



**FIBA**

We Are Basketball

# STRUCTURING

1

## 1.5 FINANCIAL MANAGEMENT



### WHY YOU SHOULD READ THIS CHAPTER?

#### Financial Management is Much More Than Just Internal

We all know that without sound bookkeeping a federation is not able to run its everyday business properly. We also know that without sound bookkeeping all revenue generation efforts will have been done in vain. More importantly than these internal aspects, good financial management is vital from an external point of view.

From dealing with your local authorities about tax issues all the way to reporting to FIBA, you will always need to have complete reports ready at any time.

A good bookkeeper is one that can extract numbers, produce accurate reports and analyze the current financial situation of the Federation at any moment in the life of the organization.

This chapter lists the important points you need to know about managing the financial aspects of your organization. It explains the basics of what you should know in order to function smoothly and properly.



<b>1.1 CONSTITUTION</b> .....	<b>1</b>
<b>1.2 PLANNING STRATEGY</b> .....	<b>17</b>
<b>1.3 ADMINISTRATIVE ORGANIZATION</b> .....	<b>33</b>
<b>1.4 INFORMATION TECHNOLOGY</b> .....	<b>47</b>
<b>1.5 FINANCIAL MANAGEMENT</b> .....	<b>61</b>
Why you should read this chapter .....	61
1. Introduction .....	63
2. Bookkeeping Activities .....	63
2.1 Accounting Systems .....	63
2.2 Budget .....	64
3. Financial Statements .....	65
3.1 Balance sheet: your financial position report .....	65
3.2 The income statement: your key to Profit & Loss .....	65
3.3 Cash flow statement: your key to cash control .....	66
3.4 What reports should be prepared and how often .....	66
4. Financial controls .....	67
4.1 Maintaining the integrity of an Accounting system .....	67
4.2 Segregation of duties .....	67
4.3 Signatures .....	67
4.4 Audit .....	67
Annex A	69
Annex B	71
Annex C	72
<b>1.6 ELIGIBILITY AND TRANSFER OF PLAYERS</b> .....	<b>73</b>
<b>1.7 GUIDE FOR BASKETBALL FACILITIES</b> .....	<b>87</b>



**FIBA**

We Are Basketball

# STRUCTURING

1

## 1. Introduction

This section will help you to understand the basic practices in financial management and to build the basic systems needed to run a healthy federation. Basic skills in financial management start with cash management and bookkeeping processes.

## 2. Bookkeeping Activities

### 2.1 Accounting System

The goals of an accounting system is to ensure that financial data is properly recorded and that financial reports are accurate and easily accessible. An accounting system has two main parts; accounting records (checkbooks, journals, ledgers, etc.), and processes and procedures assigned to staff, volunteers, and/or outside professionals.

#### Components of an Accounting System

Traditionally, the accounting system should include the following components:

##### a) Accounts and chart of accounts

Each transaction should be recorded and assigned to a category or account. Each account should be associated with a number for filing purposes.

A chart of accounts will tell you what account number should be used when entering a transaction. Each accounting system can have its own chart system with different account numbers, as long as the system remains constant within the organization.

The chart usually has five areas:

- Assets
- Liabilities
- Net assets (or fund balances)
- Revenues
- Expenses

The account numbers should depend on the particular kind of revenues and expenses you expect to have most frequently. (See Annex A for example)

##### b) Journals and Subsidiary Journals

Journals, also called books of original entry, are used to systematically record all accounting transactions before they are entered into the general ledger. Journals organize information chronologically and by transaction type (receipts, disbursements, other).

There are three primary journals: (See Annex B for examples)

- The Cash Disbursement Journal: a chronological record of checks that are written, categorized using the chart of accounts.
- The Cash Receipts Journal: a chronological record of all deposits that are made, categorized using the chart of accounts.
- The General Journal: a record of all transactions which do not pass through the checkbook, includ-



ing non-cash transactions (such as accrual entries and depreciation) and corrections to previous journal entries.

As federations mature, and handle greater numbers of financial transactions, they may develop subsidiary journals to break out certain kinds of activity from the primary journals noted above.

The most common examples of subsidiary journals include:

- The Payroll Journal: records all payroll-related transactions. This may be useful as the number of payroll transactions grows and becomes too large to handle reasonably within the cash disbursements journal.
- The Accounts Payable Journal and Accounts Receivable Journal: track income and expense accruals. These are useful for grouping income and/or expense accruals which are too numerous to track effectively through the general journal. Some accounting packages require you to set up all bills as accounts payable and all revenue as accounts receivable, eliminating the cash disbursements and receipts journals altogether.

The process of transferring information from the journals to the general ledger is called posting.

#### c) General Ledger

The general ledger organizes information by account. The chart of accounts acts as the table of contents to the general ledger. In a manual system, summary totals from all of the journals are entered into the general ledger each month, which maintains a year-to-date balance for each account.

In a computerized system, data is typically entered into the system only once. Once the entry has been approved by the user, the software includes the information in all reports in which the relevant account number appears. Many software packages allow the user to produce a general ledger which shows each transaction included in the balance of each account.

