



Bookkeeping 1:2

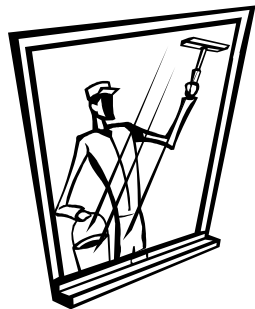
Rev. Karen McArthur

CONGREGATIONAL FINANCE LLC

Financial Management for Faith Communities



Welcome back!



Our goal is to gain an understanding of how the concepts and practice of bookkeeping can add clarity and transparency to a congregation's financial management, reporting, and planning.

- 1:1 = Concept of triple-entry bookkeeping
- 1:2 = Income/expense, assets/liabilities
- 1:3 = Financial reporting

© 2014 Rev. Karen McArthur



Clarity & simplicity

2014	General Fund	Other Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	TOTAL
INCOME					
Contributions	\$ 80,000	\$ 2,000	\$ 5,000	\$10,000	\$ 97,000
Plate income	\$ 5,000				\$ 5,000
Investment Return	\$ 10,000	\$ 15,000			\$ 25,000
TOTAL	\$ 95,000	\$ 17,000	\$ 5,000	\$ 10,000	\$ 127,000
EXPENSES					
10% to Outreach	\$ 9,500		3,200		\$ 12,700
Worship	\$ 35,000				\$ 35,000
Education	\$ 10,000				\$ 10,000
Care	\$ 15,000				\$ 15,000
Communication	\$ 15,000	\$ 2,000			\$ 17,000
Building	\$9,500		\$ 20,000		\$29,500
TOTAL	\$94,000	\$ 2,000	\$ 23,200	\$ 0	\$ 119,200

© 2014 Rev. Karen McArthur



Partial Reports can be Misleading



Memorial Contributions
used for new telephones



Capital Improvements

2014	
INCOME	
Pledges	\$ 80,000
Plate income	\$ 5,000
Memorials	\$ 2,000
Investment Return	\$ 10,000
TOTAL	\$ 97,000
EXPENSES	
Worship	\$ 35,000
Education	\$ 10,000
Care	\$ 15,000
Outreach	\$ 9,500
Communication	\$ 17,000
Building	\$ 29,500
TOTAL	\$ 116,000

© 2014 Rev. Karen McArthur



Clarity & simplicity

2014	General Fund	Other Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	TOTAL
INCOME					
Contributions	\$ 80,000	\$ 2,000	\$ 5,000	\$10,000	\$ 97,000
Plate income	\$ 5,000				\$ 5,000
Investment Return	\$ 10,000	\$ 15,000			\$ 25,000
TOTAL	\$ 95,000	\$ 17,000	\$ 5,000	\$ 10,000	\$ 127,000
EXPENSES					
10% to Outreach	\$ 9,500		3,200		\$ 12,700
Worship	\$ 35,000				\$ 35,000
Education	\$ 10,000				\$ 10,000
Care	\$ 15,000				\$ 15,000
Communication	\$ 15,000	\$ 2,000			\$ 17,000
Building	\$9,500		\$ 20,000		\$29,500
TOTAL	\$94,000	\$ 2,000	\$ 23,200	\$ 0	\$ 119,200

© 2014 Rev. Karen McArthur



Three dimensions to every entry

What **A**ccount is it being deposited to or deducted from?

Which **B**udget line is it?

What is the **C**lass of funds?

© 2014 Rev. Karen McArthur



Single-entry bookkeeping

- Keep track of how much money you have
- Money comes in
- Money goes out
- Keep track of balance
- Looks like old handwritten check register

		Checks	Deposits	Balance
1/1	Balance			\$1,500
1/7	Offering		+ 240	1,740
1/7	Rev. Smith	- 300		1,440
1/14	Offering		+ 350	1,790
1/14	Rev. Jones	- 300		1,490
1/14	Food Market	- 28		1,462

© 2014 Rev. Karen McArthur



Double-entry bookkeeping

- All the same elements of single-entry bookkeeping
- Adds one dimension: income / expense categories (or "accounts")

