



Project Number: 42492-012
November 2011

Viet Nam: Technical Training Manuals for Microfinance Institutions In Vietnam

Basic Course in Financial Accounting

Asian Development Bank

Training Manual for Microfinance Institutions



FINANCIAL ACCOUNTING

COURSE OUTLINE

Course Name	FINANCIAL ACCOUNTING FOR MICROFINANCE INSTITUTIONS	
Target Participants	Managers, Chief Accountants, Accountants, Accounting Staff	
Course Duration	3 days	
Learning Objectives	<p>At the end of the course, participants are able to:</p> <ol style="list-style-type: none"> 1. Understand the generally accepted accounting system and standards in accordance with the Vietnamese Accounting Standards and International Standards and the practices adopted by MFIs. 2. Apply the learning in preparing financial statements of respective MFIs. 	
Course Outline	<ul style="list-style-type: none"> • Opening Activities <ul style="list-style-type: none"> ◦ Welcome Remarks ◦ Introductions: Trainer, Guests, and Participants ◦ Project Overview ◦ Leveling of Expectations ◦ Training Objectives and Agenda ◦ House Rules • Introduction to Financial Accounting <ul style="list-style-type: none"> ◦ Definition 	<ul style="list-style-type: none"> • Introduction to Financial Accounting <ul style="list-style-type: none"> ◦ Accounting Principles and Equation • Financial Statements and its Components • Introduction to Accounting Processes <ul style="list-style-type: none"> ◦ Accounts and Recording of Transactions ◦ Accounting Identities ◦ Exercise: Transaction Analysis
	<ul style="list-style-type: none"> • Introduction to Accounting Cycle <ul style="list-style-type: none"> ◦ Definition ◦ Seven Steps ◦ Exercises 	<ul style="list-style-type: none"> • Accounting Entries Unique to MFIs <ul style="list-style-type: none"> ◦ Grants and Concessional Funds ◦ Capital ◦ Delinquent Accounts, Provisions, Write offs ◦ Asset Value Depreciation
	<ul style="list-style-type: none"> • Cash Flow Statement 	<ul style="list-style-type: none"> • Closing Activities <ul style="list-style-type: none"> ◦ Evaluation ◦ Closing
Delivery Methods	Lecture/Plenary; Small Group Discussions; Exercises; Post-Training Test	
Materials Needed	Computer, LCD Projector, Flipcharts (A0 Paper), Meta Plan Cards, Calculators, Paper, Pens, Tapes, Prizes, Stapler, Paper Clips, Training Kit (Agenda, PPT Presentations, Notepad, Pens, ID), Financial Statements of MFIs	
Handouts	(Draft) Vietnamese Accounting Standards, Transactional Analysis Sheet, Sample Transactions in MFIs, Sample Adjustments in MFIs, Transactions Unique to MFIs, SBV Circular No. 15, Examples of Complex Situations in MFIs	

INSTRUCTIONAL DESIGN AT A GLANCE

Part I	OPENING ACTIVITIES	
Session	1	Introductions
Activity	1	<i>Registration, Welcome Remarks, and Introductions</i>
Activity	2	<i>Leveling of Expectations</i>
Activity	3	<i>House Rules</i>
Part II	FINANCIAL ACCOUNTING	
Session	1	Introduction to Financial Accounting
Activity	4	<i>Introduction to Financial Accounting</i>
Activity	5	<i>Accounting Principles and Equation</i>
Activity	6	<i>Financial Statements and Its Components</i>
Session	2	Introduction to Accounting Processes
Activity	7	<i>Accounts and Recording of Transactions</i>
Activity	8	<i>Accounting Identities</i>
Activity	9	<i>Exercise: Transaction analysis</i>
Session	3	Introduction to Accounting Cycle
Activity	10	<i>Introduction to Accounting Cycle</i>
Activity	11	<i>Step 1 – Identification of Transactions or Events to be Recorded</i>
Activity	12	<i>Step 2 – Journalizing Transactions and Events</i>
Activity	13	<i>Posting from the Journals to the Ledger</i>
Activity	14	<i>Step 3 – Preparing Unadjusted Trial Balance</i>
Activity	15	<i>Step 4 – Journalizing & Posting Adjusted Journal Entries</i>
Activity	16	<i>Preparation of the Adjusted Trial Balance</i>
Activity	17	<i>Step 5 – Preparation of Financial Statements</i>
Activity	18	<i>Step 6 – Journalizing and Posting Closing Journal Entries</i>
Activity	19	<i>Step 7 – Preparing Post Closing Trial Balance</i>
Activity	20	<i>Journalizing and Posting Reversing Journal Entries</i>
Section	4	Accounting Entries Unique to MFIs
Activity	21	<i>Grants and Concessional Funds</i>
Activity	22	<i>Capital</i>
Activity	23	<i>Delinquent Accounts, Provisions for Bad Debts and Write offs</i>
Activity	24	<i>Assets Value Depreciation</i>
Session	5	Cash Flow Statement
Activity	25	<i>Introduction to Cash Flow Statement</i>
Part III	CLOSING ACTIVITIES	
Session	1	Wrap Up and Evaluations
Activity	26	<i>Evaluations</i>
Activity	27	<i>Closing</i>

