A Jones |  2,000.00  |  |  |  |
| 25-Jun | Cash - A Jones |  2,000.00  |  |  |  |
| 25-Jul | Cash - A Jones |  2,000.00  |  |  |  |
| 25Aug | Cash - A Jones |  2,000.00  |  |  |  |
| 25-Sep | Cash - A Jones |  2,000.00  |  |  |  |
|  |  |  --------------------  |  |  |
|  |  |  18,000.00  |  |  |  |
|  |  |  |  |  |  |

As each debit has a credit the accumulated total of the debits will equal the accumulated credits, but we must be sure to include the cash book balance as though it were part of the general ledger accounts. If these do not agree, the books are out of balance. In the above example, $2,000 would be in the cash account.

The Trial Balance

In order to check that the total debits equal the total credits, we list all the debit and credit balances in a list called a trial balance. Many bookkeepers claim that they are qualified as this level, which means that they have recorded entries, and all debits equal the credits. The next step is to interpret these results and add adjustments so as to use the trial balance numbers to produce financial statements. This adjustment process makes the person ensure that the results on the trial balance make sense.

We have to date only discussed entries, which originate as a result of cash transactions i.e., receipts, or payments of cash, which generally could be more correctly called the bank and the cashbook, could be called the Bank Book.

There are other books, which will be discussed, in later chapters.

**CHAPTER 4 Petty Cash**

In accounting discussion, we often refer to cash entries when we should have been referring to bank entries. This loose terminology is commonly used and causes confusion with actual cash i.e., notes and coins. In some churches, we may find a need to make smaller expenditures in cash, we refer to the actual cash as “Petty Cash”. The person in charge of this cash is required to keep a record of all amounts expended. From an accounting point of view, the check cashed to fund this expenditure is debited to an asset account “Petty Cash”. Then at month-end, a posting is made from the Petty Cash Book, debiting the expenses and crediting the Petty Cash account record the total cash spent. The difference on this account will be the unspent cash and will be represented by cash on hand. I illustrate this below:

Cash received $ 500.00

 Postage paid $ 15.00

Newspapers acquired 8.00

Staff teas and milk 111.00

Cleaning materials 223.65

Casual wages for cleaner 140.00

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 497.65

 Balance 2.35

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 $500.00 $500.00

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The $ 497.65 is debited to the expense accounts and credited to Petty Cash so that the balance on the Petty Cash account is $ 2.35. The cash held by the Petty Cash custodian will represent the balance which will also agree with the Petty Cash Book.

Usually, the accounting entries are done from the Petty Cash book or from a journal entry, which will be discussed in the next chapter.

We recommend a commonly used control mechanism, which also facilitates the accounting entry. The reason for this proposal is that there is a necessity to count the petty cash balance to ensure that the funds are not being used as a means of funding the custodian’s cash resources. This would not happen in the above example but if the initial cashed check was for, say, $500.00 the custodian would have had additional fund reimbursement without any accounting and may have “borrowed” or made small “staff loans” from these funds. If part of this cash were borrowed, it would only be identified if a cash count was performed, and it is often embarrassing for a cash count to be frequently performed.

This system is called an “Imprest” system and entails a fixed balance in the petty cash float. , say $100. When a reimbursement is requested, the custodian submits a report of expenditure incurred, duly supported with supporting documentation. The reimbursement is for the exact amount spent so the re-imbursement usually takes place when funds are almost depleted. This means that the custodian has to account for expenditure incurred is done before or at month end so that these expenses are recognized in the month.

The accounting entries take place in the cash book entry, which is credited to cash (bank account) and debited to the expenses. The Petty Cash account is not touched and remains at the float level.

If a cash count was ever needed, the custodian would have the float amount on cash on hand and un-reimbursed documentation supporting the full float amount.

**CHAPTER 5 The Journal**

In earlier chapters we have discussed the creation of the General Ledger, mainly from the Cash Book but only limited reference was made about the journal. There can be three journals, which are used in business, but only one, which would generally apply to churches.

The first journal used in a business is a Sales Journal, which records the credit sales in a business and would only be used in the unlikely event that the church was selling merchandise on credit. What happens in a business, each invoice is listed in the Sales Journal and at period–end, the total is debited to Debtors Control account and credited to the Income account, usually sales in a business context. The Debtors Control account is the total amount owed by all debtors and must be supported by a supplementary Debtors ledger, which records balances by individual customer. This will rarely apply to a church so there is no need to understand this in the context of a church.

Similarly, the Purchase Journal is a book to record all purchases or expenses incurred on credit. The book is usually in columnar form so that the totals and the columns are added so as to summarize the expenses for the month purchased on credit. The purchases are recorded, either by each individual supplier’s invoice or by the total of the supplier’s month-end statement. The month-end accounting entry is to debit cost of sales for a trading company, or the expense or assets involved and credit Creditors Control Account. Again, the Control Account is the total of all amounts shown as owed by the entity and must be supported by an independent record of the amount owed to each individual supplier.

In a church, we usually find that accounts are paid monthly by most churches will not use this journal but at each month-end, will make a journal entry to record transactions incurred but not paid and on the first day of the following month, the accrual is reversed or in most cases, the accrual is only noted in memorandum form and the trial balance is changed without any book entry.

