



Presbyterian Church of Aotearoa New Zealand

PREPARING FOR
END OF YEAR
FINANCIAL ACCOUNTS
- FOR PCANZ TREASURERS
JUNE 2023



Introduction

30 June is approaching fast, and very soon it will again be time to produce financial reports for the year. The goal of this training session is to make that process easier for you, and to ensure that your final accounts are not only accurate and meaningful, but also conform to standard accounting conventions and the laws around reporting for Not For Profit entities.

Most churches are not registered for tax because they are able to take advantage of the exemption afforded to Not For Profit and Charitable entities. This means they are not bound by some of the constraints of tax law which govern many business entities. However, many ARE registered for GST, and must operate within the legislation governing that, and therefore must have certainty around which income and expense items may or may not be claimed as GST inclusive. The end of year exercise is a good opportunity to review the way you've been processing transactions and to ensure that your processes are solid, and as part of that process, to correct any errors you may have made.

Even though church financial statements will not be scrutinised by the IRD, and your church may have elected to be part of the national consolidation, it is accountable to other parties:

- Church councils and parishioners
- The Presbyterian Church of New Zealand
- The Charities Commission (if you are not part of the consolidation)
- Granting and other funding organisations

So it's important that the financial statements are still prepared in line with all the usual accounting standards. This includes ensuring that items have been classified correctly, and that all balance sheet items have been reconciled.

Finally, the financial statements are an important guide to the church itself in managing its finances and cashflow moving forward, so having them right is important!

Note that this training material often refers to Xero accounting processes, and many of the "help" references are to Xero's help files. However, all of the accounting and GST information relates to accounts processed in any application.

Before you begin:

It is assumed that before beginning the exercise of reviewing your end of year financial statements, you will have reconciled all bank accounts which have feeds into your accounting file. Remember that feeds are only processed on weekdays, so you'll need to reconcile to the closest working day prior to balance date, eg. if your balance date (say, 30 June) falls on a Saturday, you will reconcile to the previous day, Friday 29 June.

Should you have any items you don't expect on the reconciliation report or it is out of balance here is the link to the Help Centre with detailed instructions on how to correct any errors.

<https://central.xero.com/s/article/Why-are-the-statement-balance-and-balance-in-Xero-different>

When all bank accounts are reconciled print a copy of the reconciliation report for your year-end work paper/audit file. You can do this individually or select the Reconciliation Reports from the Advisor Tab at the top of the screen to print them all together.

Important: the Reconciliation Report may not show ANY difference between the Statement Balance (Calculated) and Imported Statement Balance. If it does, this needs to be located and fixed.

Statement Balances

| | | |
|------------|--------------------------------|----------|
| 9 Jun 2023 | Statement balance (calculated) | (884.61) |
| 8 Jun 2023 | Imported statement balance | (884.61) |
| 9 Jun 2023 | Calculated balance out by | - |

While we don't propose here to go into great detail regarding the process to do this, a first step in locating any difference is to find out **when** the account has first gone out of balance. You can determine this by running the Reconciliation Report through prior periods until you find a date where the account WAS in balance. Common sources of errors include:

- Bank entries entered manually rather than having come in automatically via the feed, and never being matched off against a real transaction;
- Bank transactions which have come in via the feed having been deleted in error.

What items need to be reviewed for end of year financial statements?

- Review the classification of all items (how they're coded in your accounting file)
- Ensure that GST has been correctly calculated on all items
- Check that you have not coded income AND expenses into the same account – this is not accepted under the accounting standards
- Check that any items which are assets rather than expense items have been capitalised (and depreciated if applicable)
- Check Accounts Receivable and Accounts Payable (if applicable) – are the items showing here still receivable/payable, or do they need to be cleared?
- Are there any other items of income or expenditure still outstanding that relate to periods before 30 June?
- If you have received grants during the year, have they been totally spent as at 30 June, or are there still amounts to be spent?
- What information needs to be included in the Year-End documents file for your accountant;
- Other reporting items

Note: for churches which report at Tier 4 level (those which have expenses under \$125,000 per annum), some of these items are not applicable.

SECTION 1: REVIEWING CLASSIFICATION (CODING) OF ALL ITEMS

The goal of this exercise is to ensure that all items have been coded:

- Consistently
- Correctly
- In a manner which will ensure that the final financial statements conform to the requirements of the accounting standard (Tier 3 or Tier 4)

The Process:

From the Xero Reports menu, choose *All Reports*, then scroll down to the *Accounting* section, and choose the *Account Transactions (New)* report.

Select the accounts you wish to report on by clicking on the drop-down box and selecting *ALL*. Then **DESELECT** your main bank account, GST and Accounts Payable and Accounts Receivable accounts (if you are using these tools in Xero).

Select the period on which you wish to report, in this case choosing *Last Financial Year*.

Choose *Update*. The report will display to screen.

The report will be ordered by the **name** of the account (from your Chart of Accounts), and then by **date** of transaction.

What are you looking for?

Scroll through the report and check each transaction as it is shown, line by line.

Check transactions have been coded to the right account

For example: a purchase for cleaning equipment may have been coded to computer expenses in error, simply because it's the next account alphabetically in the chart of accounts. These kinds of coding errors will be obvious to you as the person dealing with the accounts on an everyday basis – even if the description does not tell you exactly what the transaction was for, the name of the vendor or payer probably will.

