Introduction

In order to manage effectively the financial resources of your organisation, you need a clear understanding of basic accounting and its concepts.

In this module you are introduced to basic accounting principles. Accounting is a way of systematically recording, classifying and summarising business transactions. Reports on these transactions are used by committee members to analyse the financial affairs of the organisation and monitor its progress against the achievement of stated goals.

Before you begin

If you already have some knowledge of accounting practices, you might choose to begin with the Quick quiz on page 20 at the end of this module, and then try the Review tasks on page 22.

When you have answered the questions as well as you can, begin to work through the module to:

- confirm or revise your answers
- find any information you did not know (but need to complete the tasks).

When you have completed the module, you should redo the quiz and the review tasks.

If you have little or no knowledge of accounting practices, read on.

Key learning outcomes

The learning outcomes for this module are divided into two categories—learning which involves improving your knowledge or understanding, and learning which develops skills and strategies.

After successfully completing all the exercises in this module you will:

- know the basic principles of cash and accrual accounting
- understand and be able to use the basic accounting terms
- know the conventions for debits and credits
- be able to recognise the need to monitor the financial performance of the organisation
- be able to determine the flow of financial information in the organisation.
Exercise 2.1: Your financial responsibilities

As a committee member you have financial responsibilities. We shall begin this module by considering what these financial responsibilities might be. The purpose of this exercise is to encourage you to think about the things you need to know.

This first exercise also gives you a preview of the information you will find in this module—information that will help you identify and carry out your financial responsibilities.

Use the information in this module to find out what your financial duties are and how best to carry them out.

Consider your answers to these questions. You may choose to:

▷ simply think about your answers
▷ use the space provided here to make notes
▷ record your answers in your own learning notes (keep your learning notes handy as you work through the module).

1. As a committee member, what financial tasks do you know you have to carry out?

2. How can you tell whether you have been successful in your role as a financial monitor?

3. What do you consider are:
   i) the consequences of not doing a good job?
   ii) the benefits of performing well?
Monitoring and adjusting performance

The purpose of financial monitoring is to ensure:

- ongoing solvency and appropriate financial performance against budgets
- compliance with the outcomes, terms and conditions of funding and other contracts
- compliance with all necessary legislation and regulation (especially OH&S, Environment Protection, EEO and other anti-discrimination legislation, awards and agreements, Corporations law and the Incorporated Associations Act)
- achievement of the performance and outcome objectives determined by the Board and set out in the organisation’s strategic plan.

Sound financial management is achieved by:

- ensuring that day-to-day tasks are delegated as the specific responsibility of someone who has the time and skills required (either staff or a committee member)
- ensuring that detailed financial and other reports are presented to the committee regularly, so that any problems can be identified and rectified
- independently confirming that the information provided in the reports is accurate and reliable (i.e. not simply relying on the reports).

The role of the committee

The management committee has a critical responsibility to monitor the performance of the organisation. Usually this involves monitoring the work of the principal/coordinator and paid staff.

Individual committee members might be given responsibility for specific areas of financial inquiry, e.g. checking the veracity of figures provided; carrying out risk analysis on verified figures; checking and noting grants in advance; cross-checking financial reports to ensure full reporting/recording; cross-checking information with administrative staff.

The committee should draw up questions to put to the executive officer which could cover:

- areas of risk
- budgets
- allocation of grants
- proposed extraordinary expenditure
- Long Service Leave liabilities
- Fringe Benefit Tax payments
- balancing clearing accounts
- BAS statement details
- investments
- market checks on asset value

Answers may be prepared in advance and signed off by the executive officer prior to the committee meeting.
Analysis of business

This involves monitoring the performance of each cost centre. A cost centre report would provide comparative information on individual cost centre operations. Each centre should be credited with an appropriate income, and debited with all direct and indirect expenditure.

Tip for committee action

There are people you can ask to help you confirm that the information in financial reports is accurate and reliable. These include the auditors appointed by your organisation or other professional advisers. Ask them to comment on the systems that generate the reports and the accuracy of the reports themselves. You may also spend some time at committee meetings discussing financial matters in detail.
Financial reports

Incorporated Associations are legally required to report to stakeholders on the use of the organisation’s finances. The management committee must ensure this happens. This is usually done by having the treasurer prepare reports for the committee.