The general journal, which would be found in all church accounting systems, is used for many purposes, including the following:

1. To record charges to the income statement, which are not cash, related. A good example is the depreciation of fixed assets. On the basis that, say, furniture is acquired for cash, the cost will be debited from the cashbook to the Furniture account. If the rate of depreciation is agreed at 10%, then 10% of the cost will be charged to an expense account called Depreciation and credited to an account Accumulated Depreciation Furniture. This entry would apply to all fixed assets at different rates to recognize their useful life. Computers and carpets are generally 33%, motor vehicles at 20% and each asset determined as stated above. There are different methods of calculating this depreciation, but this is beyond the scope of this paper.
2. If the church borrowed money, the loan received would have been debited to cash and credited to a liability account in the name of the lending financial institution. Payments made to the financial institution could be debited in total to the liability account and the interest charged would be the subject of a journal entry. Interest expense would be debited, and the liability credited or increased by the amount of the interest charged.
3. It sometimes happens that a bookkeeper makes an error in posting and this needs to be corrected. We never erase incorrect entries and rather correct the entry by journal entry. As an example, advertising material purchased might be charged to Stationery in error. This will be corrected by recording a journal entry debiting Advertising and crediting Stationery.
4. There are many other entries, which could arise, but the one entry that always arises is what is referred to as “Closing Entries”. This entry is done after year-end and debits all Income accounts with income received during the year and credits Accumulated Surplus or Accumulated Funds. Similarly, the total of expenses is debited to Accumulated Funds and credited to the expense accounts. By this means the accumulated surplus will increase by the difference between Incomes Less Expenses and all income and expense accounts will be clear for the new year. This will agree with the Statement of Income and Expenditure.

**CHAPTER 6 Fund accounting**

At this point you should have a good understanding of the process of accumulating the financial results of a church and the basic financial statements comprising the Income Statement as well as the Balance Sheet. I further suggest that the Statement of Cash Flow, which is important for an organization that uses many sources of funding and requires an understanding of cash movement and cash flow from operations etc. For a church, this statement would add very little to the appreciation of the financial affairs, as there are usually very few non-cash transactions.

There is one unique aspect of accounting applicable to churches, which needs understanding. It is Fund accounting, which is not found in commercial operations but in most non-profit organizations that receive donations the use of which is Restricted to a Specific Purpose.

Funds are received by the church that are designated for a specific purpose and should not be credited to the income statement and the cash should not be mingled with other cash accounts. When the cash is received, it should be credited to a separate Fund Account e.g., Sound System Fund Account and the cash should also not be mingled with general funds but banked in a separately designated account. Consequently, after receipt of the funds, the Balance Sheet would show the asset being cash separated from other cash and assets and not part of general fund assets and the Fund balance would form a separate caption on the liability side of the balance sheet.

Where the funds are raised to meet specific expenses and then obviously, it is appropriate to use the fund for that purpose with proper disclosure. What is done is that the receipt of the contribution is credited to the Specific Fund account, which is then reflected on the Balance Sheet with the Cash separately identified and disclosed. As these funds are expended, the designated cash is used and debited against the Fund account. The amount spent, if material to the understanding of the financial results, must be reflected on the face of the Income Statement as follows:

 Software upgrade $ 14,000

 Funded by ABC Fund (12,000) 2,000,00

If the amount is not material, the expense would not appear in the Income Statement but, partial funding by a Specific Purpose donation could be disclosed in a footnote to the financial statements. The net effect is that the cash received is used to pay for the identified expense and once utilized, the Fund account on the Balance Sheet falls away.

On the other hand, if the contribution was for a specific asset purchase and forming an asset of the church, the accounting to be followed is for the cash to be used and the asset created. The Fund Created is a source of capital appearing on the liabilities side of the balance sheet between Accumulated Funds (Capital) and liabilities in a separate classification represented by the cost of the purchased asset and the unspent balance in cash. When the asset is fully invested in the designated asset, the Asset will represent the Fund balance, and both initially should be broadly stated on the Balance Sheet. After a year or two, the Fund could be transferred to Accumulated Funds with full disclosure within the Specific Fund and Accumulated Fund account.

It is completely wrong and dangerous for any expenses to be charged against the Designated Fund balance. The reason I am so specific about this is that the contributor must pre-approve the use of the contributed fund and if allocated expenses are allowed, the custodian of funds could have difficulty determining which expenses are allocated against the fund and the donors objective may not be achieved.

To enable the reader to understand the accounting involved, I will take the founding church with the Balance Sheet and Income Statement set out above for the nine months of the year. For ease of illustration, we assume that the bookkeeper was not aware of the following transactions which were not recorded in the books when the financials were drawn for the nine months.no other transactions took place apart from the following few events:

1. Donors decided that an extensive advertising campaign should be embarked upon and donated $ 15,000 for that purpose. Of the amount received, $5,000 had been expended in the nine-month period under review. It was clear that the fund would be used for no other purpose.
2. Another group of donors wished to fund the purchase of land and set up a Building Fund to fund the purchase of the land and all attendant capital costs related to the building. The group raised $ 100,000 and bought land at a total cost including transfer fees of $120,000.
3. The Management of the church supported the concept of raising funds for the building and decided to advertise as part of a fund-raising drive but initially would concentrate on the Building Fund. The agreement was for one year and the first month’s advertising fee of $4,000 was not accrued.