For example:

| Date | Source | Description | Debit | Credit | Gross | GST |
|---------------------------------------|-----------------|---|-----------------|----------|-----------------|---------------|
| Education & Training | | | | | | |
| 13 Jul 2017 | Payable Invoice | CCLI - CCLI - Music License | 350.00 | - | 402.50 | 52.50 |
| 19 Jul 2017 | Payable Invoice | Seasons On Line - Seasons On Line - Minister Material | 160.00 | - | 184.00 | 24.00 |
| 21 Sep 2017 | Payable Invoice | PCANZ - PCANZ - Handbooks | 29.57 | - | 34.00 | 4.43 |
| 21 Sep 2017 | Payable Invoice | SPANZ - SPANZ - Publications | 145.00 | - | 166.75 | 21.75 |
| 12 Oct 2017 | Payable Invoice | St John - 144 Heart Saver - checking AED | 149.00 | - | 171.35 | 22.35 |
| 19 Oct 2017 | Payable Invoice | Baptist Union - Baptist Union - Advent Calendars | 206.40 | - | 237.36 | 30.96 |
| 1 Feb 2018 | Payable Invoice | ACE Training - MS Access Training for J Bloggs | 152.17 | - | 175.00 | 22.83 |
| Total Education & Training | | | 1,192.14 | - | 1,370.96 | 178.82 |

In the example above, the two highlighted items do not belong in *Education and Training* expense. These items need to be recoded, to *Worship Expenses* in the case of the Music License, and either *Purchases for Resale* or *Sunday School Expenses* in the case of the Advent Calendars.

Check for consistency of coding

The same items should be coded to the same account throughout the year.

For example, in the ledger below, the same item has been coded at different times to 2 different expense accounts. This is inconsistent and needs to be corrected.

| Date | Source | Description | Debit | Credit | Gross | GST |
|-------------------------------|-----------------|--|-----------------|----------|-----------------|---------------|
| Cleaning | | | | | | |
| 12 Oct 2017 | Payable Invoice | Greenacres - Cleaning October 17 | 340.00 | - | 391.00 | 51.00 |
| 31 Oct 2017 | Payable Invoice | Aisco - October - bathroom supplies | 30.00 | - | 34.50 | 4.50 |
| 9 Nov 2017 | Payable Invoice | Greenacres - Cleaning November 17 | 425.00 | - | 488.75 | 63.75 |
| 30 Nov 2017 | Payable Invoice | Aisco - November 17 - bathroom supplies | 30.00 | - | 34.50 | 4.50 |
| 8 Dec 2017 | Payable Invoice | Southern Hospitality - Cleaning materials | 67.55 | - | 77.68 | 10.13 |
| 10 Dec 2017 | Payable Invoice | Greenacres - December 17 Cleaning | 340.00 | - | 391.00 | 51.00 |
| Total Cleaning | | | 1,232.55 | - | 1,417.43 | 184.88 |
| General Expenses | | | | | | |
| 15 Sep 2017 | Spend Money | The Warehouse - Gift for J Smith & P Hontas wedding | 47.83 | - | 55.00 | 7.17 |
| 15 Dec 2017 | Spend Money | Home Cookery - Xmas Afternoon Tea for Staff | 32.83 | - | 37.75 | 4.92 |
| 31 Dec 2017 | Payable Invoice | Aisco - Dec 17 Bathroom supplies | 30.00 | - | 34.50 | 4.50 |
| 25 Jan 2018 | Payable Invoice | Southern Hospitality - Replace buckets and mop heads | 66.52 | - | 76.50 | 9.98 |
| Total General Expenses | | | 177.18 | - | 203.75 | 26.57 |
| Total | | | 1,409.73 | - | 1,621.18 | 211.45 |

You may also note that there is an item in General Expenses which would more correctly be coded to Cleaning.

Check that transactions are correctly separated

There are some transactions which must be separated from others, so that they can be individually reported on as per the requirements of Not-For-Profit accounting. Some examples of transactions which fall into this category are:

- Income from Grants
- Income from Donations and Bequests
- Income from Fundraising
- Income from Offerings
- Income from Services and Activities
- Income from Rents

It's important therefore to ensure that income from these streams are appropriately separated into their own accounts.

What do you do when you find something which needs to be changed?

1. If you feel confident editing the transaction and correcting it, do so;

For more information about editing transactions, these links may be helpful:

<https://central.xero.com/s/article/Edit-a-spend-or-receive-money-transaction>

<https://central.xero.com/s/article/Edit-bills-NZ-AU>

2. Otherwise, make notes of the transactions or accounts which need to be reviewed/corrected, and pass them to your accountant with your other end of year accounts information.

SECTION 2: REVIEWING GST TREATMENT OF TRANSACTIONS

Background

Many churches are registered for GST because it provides them with a financial advantage, as the bulk of their “Outputs” (in GST terms) do not contain GST, while many of their “Inputs” (or costs) do. Therefore, typically churches are very often in a GST refund situation. Most churches file GST either monthly or bi-monthly.

Surely once I’ve filed my GST return I can’t go and change my figures?

