



Module 4- Part 2

Financial Management and Accounting Tools

Importance of Financial Management

- (1) preparation phase for the new financial period**
- (2) the day-to-day accounting and management of resources**
- (3) the generation of financial statements and reports at the end of a financial period**

Importance of Financial Management

(1) preparation phase for the new financial period

- (a) entails action planning, budget preparation and forecasting cash flows**
- (b) enables to make critical decisions as to HMIS' overall activities and program for a given period**
- (c) helps estimate the revenues to be generated and the amount spent for the same period**
- (d) ensures that HMIS is in a position to finance the expected expenditure for a given time**

Importance of Financial Management

- (2) day-to-day accounting and management of resources**
 - (a) allows to record inflow and outflow of resources and helps generate financial statements**
 - (b) recording of cash flow enables information on expenditure, revenue and income within the different accounts to be filed, making it possible to determine the results and financial situation of HMIS**
 - (c) accounting management HMIS describes:**
 - financial structure of HMIS, specifying source and application of funds**
 - changes in the criteria and value between the beginning and end of a particular period**

Importance of Financial Management

(3) generation of financial statements and reports at the end of a financial period

(a) gives information as to the cash standing of HMIS and assess its viability

(b) helps focus on critical items in revenue and disbursements

Non-profit principle

- Distribution of Profits: while commercial sector's goal is to seek distributable profit, in HMIS positive results are termed 'surplus' rather than 'profits'
- Income Tax (surpluses): HMIS are not generally subject to income tax
- Voluntary Service: voluntary contribution of members in the form of work, good and services need to be recorded in the accounts to give value to such contributions

Accounting and Financial Management Tools

Preparing for a New Financial Year

- the Action Plan
- the Budget
- the Cash Flow Forecast

For Generation of Financial Reports

- the Statement of Income and Expenditure
- the Balance Sheet

Accounting and Financial Management Tools

For Day-to-Day Accounting and Management

- the Cash Journal
- the Cash-in-Bank Journal
- the Cash Receipt Book
- the Cash Disbursement Book
- the Petty Cash Form
- the General Ledger

Cash Flow

- classical accounting notions of 'debit' and 'credit' is replaced by 'inflows', 'outflows' and 'balance'
- balance is defined as the difference between inflows and outflows.

Cash Flow

- (1) Executive Body develops Action Plan, prepares the Budget and the Cash Flow Forecast and submits these to the Board of Directors for review.**
- (2) Board of Directors review drafts and modify if necessary**
- (3) Once BD approves, submitted to annual General Assembly for final approval and adoption.**
- (4) When GA has approves, Executive Body carries out the activities provided for, supervised by the Board of Directors**
- (5) Auditing Body verifies if action plan is carried out as intended, the budget is executed as approved and the cash flow forecasts are reviewed**

The Action Plan - Purpose

- reflects key programs and activities intended to be done within financial period
- must be consistent with estimated budget for same financial period
- used as reference to assess achievement of activities against budget estimates to determine deviations

What information does the Action Plan contain?

- **Objectives:** statements the HMIS wants to accomplish at the end of the financial period
 - S. M.A.R.T. (Specific, Measurable, Attainable, Realistic and Time-Bound).
 - must be quantifiable in terms of the indicators for easier monitoring and assessment
- **Activities:** actions to undertake in order to realize your objectives
 - each objective has a set of activities to accomplish it
 - they should be clear, precise and well-defined to help attain your objectives

What information does the Action Plan contain?

- **Staff Responsible**: refers to people in HMIS who are in-charge of the activity
 - individuals are assigned with the responsibility of making the activities happen
 - they are to ensure that the actions envisaged are executed soundly
- **Targets**: the people whom the activities are aimed at
 - direct and indirect beneficiaries of the activity
 - define which activities are for BOTH women and men, and which activities are specifically intended for men or women

What information does the Action Plan contain?