For a definition of ‘stakeholders’ see the Glossary, Appendix 2.

It is also the management committee’s responsibility to report to funding bodies, consumers and the community about the work it has done and the resources used in the process. The committee requires regular financial reports to carry out this responsibility. These financial reports should provide monthly, quarterly, half-yearly or yearly information about how the finances of the organisation have been used. These intervals are known as accounting periods.

To ensure that the financial affairs of the organisation are being appropriately managed, the management committee needs to receive regular financial reports from the treasurer or manager.

The management committee is responsible for determining how often it receives financial reports. The more frequently your committee reviews financial information, the more chance you have of successfully managing the financial affairs of your organisation.

Financial reports to the committee should be:
- clear and concise
- available as they are needed
- in the same format as previous reports (so they can be compared)
- representative of the full financial position of the organisation.

Internal and external reports

There are two types of financial report, internal and external.

Internal reports are prepared for use by the organisation’s own management staff and management committee. External reports provided for the use of third parties outside the organisation.

Internal reports are usually prepared by an organisation’s own bookkeeping or accounting staff (though in smaller organisations they may be prepared by an external accountant). External reports may also be prepared by an organisation’s staff or by an external accountant.
Internal reports

Internal reports for the management committee should contain information about all significant financial issues as they arise, i.e:

- income — money that has been earned
- expenses — costs that have been incurred
- assets — resources the organisation has at its disposal
- liabilities — commitments the organisation has to other parties
- budget variations — differences between what was planned in the budget and what really happened
- cash flow — money that has been received and money that has been paid out.

See Modules 3, 4 and 5 for ways of analysing and querying information in financial reports.

Internal reports allow the management committee to monitor progress and make decisions. To ensure the organisation is and remains viable, as well as to allow ongoing management decisions to be made, information (in the form of reports) should be provided to the following internal stakeholders:

- members (annual AGM)
- committee members (usually monthly or quarterly)
- managers (usually daily or weekly).

ECEF and/or BVET require funded organisations to provide annual financial reports that have been audited by an independent auditor or by an independent qualified accounting professional. These annual reports are also presented to members at the annual general meeting (AGM).

External reports

External reports are prepared for bodies external to the organisation. They are a legal or contractual requirement and they must comply with the regulations set by:

- the Australian Taxation Office
- the Department of Fair Trading
- funding bodies.

Reports prepared for external users may be the same as, or similar to, reports prepared for internal use. They may be:

- sets of financial statements provided quarterly to the organisation’s bank in compliance with a loan agreement.
**Tip for committee action**

It is the committee’s responsibility to be familiar with the external reporting requirements specific to the organisation and, in particular, with the timing of external reports.

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### Exercise 2.2: Accounting periods

How often does your management committee consider financial reports?

_______________________________________________________________________________________________________________________________________________

When were your external and internal reports last presented? Record your answers in the table below.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Date of last report</th>
<th>Accounting period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Reports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers/ Staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>External Reports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian Taxation Office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Fair Trading</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding bodies in ECEF/BVET</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exercise 2.3: Reflect and discuss

Since your committee last reviewed the financial accounts, has anything happened which has had, or could have, financial significance for your organisation, eg:

- an unexpected expense
- the resignation of a staff member?

Other:

Tip for committee action

Most organisations monitor financial reports monthly or quarterly, or annually at the AGM. However, if something happens that has, or could have, an adverse financial impact on your organisation, your committee should decide whether, for a time, it needs to see financial reports more often.

The work the committee does to monitor or prepare internal reports can also be used for external reports.
Cash accounting and accrual accounting

There are two types of accounting — cash accounting and accrual accounting.

Exercise 2.4: Cash and accrual accounting

What sort of accounting system does your organisation use? [tick the correct box]

- cash accounting
- accrual accounting
- a mix of cash and accrual accounting

What is your understanding of the difference between cash and accrual accounting?

Find answers in text below

The differences between cash and accrual accounting

Cash accounting and accrual accounting are based on very different concepts of income and expense. For this reason the results produced under each system can be very different.