Yes, you can; the Inland Revenue is happy for us to process adjustments and to reflect those in later GST returns. They’d rather have GST correct, even if it’s delayed. And Xero’s GST return calculation process handles adjustments easily, it even gives you a separate printout of them, and puts the correct amount in the “adjustments” boxes of the GST return report, so you know exactly where to enter the figures when you process the return with the Inland Revenue or file it online via Xero.

Churches have a little more challenge than the average business in handling treatment of GST, because there is enough variation in how different types of transactions need to be treated to provide an element of confusion. Your Church Management Support Guide has useful notes on the GST treatment of various items (pages 37-39), but in summary:

*GST is payable on any income arising from the provision or sale of **Goods or Services**:*

- fees paid for conducting weddings or funerals
- hireage of any church buildings
- sale of goods through thrift shops or other business programmes a parish may operate
- sale of goods such as Christmas cards or calendars

GST is NOT payable on income arising from:

- donations
- tithes
- the sale of **donated** goods and services
- Financial fees and income, for example bank fees, and interest on investments

GST may be claimed on expenses connected with the provision of goods or services on which GST is paid:

- all overheads of running the church and related premises excluding the manse or other residential properties, eg. rates, insurance, presbytery levies, motor vehicle costs, phone, electricity, office costs, worship expenses etc.
- expenses related to any business programmes a parish may operate, eg. thrift shop, preschool, cattle scheme etc

GST may NOT be claimed on:

- Staffing expenses, eg. Stipends, salaries, wages, kiwisaver or beneficiary fund contributions
- Financial expenses, eg. interest paid, bank charges
- Donations made
- Any **Manse**-related expenses. GST is never claimable on any expense related to residential property.

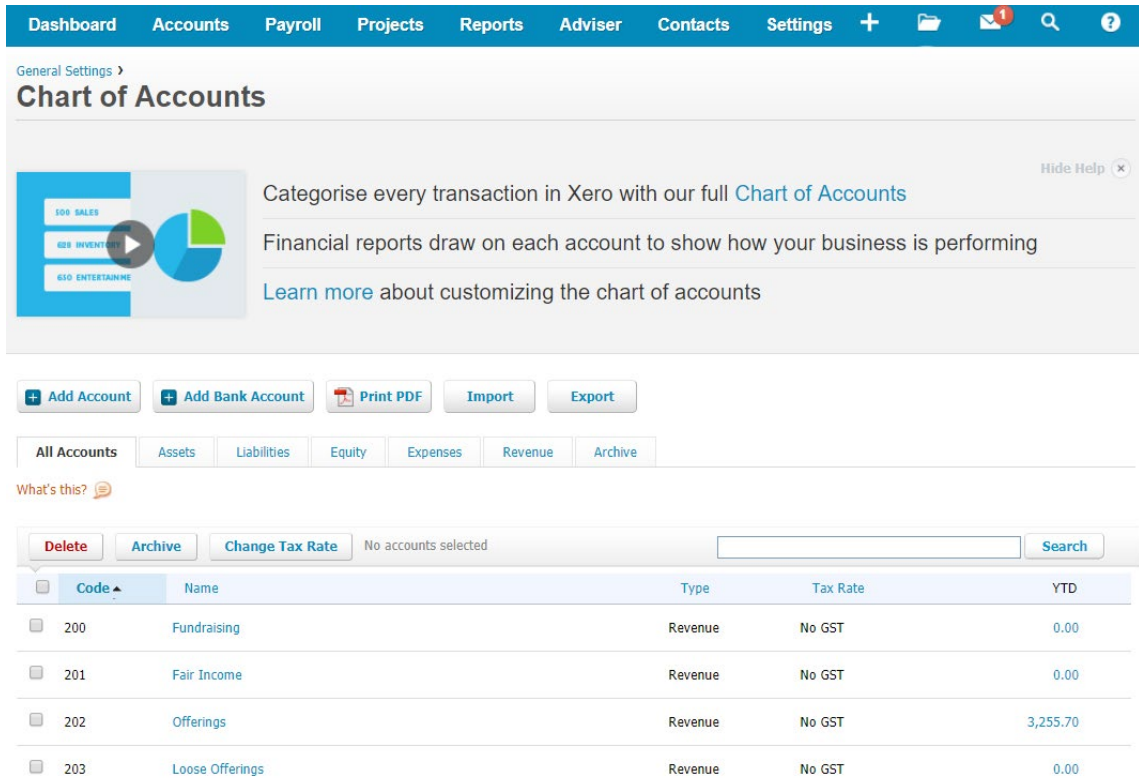
This last point is the most common area of confusion for parish administrators. It can present challenges where expenses relate to the entirety of the church's buildings (i.e. church, hall and manse together), for example rates, insurance and water rates.

How can you make managing these distinctions easier?

1. Create separate accounts in your Chart of Accounts for Manse expenses as different to Church expenses, eg. in your standard chart of accounts the expense account for Light, Power and Heating is code 384.
 - Rename this account "Light, Power & Heating – Church and Hall"
 - Create a new account "Light, Power & Heating – Manse", numbered 384/1
 - Ensure that the new account's default setting is GST-exempt.
2. The standard chart of accounts from which your Xero file was set up has the correct GST codes for all the accounts it contains. However, any other new accounts you may have created may not have the correct default GST setting. You can check this by going to *Settings* -> *Chart of Accounts*, then selecting the account you want to check by clicking on its name.