- **Means:** - consists of what the activities to be carried out
 - requires quantifiable and consistent with the budget
- **Schedule of implementation:** covers the whole year (or the specified financial period)
 - can be broken down into months or quarters
 - each activity must have an identified date or schedule when it should be carried out

How the Action Plan is prepared and used?

Process

- drafted by the Executive Body
- reviewed by the Board of Directors
- submitted to the GA for final approval and adoption

Uses

- reminds key activities that HMIS should undertake and when to carry them out
- validates the budget prepared, whether consistent and enough to support the planned activities or not
- assesses which actions need not be pursued considering financial status of HMIS or other interim events during the financial period
- guide in preparing Cash Flow Forecast
- plot out when cash are mostly needed since activities are programmed according to schedule
- basis for monitoring the status of implementation by your HMIS

What is the Budget for?

- the financial reflection of HMIS action of programme for each new financial year
- a forecast of the revenue and expenditure necessary to carry out your activities and attain objectives
- should be balanced with regard to revenue and expenditure
- preparation of budget involves choices concerning:
 - benefits to be given
 - corresponding contributions to be collected
 - respect according to these decisions during the financial year

What information does the budget contain?

- presents the financial forecasts of HMIS, grouped into two major categories:
 - **estimated expenditure**
 - health benefits or the reimbursement of the cost of beneficiaries' care
 - operating costs which include staff allowances, travel expenses, supplies, etc.
 - training expenses and other expenditures
 - **estimated revenue**
 - membership fees
 - contributions
 - additional resources: income from other activities, interest on investments and other revenues

The special feature of your budget as an HMIS

- easier to estimate revenue than expenditure since the amount of contributions is known
- number of members and beneficiaries expected for the new financial year still needs to be assessed
- expenditure depends on several external factors which the HMIS does not have a great deal of control over
 - state of health of the population
 - behaviour of care providers as regards prescribing medicines, tests,
 - outbreak of epidemics

The special feature of your budget as an HMIS

- after a year operation, a better position to estimate certain parameters such as:
 - development of the number of members
 - cost of health services
 - rates of risk (expected use by beneficiaries of the different health services covered)
 - operating costs
 - inflation

How budget is prepared

- prepared by the Executive Body
- reviewed by the Board of Directors
- submitted to the General Assembly for approval or may amend it

What is the Cash Flow Forecast for?

- must ensure all the time that your HMIS have sufficient money on hand or in the bank to be able to meet your expenditure
- management of cash flow is even more important when your HMIS is subject to seasonal variations connected in particular to:
 - seasonal peaks of the disease (e.g. prevalence of malaria)
 - seasonal or irregular income of members (e.g. rural areas)
- variations to be taken into account during planning to ensure sufficient cash flow to honour commitments to members and care providers
- It is a tool for planning, monitoring and control of your resources

What information does the Cash Flow Forecast contain?

- covers the principal information of the HMIS budget
- divides the forecasts for cash flow on a monthly basis, taking into account the seasonal variations
- **estimated expenditure**
 - health benefits: reimbursement of beneficiaries' care expenditure
 - operating costs: staff allowances, travel costs, supplies;
 - training costs
 - other expenditures such as investments, loan repayment
- **estimated income**
 - membership fees
 - contributions
 - additional resources: revenue from other activities (investment interest, loans)

How Cash Forecast Is Used

- assess all expenditures and income items monthly
- obtain monthly cash balances by drawing up the balance of these monthly receipts and disbursements
- **if balance is positive, receipts are greater than disbursements and no liquid asset problem. If surplus is significant, invest part of HMIS' liquid assets in an interest-bearing bank account.**
- **if balance is negative, disbursements are greater than receipts and there will be liquidity problems; the following are probable solutions:**
 - (a) withdraw the amount necessary from your savings account
 - (b) negotiate for a loan
 - (c) defer certain expenses by obtaining longer payment periods
 - (d) take action to obtain revenue from members whose contributions are in arrears

Paramount Considerations in Accounting and Managing Your HMIS' Financial Resources