The bookkeepers Income Statement was as follows:

XYZ CHURCH

STATEMENT OF INCOME AND EXPENDITURE

FOR NINE MONTHS ENDED SEPTEMBER 30,20XX

INCOME $72,000

 Plate collections $ 70,000

 Donations received 2,000

EXPENDITURE 49,450

 Advertising $ 300

 Commission paid on donations received 200

 Depreciation – office furniture 600

 Depreciation – Office equipment 300

 Legal expenses 3,000

 Office supplies 800

 Postages 300

 Rent – Office 2,250

 Rent – Sanctuary 4,500

 Salaries 36,300

 Stationery 900

EXCESS OF INCOME OVER EXPENDITURE $ 22,550

What effect should the above three transactions have on the Income Statement or Balance Sheet.

1. The $15,000 received would have been credited to an Advertising Fund and the funds would be kept in a separate bank account kept for that purpose. The funds would not be mingled with General church funds. The $5,000 spent would be paid from the specific bank account and the amount debited against the Advertising Fund. The advertising expense would not be included in the expenses of the church but for full reporting, we suggest that it be disclosed as follows:

 Advertising campaign expense $5000

 Funded by Advertising Fund (5000) $ 000

2. Clearly, the $100,000 would be kept in a separate bank account to which the deposit would be debited. and credited to The Building Fund. On the acquisition of the Land the Building Fund account would be used and the shortfall recorded as a liability, which in the absence of further donations for the Building Fund would be paid from General Funds in due course. There is no Income Statement effect but there is Balance Sheet disclosure, which will be illustrated below.

1. The Management decision to incur expenses such as to advertise so as to raise building fund donations is a decision of the management and must be funded from general funds and the committed fee of $4,000 is accrued as a current liability “Accounts Payable” and debited to the Income Statement.

The Income Statement and Balance sheet will then appear as follows:

XYZ CHURCH

STATEMENT OF INCOME AND EXPENDITURE

FOR NINE MONTHS ENDED SEPTEMBER 30,20XX

INCOME $72,000

 Plate collections $ 70,000

 Donations received 2,000

EXPENDITURE 53,450

 Advertising $ 4,300

 Commission paid on donations received 200

 Depreciation – office furniture 600

 Depreciation – Office equipment 300

 Legal expenses 3,000

 Office supplies 800

 Postages 300

 Rent – Office 2,250

 Rent – Sanctuary 4,500

 Salaries 36,300

 Stationary 900

OTHER EXPENDITURE

 Advertising campaign 5,000

 Less funded by Advertising Fund (5,000) 000

EXCESS OF INCOME OVER EXPENDITURE $ 18,550

XYZ CHURCH

BALANCE SHEET AS AT SEPTEMBER 30,20XX

 FIXED ASSETS 125,100

 Land at cost 120,000

 Office furniture, at cost $ 4,000

 Accumulated depreciation (600)

 Office equipment, at cost 2000

 Accumulative depreciation (300)

 FUND ASSETS 10,000

 Building Fund

 Donations received received 100,000

 Contributed to Cost of land (100,000) 000

 Advertising Fund, cash at bank 10,000

 CURRENT ASSETS 71,050

 Receivable 1,800

 Cash at bank 69,250

  **$ 206,150**

 GENERAL FUNDS $ 68,550

 Contributed capital $ 50,000

 Accumulated earnings 18,550

 BUILDING FUND 100,000

 Donations received 100,000

 Contributed to cost of Land purchased.

 ADVERTISING FUND 10,000

 Donation received 15,000

 Expenditure incurred (5,000)

 CURRENT LIABILITIES 27,600

 Account payable 7,300

 Payable for purchase of land 20,000

 Tax withholding payable 300

 **$ 206,150**

**Chapter 7 Corporate Governance**

Corporate governance is a system comprising a set of rules, practices, and processes used to direct and control an organization.

The Board of Directors are the primary force for determining Corporate Governance. Accounting transparency, fairness and responsibility or the full fundamental principles of corporate governance.

Forbes identifies the five pillars of good corporate governance.

1. Effectiveness of the Board of Directors
2. Compensation and remuneration
3. Risk and crisis management
4. Relationship with stakeholders
5. Ethics and transparency

In businesses seeking investors, there has been pressure for them to develop a framework that help stakeholders understand how an organization is managing risks and opportunities related to the Environmental, Social and Governance criteria, usually called E.S.G. factors.

**Environmental factors**

This includes organizations impact in managing climate change, greenhouse emissions and natural resources. Most of these factors do not apply to a church but we suggest that the. Church Board of Management should make an annual review that there are not matters which need their attention.

It may be important for the Board to respond to a question that the exposure is examined annual by the Board at a meeting of the directors.

**Social factors**

This pillar refers to an organization with stakeholders and will include human capital management covering fair wages, non-discrimination in employment engagement and also the impact on the communities in which it operates.

A church should have procedures to provide adequate controls and examples are discussed in Chapter 9.

**Governance**

Corporate Governance refers to the way an organization is led and managed and leadership how incentives are aligned and what types of internal controls exist to promote transparency and accountability on the behalf on the part of leadership.

