

# Hawaii Pacific Baptist Convention

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*We are*  
**HAWAII  
PACIFIC**  
*Missions.*

# Basic Business Practices in the Church

*Session #3 – Accounting Process, Financial  
Statements, and Software*

**Mike Martin,  
HPBC Assistant Executive  
Director for Business &  
Finance**

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# The Accounting Information System

The system of **collecting** and **processing** transaction data and **communicating** financial information to decision makers is known as the accounting information system.

# What is Accounting?

## Three Activities

Illustration 1-1  
Accounting process

### Identification



Select economic events (transactions)

### Recording



Record, classify, and summarize

### Communication



Prepare accounting reports

The accounting process **includes** the bookkeeping function.



Analyze and interpret for users

# Bookkeeping vs. Accounting



# Three Basic Activities of Accounting

## Identify

Select the economic events relevant to the business



## Record

Record identified events to provide a history of financial activities



## Communicate

Present collected information to interested users



# Accounting Transactions

**Transactions** are economic events that require recording in the financial statements.

- May be external or internal.
- Not all activities represent transactions.
- Each transaction has a **dual effect** on the accounting equation.

# The Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

- ❖ Provides the underlying framework for recording and summarizing economic events.
- ❖ Assets are claimed by either creditors or owners.
- ❖ Claims of creditors must be paid before ownership claims.



# The Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Provides the underlying framework for recording and summarizing economic events.

## **Assets**

- Resources a business owns.
- Provide future services or benefits.
- Cash, Supplies, Equipment, etc.

# The Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Provides the underlying framework for recording and summarizing economic events.

## Liabilities

- Claims against assets (debts and obligations).
- Creditors - party to whom money is owed.
- Accounts payable, Notes payable, etc.

# The Basic Accounting Equation

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

Provides the **underlying framework** for recording and summarizing economic events.

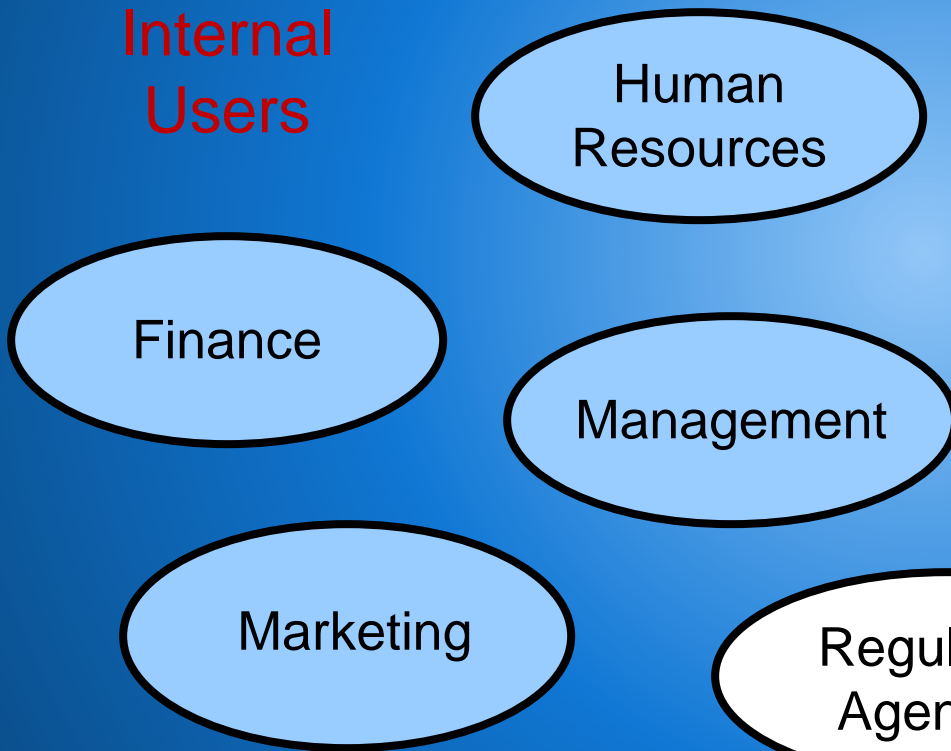
## Equity

- Ownership claim on total assets.
- Referred to as net asset equity.
- In Churches, most net assets are undesignated, but may have some that are designated and with the proper documentation be considered donor restricted.