A cash accounting system is based on the receipt of money and the payment of money. Under cash accounting systems, income is recognised when a payment is received by the organisation, for goods or services provided to a client. Expenses are recognised when a payment is made by the organisation for goods or services it has acquired from others.

Under accrual accounting systems, income is recognised by the organisation at the time it provides goods or services to clients. Expenses are recognised by the organisation at the time it acquires goods or services from others. Accrual accounting systems are based on the earning of income and the incurring of expenses.
The systems used commonly in not-for-profit community organisations are either:

- cash accounting occasionally incorporating accrual accounting, eg as a result of the intervention of an external accountant, usually at the end of an accounting period
- accrual accounting — using a computer system that reconciles costs against revenue generated to determine if a surplus or deficit has occurred.

**Tip for learning**

Gather the financial documents that your committee reviewed at its last meeting, eg Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. As you work through the module it will be useful to refer to the financial statements from your own organisation.

See Modules 3, 4 and 5 for more information on the kinds of financial statements organisations work with.

Not-for-profit and community organisations generally use:

- accrual accounting systems
  
  OR
  
- cash accounting systems with periodic preparation of accrual accounts by an external accountant.

The tables on the following page set out some important differences between cash and accrual accounting.
<table>
<thead>
<tr>
<th><strong>Cash accounting</strong></th>
<th><strong>Accrual accounting</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>‣ meets minimum requirements of the Associations Incorporation Act (1984)</td>
<td>‣ complies with Australian Accounting Standards and is the minimum standard for companies</td>
</tr>
<tr>
<td><strong>BUT</strong></td>
<td>‣ provides a more accurate picture than cash accounting</td>
</tr>
<tr>
<td>‣ does not give a true picture of all sales costs incurred by the organisation.</td>
<td>‣ shows the full financial position (including all ‘non-cash’ items such as assets, credit sales, depreciation, provisions against future liabilities).</td>
</tr>
<tr>
<td><strong>shows</strong></td>
<td></td>
</tr>
<tr>
<td>‣ cash receipts</td>
<td>‣ reports the financial position of each legal entity</td>
</tr>
<tr>
<td>‣ cash payments</td>
<td>‣ uses the historical cost of things</td>
</tr>
<tr>
<td>‣ cash balances.</td>
<td>‣ recognises appropriate accounting periods — transactions are recorded in the accounting period in which they properly belong</td>
</tr>
<tr>
<td><strong>BUT</strong></td>
<td>‣ recognises the matching principle — revenues are matched with the expenses incurred in generating those revenues</td>
</tr>
<tr>
<td><strong>does not show</strong></td>
<td>‣ reports on whether the organisation is a going concern</td>
</tr>
<tr>
<td>‣ credit sales or purchases (non cash)</td>
<td>‣ recognises income when it is earned (which is not necessarily when it is received)</td>
</tr>
<tr>
<td>‣ goods used up in the period</td>
<td>‣ recognises expenses when they are incurred (rather than when they are actually paid for).</td>
</tr>
<tr>
<td>‣ existing liabilities or commitments to staff, funding bodies, lenders and other creditors</td>
<td></td>
</tr>
<tr>
<td>‣ cash the organisation can expect to receive for goods/ services already provided to customers</td>
<td></td>
</tr>
<tr>
<td>‣ unexpired value of goods owned.</td>
<td></td>
</tr>
</tbody>
</table>

### Advantages and disadvantages of cash accounting

<table>
<thead>
<tr>
<th><strong>Advantages</strong></th>
<th><strong>Disadvantages</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>‣ is easier for non-accountants to use and understand</td>
<td>‣ does not capture obligations that are due but not paid, ie costs that will occur later or income earned but still to be collected</td>
</tr>
<tr>
<td>‣ provides a reasonable view of the liquidity of the organisation.</td>
<td>‣ does not give a complete picture of what has actually occurred, only what monies have been received and paid.</td>
</tr>
</tbody>
</table>

### Advantages and disadvantages of accrual accounting

<table>
<thead>
<tr>
<th><strong>Advantages</strong></th>
<th><strong>Disadvantages</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>‣ gives a more accurate picture of the financial performance and the financial position of the organisation.</td>
<td>‣ requires an understanding of accounting and bookkeeping principles in the preparation and interpretation of accounts.</td>
</tr>
</tbody>
</table>
The cycle of financial reporting

As a committee member it is important that you know and understand when accrual and/or cash accounting methods are used by your organisation.