		Account	Checks	Deposits	Balance
1/1	Balance				\$1,500
1/7		Offering		+ 240	1,740
1/7	Rev. Smith	Preacher	- 300		1,440
1/14		Offering		+ 350	1,790
1/14	Rev. Jones	Preacher	- 300		1,490
1/14	Food Market	Coffee	- 28		1,462

© 2014 Rev. Karen McArthur



Triple-entry bookkeeping

- All the same elements of double-entry bookkeeping
- Adds a third dimension: The unrestricted or restricted source of funds

		Account	Fund	Checks	Deposits	Balance
1/1	Balance					\$1,500
1/7		Offering	General		+ 240	1,740
1/7	Rev. Smith	Preacher	General	- 300		1,440
1/14		Offering	General		+ 300	1,790
1/14		Mission Offering	Mission		+ 50	1,790
1/14	Rev. Jones	Preacher	General	- 300		1,490
1/14	Food Market	Coffee	General	- 28		1,462

© 2014 Rev. Karen McArthur



Expanding the concepts

- Assets, liabilities
- Income, expense
- Cash vs. Accrual
- Loans
- Payroll

© 2014 Rev. Karen McArthur



Assets



■ An asset is a thing of value that you own

- a checking account
- a Certificate of Deposit
- 10 shares of stock
- \$50 on deposit at the post office for postage due items
- Buildings, land, and equipment (fixed assets)

© 2014 Rev. Karen McArthur



Liabilities



■ A liability is anything you owe to others, *outside* of your organization

- the balance due on a bank loan
- payroll tax withheld from paychecks
- a telephone bill that hasn't been paid yet

© 2014 Rev. Karen McArthur



Income or Revenue

■ **Income** is money you receive:

- Contributions
- Program fees
- Event income
- Investment income
- Membership Dues
- Grant income



© 2014 Rev. Karen McArthur



Expenses or Expenditures

■ **An expenditure** is money you give or spend:

- Office supplies
- Candles
- Utilities
- Staff salaries
- A donation to a community outreach organization or your denomination



© 2014 Rev. Karen McArthur



A Quiz

- Checking account
 - Bill for electricity
 - \$10 put into the offering plate
 - \$20 for hurricane relief
 - Coffee supplies for coffee hour
 - Mortgage payment
 - Interest paid is expense
 - Principal paid reduces liability
 - \$2000 paid to the oil company in August
 - Asset (Prepaid Expense)
- Asset
 - Liability
 - Income
 - Income
 - Expense

© 2014 Rev. Karen McArthur



Close comparisons



Income vs Liability

- Income now? Or Deferred Revenue
 - Deposit for building use
 - Wedding next year
- Key Deposits

It's not income if you haven't yet provided the service and could be required to return the money.



© 2014 Rev. Karen McArthur



Close comparisons

Expense vs Liability

- Accrued Payroll
 - Book it as an expense now at 12/31
 - even if you haven't yet paid it
- Accounts Payable



© 2014 Rev. Karen McArthur



Close comparisons

Expense vs Asset

- Prepaid Expenses
 - Insurance paid for next quarter
 - Prepaid Fuel Oil
- Security deposit
 - paid to reserve a retreat center



Could you get your money back?

© 2014 Rev. Karen McArthur



Close comparisons



Income vs Asset

- Repayment of a loan that the church made to the minister
- Deposit from another bank account

© 2014 Rev. Karen McArthur



Expanding the concepts

- Accounts Payable
 - Expense
 - Liability - because you still owe it to someone
- Accounts Receivable
 - Income
 - Asset - because they still owe it to you

© 2014 Rev. Karen McArthur



Three dimensions to every entry

What **A**ccount is it being deposited to or deducted from?

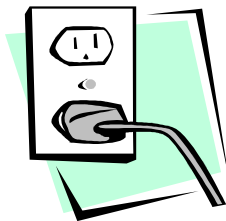
Which **B**udget line is it?

What is the **C**lass of funds?