- **Day-to-day transactions of HMIS involves movement of assets, services or money. Movements of money are also called 'cash flow'. As HMIS managers, the daily tasks require managing inflows and outflows of cash and bank accounts.**
- **Paramount Considerations:**
 - **ability to record these transactions appropriately, correctly and immediately as they occur**
 - **recording must enable to keep track of the cash on hand and cash in-bank on a daily basis**
 - **provides information that leads to readily assess financial status and take immediate actions as needed**

Paramount Considerations in Accounting and Managing Your HMIS' Financial Resources

- financial management system considers the accounting principle of control and balance
- ensure that person/staff assigned are competent and above board with clear delineation of their respective tasks
- staff assigned to receive and record cash (Bookkeeper) must be different from the one who will deposit and withdraw (Treasurer) from the Bank and from the one who issues checks or handles payments or cash releases (Cashier)
- ensure that your financial recordings are transparent and stand the scrutiny of your Auditing Body and members of the general assembly

Common Day-to-Day Accounting and Financial Management Practices of HMIS

- **variations in the way HMIS manage and account their day-to-day financial transactions; depends on:**
 - **size of members**
 - **organizational set-up**
 - **existing agreements with their external partners (e.g. the service providers)**
 - **access to bank institutions**
 - **nature/classification of revenue and expenditures**
 - **availability of staff to manage such financial transactions**
- **use different terms for financial records even though these have similar functions and provide the same information**
 - **adopt different formats and levels of detail**
 - **some Cash Receipt and Cash Disbursement Books more detailed than others to reflect specific classifications of disbursements (e.g. supplies, training, etc.) and receipts (contributions, donations, membership fees, etc).**

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- some HMIS record cash receipts and cash disbursements in one document; others record them separately
- in smaller-sized HMIS where transactions are only few, no Cash Disbursement and Receipt Books are maintained; transactions are recorded directly to the General Ledger
- in more advanced HMIS, disbursements are done through checks, hence their Cash Disbursement Book reflects movements only of their cash in bank and none from their cash-on-hand, except the petty cash.
- almost all HMIS maintain a petty cash, in varying amounts and different recording formats
- most HMIS use “Credit” and “Debit” for in-flow and out-flow respectively

Tools for the Day-To-day Accounting and Financial Management

- | | | |
|-----------------------------|---|--|
| ☺ - Cash Journal | : | This is to record your daily transactions involving your cash on hand |
| ☺ - Cash-in Bank Journal: | | This is to record your daily transaction involving your cash-in-bank |
| ☺ - Cash Receipt Book | : | This records the day-to-day amount of cash received by your HMIS |
| ☺ - Cash Disbursement Book: | | This records the day-to-day disbursements made by your HMIS |
| ☺ - Petty Cash Form | : | This records disbursements out of your petty cash |
| ☺ - General Ledger | : | This is to record at the end of each month your day-to-day transactions according to the classification or nature of your transactions |

What is the Cash Journal for?

- otherwise called as the Cash Record or Cash Book
- records on a daily basis the cash transactions carried out by your HMIS
- allows the movements of your funds in cash to be recorded chronologically and serves as a “continuous memory”
- makes possible to find all the details about the cash transactions which your HMIS made and verify at any time the accuracy of your cash in hand

What information does the Cash Journal contain?

- The Cash Journal generally includes the following information:
 - date
 - reference of supporting document: invoice number, receipt, cash certificate, etc.
 - object: the nature or name of the cash transaction carried out (other name: description)
 - inflows: the amount coming into your cash-on-hand account if the transaction involves cash coming in
 - outflows: the amount going out of the cash-on-hand account, if the transaction involves cash going out
 - balance: the difference between the amount of inflows and outflows which can be calculated at the end of the day

How is the Cash Journal used?

- (1) record every transaction in the Cash Journal exactly at the time when you carried out the transaction
- (2) specify the reference of the supporting document corresponding to the transaction
- (3) previously identify each page of the Cash Journal you used according to the month concerned
- (4) at the end of each day and after recording the last transaction of the day in the Cash Journal, you need to calculate the new balance
- (5) record the amount identified for the close-of-day balance under the Balance Column on the last line of the day. You will carry the same amount forward to the beginning of the following day

How is the Cash Journal used?