Chapter 9 contains proposals for an organization to meet the highest standards of Corporate Governance.

**CHAPTER 8 Internal accounting controls**

It is of major importance to a church is to have a proper system of internal accounting control. A cursory search of the Internet will shock you to see the number of frauds that are found in churches and, no doubt, there are many unidentified losses as well. So as to minimize the exposure to fraud, we set out below some of the characteristics of internal control for your consideration. These guides will not be comprehensive as a specific analysis of the circumstances in your church is necessary to have a reliable evaluation of the needs of your church.

The purposes of these comments are to provide the management a rough guide in evaluating the existing level of Internal Control over receipts and payments at the church. We have made some suggestions which are designed to reduce the risk of fraud and to give reasonable assurance of the accuracy of reported results of operations.

**8. 1 Income:**

The income for the church should be budgeted by the management and is generally sourced as follows:

 Pledges

 Plate and other donations.

 Special fund raising activities

 Christian education

**8.1.1 Procedure for controlling pledge income:**

8.1.1.1 Pledges are, generally, requested once a year for the following year by a group called, say, the Stewardship Committee . This group sends a written letter, with a brochure to all members of the church. Members are requested to make a commitment included in a pre-printed card included in the aforementioned package. The Card is returned to the church in an envelope addressed to the nominee of the Stewardship Committee at a specifically identified address. These pledges help the Board of the church budget revenue and in some cases, help members of the Stewardship Committee to work with members in obtaining donations to fund projects or to increase revenue of the church. These are not commitments which would be legally pursued if not honoured.

8.1.1.2 The other church mail is generally opened by two persons, one of which would be ,say, the Administrative Secretary but the pledge envelopes sent to the specified address are identifiable and are given unopened to a designated official ,say, the Treasurer. The procedure for controlling other income in the mail is discussed below. The Treasurer acknowledges each pledge and advises the Stewardship Committee chairman the names amounts of the responders.

In some churches, the pastors are not advised of the names of donors or amounts received.

During the months following the receipt of pledges, primarily in the new calendar year, checks are received through the mail in respect of these pledges. And the treasurer receives all pledge envelopes and as a control feature, he arranges with his assistant to acknowledge receipt of the check and to bank the received amounts. Tax receipts are also issued to the donors and a record is kept by the treasurer of the tax receipts so that a reconciliation can be done by the treasurer of the tax receipts issued and the amount deposited. The Chairman reports these results to the Finance Committee.

Any pledges not honoured should be followed up by the Stewardship Committee which has the benefit of possibly increasing revenue but also serves as an internal control check that any unaccounted receipts would be identified and could be investigated.

**8.2 Other income received by mail**

All mail should be opened by two persons and any checks received should be listed in a diary on the date that the mail was opened. Usually, one of the mail openers should be the Assistant Treasurer . When all mail is opened, the list of checks should be agreed by the two openers of the mail and recorded in a diary signed by the mail openers. The checks should be restrictively endorsed for the credit of the church bank account and handed to the Assistant Treasurer for banking. When the checks have been banked, the bank deposit book and the list of checks in the diary should be agreed by an independent person and the diary signed to record that the two were agreed.

It is unlikely that cash would be received in the mail but should it be received, it should be listed in the same as the checks are listed and the same procedure should be followed to check that the full amount was timeously deposited

**8.3 Procedure for controlling plate and other income:**

 It is important that the plate income is never left with one person as that is an unfair responsibility for that person and there could be a temptation to take from the cash. At each service, two persons who are independent and are not related family members should count the cash at all services. It is important to count the amount received and record the agreed amount passed to the Assistant Treasurer for banking. Checks received should be restrictively endorsed for the credit of the designated account of the church, The counters should verify that the amount on the envelope matches with the checks listed. The record of the count should be recorded on triplicate bank deposit slips. Two copies deposit slip are placed with the cash and checks in the lock box. The third copy of the deposit slip should be given to the Church Administrator who should check these against the stamped deposit book kept by the assistant treasurer. The requirement here is that the deposit slip must be independently agreed with the diary to ensure that all receipts are promptly banked in full.

* 1. **Procedure for controlling income delivered to the church office:**

When other checks are mailed to the church, they are controlled in terms of the procedure set out in paragraph 8.2 above. Checks that are delivered to the church or are handed to pastors or employees should be acknowledged by issuing a receipt and the checks should be restrictively endorsed and handed to the Assistant Treasurer for her attention. An independent check should be made to check that all received amounts for which receipts have been issued has been banked.

Contributions received for special services such as weddings should be restrictively crossed and inserted in the lock box in the Assistant Treasurers office. A copy of the receipt should be sent to the payer and a copy of the bank deposit slip for this income should be sent to the person who received it on behalf of the church.

**8.5 Sundry Income**

This sundry income includes income from all congregation members and fund raising activities. Checks or cash delivered to the church should be acknowledged by issuing a receipt and the checks should be restrictively endorsed and the cash and check handed to the Assistant Treasurer for attention. The assistant treasurer will be responsible to ensure that the church receives all receipted income.