For non-Xero users, if you are using an accounting package such as MYOB, you will also find that you can attach a default GST code to any general ledger account. If you cannot locate this, give us a call or email – we can point you in the right direction.

For example:



The screenshot shows the Xero 'Chart of Accounts' page. At the top is a navigation bar with 'Dashboard', 'Accounts', 'Payroll', 'Projects', 'Reports', 'Adviser', 'Contacts', and 'Settings'. Below this is a 'General Settings >' breadcrumb and the title 'Chart of Accounts'. A promotional banner features a play button icon and text: 'Categorise every transaction in Xero with our full Chart of Accounts', 'Financial reports draw on each account to show how your business is performing', and 'Learn more about customizing the chart of accounts'. Below the banner are buttons for '+ Add Account', '+ Add Bank Account', 'Print PDF', 'Import', and 'Export'. A filter bar shows 'All Accounts' selected, with other options like 'Assets', 'Liabilities', 'Equity', 'Expenses', 'Revenue', and 'Archive'. A 'What's this?' help icon is present. Below the filter bar is a table with columns for 'Code', 'Name', 'Type', 'Tax Rate', and 'YTD'. The table contains four rows of account data.

| Code | Name | Type | Tax Rate | YTD |
|------|-----------------|---------|----------|----------|
| 200 | Fundraising | Revenue | No GST | 0.00 |
| 201 | Fair Income | Revenue | No GST | 0.00 |
| 202 | Offerings | Revenue | No GST | 3,255.70 |
| 203 | Loose Offerings | Revenue | No GST | 0.00 |

Select the account you wish to check by clicking on its name. The Edit Account dialogue box opens.

Edit Account Details ✕

Account Type

Code
 A unique code/number for this account (limited to 10 characters)

Name
 A short title for this account (limited to 150 characters)

[+ add Reporting Name](#)

Description (optional)
 A description of how this account should be used

Tax
 The default tax setting for this account

Show on Dashboard Watchlist
 Show in Expense Claims
 Enable payments to this account

How account types affect your reports

Profit & Loss

Income

Revenue

Sales

Less Cost of Sales

Direct Costs

GROSS PROFIT

Plus Other Income

Other Income

Less Expenses

Expenses

Depreciation

Overheads

NET PROFIT

Balance Sheet

Current Assets

Current Assets

Inventory

Prepayments

Plus Bank

Bank Accounts

Plus Fixed Assets

Fixed Assets

Plus Non-current Assets

Non-current Assets

TOTAL ASSETS

Less Current Liabilities

Current Liabilities

Less Non-current Liabilities

Liabilities

Non-current Liabilities

NET ASSETS

Equity

Equity

Plus Net Profit

TOTAL EQUITY

Save
Cancel

You can also modify where accounts appear in your reports using [Customised Report Layouts](#)

Check that the default GST setting for the account is correct, i.e. 15% GST or No GST as applicable. You can change it by clicking on the arrow to the right of the drop-down box.

Where you have separate accounts for Church and Manse expenses (eg. power, phone) you can now code expenses to their separate applicable accounts with the correct GST treatment.

Where you DON'T have separate bills (eg. rates, insurance) for your church buildings and manse, you will need to arrive at a common-sense approach for splitting the expenses. Here are several methods we are happy to adopt:

- Using the valuations of the various buildings, arrive at the percentage of the total value which is the Manse, and apply that percentage to all mixed expenses. For example:

| | | |
|---------|-----------|------------------|
| Church: | Valuation | \$1,100,000 |
| Hall: | Valuation | \$700,000 |
| Manse: | Valuation | <u>\$850,000</u> |
| Total | | \$2,650,000 |

| | | | |
|-----------------|------------------|---|--------|
| Manse Valuation | <u>\$850,000</u> | = | 32.08% |
| Total Valuation | \$2,650,000 | | |

- If valuations aren't available, adopting the same approach to square footage occupied by the Manse vs the area of all the buildings to find the percentage of the total which should be applied to the Manse.

This will go a long way towards ensuring that your future processing of transactions has the correct GST treatment.

The Process:

From the Xero Reports menu, choose *All Reports*, then scroll down to the *Accounting* section, and choose the *Account Transactions* report.

Select the accounts you wish to report on by clicking on the drop-down box and selecting *ALL*. Then DESELECT your main bank account, GST and Accounts Payable and Accounts Receivable accounts (if you are using these tools in Xero).

Select the period on which you wish to report, in this case choosing *Last Financial Year*.

Choose *Update*. The report will display to screen.

The report will be ordered by the **name** of the account (from your Chart of Accounts), and then by **date** of transaction.

What are you looking for?

Scroll through the report and check each transaction as it is shown, line by line.