(6) At the end of each month and after recording the last transaction of the month, need to close the Cash Journal for the month to:

(6.1) calculate and record the last balance, after the last transaction at the end of the last day of the month.

(6.2) Check the accuracy of this final balance. You can check the final balance by:

(a) adding up all the sums coming in during the month under the "In-Flow Column"

(b) adding up all the sums going out during the month under the "Out-Flow Column" by carrying out the following calculation:

$$\begin{array}{rcl} \text{new end} & & \text{start of month balance} \\ \text{of month} & = & + \text{total inflows during month} \\ \text{balance} & & - \text{total outflows during month} \end{array}$$

Note: The amount identified after this check should be equal to the balance you calculated after the last transaction at the end of the month

How is the Cash Journal used?

- (7) at the end of the month, use a new page of the Cash Journal to record your transactions relative to the following month by carrying forward the previous balance
- (8) Identify this by the new month beginning and carrying forward the previous end of month balance to the top of the new page, specifically on the line marked 'carry forward
- (9) the preceeding end of month balance becomes your new start of month balance for the month beginning
- (10) Cash Journal is usually managed by your HMIS Treasurer

What is the Cash-in-Bank Journal for?

- otherwise called as the Bank Record or the Bank Book
- in a day-to-day basis, the Cash-in-Bank Journal records all transactions carried out by your HMIS through your bank account
- presents the chronological succession of all bank transactions and constitutes its continuous 'memory'
- makes possible to find all the details relative to your HMIS bank transactions
- also enables to check the accuracy of the amount available in your HMIS bank accounts at any time

What information does the Cash-in-Bank Journal contain?

- allows recording chronologically the movements of your HMIS funds in the bank
- allows carry out the bank reconciliation of your assets
- generally includes the same information as the Cash Journal
 - date
 - reference of supporting document
 - object: nature or name of the transaction (also called description)
 - In-flows: the amount coming into the bank account
 - outflows: the amount going out of the bank account
 - balance: the difference between the amount of inflows and outflows can be calculated at the end of each day

How is the Cash-in-Bank Journal used?

- (1) record all transaction involving you bank account in the Cash-in-Bank Journal at the time you carry out the transaction (e.g. withdrawal), or at the time you have been informed about it
- (2) specify the reference number of the supporting document corresponding to the transaction.
- (3) identify each page of the Cash-in-Bank Journal that is being used according to the month concerned.
- calculate the new bank balance at the end of each month and after recording the final transaction of the month in the Cash-in-Bank Journal
 - (4.1) Carry out a bank reconciliation based on the bank statements
 - (4.2) record the amount identified as the end of month balance under the "Balance Column" on the last line of the day
 - (4.3) carry the same amount forward to the start of the following month

How is the Cash-in-Bank Journal used?

(5) close the Cash-in-Bank Journal at the end of the month

(5.1) calculate and record the final balance after the last transaction at the end of the month.

(5.2) check the accuracy of the final balance by:

- adding up all sums coming in to the bank during the month under the "Inflow Column"
- adding up all sums going out of the bank during the month under the "Outflow Column"
- carrying out the following calculation:

$$\begin{array}{rclcl} \text{new end} & & & & \text{start of month balance} \\ \text{of month} & & & & \\ \text{balance} & = & + & \text{total 'inflows' of the month} \\ & & - & \text{total 'out-flows' of the month} \end{array}$$

How is the Cash-in-Bank Journal used?

- (6) last amount identified after this check must be equal to the balance calculated after the last transaction at the end of the month
- (7) at the end of the month, use a new page of the Cash-in-Bank Journal to record transactions relating to the following month and carry the previous balance forward. Identify it with the new month beginning
- (8) carry the previous end of month balance forward to the top of the new page on the line marked 'carry forward'.
- (9) the preceding end of month balance becomes the new start of month balance for the month beginning
- (10) Cash-in-Bank Journal is usually managed by your Bookkeeper.