* 1. **Expenditure**

8.6.1 Salaries and benefits

Payroll and ancillary costs represent the major cost of any church. Desirably, there would be a functional Remuneration Committee which would include the establishment and monitoring of personnel and employment policies. This committee should prepare a Policies and Procedures Manual recording a summary of the personnel policies which were approved by the Board. These procedures would require Personnel files to be maintained for each employee to ensure that they have a complete record of employment as well as a record of prior employment, reference checks at time of hiring etc.

Major areas of exposure which will be the responsibility of the Remuneration Committee include the following:

* That there is a reliable procedure for checking prior employment references before hiring new employees. This is one of the most important functions at the church as many employees are exposed to members with special needs and could be exploited.
* A possible need to ensure that staff are not paid excessively and are paid market competitive salaries so that they are not lost to the church for a more profitable employment elsewhere
* A need to ensure that all fringe benefits are comparable with the current market and are legally permitted, particularly by the tax authorities
* That payroll deductions are properly computed and that there is proper control to ensure that the IRS and others reporting are correct.

It is beyond the scope of this booklet to expand further on the function. It is ,however, imperative that a personnel function should be in place and that a proper approval procedure is implemented for staff salaries.

Another control which should be carried out by the check signer is as follows

* Once the first periods salaries are agreed, each time salary checks are signed, a list should be prepared and a summary presented to the signer showing the total salaries paid
* In the following months, the signer will use the prior month total and make adjustments for new employees added at the salary stated in the attached letter of appointment and any other variations caused by losses of staff, absence, part time employees, overtime etc.
* The signatory should have a clear understanding of the total payroll expense that he is signing and clear approval from the appropriate source for any additional expenses.

This type of reconciliation would be as follows:

 Total salary in opening month as per signed approved salary role. $ 12,000

 Add new employee - A N Other per letter dated xxxxx 1.200

 Add Overtime paid to XYZ per letter from ABC dated 300

 Total salaries per agreed list of staff $13,500

8.6.2 Other Disbursements

The usual procedures to control other expenditure are as follows:

1. In most churches, Chairman are appointed covering Music programs, Family Service, Music, Missions, Christian Education, Multimedia, Health ministry and Property Management. The Board of Management will give the chairman strategic direction in his budget presentation so that each ministry develops budgets in line with the strategic direction and expected funding available.
2. Each Chairman should present a budget to the Board of Management. After discussion and agreeing priorities for the church as a whole, the budget must be approved , with or without change, and included in the budget for the church for the year. It is difficult for accounting to control the timing of expenses and therefore, each Chairmen should establish approval procedures for all expenditure in respect of their area of responsibility on the basis that this expenditure will be in accordance with the approved budget for the year. The Ministry results will be reported, say, quarterly to management who will at that time satisfy themselves that each ministry is operating within budget.
3. Other expenditure which includes Office expenses, Housekeeping, Kitchen and General expenses incurred on a needs basis are controlled by the designated members of the office staff but check signatories should carry out superficial supervision by satisfying themselves that the expenditure is within the approved budget .
4. There should be a list of approved suppliers who have been so designated by management. Staff who make purchases should negotiate lowest possible prices from suppliers. The church should receive best possible prices but preference should be given to supporting members of the church and the church could beneficially publish a directory of members who are involved in business so that the church and other church members can support these companies. This listing could be in the form of “mini yellow pages” or could be on a desk top one page diary with each church member having the opportunity of advertising. This project could raise funds for the church and also, keep as much expenditure in the family as possible. Any purchase over a Board of Management designated amount from another source other than an approved supplier, should be subject to approval as designated by management.
5. All payments made are to be supported by an invoice which has been approved by the purchaser and is presented to the check signer with the documentation below:

The documentation supporting payments must show evidence of the following checks and approvals:

* Account allocation
* Basis of selection of supplier. Options being price, church member, contract etc.
* Agreement of price charged
* Clerical accuracy of invoice
* Approval of receipt of goods or service
* Approval of Department head authorising disbursement

 6 Check signing authorities are to be defined and a guide is as follows:

* For payments of up to, say, $1 000.00 require to be signed by either The Church Administrator as well as one designated Board of Management member
* For payments in excess of $5000.00 require the signature of two of the designated Board of Trustee members.

Approved trustees are the Chairman, Vice Chairman, Corporate Secretary and Treasurer.

* 1. **Capital Expenditure**

Each church must have a formalised approved policy of capitalising all capital expenditure, a guide may be all expenditure of more than $500. At the time of preparing to budget, the Board of Management should give guidance on the churches appetite for capital expenditure based upon anticipated financing available.

This policy would require a request for capital expenditure to be presented to the appropriate level of church administration. A special approval form is required showing the reason for incurring the expenditure and a clear indication of the benefit to be obtained. This is an important function and chairman must realize that once capital expenditure is approved, all additional changes within the budgeted period should be within the agreed parameters.

 Each proposal must be supported by at least two alternate price proposals. Possible levels of approval are the following

* All capital expenditure in excess of $500 but up to $2 000 can be approved by the Chairman of the Ministry requesting the expenditure provided that the expenditure was included in the previously approved budget.
* Expenditure in excess of $2000 and up to $5 000 should be part of the approved budget but before payment, also approved by the Finance Committee but in the case of urgent approval, by the chairman and one other Finance Committee member.
* Expenditure of more than $5 000 as part of the approved budget must be approved by the Management Board before payment is made.