© 2014 Rev. Karen McArthur



Example: Electric Bill

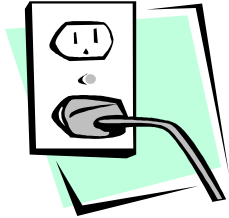


	Cash basis	
Account	Checking	
Budget Line	Electricity	
Class	General	

© 2014 Rev. Karen McArthur



Example: Electric Bill

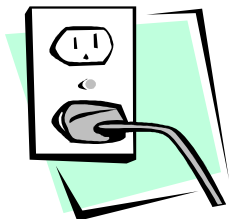


	Cash basis	Accrual
Account	Checking	Accounts Payable
Budget Line	Electricity	Electricity
Class	General	General

© 2014 Rev. Karen McArthur



Example: Electric Bill



	Cash basis	Accrual
Account	Checking	Accounts Payable
Budget Line	Electricity	Electricity
Class	General	General

Account	Checking	Accounts Payable
---------	----------	------------------

© 2014 Rev. Karen McArthur



Cash vs. Accrual

- Accrual accounting is required for non-profit organizations for reports.
 - More accurate
 - Helps with cash flow
 - Not difficult with computerized bookkeeping

© 2014 Rev. Karen McArthur



Cash or accrual?

- Cash basis accounting only pays attention to money when it is actually received or spent.
 - Pledges are counted when the money is deposited in the bank
 - Expenses are counted on the date of the check
- Accrual accounting counts income when it is committed to you and expenses when you commit to them.
 - Expenses are counted on the date of the bill
 - Income is counted when it is “earned” - i.e. a contribution is promised or tuition is due.
 - Modified accrual - contributions counted when received

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

In the 2013 annual report of Grace Church, prepared for the annual meeting on January 6, 2014, John Smith reported on the financial problems the congregation was facing:

- The Finance Committee is concerned about our deficit. We can't just keep spending money we don't have. We've had balanced budgets in the past, but a \$4,000 deficit is a big problem.
 - Pledges are only 96% of budget, although some people did finish up their pledges in January.
 - The building fees are up a bit, but not enough to erase the deficit.
 - We were able to pay the insurance bill for the next quarter that was due by 12/31, which left us with \$2,000 in the checking account.
 - At least we paid it on time; in January 2013, we paid that bill two weeks after it was due.

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

**BALANCED
BUDGET**



Grace Church, cash basis	Actual	Budget
Income		
Pledges		121,000
Building Use		12,000
Loan Repayment		3,000
Total Income		136,000
Expenses		
Salaries		89,500
Insurance		14,000
Missions		10,000
Music		8,500
Utilities		14,000
Total Expenses		136,000
		0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

Looks like a deficit year!



Grace Church, cash basis	Actual	Budget
Income		
Pledges	116,000	121,000
Building Use	15,000	12,000
Loan Repayment	3,000	3,000
Total Income	134,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	17,500	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	13,500	14,000
Total Expenses	138,150	136,000
Deficit	(4,150)	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

December 31 contributions deposited January 5: \$4,000

Prepaid pledges paid in December 2012 for 2013: \$3,000

Prepaid pledges paid in December 2013 for 2014: \$1,000

+ \$4,000
+ \$3,000
- \$1,000 = \$6,000

Grace Church, cash basis	Actual	Budget
Income		
Pledges	116,000	121,000
Building Use	15,000	12,000
Loan Repayment	3,000	3,000
Total Income	134,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	17,500	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	13,500	14,000
Total Expenses	138,150	136,000
Deficit	(4,150)	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

December 31 contributions deposited January 5: \$4,000

Prepaid pledges paid in December 2012 for 2013: \$3,000

Prepaid pledges paid in December 2013 for 2014: \$1,000

+ \$4,000
+ \$3,000
- \$1,000 = \$6,000

Grace Church	Actual	Budget
Income		
Pledges	122,000	121,000
Building Use	15,000	12,000
Loan Repayment	3,000	3,000
Total Income	140,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	17,500	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	13,500	14,000
Total Expenses	138,150	136,000
Surplus	1,850	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