How is Cash-in-Bank Journal accomplished

- (1) service provider sends in the invoice.
- (2) Executive Body checks the invoice and orders payment by withdrawing cash from the bank.
- (3) HMIS records the withdrawal in the Cash-in-Bank Journal with the reference document. It also notes the date, the number of the supporting document and the amount paid out in the 'outflows' column. The balance is then calculated.
- (4) A similar procedure is used for payments by cheque.

What is the Cash Receipt Book for?

- use to record the amount of cash the HMIS receives day-to-day
- cash either flows into the cash-on-hand or cash-in-bank account
- together with the Cash Disbursement Book, provide another way of recording day-to-day transactions of HMIS just like the Cash Journal and the Cash-in-Bank Journal
- purpose is the same - to help keep track of cash flow on a daily basis and to keep a record of these in chronological manner

What information does the Cash Receipt Book contain?

- date
- particulars
- reference document
- amount of cash received under Cash-on-Hand
- amount of cash received under Cash-in-Bank
- classifications of the received cash: (e.g. contributions or premiums of members, donations or grants, etc.)
- total amount received for the month and by classification
- cumulative amount of cash received from previous months
- where appropriate, it is helpful if data is sex-disaggregated to help in forming analysis

How is the Cash Receipt Book Used?

- used to record cash received by HMIS on a day-to-day basis
- every time cash is remitted to HMIS or donated/granted, these should be recorded appropriately under the Cash Receipt Book
- for each cash received, the above information should be recorded
- the cash received is further classified either
 - under “contributions” or “premiums” received from members
 - “grants” given by other agencies
 - “subsidies” from the HMIS other fund-raising activities or
 - “donations” from other groups

How is the Cash Receipt Book Used?

- at the end of each month, all cash received under cash-on-hand and cash-in-bank accounts are summed up
- gives an overall picture of how much cash were received for the month
- by adding these amounts to the cash received the previous months will give you a running account of all your cash receipts
- you apply the same procedures for the incoming month

What is the Cash Disbursement Book for?

- records on a daily basis the disbursements made by the HMIS
- cash disbursed may either come from cash-on-hand or cash-in-bank account
- records in a chronological order these disbursements, classifies them by the nature or category of the disbursements and serves as the “memory” source of cash outflows day-to-day
- makes it possible to find all the details relative to the HMIS cash-out flow transactions
- also enables to check the accuracy of the amount available in the HMIS bank accounts and cash-on-hand at any time

What information does the Cash Disbursement contain?

- records all daily cash-out-flows of HMIS; specifically, it provides information on the amount of financial resources disbursed by the HMIS out of the cash-on-hand and cash-in-bank accounts; specifically, contains the following information:
 - date
 - particulars
 - amount of cash disbursed from cash-on-hand
 - amount of cash disbursed from cash-in-bank account
 - classification of the disbursement (e.g. supplies, training, communications, health service payment, etc.)
 - total amount disbursed for the month and by classification
 - cumulative amount disbursed from previous months
 - similar to cash receipts, it is helpful if data is sex-disaggregated, where appropriate, to help in forming analysis

How is the Cash Disbursement Book used?

- (1) every time the HMIS uses or disburses money, these should be recorded appropriately, whether they are taken from your cash-on-hand or cash-in-bank account
- (2) further classify the nature or purpose of disbursement (e.g. supplies, training, communications, payment to service provider for health services offered, etc.)
- (3) at the end of each month, sum up all cash disbursed; gives an overall picture how much cash was disbursed for the month
- (4) add these amounts to the disbursements from the previous months; keeps track of the amount and nature of cash disbursed by the HMIS on a daily and monthly basis including the purpose for which they were used
- (5) information on daily and monthly disbursements becomes the basis for establishing trends of monthly expenditure, thus enabling the making of a better forecast of cash requirements over the financial period

What is the Petty Cash Form for?