Exercise 2.5: Preparing accrual accounting reports

Which system of accounting is predominant in your organisation – cash accounting or accrual accounting?

Answer question 1 OR 2

1. If cash accounting is predominant in your organisation:
   - when are accrual accounting procedures used in preparing financial reports?
   - when was accrual accounting last used?

2. If accrual accounting is predominant in your organisation:
   - when was the last set of accrual reports prepared?
   - who is responsible for preparing the accrual reports?

Tips for learning

If you are unsure of the answer to the questions in Exercise 2.5, ask your coordinator, treasurer, principal or manager.
Exercise 2.6: Comparing cash and accrual accounting

Examine the latest set of internal financial statements for your organisation that were prepared using accrual accounting. Compare them with a set of cash-based statements for the same period if possible.

What differences are obvious to you? (tick the correct box/es)

- Is there any difference between the revenues earned on the two income and expenditure statements? Do the expenses differ?
- Are there any items on the accrual-based balance sheet that are not on the cash-based balance sheet?
- Overall, do the accrual-based accounts or the cash-based accounts show the better result? To assess this consider:
  - the surplus or deficit on the income and expenditure statement
  - the net assets on the balance sheet.

What questions do the accrual-based statements raise for you?

What questions do the cash-based statements raise for you?

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Accrual accounting requires a higher level of accounting expertise in the preparation of accounts, and in the interpretation of accounts but there are very good reasons why accrual accounting is widely adopted in the business community. The benefits it provides can advantage any organisation, regardless of size or industry.

Reasons for using accrual accounting

The benefits that accrual accounting systems can produce outweigh any extra administrative burden they might impose. These benefits include more detailed, accurate and up-to-date information. In other words, for most organisations there is more to lose in not using accrual accounting than there is in coming to terms with and adopting accrual accounting.
To clarify the benefits of accrual accounting, consider the following two situations

**Personal scenarios**

**Situation 1**

Imagine that, for an agreed fee of $2,000, you carry out and complete contracting work for a local business over a period of two weeks. At the end of the two weeks what have you earned?

If you had not yet been paid then, under a cash accounting system you would say you had earned nothing. This would be despite the fact that you have completed your contracted work, there is nothing more you need do to be entitled to be paid.

The reality is you have earned your $2,000 fee, and an accrual accounting system would reflect that reality.

**Situation 2**

Imagine you are approached by a friend for a loan of $5,000 for six months. You know you have $5,000 in your bank account. You also know you have last month’s American Express statement with $5,000 in charges from your recent holiday. You have not paid your American Express account yet – it is due to be paid in two week’s time.

Can you lend your friend the $5,000?

A cash accounting system would tell you that you could. It would show $5,000 in the bank and no debts owing. In this case, the reality is that you cannot lend the $5,000 without defaulting on your American Express account.

**Answers**

In Situation 1, you know that you have completed two week’s work and ‘earned’ two week’s fees. You will have a mental record only that you have earned $2,000. In addition, you will have an expectation of receiving it in the not-too-distant future.

In Situation 2 you know you have been on holiday and that you spent $5,000 on your credit card. The money you have in the bank will be needed to pay that debt.

If you are charged with responsibility for your organisation, but are not involved with it on a day-to-day basis then you, as an individual, have very good reasons for insisting on the use of accrual accounting.
### Accounting terms

You should be familiar with basic accounting terms and their definitions. This will enable you to understand the way in which transactions are recorded and classified in the accounting process, and how these transactions translate into the financial reports provided to the committee.