We're now checking for:

1. Consistency of GST coding, i.e. ensuring that the same GST treatment has been applied to all items coded to the same expense code (see note below)

| Date | Source | Description | Debit | Credit | Gross | GST |
|--|-------------|---|---------------|----------|---------------|--------------|
| Repairs & Maintenance | | | | | | |
| 15 Jul 2017 | Spend Money | A Person - Lawns - July 17 | 39.13 | - | 45.00 | 5.87 |
| 1 Aug 2017 | Spend Money | A Person - Lawns - August 17 | 45.00 | - | 45.00 | - |
| 1 Aug 2017 | Spend Money | Bunnings - Hardware for repairs to door | 42.61 | - | 49.00 | 6.39 |
| 1 Sep 2017 | Spend Money | A Person - Lawns - Sep 17 | 45.00 | - | 45.00 | - |
| 1 Oct 2017 | Spend Money | A Person - Lawns - Oct 17 | 45.00 | - | 45.00 | - |
| 1 Oct 2017 | Spend Money | Placemakers - Replacement Lampshades for hall kitchen | 80.43 | - | 92.50 | 12.07 |
| 1 Nov 2017 | Spend Money | Countdown - Lightbulbs - Church | 46.09 | - | 53.00 | 6.91 |
| Total Repairs & Maintenance | | | 343.26 | - | 374.50 | 31.24 |

Note: there are two exceptions to claiming GST on overhead expenses: first, where the supplier of goods or services is NOT GST registered. In this case, their invoice will show that no GST has been charged and you should not claim it, irrespective of whether it is for a GST-applicable expense. In the example above, A Person appears likely to a non GST-registered individual, and no GST should therefore be claimed on any payment to her.

Second: GST may not be claimed on purchases from off-shore suppliers.

2. Accounts where ALL transactions may have been coded incorrectly

| Date | Source | Description | Debit | Credit | Gross | GST |
|--------------------|-------------|---|---------------|----------|---------------|--------------|
| Rates | | | | | | |
| 1 Aug 2017 | Spend Money | Watercare Services - Manse - Water Aug 17 | 32.61 | - | 37.50 | 4.89 |
| 1 Sep 2017 | Spend Money | Watercare Services - Manse - Water Sep 17 | 42.61 | - | 49.00 | 6.39 |
| 1 Oct 2017 | Spend Money | Watercare Services - Manse - Water Oct 17 | 36.83 | - | 42.35 | 5.52 |
| 1 Nov 2017 | Spend Money | Watercare Services - Manse - Water Nov 17 | 44.35 | - | 51.00 | 6.65 |
| Total Rates | | | 156.40 | - | 179.85 | 23.45 |

All these expenses relate to the Manse; therefore, no GST is claimable.

3. Accounts which have items where the GST coding needs to be split (these will relate to combined expenses for Church and Manse, as described above), for example:

| Description | Date | Debit | Gross | GST |
|--|-------------|---------------|-----------------|---------------|
| Light Power & Heating | | | | |
| Genesis Energy - Power - Church | 1 Jul 2017 | 152.17 | 175.00 | 22.83 |
| Genesis Energy - Power - Manse | 10 Jul 2017 | 120.87 | 139.00 | 18.13 |
| Genesis Energy - Power - Church | 1 Aug 2017 | 176.96 | 203.50 | 26.54 |
| Genesis Energy - Power - Manse | 10 Aug 2017 | 135.65 | 156.00 | 20.35 |
| Genesis Energy - Power - Church | 1 Sep 2017 | 176.96 | 203.50 | 26.54 |
| Genesis Energy - Power - Manse | 10 Sep 2017 | 115.65 | 133.00 | 17.35 |
| Total Light Power & Heating | | 878.26 | 1,010.00 | 131.74 |

What do you do when you find something which needs to be changed?

1. If you feel confident editing transactions, do;
2. Note that if there are a large number of transactions which need to be corrected for GST (as in the example above where all water rates have had GST claimed against them, in error), the **Find and Recode** function is a great shortcut.

The following link to "Help" on the *Find and Recode* function may be helpful. However, please approach with caution, and if you have any doubt about what you are trying to achieve, **seek advice**.

<https://central.xero.com/s/global-search/%40uri#q=Find%20and%20Recode>

You will note that we do not recommend the processing of journals. This is because they can cause complications with GST and with timing of transactions for reporting purposes (particularly Cashflows). Rather we recommend editing individual transactions.

3. Otherwise, make notes of the transactions or accounts which need to be reviewed/corrected, and pass them to your accountant with your other end of year accounting information.

SECTION 3: ISN'T EVERYTHING MY CHURCH PAYS FOR AN EXPENSE? WHAT'S AN ASSET ANYWAY?

Background

Assets (also known as capital items) are any items purchased which are not used up or consumed in the short term, but used on an ongoing basis in the church's operations. Common examples of assets include computers, large items of furniture, and motor vehicles.

They differ from expenses, in that expense items are used up or consumed in the short term (under 12 months) rather than having ongoing and lasting utility. There is however a small area of "cross-over".

Where assets cost \$1,000 or less (excluding GST if your church is GST registered) they may be treated as an expense; in this case they will be coded to an account called "Assets under \$1,000".

Despite most churches not being registered for tax, it is still important to separate out capital items from expenses, and PCANZ policy is to adhere to the same limits imposed by IRD.