- a common practice in the day-to-day transactions of all HMIS
- as the term “petty” indicates, these are small amounts of cash that you keep as a ready source for small amount transactions of HMIS
- though these are small in amounts, it is still necessary and a sound financial management practice to record the disbursements from petty cash
- each HMIS has its own format and structure in recording the utilization of their petty cash
- must be able to record on a daily basis the amounts used and the purpose or nature of the disbursement
- should enable you to make timely remittance before your petty cash become completely utilized

What information does the Petty Cash Form contain?

- Total amount of Petty Cash
- Date
- Particulars: describes briefly for what purpose the petty cash was used for (e.g. for supplies, transportation, etc.)
- Reference Document
- Amount released/disbursed
- Balance

How is the Petty Cash Form used?

- (1) indicate at the beginning of Petty Cash Form the total amount of petty cash you are allowed to maintain
- (2) be clear on the minimum balance you can maintain at which point you can request for replenishment
- (3) every transaction paid from petty cash must be recorded into the Petty Cash Form as they occur
- (4) indicate the particulars of the transaction, the reference document and amount
- (5) at the end of the day, sum up the amount disbursed and determine the balance
- (6) balance should be consistent with the actual amount of money you have in your petty cash
- (7) once minimum balance is reached, request for replenishment with the accompanying supporting documents

What is the General Ledger for?

- summarizes the daily transactions of HMIS during the month according to the classification or nature of activities or transactions
- summarizes debit transactions (inflows) and the credit transactions (outflows) for each account, in accordance with HMIS accounting plan
- reduces the number of entries to be made and gives an overall view of the transactions in the accounting plan
- allows all transactions to be recorded in chronological order, while indicating the accounts to be credited ('inflow') or debited ('outflow')
- records all the details relating to all transactions carried out for each account and to know the balance used by HMIS at any time
- Calculates rapidly the provisional results of your HMIS activities.
- Facilitates drawing up of the Statement of Income and Expenditure at the end of the financial year, and calculate the different indicators of activities and useful statistics

What information does the General Ledger contain?

- date
- subject
- in-flow, out-flow, balance in your cash-in-bank
- in-flow, outflow, balance in your cash-on-hand
- sundry activities: the other asset accounts that it has not been possible to open:
- fixed assets: buildings, land, transport equipment (e.g. vehicles);
- significant investments: amount of purchase;
- stocks: balance of stocks of consumables, such as health books, medicines or registers;

What information does the General Ledger contain?

- **realizable assets: credits, time investments, deposit accounts;**
- **credits:**
 - when members owe arrears in contributions;**
 - when they must reimburse the cost of benefits;**
 - when a subsidy is granted without being received;**
 - different undertakings/debts**
- * **deposit: the amount demanded by a service provider in relation to a guarantee**
 - **non-payment, reductions**
 - **sundry liabilities (other liabilities accounts it has not been possible to open in the journal):**
 - **reserves;**
 - **short, medium and long-term debts**
 - **income: new members, contributions, sundry (sale of medicines, subsidies, other);**
 - **expenditure: benefits, functioning, sundry**

How is the General Ledger Used?

(1) on a daily basis, administer the accounts used in connection with the HMIS activities; record each transaction in the balance sheet headings:

- In the Cash-in-Bank Column: if it concerns an activity involving inflows or outflows of money to or from the bank account (Bank Book)**
- In the Cash-on-Hand Column: if it is an activity concerning cash in hand. This column corresponds to Cash Journal and therefore follows the same rules**
- In the Sundry Assets Column: when it involves activities concerning fixed assets, the guarantee or the deposit**
- In the Sundry Liabilities Column: when it involves reserves and short, medium or long-term debts**

How is the General Ledger Used?