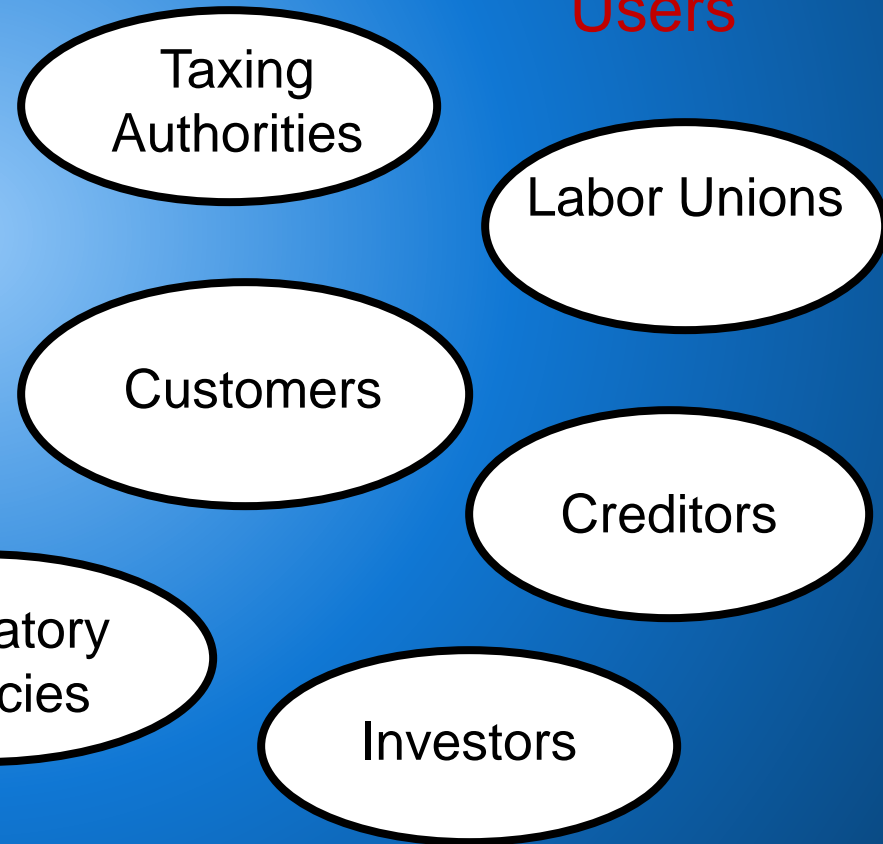
# Users and Uses of Financial Information