**CHAPTER 9 Organization structure**

As one reads the proposals for good internal control for a church, one realizes the importance of Governance in our modern society and the need for identified levels of responsibility. In the current environment of the world, we know that Christians are being challenged on a daily basis and there is a need for more emphasis to be given to the sustainability of the church as we know it. There is a need for independent assurance and definition of the role of the Management as well as the role of the Pastoral team.

**THE BOARD OF MANAGEMENT**

The name and authority of this body may differ in churches but, other than religious responsibilities, it is the highest level of authority. The Board will be appointed in terms the by-laws of each and every church.

Each Board should have a clear governance document define their role as being responsible for the vision and planning of the strategic direction of the church. The day-to-day business and financial affairs of the church should be formally delegated to other persons in terms of a written document. Religious services and activities are separate and are defined separately below. Some considerations in this regard are as follows:

**Composition of the Board of Management**

* The number of members will be defined by the by-laws and would generally include: an elected Chairman who should not be a pastor or an employee, the Senior Pastor and the prescribed number of church members elected by church members as prescribed in the by-laws, usually between three and six additional members. The Chief Financial Officer “CFO”, in this presentation, often referred to as the Treasurer attends these meetings but, generally, is not a Board member.
* The Chairman is the chief executive officer of the church and is responsible for the organisation to control the business, operations and financial affairs. The Chairman will preside over meetings, and it is suggested with the Treasurer presiding in his absence.
* The CFO, Treasurer shall have care and custody of all funds and securities of the church.
* One of the Board members will be appointed Corporate Secretary and he shall co-sign contracts, conveyances and other instruments as approved by the Board. He will also approve Minutes of Meetings which are approved at the following meeting of the Board.
* The Board will include an appropriate balance of skills to ensure that the Board is able to carry out its duties.
* No single director will be allowed to dominate the Board and all trustees will be members of the church who are not employees, other than the Senior Pastor.
* There will be no conflict of interest between Board members or between Board members and the church.
* Board members will be formally appointed for a defined period, usually three years and will be available for re-election.

**Board meetings**

* The Board will meet at least four times per year. Additional meetings may be called by the Chairman or in his absence the Treasurer or the Corporate Secretary on the written request of 4 trustees.
* The Quorum for the meeting will be a majority of the members at the time of the meeting.
* Board papers will be timeously delivered to members so as to ensure that they are properly briefed prior to the meeting.
* The Corporate Secretary will assist the trustees in ensuring that they always comply with the law and good corporate governance.
* Comprehensive minutes of the meetings will be kept.

The responsibility of the Board is defined in a charter showing that they are responsible to the members of the church for meeting the legitimate expectations of the members and the continued growth and prosperity of the Church. The Board is responsible for the following:

* Approve the strategic direction of the church and the budgets necessary for the implementation thereof
* Appoint the Senior and Associate Pastor while other non-administrative appointments could be delegated to the pastors subject to the approval of the Chairman.
* Administrative staff are appointed by the Chairman or Treasurer and approved by the senior pastor..
* Ensure that the church is a responsible contributor to our society ; ethically, socially and environmentally
* Guardian of the values and ethics of the church and to promote ethical culture among its members
* Appreciate that sustainability and growth of the church is the essence of our survival.
* Appreciate that strategy, risk and sustainability are inseparable
* Monitor the management and their implementation of the agreed vision and develop an authority framework within the letter and spirit of the law.
* Ensure that risks are identified and managed
* Establish internal controls to cover financial, operational, compliance and sustainability.
* Ensure integrity of financial reporting
* Ensure that the Church makes full disclosure of material matters to the Members
* Ensure that internal and external disputes are resolved without any reputational risk to the Church
* Manage conflict of interests ( real or perceived) and disclose such to the Board members
* To act in the best interests of the Church
* To delegate certain responsibilities to committees

**COMMITTEES**

The following committees should be considered and Board members have a right to be present by invitation, as agreed by the Committee chairman, to any committee meeting.

**Religious Responsibility**

The Ordained Ministers are the spiritual leaders of the church and are responsible for the planning and execution of the religious services and religious activities. Provided that there is no significant change in religious approach , they have no obligation to consult with the Board regarding details of religious activities, enlargement of current activities and consideration of new projects. If they wish to make changes in the religious approach they should keep the Board involved.

* Each denomination is different but, but in the absence of specific directions, the Minister candidates shall be identified by a Search Committee, approved by the Board of members and once selected, called to serve by two-thirds vote of the members.
* The cancellation of any employment contract requires a two-thirds majority vote of the members at a congregational meeting.
* Religious services shall be the responsibility of the Senior Pastor.
* The Senior Pastor will have sole responsibility for inviting visiting preachers to officiate at any form of service in the church but the Chairman must approve any costs involved.
* Where possible, the Senior Pastor and his Associate shall always participate in any service held at the church
* Where the Pastor and the Board do not agree on either the content of religious activities, the enlargement of current activities or new projects, every effort will be made to reach agreement but failure to do so will necessitate a General Meeting of members for the members to agree on the future activities. A two-thirds majority vote is required to adopt any change in activity, enlargement or new project.
* The religious committees will report to the Senior Pastor or the Associate Minister as delegated by the Senior Pastor. Examples of these committees are as follows:-

 Christian education

 Congregational care

 Membership/evangelism

 Missions /outreach

* The office staff will report directly to the person shown on the organisation chart but all employees have the right to discuss terms of employment with the Senior Pastor who will resolve any disagreements.