Some definitions are provided below:

<table>
<thead>
<tr>
<th>Account</th>
<th>A account identifies and records similar, or like, financial transactions, eg an organisation’s printing and stationery account identifies the record of all the organisation’s printing and stationery purchases.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chart of Accounts</td>
<td>A chart of accounts is a list of the accounts used by an organisation in its accounting system. Each account is assigned a unique number to identify it. In the chart of accounts, similar or like accounts are grouped into one of the five broad account types. There may also be sub-grouping, depending on the structure of the organisation, eg the accounts for different departments may be grouped together.</td>
</tr>
</tbody>
</table>

**Types of accounts:**

<table>
<thead>
<tr>
<th>Income or Revenue account</th>
<th>An income or revenue account is a record of monies earned by an organisation (accrual system) OR received by an organisation (cash system) during the course of its normal operations, eg student fees.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense account</td>
<td>An expense account is a record of costs incurred by an organisation (accrual system) OR monies spent by an organisation on those costs (cash system) during the course of its normal operations, eg wages.</td>
</tr>
<tr>
<td>Asset account</td>
<td>An asset account is a record of transactions relating to assets. Assets are things which have value to the organisation because they can be used on an ongoing basis to help the organisation run its operations and earn income, eg buildings or cash in the bank, OR because they represent monies owing to the organisation for goods or services it has already provided, eg overdue student fees.</td>
</tr>
<tr>
<td>Liability account</td>
<td>A liability account is a record of transactions relating to liabilities. Liabilities can be thought of as the value of things provided to the organisation but which it has not yet paid for, eg the value of electricity used during the last month but for which an invoice has not been received, OR which the organisation will have to repay in the future, eg a loan to the organisation provided by a bank.</td>
</tr>
</tbody>
</table>
An equity account is a record of transactions relating to the equity in the organisation. Equity can be thought of as the money and other assets invested into an organisation by its owners, PLUS the profits and MINUS the losses that the organisation has incurred since its inception.

It can also be thought of as the difference between the value of the organisation’s assets and its liabilities.

It represents the net worth of the organisation.

Debit and Credit

Debit and credit

Debit means the left side of the ledger and credit the right side of the ledger. If you debit an account, you make an entry on the left side of the ledger for that account. If you credit an account, you make an entry to the right side of the ledger for that account. Convention determines on which side of a ledger a transaction is recorded.

Conventions for debits and credits

To increase an expense account or an asset account — debit it.

To increase an income, liability or equity account - credit it.

Conversely:

To decrease an expense account or asset account - credit it.

To decrease an income, liability or equity account - debit it.

Example: If your organisation purchased a laser printer this would be recorded as follows:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant &amp; equipment $2,500</td>
<td>Cash at bank $2,500</td>
</tr>
</tbody>
</table>

For more key definitions see Glossary in Appendix 2.

Tip for learning

You may find it useful to refer to the key definitions as you work through the modules.
The accounting equation

How do different types of accounts relate to each other?

**Expense accounts and asset accounts**

These accounts are increased by making debit entries to those accounts — **Debits** are the balances of expense accounts and asset accounts.

**Income, liability and equity accounts**

These accounts are increased by making credit entries to those accounts — **Credits** are the balances of income, liability and equity accounts.

**Equity - profit and loss**

Profit or loss is the excess or shortfall of income relative to expenditure. This forms part of equity. Effectively all the credit balances in the income accounts and the debit balances in the expense accounts are totalled up into equity.

The total debits equal the total credits.

This information gives us the accounting equation:

\[
\text{Assets (debit accounts)} = \text{Liabilities (credit accounts)} + \text{Equity (credit accounts)}
\]

OR

\[
\text{Assets (debit accounts)} - \text{Liabilities (credit accounts)} = \text{Equity (credit accounts)}
\]

The significance of the accounting equation will become clearer when we look at Balance Sheets in Module 4.

**Debits and credits**

For bank customers, cash in the bank is an asset. From your own financial dealings as a bank customer, you will have a good idea of what is meant by the terms debit and credit. When you receive your bank statement, you see credits for your deposits going in, debits for your withdrawals coming out. You know that a credit balance means you have cash in the bank.

It is interesting however that, when an individual or an organisation is preparing their own financial records, the terms debit and credit can be a source of confusion.
Consider again the ‘Conventions for Debits and Credits

To increase an expense account or an asset account — debit it.
To increase an income, liability or equity account — credit it.

Conversely

To decrease an expense account or asset account — credit it.
To decrease an income, liability or equity account — debit it.

You may understand the conventions better if you consider them in relation to bank statements.

Think about your own bank statements from the perspective of the bank. Do this for deposit (or savings) accounts.