- (2) The same amount is simultaneously recorded to the Statement of Income and Expenditure Column, specifying whether it concerns a charge or an income:
- a. Charge:
 - Operating costs: transport, training, etc
 - Benefit costs: consultations, medicines, other
 - b. Income: contributions, benefits, others (such as subsidies or income from events)
- (3) After you have recorded each transaction in a balance sheet account, you must recalculate the balance of that account.

How is the General Ledger Used?

(4) at the end of each month, after recording the last transaction of the month, close the General Ledger for the month ending. To close the General Ledger at the end of a month, it is necessary for you to:

(4.1) calculate and record the last balance of each account, after the last transaction of the month

(4.2) carry forward the previous balance

(4.3) add up each column in total (total month + carry forward)

How is the General Ledger Used?

(5) You can check your recording by:

(5.1) In the inflows column, by adding up all the amounts that have gone into the account during the month = + total income.

(5.2) In the outflows column, by adding up all the amounts that have gone out of the account during the month = + total expenditure.

(5.3) Making a comparison between these two totals and having the balance equal to zero by carrying out the following calculation:

New End		Start of Month Balance
of Month	=	+ Total Inflows and Income of the Month
Balance		- Total Out-Flows and Expenditures of the Month

(5.4) Verify if the amount identified after this check should be equal to the last balance calculated after the last transaction of the month

How is the General Ledger Used?

- (1) open a new page of the General Ledger and identify it by the new month beginning, and carrying forward the balance of the end of the previous month to the top of the new page on the line marked 'carry forward'; previous end of month balance becomes the new start of month balance for the month beginning
- (2) record each transaction in the General Ledger; makes it possible to follow the development of the balance sheet and statement of Income and Expenditure information of HMIS at any time

Importance of Financial Statements and Reports

- accounting and financial documents make it possible to have a better knowledge of and to analyze the financial situation of HMIS
- reinforces the transparency of management, the confidence of members and partners
- better decision-making by management and staff

Tools in Generating Financial Statements and Reports

- HMIS accounts usually are grouped into two major categories:
 - the Balance Sheet accounts which track the development of resources (liabilities) and their use (assets)
 - the Income and Expenditure accounts which record the resources generated by activities (contributions, membership fees, others) and the consumption of goods and services necessary for those activities (benefits, functioning) respectively

What is the Statement of Income and Expenditure for?

- otherwise known as Operating Account or Profit and Loss Account
- must keep your income always greater than your expenditure
- seek to produce a **surplus** (refers to the positive result of the HMIS and not refer to it as a profit)
- a surplus is sought **not to make** a profit but to reinforce the financial solidity of the HMIS by enabling financial reserves to build up
- summary of the expenditure and income of HMIS during a given period called the 'financial year' (generally one year)
- compares the expenditure and income of HMIS and allows you to calculate the result for the year

What information does the Statement of Income and Expenditure contain?

- SIE is presented in a summary table with two columns:
 - the left-hand column presents the expenditure, and
 - the right-hand column presents income
- in each column the expenditure and income are categorized according to a standardized classification.
- accounting principle of balance between the two parts of an account (the Statement of Income and Expenditure in this case) involves a comparison between total expenditure and total income
- difference is recorded in either of the two columns of the table in order to obtain the same total for both columns; difference corresponds to the result for the financial year
 - called a deficit when total expenditure exceeds total income and
 - called a surplus, if the inverse is true

What information does the Statement of Income and Expenditure contain?

- (1) Expenditure:** the consumption of goods and services necessary to implement the activities of HMIS during a given period; affects result of HMIS negatively
- (2) Income:** composed of financial resources generated by the activities of HMIS in a given period. Income affects the results of HMIS positively
- (3) Operating Subsidy:** subsidy that allows HMIS to meet certain expenditure such as operations, benefit or training costs.
- (4) Capital Subsidies:** allow HMIS to acquire investments in the form of tangible fixed assets (e.g. building, furniture, land or vehicles).
- (5) Depreciation Allowance:** an example of a charge which is not an expense; durable property of HMIS for example like buildings, office furniture or equipment deteriorate over the years and suffer wear and tear that will require them to be replaced at a given time; considered a loss to HMIS and should be recorded.