## Who Uses Accounting Data

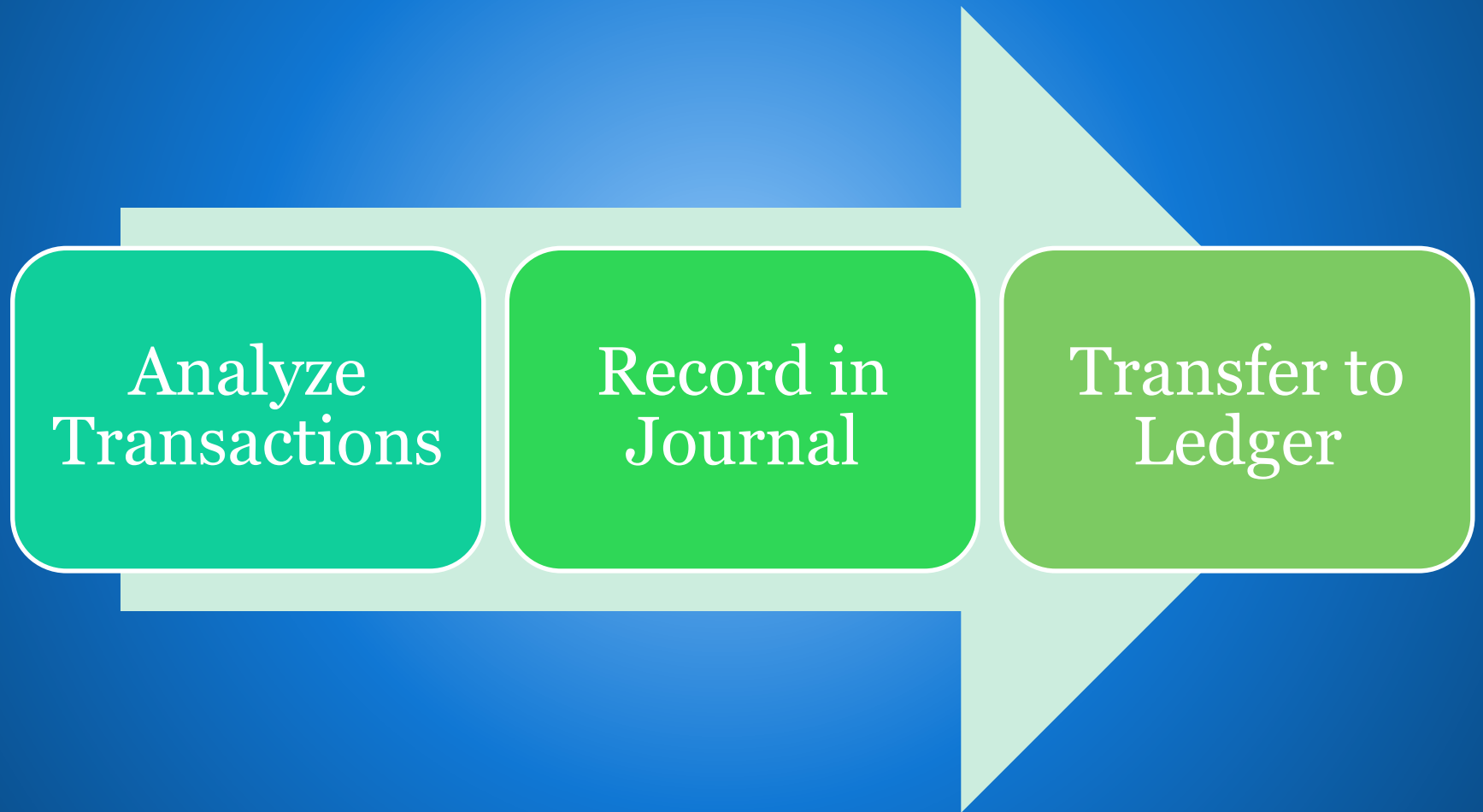
### Internal Users



### External Users



# 3 Basic Steps of the Recording Process



# Chart of Accounts

Accounts arranged in sequence in which they are presented in the financial statements.

**Illustration 3-20** Chart of accounts for Sierra Corporation



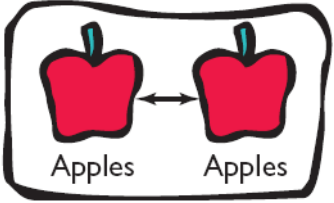

SIERRA CORPORATION—CHART OF ACCOUNTS				
Assets	Liabilities	Stockholders' Equity	Revenues	Expenses
Cash	Notes Payable	Common Stock	Service Revenue	Salaries Expense
Accounts Receivable	Accounts Payable	Retained Earnings		Supplies Expense
Advertising Supplies	Interest Payable	Dividends		Rent Expense
Prepaid Insurance	Unearned	Income Summary		Insurance Expense
Office Equipment	Service Revenue			Interest Expense
Accumulated Depreciation— Office Equipment	Salaries Payable			Depreciation Expense



# Conceptual Framework of Reporting

## Characteristics of Useful Information

Illustration 2-18

 <p>Tell me what I need to know.</p>	 <p>I promise to be objective.</p>	 <p>Apples Apples</p>	 <p>You could set your watch by this train.</p>
<p><b>Relevance</b></p> <ol style="list-style-type: none"><li>1. Provides a basis for forecasts</li><li>2. Confirms or corrects prior expectations</li><li>3. Is timely</li></ol>	<p><b>Reliability</b></p> <ol style="list-style-type: none"><li>1. Is verifiable</li><li>2. Is a faithful representation</li><li>3. Is neutral</li></ol>	<p><b>Comparability</b></p> <p>Different companies use similar accounting principles</p>	<p><b>Consistency</b></p> <p>Company uses same accounting methods from year to year</p>

# Conceptual Framework of Reporting

## Qualitative Characteristics

**Relevance** - making a difference in a decision.

- Predictive value
- Feedback value
- Timeliness

## Reliability

- Verifiable
- Representational faithfulness
- Neutral - free of error and bias

# Conceptual Framework of Reporting

## Qualitative Characteristics

**Comparability** - Information that is measured and reported in a similar manner for different churches (or departments) is considered comparable.

**Consistency** - When a church applies the same accounting treatment to similar events from period to period.

# Communicating with Users

## Elements of Financial Statements

### "Moment in Time"

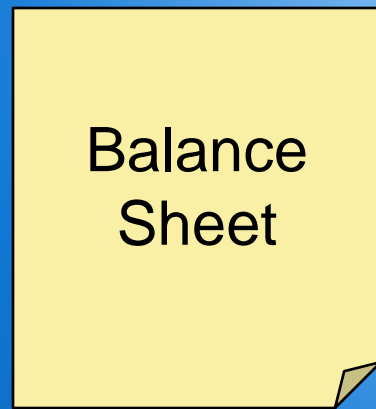
- Assets
- Liabilities
- Equity

### "Period of Time"

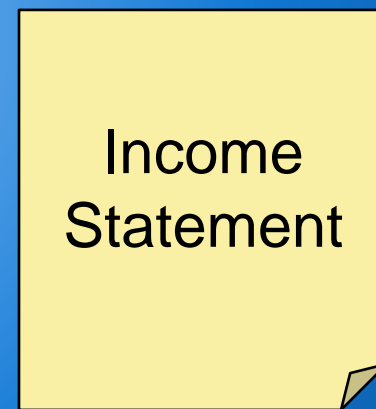
- Revenue
- Expenses

# Communicating with Users

Churches Use Financial Statements to Communicate:



Balance  
Sheet



Income  
Statement

# Communicating with Users

## Churches Use Financial Statements to Communicate:

Hawaii Pacific Baptist Church

**STATEMENT OF FINANCIAL POSITION**

	A	B	C
	<u>12-31-19</u>	<u>12-31-18</u>	<u>Change</u>
			(A-B)
<b><u>ASSETS</u></b>			
Furniture, Equipment, & Autos	\$ 140,278	\$ 125,980	\$ 14,298
Buildings & Improvements	422,794	412,794	10,000
Less Accumulated Depreciation	<u>(210,774)</u>	<u>(190,245)</u>	<u>(20,529)</u>
Depreciable Assets, Net	352,297	348,529	3,769
Land	<u>320,354</u>	<u>320,354</u>	<u>-</u>
Fixed Assets Total	672,651	668,882	3,769
Cash	205,452	245,818	(40,366)
Receivables	2,901	3,678	(777)
Investments through HBF	241,886	202,548	39,338
Other Assets	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,123,890</u></b>	<b><u>\$ 1,120,926</u></b>	<b><u>\$ 2,963</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Accounts Payable	\$ 2,670	\$ 2,956	\$ 1,713
Accrued Liabilities	<u>20,000</u>	<u>20,000</u>	<u>-</u>
<b>Liabilities</b>	<u>22,670</u>	<u>20,956</u>	<u>1,713</u>
UNDESIGNATED Net Assets	965,608	979,681	(14,073)
DESIGNATED Net Assets	125,612	110,289	15,323
RESTRICTED, Temporarily Net Assets	<u>10,000</u>	<u>10,000</u>	<u>-</u>
<b>Net Assets</b>	<u>1,091,220</u>	<u>1,099,970</u>	<u>1,250</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,113,890</u></b>	<b><u>\$ 1,120,926</u></b>	<b><u>\$ 2,963</u></b>



# Communicating with Users

Churches Use Financial Statements to Communicate:

Hawaii Pacific Baptist Church

**DESIGNATED and RESTRICTED FUNDS**  
Activities and Balances

January - December 2019

	12-31-19			12-31-18
	<u>Balance</u>	<u>Income</u>	<u>Expenses</u>	<u>Balance</u>
	(D+B-C)			(D+B-C)
<b>DESIGNATED FUNDS</b>				
Building Fund	\$ 76,359	\$ 19,250	\$ -	\$ 57,109
Missions Fund	30,550	12,500	18,309	36,359
Next Generation Fund	9,252	2,300	1,760	8,712
Collegiate Evangelism	<u>9,451</u>	<u>2,318</u>	<u>976</u>	<u>8,109</u>
<b>TOTAL DESIGNATED FUNDS</b>	<b>\$ 125,612</b>	<b>\$ 36,368</b>	<b>\$ 21,045</b>	<b>\$ 110,289</b>
<b>RESTRICTED FUNDS</b>				
Scholarship Endowment	\$ 10,000	\$ 1,000	\$ 1,000	\$ 10,000

(Donor letter on File with HBF)

Please note interest earned can only be used for scholarships

Note: Designations are made and can only be changed by the donor.

# Communicating with Users

## Churches Use Financial Statements to Communicate:

Hawaii Pacific Baptist Church

### UNDESIGNATED ACTIVITIES

January 1-December 31, 2019

2019

Recorded

#### INCOME:

Tithes/Offerings	\$ 325,609
Special Missional Gifts	63,100
Rental Income	2,500
Investment Income	39,338
Other Income	<u>75</u>
<b>TOTAL INCOME</b>	<b>\$ 430,622</b>

#### EXPENSES:

Cooperative Program	\$ 32,561
Mission Gifts	63,100
Personnel Expenses	165,230
Program Expenses	81,575
Operation Expenses	56,219
Facilities Expenses	29,352
Utilities	<u>16,658</u>
<b>TOTAL EXPENSE</b>	<b>\$ 444,695</b>

**CHANGE IN NET ASSETS-OPERATIONAL** \$ (14,073)

# Use of Accounting Software

- **Determine** what Church Management Software (CMS) you might record information
- **Research** different types of systems that best meet your churches needs
- **Ask** about cost, integration, and training on the CMS system
- **Look** for training opportunities