**The Finance Committee**

The Finance Committee is critical to ensure the integrity of integrated reporting as well as financial risk management and internal control. The Chairman of the Finance Committee will be a Board member, who is not the pastor, a is suitably qualified to understand and evaluate the responsibilities.

The committee should consist of at least three members of the church , not necessarily Board members who have the required skills.

The role of this committee is as follows:

* To meet at least eight times each year
* To agree the accounting policies and practices to be followed
* Be responsible for all reporting to members of all financial reports, annual financial statements, forward looking information and forecasts as well as control over all capital expenditure. It is suggested that the monthly reporting of total income and expenses be made to the congregation at large.
* Assist the Board in providing comfort for financial projections and sustainability and to agree the strategy and business plans and annual budgets for approval by the Board. Any subsequent changes in strategy or material deviations in the business plan must be approved by this committee and possibly the Board. .
* Ensure that a proper evaluation of risks is made in evaluating the level of insurance cover required for asset protection as well as risks such as liability for injuries on church premises.
* Review internal financial controls and report back to the Board who must approve the control environment
* Oversee the internal control environment
* Consider I T risks and controls as well as church continuality and information on security
* Oversee the financial risk management
* Agree the financial statements and report on its activities in an annual written report to the Board

**Stewardship or Fund raising committee**

Each church will need to define the composition of the committee and the role that they play. We further suggest that the “pledge committee” should be the lead part of this committee. And that sub-committee could be established to carry out each function such as an annual cake sale etc. etc.

**Risk Management Committee**

The Risk Management is inseparable from the business of the Church. The Board of Trustees is responsible for the risk management process and they may delegate this responsibility but this delegation must be clearly agreed in writing.

The committee should have a charter defining its responsibility and must be chaired by a Board member who is not part of the Pastoral team.

They must work with leaders in the church to identify the major risks facing each facet of the churches operations. This is a “risk up” approach whereby each individual ministry must identify its risks and its proposal for handling these risks. The Risk Committee must evaluate these proposed risk management actions and assist the ministries in improving the mitigation and control of the risks.

The Board cannot be involved in the management of all areas of risk but the Risk Committee must report the top ten or more risks to the Board for them to approve the action taken and the acceptance of the level of identified risk. The level of accepted risk must always be measured against the churches ability to deal with that level of exposure.

**Remuneration Committee**

This committee must be chaired by a Board member who is not part of the Pastoral team.

The church must remunerate its staff fairly and responsibly with the view to both the current position as well as the long term interest of the Church.

The Remuneration Committee should have a Charter defining its role as well as arrangements for approving staff remuneration and staff policies and benefits. Other responsibilities of this committee include:

* To ensure that appropriate reference checks and background references are obtained for all new employees before employment. THIS IS A PRIORITY AND MUST ALWAYS BE THOROUGHLY CARRIED OUT.
* Ensure that payroll levels and related benefits are competitive.
* Ensure that proper record of service and remuneration are maintained for each employee.
* Approve the terms and conditions of all staff including the Senior Pastor and the Pastoral team and provide guidelines for the level of remuneration to all employees as well as the composition of fringe benefits and employment benefits.
* Design a basis of evaluating staff and recording these evaluations in the employees personnel file.
* To approve the remuneration proposals before these are communicated to the staff.
* Satisfy itself on the accuracy of performance recordings

The annual report to the Board must explain policies, strategic objectives and the basis for determining base rates of pay. Ex gratia payments and bonuses , if any, must be approved by the Remuneration Committee and reported to the Board.

**Capital Expenditure Committee**

The committee should be chaired by a Board member who is not part of the Pastoral team.

They must evaluate and approve proposals made by Committee Chairman and identify the major expenditures required by the Church. They must make proposal to the Board for ensuring that the church is not neglecting the need to incur capital expenditure.

The annual capital expenditure budget must be approved by the Board and expenditure in terms of the budget must be approved in terms of defined levels of approval.

**DISPUTE RESOLUTION**

The Board should establish a formal process to resolve internal and external disputes and disagreements and the Board must ensure that disputes are resolved efficaciously. The Board must agree between mediation, conciliation and adjudication methods.

Other committees will be established as determined by the Board.