HANDOUT	
1	Draft Vietnamese Accounting Standards for MFIs
2	Transactional Analysis Sheet
3	Sample Transactions in Microfinance Institutions
4	Sample Adjustments in Microfinance Institutions
5	Transactions Unique to Microfinance Institutions
6	SBV Circular No. 15
7	Examples of Complex Situations in Microfinance Institutions

INSTRUCTIONAL DESIGN SCRIPT

PART I	OPENING ACTIVITIES	
SESSION 1	INTRODUCTIONS	
Activity 1	Registration, Welcome Remarks and Introductions	
Purpose	<ul style="list-style-type: none"> To register the participants and distribute the training kit. To introduce the ADB/JFPR-SBV Project, the guests, trainers and participants. 	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Receive complete set of training kit. Know the project, host organizations, guests, trainers, and participants. 	
Time	Materials	Steps/Method:
30 minutes	Attendance Sheet Training Kit:: <ul style="list-style-type: none"> - Agenda - Notepad - Pen - ID - Training Material 	Registration: <ol style="list-style-type: none"> The support staff facilitates the registration of the participants and the distribution of training kits at least 30 minutes before the start of the training. The support staff checks completeness of the contents of the training kits with the participants. The support staff ensures participants write their names on the IDs and wear the IDs at all times during the training. The support staff ensures all equipment, facilities, supplies and materials required for the training are available.
Time	Materials	Steps/Method:
20-30 minutes	Brief profile of host organizations and guests	Welcome Remarks: <i>Speech</i> <ol style="list-style-type: none"> The Training Coordinator introduces the host organizations (SBV, ADB, JFPR, ADB Consultants, etc.) and guests (if any). The host organizations and guests deliver their welcome remarks.
	Brief profile of the trainers	Introduction of the Trainers: <i>Speech</i> <ol style="list-style-type: none"> The Training Coordinator welcomes and introduces the trainers (the lead trainer and co-trainers, if any). The Training Coordinator gives the floor to the lead trainer to start the training.
	Profile of the Participants, Registration Sheet, Computer, Slide Presentations, Flipcharts, Stands, Pens, Papers, Tapes, LCD Projector	Introduction of the Participants: <i>Plenary; Small Group Discussions</i> <ol style="list-style-type: none"> The lead trainer welcomes the participants. The lead trainer asks the participants to form four groups by counting off 1-4. The lead trainer asks the participants to answer the following questions written in a slide: <ul style="list-style-type: none"> “Who are the members in your group?” “What motivated you to participate in this training?” “What do you expect to learn from this training course?” “How many years have you been working in the