Remember that your bank statement is an extract from the bank’s accounting system. For the bank, your asset — i.e. cash in your account — is a liability. It is money that the bank owes you. The more money you deposit in your account, the more the bank owes you. The bank’s liability to you increases. That increase in the bank’s liability is recorded as a credit to your account.

This is entirely consistent with the rules under the Conventions for Debits and Credits.

Once you are comfortable with this way of thinking about debits and credits, you will be able to concentrate on the conventions as they apply to your own organisation’s records.

Decision-makers, such as committee members, should make sure that accurate accounting records are kept and that financial reports are produced which provide up-to-date and accurate information about the financial position of the organisation.
## The flow of information in accounting

The following table shows the way in which information flows in accounting.

| Transaction occurs | Transactions are recorded on source documents  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt; eg receipt issued for money received or cheque butt retained containing details of payment made.</td>
</tr>
</tbody>
</table>
| Enter in journal   | Transactions are entered into journals which list 'like' transactions  
|                    | > eg cash payments are entered into the ‘Cash Payments’ journal. |
| Update ledger accounts | Accounts are updated, periodically, with information from the journals  
|                    | > eg a bank account is increased by amount of cash receipts for the month and reduced by amount of cash payments. |
| Prepare Trial Balance | A Trial Balance is a listing of all accounts with the balances entered as either debits or credits. It is prepared to check that everything is still in balance (debits = credits). |
| Prepare financial reports | Financial reports are prepared from the information in the Trial Balance (Income and Expenditure Statement and Balance Sheet) and from the cashbook (Statement of Cash Flow). |

### Tip for learning

You may find it useful to refer to this table as you work through later modules.
Quick quiz

Use the questions below to check your understanding of the material covered in this module. If you are unable to complete the quiz, review the appropriate section of this module.

The quiz contains questions where you write short answers in the spaces provided, eg Questions 1 and 2. In other questions, eg Question 3, you are given more than one possible answer and you tick the box or boxes that you think are correct. In Question 6 you are required to complete the sentence. In Questions 4 and 8 you are required to write numbers and letters in the boxes.

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Name two assets</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Name two liabilities</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>An accounting period is ...</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ determined by the committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ every twelve months</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ coincides with the date of the AGM</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Correctly order the following steps (write 1-5 in the boxes)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ prepare a trial balance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ enter in journal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ update ledger</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ transaction occurs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ prepare reports</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>What are the two basic types of accounting?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ 1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ 2</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>The main advantage of accrual accounting is ...</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ Australian Tax Office</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ management committee members</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ funding bodies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ monitor the organisation's progress and make decisions</td>
<td></td>
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<td></td>
<td>□ allow an external accountant to prepare external reports</td>
<td></td>
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<tr>
<td>7</td>
<td>Internal reports are vital to ...</td>
<td></td>
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<tr>
<td></td>
<td>□ allow an external accountant to prepare external reports</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Indicate which types of accounts are increased (I) and which are decreased (D) by a credit entry. (write D or I in the box)</td>
<td></td>
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<tr>
<td></td>
<td>□ asset</td>
<td></td>
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<tr>
<td></td>
<td>□ equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ expense</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>□ liability</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Options</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-----------</td>
<td></td>
</tr>
<tr>
<td>9  Debit refers to which side of a ledger?</td>
<td>❑ Left</td>
<td></td>
</tr>
<tr>
<td></td>
<td>❑ Right</td>
<td></td>
</tr>
<tr>
<td>10 What are the three kinds of financial reports vital to control and</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>management?</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>
Review tasks

1. Financial monitoring

Now that you have worked through the module, consider again your answers to these questions from Exercise 2.1.

1. As a committee member, what financial tasks do you know you should carry out?

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2. What, in your opinion, might be the consequences of not performing these tasks well?

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2. Financial responsibility

1. As a committee member you have a public responsibility, but you are not intimately involved with the organisation on a day-to-day basis.

How can you make sure that you know the real financial state of affairs of your organisation?

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2. If your organisation is using a cash accounting system, how do you know that the next major item of expenditure you approve will not deplete the bank account, leave other debts unpaid, and/or contribute to the organisation becoming insolvent?

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3. Identify individuals you might choose to ask for help, evaluation or advice with your financial management obligations as a Committee member.

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