What information does the Statement of Income and Expenditure contain?

(6) Depreciation

- an accounting operation that consists of recording the depreciation suffered by various fixed assets
- depreciation may be caused by daily use or technical progress
- depreciation is calculated on the basis of the historical cost of the assets and their estimated working life
- the method proposed, straight-line depreciation, is established as follows:

$$\frac{\text{historical cost}}{\text{working life (in years)}} = \text{annual amount of depreciation charge}$$

Example of Calculating Depreciation

Example

- The HMIS purchased an office equipment for Php 500,000 on 1/1/2000. In accordance with the laws in force, it decides to write it off over a period of five years.

historical cost

----- = annual amount of depreciation charge
working life (in yrs)

- The amount of annual depreciation is computed at :
$$\frac{\text{Php 500,000}}{5 \text{ years}} = 100,000.$$
- at the end of the 5th year, the HMIS will have written off Php 500,000.= 100,000. The most common straight-line rates of depreciation are: buildings: 5 to 10%; furniture, office equipment and movable equipment: 20-33%

How is the Statement of Income and Expenditure used?

- calculates the result and gives preliminary indication of the financial health of HMIS
- accompany this calculation with other tools, e.g. Balance Sheet, financial indicators and ratios that makes interpretation possible
- important to measure, if surplus is too high or too low, or to identify the origin of a deficit
- having sex-disaggregated income and expenditure data may also initially suggest patterns or trends that need to be addressed by management or by the organization as a whole

What is a Balance Sheet for?

- **a summary table that presents the assets of HMIS on a given date**
- **preparation is just like producing a precise inventory or photograph of HMIS resources for the whole year**
- **summarizes these resources (reserves, loans or care providers' payment times) and their use, reflected in the acquisition of materials, stocks or the granting of extensions in the time for members to pay their contributions**

What information does the Balance Sheet contain?

Assets: represent how HMIS resources are employed, namely, where its wealth is situated; broken down into two major headings:

fixed assets: the permanent assets which form the working tools (premises, equipment, vehicles, financial deposit with care provider, etc)

current assets: assets connected to current activities which are rapidly transformed or renewed several times during the year (stocks, bank accounts, financial debts, etc)

What information does the Balance Sheet contain?

Liabilities: correspond to the source of assets, which consist of the resources that have been made available to HMIS

equity capital: the resources that belong to the HMIS, such as reserves (established in particular by surpluses achieved at the end of previous financial years) or investment subsidies and other capital contributed by third parties (NGOs, government)

outside capital or debts: everything HMIS owes to other structures, such as care providers' invoices payable, loans obtained or other

What information does the Balance Sheet contain?

- provides info on increases or decreases in wealth during the financial year
- if there is a positive result (surplus), this leads to an increase in the HMIS assets
- a negative result (deficit) on the other hand leads to a decrease in these assets
- since HMIS is a non-profit-making organization, the surplus or deficit may result in an increase or reduction in the reserves respectively
- may also use part of surplus to carry out actions in favour of the members

What information does the Balance Sheet contain?

- **assets and liabilities clearly distinguish the expenditure and income that appear in the Statement of Income and Expenditure**

Example:

- (1) **if HMIS purchases or builds premises for its activities, these form part of assets (the purchase/construction cost appears in the Assets Column of the Balance Sheet**
- (2) **current maintenance of electricity costs relating to the use of the premises for example are expenditures that appear in the Statement of Income and expenditure**
- (3) **income earned from leasing the premises to third parties would constitute income**

How is the Balance Sheet used?

- **total assets should always be equal to total liabilities**
- **equality arises from the fact that Balance Sheet presents the source and application of funds: HMIS (like a company) cannot use either more or less funds than it possesses**
- **Balance Sheet provides preliminary interpretation of the financial situation of HMIS, indicating the use it has made of its assets**
- **Balance Sheet is a rough representation that must be interpreted to assess the performance of HMIS**