		<p><i>field of microfinance? and in the field of Financial Management</i></p> <ol style="list-style-type: none"> The lead trainer asks the groups to discuss their responses, write the responses on a flipchart, and select a representative of the groups to share their outputs to the other groups. The lead trainer asks the representatives of the groups to describe the members of their group to the rest of the participants. The lead trainer acknowledges each participant and welcomes them to the training. When all groups have presented, the lead trainer thanks the participants and moves to the next activity.
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PART I	OPENING ACTIVITIES	
SESSION 1	INTRODUCTIONS	
Activity 2	LEVELING OF EXPECTATIONS	
Purpose	<ul style="list-style-type: none"> To determine what are the participants' expectations from the training. To validate whether these expectations can be met by the training. 	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> Present their motivations and expectations from the training. Know the course agenda and validate coverage of their expectations with the trainers. Identify items or issues that cannot be covered by the training. 	
Time	Materials	Steps/Method:
20-30 minutes	Computer, PPT Slide 2 and 4, Paper, Pens, Flipchart for "Parking Lot", Stands, Tapes, LCD Projector	<p><u>Group Activity: Slide Presentation; Small Group Discussions; Plenary</u></p> <ol style="list-style-type: none"> The support staff provides sheets of paper and pens to the participants. The lead trainer asks the participants to respond to the following questions written on the slide and to write their answers on the sheets of paper: <ul style="list-style-type: none"> <i>What do you hope to gain from this training/seminar?</i> <i>What are you willing to give to have a meaningful session?</i> <i>What do you expect from the facilitators?</i> The lead trainer asks the group representative to share with other groups their outputs. Outputs may look like these: <i>"Learning and sharing experiences"</i> <i>"Gain knowledge in financial management"</i> <i>"Active Participation"</i> <i>"Listen and resolve issues or confusions"</i> The lead trainer summarizes the participants' motivations and expectations from the training. <p><u>Training Objectives and Agenda: Slide Presentation</u></p> <ol style="list-style-type: none"> The lead trainer presents the training objectives and agenda to the participants and validates expectations

		<p>that can be covered by the training.</p> <p>6. The lead trainer also identifies items that cannot be covered, if any, and places them to the “Parking Lot”.</p> <p><i>Note: The Parking Lot is a place where the trainer can write issues, items or any concern that is covered by the training. This is visited at the end of the training to determine whether items have been covered or need to be discussed in other venue.</i></p> <p>7. The lead trainer summarizes the participants’ outputs and asks the participants for more inputs or questions.</p> <p>8. When there are no more questions, the lead trainer thanks the participants and moves to the next activity.</p>
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PART I	OPENING ACTIVITIES	
SESSION 1	INTRODUCTIONS	
Activity 3	HOUSE RULES	
Purpose	To ensure that the participants get the optimum learning from the course.	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> • Define and agree on appropriate behaviors for the duration of the training. • Define and agree on appropriate penalties for violations of the house rules. 	
Time	Materials	Steps/Method:
5-10 minutes	Flipcharts, Stands, Pens, Tapes	<p><i>Plenary</i></p> <ol style="list-style-type: none"> 1. The lead trainer asks the participants what could help them achieve optimum learning from the training and lists them on a flipchart. 2. The lead trainer may initiate discussions by providing standard or frequently mentioned house rules. Such house rules may include: <i>coming on time, turning off or placing on silent mode the mobile phones, participating actively, respecting others, etc.</i> 3. The lead trainer verifies acceptability of the responses with the participants by asking them to agree on each item. 4. When there are no more additions, the lead trainer shares his expectations if not yet covered by the listed items. 5. The lead trainer thanks the participants and closes the session by asking the participants to be always reminded of the house rules for the duration of the training. 6. The lead trainer posts the flipchart to the wall and moves to the next activity. <p><i>Note: Having completed the introductions, the expectations and the house rules, the participants are now ready to start with the main topics in the course.</i></p>

PART II	FINANCIAL ACCOUNTING	
Session 1	Introduction to Financial Accounting	
Activity 4	Nature and Role of Financial Accounting in MFIs	
Purpose	To introduce the nature and the role of financial accounting to the participants.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the nature and role of financial accounting in MFIs. 	
Time:	Materials:	Steps/Method:
60 minutes	Computer, PPT Slide 5-8, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector Handout: Draft Vietnamese Accounting Standards for MFIs	Plenary <ol style="list-style-type: none"> The lead trainer asks the participants their understanding of accounting and financial accounting. The responses may include: <i>money, recording income and expenses, recording assets, liabilities, equity, etc.</i> The lead trainer summarizes responses and explains to the participants the nature of accounting as follows: <i>“Financial accounting is an information system which aims to identify, collect, measure, and communicate financial information of an MFI to those interested in the financial operations of the MFI.”</i> The lead trainer then asks the participants their understanding of the principles applied in accounting. The lead trainer summarizes responses from the participants and explains to the participants the generally accepted principles in accounting in Vietnam as well as internationally. To update the participants’ knowledge, the lead trainer provides the participants with a copy of the <i>“Draft Vietnamese Accounting Standards for MFIs.”</i> The lead trainer asks the participants who may be interested in the financial operations of the MFI. The lead trainer summarizes the responses which may include: <i>government, owners, board, management, staff, public, creditors, savers, service providers, investors, etc.</i> The lead trainer explains to the participants that various stakeholders have similar and different interests thus the information they seek may vary. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Session 1	Introduction to Financial Accounting	
Activity 5	Accounting Principles and Equation	
Purpose	To introduce the accounting principles and equation in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the purpose of financial statements and the accounting principles and equation. 	
Time:	Materials:	Steps/Method:

30 minutes	Computer, PPT Slide 9-11, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector	<p><i>Plenary</i></p> <ol style="list-style-type: none"> 1. The lead trainer asks the participants their understanding of the importance of accounting. The responses may include: <i>to keep a record of transactions, to monitor uses of fund, etc.</i> 2. The lead trainer summarizes the responses and explains to the participants the importance of accounting as follows: <i>“Accounting is being performed to show and understand the effects of completed business transactions and other events of MFIs.”</i> 3. The lead trainer then asks the participants their understanding of the accounting account system and the usual types of financial reports or statements prepared in the MFI. 4. The lead trainer summarizes responses and explains the reports as follows: <i>balance sheets, income statements, cash flow statements, statement of retained earnings, etc.</i> 5. The lead trainer explains to the participants the two basic types of financial statements, differentiates the two, and gives examples using the responses of participants in the flipchart as follows: <i>“Financial statements relate to (a) specific point in time (e.g. balance sheet) or (b) relate to specific period of time (e.g. income, retained earnings, cash flow)s”</i> 6. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.
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PART II	FINANCIAL ACCOUNTING	
Session 1	Introduction to Accounting	
Activity 6	Financial Statements and Its Components	
Purpose	To introduce the most commonly used financial statements by MFIs and the components of each of these statements.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Understand the components of the balance sheet, income statement and the cash flow statement. • Differentiate the balance sheets, income statements and cash flow statements from each other. • Explain and know the difference between the two basic types of financial statements. 	
Time:	Materials:	Steps/Method:
45 minutes	Computer, PPT Slide 12-16, Paper, Pens, Flipcharts,	<p><i>Plenary</i></p> <ol style="list-style-type: none"> 1. The lead trainer relates to previous questions and asks the participants their understanding of a balance sheet and components of it. The responses may include: <i>assets, liabilities, equity; etc.</i>