Building Use prepaid for January = Deferred Revenue: - \$1,000

Loan Repayment isn't income, but reduces loan asset = - \$3,000

- \$1,000
- \$3,000 = - \$4,000

Grace Church	Actual	Budget
Income		
Pledges	122,000	121,000
Building Use	15,000	12,000
Loan Repayment	3,000	3,000
Total Income	140,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	17,500	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	13,500	14,000
Total Expenses	138,150	136,000
Surplus	1,850	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

Building Use prepaid for January =
Deferred Revenue:
- \$1,000

Loan Repayment isn't income, but reduces loan asset =
- \$3,000

- \$1,000
- \$3,000 = - \$4,000

Grace Church	Actual	Budget
Income		
Pledges	122,000	121,000
Building Use	14,000	12,000
Loan Repayment		3,000
Total Income	136,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	17,500	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	13,500	14,000
Total Expenses	138,150	136,000
Deficit	(2,150)	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

Insurance prepaid for 1st quarter 2014=
Prepaid Expense:
\$3,500

Utility bill for December paid in January = Accounts Payable, \$500

- \$3,500
+ \$ 500 = - \$3,000

Grace Church	Actual	Budget
Income		
Pledges	122,000	121,000
Building Use	14,000	12,000
Loan Repayment		3,000
Total Income	136,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	17,500	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	13,500	14,000
Total Expenses	138,150	136,000
Deficit	(2,150)	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem

Insurance prepaid for 1st quarter 2014= Prepaid Expense: \$3,500

Utility bill for December paid in January = Accounts Payable, \$500

- \$3,500
+ \$ 500 = - \$3,000

Grace Church	Actual	Budget
Income		
Pledges	122,000	121,000
Building Use	14,000	12,000
Loan Repayment		3,000
Total Income	136,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	14,000	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	14,000	14,000
Total Expenses	135,150	136,000
Surplus	850	0

© 2014 Rev. Karen McArthur



Case Study: The Deficit Problem



Actually it's a surplus year!

Grace Church, accrual	Actual	Budget
Income		
Pledges	122,000	121,000
Building Use	14,000	12,000
Loan Repayment		3,000
Total Income	136,000	136,000
Expenses		
Salaries	89,500	89,500
Insurance	14,000	14,000
Missions	10,000	10,000
Music	7,650	8,500
Utilities	14,000	14,000
Total Expenses	135,150	136,000
Surplus	850	0

© 2014 Rev. Karen McArthur



Loans & Credit Cards

Loans

- Set up Liability = Loan
- Each payment has two components
 - Interest = Expense
 - Principal = Reduces Loan Liability

Credit Cards

- Set up Liability = Credit Card
- Enter each transaction
 - Account = Credit Card
 - Budget Line = Supplies, Food, etc.
 - Class = General Fund
- When you pay credit card bill
 - Account = Credit Card
 - Account = Checking Account

© 2014 Rev. Karen McArthur



Payroll

Mixture of expense and liabilities

- Gross pay = expense
- Payroll Tax liabilities
 - Federal withholding
 - Employee FICA/MC
 - State withholding
- Other Payroll Liabilities
 - Medical 125 (Employee's portion of premiums)
 - Medical 125 (Medical Flex Spending)
 - Retirement Tax Sheltered Annuity
 - Wage garnishment
- Employer's FICA/MC is another expense

© 2014 Rev. Karen McArthur



Payroll

Mixture of expense and liabilities

- **Gross pay = expense**
- **Payroll Tax liabilities**
 - Federal withholding
 - Employee FICA/MC
 - State withholding
- **Other Payroll Liabilities**
 - Medical 125 (Employee's portion of premiums)
 - Medical 125 (Medical Flex Spending)
 - Retirement Tax Sheltered Annuity
 - Wage garnishment
- **Employer's FICA/MC is another expense**

© 2014 Rev. Karen McArthur



Next Session

- **Bookkeeping 1:3 --**
 - **Net Assets**
 - Unrestricted Funds
 - Temporarily Restricted Funds
 - Permanently Restricted Funds
 - **Statement of Financial Position, with Net Assets**
 - Assets
 - Liabilities
 - Net Assets
 - **Statement of Activities vs. Budget**
 - Income
 - Expenses

© 2014 Rev. Karen McArthur