Note that Parishes reporting at Tier 4 level must still differentiate between expenses and assets, even though they will not depreciate their fixed assets. They should also maintain a fixed asset register, and write off any fixed assets when they're physically disposed of (either via sale or obsolescence).

Note that money paid by your church for assets does NOT show on your Profit and Loss (also known as Statement of Financial Performance). They are coded directly to balance sheet accounts (Equipment, Furniture & Fittings etc). So failure to differentiate between the two can result in a falsely low profit being reported.

Locating and recoding Assets

From the Xero Reports menu, choose *All Reports*, then scroll down to the *Accounting* section, and choose the *Account Transactions* report.

Select the accounts you wish to report on by clicking on the drop-down box and selecting any accounts which relate to investments or term deposits.

Select the period on which you wish to report, in this case choosing *Last Financial Year*.

Choose *Update*. The report will display to screen.

The report will be ordered by the **name** of the account (from your Chart of Accounts), and then by **date** of transaction.

What are you looking for?

You are looking for any items in any account which:

1. Has a sizeable cost – generally we would not seek to capitalise items under \$1,000
2. Is an asset – i.e. is not “used up” in the short term, but retained and used by the Parish on an ongoing basis.

The most common places (but not the only ones!) you will find items which may be assets will be in the following accounts:

- Computer Expenses
- General Expenses
- Motor Vehicle Expenses
- Office Expenses
- Repairs and Maintenance

For example:

Printing & Stationery

| | | | | | | | | |
|-------------|-----------------|--|----------|----------|---|----------|----------|--------|
| 11 May 2022 | Payable Invoice | DIISR - Small Business Services - Stationery charges | | 256.00 | - | 256.00 | 294.40 | 38.40 |
| 31 Oct 2022 | Spend Money | Office Supplies Company - Brother multi-function printer | 132456-1 | 1,250.00 | - | 1,506.00 | 1,437.50 | 187.50 |
| 21 Mar 2023 | Spend Money | Office Supplies Company - Misc stationery | Eft | 18.88 | - | 1,524.88 | 21.71 | 2.83 |

What do you do when you find something which needs to be changed?

We will not detail the process for setting up Fixed Assets and depreciating them here; if you are regularly doing this, or are interested in finding out more about it, you may find the following links helpful:

<https://central.xero.com/s/topic/0TO1N0000017kqjWAA/set-up-fixed-assets#business>

<https://central.xero.com/s/topic/0TO1N0000017kqjWAA/add-fixed-assets#business>

If you feel confident editing transactions, go ahead; you will find accounts in your standard Chart of Accounts for Plant and Equipment and Furniture and Fittings. If the item in question fits into one of these classifications, recode it to the appropriate account. If not, you may need to set up another Fixed Asset classification.

If you prefer not to make the amendments yourself, make notes of the transactions or accounts which need to be reviewed/corrected, and pass them to your accountant with your other end of year accounting information.

SECTION 4: INCOME FROM GRANTS

Don't we just treat all grants as income?

Well ... no. There are several kinds of grants – those which have conditions attached to them (which is the majority) and those that don't. Some will also include GST, although the majority will not.

What kind of conditions might there be?

Most grants are applied for to fund the purchase of specific goods or projects, eg. an upgrade to buildings, the purchase of audio visual equipment, etc. In such cases the granting organisation will almost always require the recipient of the grant to report back and provide evidence that the grant was in fact spent on the items for which it was given.

The reason for the “reporting back” is that many granting organisations can ask for their money back if it is NOT spent for the purpose for which it was given. Thus, for accounting purposes, until all of any given grant is spent in the approved way, the unspent portion of the grant must be regarded as a liability (i.e. money which may need to be paid back in the future).

For this reason, part of the end of year reporting process is to determine how much of any grant received has been spent as at year end for its specific purpose, and how much remains to be spent. Any unspent balance is transferred (temporarily) to the Balance Sheet.

What do I need to do?

For any grants your church has received during the year, locate the information provided by the granting organisation. This will state:

- Whether the grant included GST;
- Exactly what purpose the grant was given for, and
- Whether there is a time limit for spending and reporting back on the grant funds.

For each grant, list the monies so far spent on the item or items for which the funds were given, and any funds unspent as at end of year. Note that if the grant did not include GST, the spending of the grant funds **WILL** be GST **inclusive**.

If the grant **DID** include GST, expenses against it will be GST **exclusive**.

Provide this list to your accountant with your end of year documentation.

SECTION 5: INFORMATION NEEDED FOR YOUR END OF YEAR FILES

What is your accountant aiming to achieve?

Your accountant will be verifying:

1. That you have coded all income and outgoings correctly;
2. That you have accounted for GST correctly;
3. Process (journal) timing adjustments for any expenses which cover any period of time AFTER the end of the financial year (eg. insurance premiums paid in advance);
4. That balance day adjustment (for example the journaling of unspent grants as detailed above) are able to accurately calculated;
5. That all items listed on your Balance Sheet (also known as Statement of Financial Position) are correct.
6. That all items required to be disclosed in your Financial Reports (under the Not For Profit reporting standards) have been confirmed.

Obviously we (as accountants) are external parties, so in reviewing your file can only determine to a certain extent whether coding is correct. However, we will still review your general ledger coding in the same way as detailed above to check for consistency, and look for any obvious errors in coding.