	Stands, Tapes, LCD Projector	<ol style="list-style-type: none"> 2. The lead trainer follows this up with the questions : <ol style="list-style-type: none"> a. <i>"Why is it called a balance sheet?"</i> The responses may include: <i>assets should be equal to liabilities and equity; uses and sources must be equal; etc.</i> b. <i>"What can be shown in a balance sheet?"</i> The responses may include: <i>assets, loans, borrowings, network, etc.</i> 3. The lead trainer summarizes the responses of the participants and describes to the participants the balance sheet as well as the components of a balance sheet. 4. The lead trainer also explains the concept of earnings as follows: <i>"Earnings/Revenues refer to the money earned by an organization for goods sold and services rendered during an accounting period including:</i> <ul style="list-style-type: none"> - <i>Interest earned on loans to clients</i> - <i>Fees earned on loans or other services to clients</i> - <i>Interest earned on deposits/investments with a bank or other institutions</i> - <i>Income generated from sale of goods</i> - <i>Other (recovered assets already dispensed, donations)</i> 4. The lead trainer then asks the participants about expenses in MFIs. The lead trainer summarizes responses which may include: <i>transport, personnel, travel, etc.</i> 5. The lead trainer summarizes responses and explains to the participants the concept of expenses as follows: <i>"Expenses represent costs incurred for goods and services used in the process of earning revenue. There are direct and indirect expenses. Direct expenses may include: financial cost, administrative expenses, and loan loss provisions. Indirect expenses may include management and admin personnel cost, marketing, etc."</i> 6. The lead trainer then follows up with the question on gains. The participants' responses may include: <i>income, profit, etc.;</i> 7. The lead trainer summarizes responses and explains to the participants the concept of gains as follows: <i>"Gains are results of having excess revenues over expenses. Losses are results of having excess expenses over revenues."</i> <i>"Gains are increases to equity resulting from incidental transactions not associated with the company's major business."</i> <i>"Losses are decreases to equity resulting from incidental transactions not associated with the company's major business."</i> 8. The lead trainer follows this up with another question on assets which may include: <i>cash, receivables, etc.</i>
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		<p>9. The lead train again summarizes responses and explains to the participants the concept of assets as follows: <i>“Assets are MFI resources that have probable future economic benefits.” (Uses of Funds)</i></p> <p>10. The lead trainer follows this up with the question about liabilities which may include: <i>borrowings, deposits, etc.</i></p> <p>11. The lead trainer summarizes responses and explains to the participants the concept of liabilities: <i>“Liabilities are probable future sacrifices of economic benefits (Sources of funds);</i></p> <p>i. The lead trainer then asks the participants about cash flow which may include: <i>sources and uses of funds, funds availability, ins and outs, etc.</i></p> <p>j. The lead trainer summarizes the responses and explains the nature of the cash flow statements.</p> <p>k. The lead trainer again recaps the participants’ responses of the items discussed above to ensure that all participants are on the same page.</p> <p>l. The lead trainer asks the participants if there are questions at this point. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 2	Introduction to Accounting Processes	
Activity 7	Accounts and recording of transactions	
Purpose	To introduce the accounts and recording of transactions	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Understand the accounts and transactions recording. • Differentiate the temporary and permanent accounts. 	
Time:	Materials:	Steps/Method:
45 minutes	Computer, PPT Slide 17-18, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector	<p>1. The lead trainer asks the participants “what kinds of financial accounting information are you handling?”; lists the responses in a flipchart. <i>Answers may include assets, liabilities, owners’ equity, revenues, expenses, gains and losses, etc.</i></p> <p>2. The lead trainer classifies the accounts into permanent or temporary accounts as the participants share their responses, without explaining what kind of accounts they are.</p> <p>3. The lead trainer asks the participants “what are the similarities of the accounts? Why are they grouped that way?”; lists the responses; then explains to the participants the difference between a permanent and temporary account.</p>

PART II	FINANCIAL ACCOUNTING	
Session 2	Introduction to Accounting Processes	
Activity 8	Accounts and Recording of Transactions	
Purpose	To introduce the generally accepted principles and practices in accounting and recording of transactions of the MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Learn the generally accepted principles and practices in accounting and recording of transactions of MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 19-25, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards Diagram {A = L + OE}	<i>Plenary</i> <ol style="list-style-type: none"> The lead trainer shows the picture in the diagram; asks the participants and asks them what they think about or understand about the figure "{A = L + OE}". The lead trainer summarizes which may be: <i>"Assets equals Liabilities plus Owners' Equity"</i> The lead trainer then explains the double entry system in accounting and its effects to the participants using the diagram. The lead trainer emphasizes that: <i>"The double entry system records the change in the resource or obligation and the reason for or source of change."</i> The lead trainer shows a sample transaction for better presentation and uses meta-plan cards for the transaction for easy demonstration. <i>Example 1: \$250,000 was borrowed from a bank</i> The lead trainer asks the participants to describe the transaction and accounting of the transaction as they have learned from previous section. The lead trainer asks for a volunteer to present while the others provide feedback. The lead trainer acknowledges the presentation, highlights the pointers and explains that: <i>If money is borrowed, then Cash (asset account) is increased and the Notes Payables (liability account) are increased.</i> The lead trainer then introduces the concept of debit and credit and T accounts; explains how the transaction will look like using the T-accounts for the permanent and temporary accounts. The lead trainer emphasizes that: <i>each of the permanent accounts is affected by the debits and credits. For the balance sheet: debits for increase in assets, credit for decrease; debit for decrease in liabilities, credit for increase; debit for decrease in equity, credit for increase. For the income statement, the revenue and expenses are also affected by debits and credits – debit for decrease in revenues, credit for increase; debit for increase in expense; credit for decrease. And, that the balances in permanent accounts are carried over to future accounting period."</i> The lead trainer then asks the participants what kind of system the MFIs are using to prepare accounting entries