**CHAPTER 10 Annual Financial Statements**

At this stage you will understand how a General Ledger is constructed and you are ready to prepare the Annual Financial Statements. After ensuring that all committed liabilities are accounted for a trial balance is drawn up as follows:

|  |  |  |
| --- | --- | --- |
| Plate collections  |   |  125,000.00  |
|  Donations received  |   |  11,000.00  |
| Christian education income |  |  1,100.00  |
| Christian Education expenses |  900.00  |  |
| Children’s ministries income |  |  260.00  |
| Children’s ministries expenses |  300.00  |  |
| Function income |  |  850.00  |
| Function expenses |  825.00  |  |
| Advertising  |  6,000.00  |  |
| Commission paid on donations received  |  500.00  |  |
|  Depreciation – office furniture  |  900.00  |  |
|  Depreciation – Office equipment  |  450.00  |  |
|  Legal expenses  |  3,000.00  |  |
|  Office supplies  |  1,250.00  |  |
| Postages  |  375.00  |  |
| Rent – Office  |  12,000.00  |  |
| Rent – Sanctuary  |  25,000.00  |  |
| Salaries  |  54,000.00  |  |
| Stationary  |  1,175.00  |  |
|  Advertising campaign  |  5,000.00  |  |
|  Less funded by Advertising Fund  |   |  5,000.00  |
| Land at cost  |  120,000.00  |  |
| Office furniture, at cost  |  4,000.00  |  |
|  Accumulated depreciation  |  |  900.00  |
| Office equipment, at cost  |  2,200.00  |  |
| Accumulative depreciation  |  |  450.00  |
| Advertising Fund, cash at bank  |  10,000.00  |  |
|  Receivable  |  1,200.00  |  |
| Contributed capital  |  50,000.00  |
| Building Fund Donations received  |  100,000.00  |
| Advertising fund Donation received  |  15,000.00  |
|  Expenditure incurred  |  5,000.00  |  |
|  |  |  |
| Account payable  |  2,300.00  |
| Payable for purchase of land  |  20,000.00  |
| Tax withholding payable  |  400.00  |
| Cash at bank |  78,185.00  |  |
|   |  -----------------  |  -----------------  |
|  |  332,260.00  |  332,260.00  |
|   |  ===========  |  ===========  |

This trial balance is used to prepare the Annual Financial Statements as follows:

XYZ CHURCH

STATEMENT OF INCOME AND EXPENDITURE

FOR YEAR ENDED …….date…….,20XX

INCOME $136,185

 Plate collections $ 125,000

 Donations received 11,000

 Other activities net, per schedule 185

 -----------

EXPENDITURE 104,650

 Advertising $ 6,000

 Commission paid on donations received 500

 Depreciation – office furniture 900

 Depreciation – Office equipment 450

 Legal expenses 3,000

 Office supplies 1,250

 Postages 375

 Rent – Office 12,000

 Rent – Sanctuary 25,000

 Salaries 54,000

 Stationary 1,175

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OTHER EXPENDITURE

 New members advertising campaign 5,000

 Funded by Specific fund (5,000)

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EXCESS OF INCOME OVER EXPENDITURE $ 31,535

XYZ CHURCH

BALANCE SHEET AS AT…… date……,20XX

 FIXED ASSETS (Note 1) 124,850

 FUND ASSETS 10,000

 Advertising Fund, cash at bank

 CURRENT ASSETS 79,385

 Receivable 1,200

 Cash at bank 78,185

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  **$ 214,235**

 GENERAL FUNDS $ 81,535

 Contributed capital $ 50,000

 Accumulated earnings 31,535

 BUILDING FUND 100,000

 Donations received 100,000

 Contributed to cost of Land $100,000

 ADVERTISING FUND 10,000

 Donation received 15,000

 Expenditure incurred (5,000)

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 CURRENT LIABILITIES 22,700

 Accounts payable 2,300

 Payable for purchase of land 20,000

 Tax withholding payable 400

 ---------

 **$ 214,235**

 XYZ CHURCH

 STATEMENT OF ACTIVITIY INCOME AND EXPENDITURE

 FOR THE YEAR ENDED ………date………,20xx

 ACTIVITY INCOME EXPENESE NET

 Christian education $1,100 $ 900 $200

 Christian Ministry 260 300 ( 40)

 Functions 850 825 25

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 Total $2,210 $2,025 $ 185

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 XYZ CHURCH

 ACCOUNTING POLICIES

 YEAR ENDED DECEMBER 31,20XX

 **1 Significant accounting policies**

The Annual Financial Statements have been prepared by the Board of Management of the XYZ Church have been prepared on the accrual basis using assumptions and estimates in conformity with Generally Accepted Accounting Principles.

 **2 Revenue recognition**

Revenue is recognized when received or when there is an irrefutable right to the income.

**3 Expenditure recognition**

Expenses are recognized when there is a commitment made by the church to pay the expense and is charged to income when incurred.

**4 Income tax**

In common with other churches, the XYZ Church is exempt from tax on revenue received and donors are granted a tax deduction for contributions made to the church.

 XYZ CHURCH

 NOTES TO THE FINANCIAL STATEMENTS

 YEAR ENDED DECEMBER 31,20XX

1. FIXED ASSETS

 ACCUMULAED BOOK

 COST DEPRECIATION AMOUNT

Land $ 120,000 $120,000

Furniture 4,000 900 3,100

Office equipment 2,200 450 1,750

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 $ 126,200 $ 1,350 $ 124,850

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At this point, you should understand the basic elements of financial reporting and the concomitant record keeping required to prepare the basic Income Statement reflecting the financial results of the activities undertaken and the Balance Sheet showing the assets owned and sources of finance used to pay for the assets. Another statement, which is important for business enterprises, is the Statement of Cash Flow. It reflects the results in cash form and does not include book adjustments such as depreciation and only records received income and expenses that have been paid. I we have not discussed this statement in detail as we suggest that it is of little use to a church and could be confusing if commitments are not given attention.