As part of that exercise we will also check GST treatment.

Item 1 in your end of year file:

Please provide copies of your full Insurance schedule and invoice/s for the year to allow your accountant to correctly break down the insurance premium between your church and manse (where applicable) and to journal out the portion of the expense which related to periods after end of year.

The same applies to any other expense which provides benefit beyond the end of the financial year. For example, your CCLI Music License and any other annual subscription.

Item 2 in your end of year file:

If your Minister's stipend is anything other than the standard as set down by PCANZ, please provide a breakdown of what he/she is paid, to enable your accountant to reconcile Beneficiary Fund contributions due, PAYE etc.

Please also provide as either a printout from your payroll system OR a record from your manual payroll, a record of all holidays outstanding for your paid employees and Minister, separating annual leave, sick leave and lieu leave.

Next, your accountant needs to know of any income owed to you, or any expenses payable by you, as at end of year, which are not already noted in your accounts.

This might include:

1. Income owed for rents for your hall for June, not invoiced until July;
2. Offerings received BEFORE 30 June, but not banked until AFTER 30 June;
3. Expenses relating to prior to 30 June which are not invoiced to you until after that date, eg. electricity bills, phone bills, Minister's expenses etc.

If you have any items like this, make a list of them to give to your accountant.

If you run Accounts Receivable and Accounts Payable through your accounting file, this is also a good time to check the trial balances of both and see if there is anything showing as receivable or payable which is not in fact owed, and needs to be cleared.

Item 3 in your end of year file:

A list of all income and expenditure owed or owing as at 30 June, both via your Receivables and Payables trial balances AND other items. You could also provide copies of bills (eg. Power bills) dated after 30 June, but which relate to any period prior.

Bank accounts

The Not-For Profit reporting standard says that "Bank accounts and Cash" includes not only the accounts we recognise as bank account, but also any term deposits with a maturity within 90 days or less of balance date.

Your accountant will need to confirm the balances of ALL bank accounts and investments showing on your balance sheet.

We note that some churches operate a separate bank account which they do not track through their accounting file for the depositing of direct credit offerings. The account is kept outside of the accounting system for the purpose of assuring anonymity of church members.

For the purposes of year end reporting, the balance of any accounts like this MUST be brought into your accounts, even if it is only journalled in for 30 June, and reversed out again on 1 July.

Those churches who need to have accounts audited will need to obtain bank audit certificates to confirm their bank balances. Otherwise, a simple statement printout covering balance date will suffice to confirm the closing balances.

Item 4 in your end of year file:

Copies of bank statements for all accounts, showing the closing account balances as at balance date. If the statement balance does not exactly equal the balance in Xero, you'll need to provide a reconciliation report to explain the difference. Your accountant can then determine how to treat any outstanding items, eg. cancel or write back stale cheque payments, duplicated entries etc.

If your church operates Petty Cash, provide a list of all transactions for the year, confirming the opening and closing cash balance held.

If you hold balances with Christian Savings or Presbyterian Investment Fund, supply copies of the statements as at 30 June.

Note: before printing out your statement from Presbyterian Investment Fund, ensure that June interest has been credited.

PAYE and other Employer Deductions

We need to verify that you have filed the correct figures for employer deductions, including PAYE, kiwisaver, and ESCT on Beneficiary Fund contributions. Accordingly you'll need to provide a copy of your PAYE return for the month of June.

If the balance due of that PAYE return does NOT equal the liability reflected in your balance sheet for employer deductions, this will need to be reconciled. If you know of the reason why the balances are different, provide your accountant with notes. Otherwise, they will locate and reconcile as part of year end processes.

Note: If you run your payroll via Xero, there is no need to print out the report, as your accountant can access it directly from your accounting file.

Item 5 for your end of year file:

A copy of your June PAYE return, including line by line detail for each employee

GST return

Your GST account needs to be reconciled to determine that you have filed and paid the correct amount of GST during the year.

Item 6 for your end of year file:

Copies of your GST returns for the financial year.

Note that if you are using Xero, your accountant can access these directly from your Xero file.

Other Documents

If your church leases any equipment, most commonly photocopiers and similar, include a copy of the lease document in your end of year file.

These are the “Standard” items you need to include in your end of year file, but for most accountants, more information is better information. If in doubt – include it!

SECTION 6: THE NON-FINANCIAL SECTIONS OF THE FINANCIAL STATEMENTS

These include:

1. Entity Information

- Legal name of Entity
- Entity Type and Legal Basis
- Registration Number (with Charities Commission)
- Entity's Purpose or Mission
- Entity Structure
- Main Source of Entity's Cash and Resources
- Main Method used by Entity to Raise Funds
- Entity's Reliance on Volunteers and Donated Goods or Services
- Physical Address
- Postal Address

Whereas some of these items will be simple facts, others will need your input. Some examples of those are below:

Entity's Purpose or Mission

Our Purpose is two fold: Firstly it is to meet with others who seek to follow the life and teachings of Jesus Christ and to share Christian values and ways of living based on those. Secondly it is to encourage within the community, Christian values and respond to community needs where this is possible.