#### d) Checkbook

In very small organizations (with few deposits and disbursements), the checkbook may serve as a combined ledger and journal. Most financial transactions will pass through the checkbook, where receipts are deposited and from which disbursements are made. Smaller organizations find it easier to keep track of financial activity by running all of their financial transactions through a single checking account.

Smaller federations with limited accounting expertise may choose to outsource their bookkeeping activity.

## 2.2 Budget

A budget is an estimate of income and expenditure, usually for the coming year.

Before writing a budget it is important to clarify the goals and objectives of the federation. This planning process will help to focus the proposed expenditures on items which have been identified as being of high priority.

Budget amounts are usually divided into major categories, for example:

- Fixed costs (rent, electricity, etc)
- Costs of recurring activities (meetings, competitions, etc.)



**FIBA**

We Are Basketball

# STRUCTURING

1

- Costs of various programs (coaches, referees, etc.)
- Office supplies
- Salaries, benefits

In addition, you need to consider the likely sources of income for the year and to develop a realistic plan for obtaining this money. Compare the possible revenue with your projected costs. Be careful not to overestimate the income and underestimate the expenditure. If you can raise more money than you propose to spend, think about how you might make extra expenditures. For guidance, you should refer back to the priorities you stated in your plan.

It is good to continuously compare your planned revenues and expenses to your actual revenues and expenses. This will give you a clear view of whether your goals and objectives are being met.

### 3. Financial Statements

Financial statements are a tool which can be used to see how the federation is doing. These statements are produced using the information gathered in the bookkeeping. This part will be used for the federations which have a lot of accounting transactions.

Financial statements are composed of three primary documents:

- balance sheet
- income statement
- cash flow statement

Yearly Financial statement must be part of your annual Federation report.

#### 3.1 Balance sheet: your Financial position Report!

The balance sheet follows the equation:  $\text{Assets} = \text{Liabilities} + \text{Capital}$ .

This equation should always hold true. If Assets do not equal Liabilities plus Capital the books are said to be “out of balance”. Be sure to note that the balance sheet is prepared for a specific date. Generally the balance sheet is prepared at the end of the year (December 31st, 200X):

- Assets – the assets are property that represents a value. Buildings, cash, furniture, accounts receivable, land and equipment are a few of the most common assets and certainly one of the most recognizable of the accounting basics.
- Liabilities – these represent the obligations of the business, money owed. The most common are accounts payable, the bills own to your suppliers. You may have loans, notes payable, taxes payable, etc. All are obligations.

The difference between Assets and Liabilities = what’s left! That is what we call equity. This is the value of your federation.

#### 3.2 The income statement: Your key to Profit & Loss!

This document shows all the membership fees (plus eventually miscellaneous revenues) and the expenses incurred by the federation. Therefore it will report the income or unfortunately the loss for your federation. Be sure to note that the income statement is prepared for a specific period of time (such as a month, a quarter or a year).



### 3.3 Cash Flow Statement: Your key to Cash Control!

This document shows the sources and uses of cash for the accounting period. In other words this is the net of cash receipts and cash disbursements during a specified accounting period. Always keep in mind the concept of cash flow, this will ensure that you will keep only enough money in the current account to meet your needs.

Everyone knows that if an organization has more expenses than income, sooner or later it will find itself in trouble. However, even if income matches or exceeds expenses in a given year, the cash from the income may not arrive in time to pay the bills as they are due. A cash shortage can be very disruptive to the ability of a federation to run smoothly. To avoid disruptions of business or to take advantage of temporary cash surpluses, cash flow can and should be projected, monitored, and controlled.

#### Cash Surplus

A maximum amount of money should be kept in your deposit or savings account. Only the money needed to cover expenses should be transferred to a checkings account. If surplus money remains in a savings account it is able to earn interest which would not be possible in a checkings account. Furthermore, you can usually make arrangements with your bank to have 7 day, 1 month, 3 month or 12 month deposits, short term investment certificates or treasury bills. The longer the deposit the more interest earned for your organization.

Be careful: you should always keep enough cash on hand to cover expenses and as an added cushion for security. However, it is unwise to keep more money on hand than is necessary. That is why the concept of cash flow is complex. The main difficulty will be to develop a plan that will provide a well-balanced cash flow.

#### Note:

At the beginning of this part we had mentioned that the 3 above documents were useful for the “big federations”. Very small federations, with few deposits and disbursements, may prepare reports directly from the checkbook after the balance has been reconciled with the bank balance.

### 3.4 What reports should be prepared and how often?

The answer will depend on several factors, including the extent to which the organization is financially stable, the degree and extent to which the financial picture changes during the period, the availability of cash to meet financial obligations, the availability of staff or other professionals to prepare reports, etc.