		<p>- single or double. The lead trainer explains the difference and concludes with a description of the single and double entry methods.</p> <p>10. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 2	Introduction to Accounting Processes	
Activity 9	Transaction Analysis Exercise	
Purpose	To practice transaction analysis.	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> • Familiarize themselves with the common transactions in an MFI setting. • Understand and practice transaction analysis using the exercise. • Identify similarities and differences with other MFIs. 	
Time:	Materials:	Steps/Method:
60 minutes	<p>Computer, PPT Slide 26-40, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards</p> <p>Blank Balance Sheets, Income Statement and Cash Flow Statement</p> <p>Handout: Transaction Analysis Sheet</p>	<p><i>Plenary; Small Group Discussions; Game</i></p> <ol style="list-style-type: none"> 1. The lead trainer asks the participants form groups of three persons. The co-trainer distributes the handouts on the sample transactions for practicing transaction analysis. 2. The lead trainer assigns the transactions to the corresponding number of groups – e.g. Transaction 1 for Group 1; Transaction 2 for Group 2, and so on until all groups have assigned transactions. 3. Within the groups, the lead trainer asks the participants to discuss how they will present the different transactions in the handout and to practice transaction analysis and write their outputs in the meta-plan cards, then post them on the flipcharts with blank forms of Balance Sheet, Income Statement, or Cash Flow Statement. 4. The lead trainer discusses the outputs with the participants, one at a time; asks the participants if they all get the same answers in each of the transactions, as they are presented in the flipchart to see where they differ, if any. 5. The lead trainer corrects the wrong answers, if any, by asking “<i>what could be more appropriate way to present the transaction?</i>”; explains the appropriate way of presenting the transactions one by one using the PPT slides with answers; pastes on the flipchart with all correct answers for the participants to see. 6. The lead trainer reminds the participants that they need to do these transactions correctly as these will be the basis for preparing financial statements – the topic to be discussed in the succeeding sessions. The lead trainer asks those who did not get the correct answers to review their outputs with the answers posted on the wall.

		7. The lead trainer summarizes the points and asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants for their hard work and moves to the next activity.
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PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 10	Introduction to Accounting Cycle	
Purpose	To introduce the accounting cycle adopted by MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Learn the steps in the accounting cycle process related to financial statement preparation. 	
Time:	Materials:	Steps:
30 minutes	Computer, PPT Slide 41-42, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards Diagram of Accounting Cycle	<i>Plenary</i> <ol style="list-style-type: none"> The lead trainer asks the participants their understanding of about the accounting cycle. Responses may include: <i>steps to be followed to do financial statements, etc.</i> The lead trainer follows this up with the question about the steps to be followed in the preparation of financial statements in an accounting cycle. The co-trainer lists down the responses using meta plan cards (for easy arrangement) and posts the responses in a flipchart. The lead trainer together with the participants identify from the responses which ones should go first, second, third and so on, and encourages the participants to identify missing steps, if any. When the steps are completed, the lead trainer presents the diagram of the complete accounting cycle by showing the slide presentation and compares it with the group output. The lead trainer asks the participants to compare and contrast the participants' outputs and the diagram, asks for comments, and validates learning of the participants. From the outputs and diagram, the lead trainer asks the participants which steps are done during the accounting period, at the end of accounting period, and at the beginning of next period. The responses should include the following: <ul style="list-style-type: none"> <i>During Accounting Period:</i> <ol style="list-style-type: none"> <i>identify transactions or events to be recorded</i> <i>journalize transactions and events</i> <i>post from journals to ledger</i> <i>At the end of Accounting Period:</i> <ol style="list-style-type: none"> <i>prepare unadjusted trial balance</i> <i>journalize and post adjusting journal entries</i> <i>prepare adjusted trial balance</i> <i>prepare financial statements</i> <i>journalize and post closing journal entries</i>