Entity Structure

Our church has a Minister, a part time Administrator, a part time Youth Co-ordinator and a Contracted Social Worker for the elderly. Governance is provided through a Parish Council of 12 members all of whom are volunteers. There are 4 standing committees the convenors of which report to the Parish Council. The standing Committees are: Church and Community, Worship and Christian Education; Property and Finance and Pastoral Care/Fellowship. Co-ordination is undertaken by the Parish Clerk. We provide community activities which are open to all.

Main Sources of Entity's Cash and Resources

The main Sources of cash & resources come from Congregation Offerings, Donations, Hire of premises to others and Interest from Investments in term deposits and on capital asset funds.

Main Methods Used by Entity to Raise Funds

The main methods of raising funds is collecting offerings and donations from members, hiring premises to community groups and organising fund raising events.

Entity's Reliance on Volunteers and Donated Goods or Services

The church is very reliant on Volunteers and could not operate without them.

2. Approval of Financial Statements:

Enter/Update the names of the Parish Officers who will sign off the Financial Statements on behalf of the Parish Council.

Statement of Service Performance:

This will include details relating to:

- Description of the Entity's Outcomes
- Description and Quantification of the Entity's Outputs
- Numbers at Balance Date
- Activities during the Year
- Additional Information

This section needs to be completed relatively comprehensively. An example is shown below:

Description of Entity's Outcomes

As reported in the Entity Information section, the mission of XYZ Presbyterian Church is to provide pastoral guidance and community support to its members and others in the (central Wellington) community. In order to achieve this objective the church offers three weekly services to congregational members, although all members of the public are welcome to attend. In addition the churches run a weekly mainly music event which is aimed at children up to the age of 6, and a weekly bible class aimed at youth in the 13-17 year age group. The church supports local and overseas mission activities by way of fundraising for projects and offering the gift of pastoral care.

Note that it is not sufficient to simply copy the same description of your church's outcomes as you have used in previous years. Charities Services expects that you will detail your church's activities to detail how it has progressed in the ongoing fulfilment of its stated mission, including quantifiable measure of that progress.

Description and Quantification of the Entity's Outputs

- * Church services of worship for those wishing to attend
- * A weekly social programme for those living at home with dementia
- * A weekly English conversations session for those whose second language is not English
- * A weekly exercise session for the elderly
- * A weekly Girls Brigade meeting
- * A weekly Mainly Music event for mothers and young children
- * A monthly luncheon for the elderly
- * School Aiding

Numbers at Balance Date:

| | 2017 | 2016 |
|---|--------|--------|
| Number of Church Members on the Role | 103.00 | 70.00 |
| Number of Associate Members | 30.00 | 115.00 |
| Children in Mainly Music Class | 12.00 | - |
| Youth in Bible Class | 3.00 | 8.00 |
| Ministry Staff (Full Time Unit) | 1.00 | 1.00 |
| Administrative/Mission Employees (Not Ordained) | 3.00 | 3.00 |

Activities in the year to balance date:

| | 2017 | 2016 |
|---|-------|--------|
| Number of Services | 65.00 | 156.00 |
| Number of Weddings Performed in the Year to June 30 | 1.00 | 2.00 |
| Number of Funerals in the Year to June 30 | 4.00 | - |
| Number of Baptisms in the Year to Balance Date | - | 1.00 |

Disclosures required in Notes to the Financial Statements:

You will need to confirm:

- a. Whether your church has had any financial dealings with related parties. This means whether the church has bought or sold or participated in any other financial transaction (other than offerings or donations) with a member of the church's governing body. Related party transactions have to be detailed in the Notes.
- b. Whether your church has any leases in place for equipment. The most common of these will be photocopier leases (please refer above). Please ensure copies of lease documents are included with your end of year working file.
- c. Whether your church has entered into any agreements, whether finalised or not, to purchase major assets.
- d. Whether anything has happened since balance date (in our case, after 30 June) which will have a major impact on your church's ongoing operations.

LAURENSONS CHARTERED ACCOUNTANTS' PARTNERSHIP WITH THE PRESBYTERIAN CHURCH OF AOTEAROA NZ

The Presbyterian Church of Aotearoa NZ has an agreement with Laurenson Chartered Accountants (LCA) to underwrite their guidance and support of the Presbyterian and Cooperating churches in the preparation of annual accounts, up to \$300 plus GST or 2.5 hours of their time for up to 2 years. If the time taken is more than this or you require assistance beyond two years then the Church will be invoiced directly at a PCANZ not for profit rate which is currently \$125 per hour plus GST.

This offer remains open to churches for the 2023 annual accounts and you may contact Avril Hillind at LCA on 04 477 1801 or email xero@presbyterian.org.nz if you require their support.

LCA are our partners for Xero for parishes and have transitioned many churches and church entities to Xero. The annual support offer is available to all churches, regardless of whether you use Xero or not.

In addition to this document, Laurenson have provided some other Xero conversion and overview documents which are posted on the Treasurers page of the PCANZ website and are linked below:

- [Xero for Parish Accounts](#)
- [Xero Initial Training](#)
- [Xero Conversion Form](#)

LCA can also help you with ongoing support with your Xero accounting file, including guidance on handling everyday queries and issues, and solutions to any particular financial reporting requirements you may have in your Church in addition to end of year financial statements.