A mid-sized human service federation in reasonably good shape financially might consider the following schedule of reports:

#### Monthly Reports

- Balance Sheet (Statement of Position)  
What is your financial health? Can you pay your bills?
- Income and Expense Statement showing budget to actual information  
How does actual financial experience compare with the budget?
- Narrative report including financial highlights, analysis or other means of managing cash flow



**FIBA**

We Are Basketball

# STRUCTURING

1

## Quarterly Reports

- Cash flow projections for the next six months  
Do we anticipate a cash surplus or shortage?
- Payroll tax reports  
Have payroll tax reports been submitted on time?
- Debtors ageing: Have we received our cash from our debtors?  
If not, what action is appropriate?

## Annual Reports

- Financial statements for the year: balance sheet, income statement,
- Focus: What was our financial performance over the past year? In what ways and for what reasons was performance different from the budget? What financial implications must be taken into account when planning the upcoming year?
- Audited financial statements: if applicable

## 4. Financial Controls

There are certain practices that you should follow to ensure that financial transactions are consistently recorded in an accurate manner.

### 4.1 Maintaining the Integrity of an Accounting System

In a manual system all balances from the general ledger are established on a monthly basis to make sure that debit balances equal credit balances. Once debits equal credits, financial statements can be prepared using trial balance amounts. Computerized accounting systems almost always produce a trial balance as a built-in report. Many software packages will not allow you to post an entry to the general ledger until the debit and credit balances are equal.

### 4.2 Segregation of Duties

Segregation of duties means that no financial transaction is handled by only one person from beginning to end. For cash disbursements, this might mean that different people authorize payments, sign checks, record payments in the books, and reconcile the bank statements. If your federation is small, managed by volunteers and possibly one staff person, this principle can be hard to put into practice. You might consider having one person, such as the paid staff member, sign checks and assign a different person, such as the board treasurer, to review disbursements, bank statements, and canceled checks on a monthly basis.

### 4.3 Signatures

Disbursements of large amounts, for example USD500, may require a secondary signature (from the treasurer for example)

### 4.4 Audit

Another form of financial control is an audit. An audit is a comprehensive analysis, by a professional from outside the federation, of your financial management procedures and activities. It is important



that the auditors are independent from your federation. This will ensure that there is no conflict of interest. They will test the accuracy and completeness of the financial statements.

Financial Controls are extremely important. They will ensure that:

- Financial information is reliable, so that the National Federation can make good decisions.
- Transparency of the Federation, Regular accounting.
- Assets and records of the federation are not stolen, misused, or accidentally destroyed.
- The federation's policies are followed.
- Government regulations are met.



**FIBA**

We Are Basketball

# STRUCTURING

1

## Annex A

### Chart of Account

Account numbering: here is an example how the digits might be coded:

- 1000-1999 : Asset accounts
- 2000-2999 : Liabilities accounts
- 3000-3999 : Equity accounts
- 4000-4999 : Revenue accounts
- 5000-5999 : Expense accounts

By separating each category by several numbers, many accounts can be added between any two while maintaining the logical order.

Sample:

### ASSET

#### Current Assets

- 1000 Petty Cash
- 1010 Bank account
- 1100 Accounts Receivable
- 1140 Other Receivables
- 1150 Allowance for doubtful Accounts

#### Fixed Assets

- 1500 Buildings
- 1550 Equipments
- 1600 Accumulated Depreciation, buildings
- 1650 Accumulated Depreciation, equipments

### LIABILITIES

#### Current Liabilities

- 2000 Accounts Payable
- 2300 Accrued Expenses
- 2400 Employee benefits payable

#### Long Term Liabilities

- 2500 Bank loans Payable

### EQUITY ACCOUNTS

- 3010 Capital
- 3020 Retained earnings

**REVENUE ACCOUNTS**

4000 Memberships Fees

4010 Competitions XXX

4020 Competitions YYY

**EXPENSE ACCOUNTS**

5000 Competitions

6000 Salaries

6010 Social Charges

7000 Rent

7050 Electricity

7060 Post

7100 Depreciation

etc.

**Annex B**

## Cash disbursement Journal

Date	DEBIT	CREDIT	Text	Amount
01.01.05	7060	1000	Purchase of stamps	100
31.01.05	6000	1100	Salaries January 2005	1000
28.02.05	7050	1100	Electricity February 2005	200
01.04.05	7000	1100	Rent – April 2005	1500
Etc.				

## Cash receipt Journal

Date	DEBIT	CREDIT	Text	Amount
31.01.05	1100	4000	Membership Fees 2005	1000
10.03.05	1100	4010	National competition	2000
Etc.				

## General Journal

Date	DEBIT	CREDIT	Text	Amount
31.12.05	7100	1600	Depreciation 2005 – Building	500
Etc.				



## Annex C

## General Ledger

Date	DEBIT	CREDIT	Text	Amount
01.01.05	7060	1000	Purchase of stamps	100
31.01.05	6000	1100	Salaries January 2005	1000
31.01.05	1100	4000	Membership Fees 2005	1000
28.02.05	7050	1100	Electricity February 2005	200
10.03.05	1100	4010	National competition	2000
01.04.05	7000	1100	Rent – April 2005	1500
31.12.2005	7100	1600	Depreciation 2005 – Building	500
Etc.				