		<ul style="list-style-type: none"> <i>i. prepare post-closing trial balance</i> - <i>At the beginning of next period</i> <i>j. journalize and post reversing journal entries</i> <p>7. The lead trainer summarizes the points and asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 11	Step 1 - Identification of transactions or events to be recorded.	
Purpose	To practice identification of the transactions or events to be recorded.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Understand the concepts and practice identification of transactions or events to be recorded. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 43, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Handout: List of Sample Transactions	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> 1. The lead trainer asks the participants if all transactions in the MFIs need to be recorded. The participants' responses may vary. The lead trainer then explains that not all transactions in the MFI need to be recorded in their books. The lead trainer should emphasize that: <i>Events that change the MFI's resources and obligations should be recorded. The categories used for recording are as follows:</i> <ol style="list-style-type: none"> <i>a. exchanges of resources and obligations between the MFI and outside parties</i> <i>b. internal events within the firm that affects its resources or obligations but do not involve outside parties, and</i> <i>c. external economic and environmental events beyond the control of the company.</i> 2. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer moves to the next activity, an exercise. 3. The lead trainer asks the participants to form groups consisting of three people. The lead trainer assigns sample transactions to each group. The lead trainer asks the groups to do the following: <ol style="list-style-type: none"> <i>a. identify which of the sample transactions need to recorded (answer Yes) and which do not (answer No). The participants will answer all transactions but will respond to the trainer only on their assigned questions.</i> <i>b. raise hands if they got the same answers as each of the sample transactions is discussed. Identify transactions where the participants had differences.</i> <i>c. present the correct ones for the transactions where differences are identified.</i>

		<p>4. The lead trainer determines participants' challenges in identifying transactions that need to be recorded and how they are to be recorded; clarifies the issues, if any and concludes the session.</p> <p>5. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants for their hard work and moves to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 12	Step 2 - Journalizing the Transactions and Events	
Purpose	To practice journalizing of transactions or events.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Understand concepts and practice journalizing transactions or events. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 44-55, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards, Exercises	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> 1. The lead trainer explains what journalizing transactions and events is all about, emphasizing the need to develop a coding system or reference for the transactions so that it will be easy to go back to the specific transactions. 2. The lead trainer asks the participants to maintain their groups and within their groups, the lead trainer asks the participants to practice journalizing of the transaction or events as written in the exercise. The co-trainer provides the handouts on the exercise. 3. The lead trainer provides 10 minutes for the groups to discuss and 5 minutes to present their outputs. The lead trainer asks for a volunteer to present while the other groups observe and provide feedback. 4. The lead trainer summarizes the points and asks the participants if there are questions at this point. If there are no questions, the lead trainer moves to the next activity. 5. The lead trainer explains the similarities and differences in journalizing transactions at the Head Office and at the Branch Offices. 6. The lead trainer asks the participants the challenges that they face in their respective MFIs in terms of journalizing and shows how the transactions should be done. 7. The lead trainer then asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants' moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 13	Posting from the Journals to the Ledgers	
Purpose	To practice posting from the journals to the ledger for the most commonly used entries in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice posting to the ledgers for the most commonly used entries in MFIs. 	
Time:	Materials:	Steps/Method:
60 minutes	Computer, PPT Slide 56-102, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards Flipcharts: Blank Ledger Format Blank General Journal Format	<i>Plenary; Small Group Discussions; Exercises</i> 1. The lead trainer explains the general ledger format. 2. The lead trainer asks the participants to maintain their groups and prepare entries to the ledger and General Journal Formats for all transactions. <i>However, the lead trainer should let the participants to respond to the assigned questions.</i> 3. The lead trainer asks the participants to write the answers for the assigned questions using the meta plan cards; posts the answers to the flipcharts on the wall in consequence of the transactions being written as they are called by the trainer. 4. The lead trainer discusses the answers with the participants; asks them if they all got the same answers as the ones posted on the flipchart. The lead trainer confirms if the answers are correct and discusses further with the participants if the answers need to be changed. 5. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Section 3	The Accounting Cycle	
Activity 14	Step 3 - Preparing Unadjusted Trial Balance	
Purpose	To practice preparation of unadjusted trial balance.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice preparing unadjusted trial balances. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 103-105, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards	<i>Plenary; Small Group Discussions; Exercises</i> 1. The lead trainer asks the participants their understanding of a trial balance and its importance. Responses may include: <i>list of ledger accounts and balances; to check if debit equals the credit balances; etc.</i> 2. The lead trainer summarizes responses and explains to the participants that: <i>"Trial balance consists of listing of each general ledger account and its balance at the end of the period – the</i>

	Flipchart: Trial Balance	<p><i>debit balances in one column and the credit balances in another column.”</i></p> <p><i>“Trial balance serves as a convenient means for checking that the sum of debit account balances equals the sum of the credit account balances.”</i></p> <ol style="list-style-type: none"> 3. To deepen the participants’ understanding, the lead trainer shows a sample trial balance. The lead trainer asks the participants to prepare the trial balance entries for all transactions in handout, using the output of activity 13. 4. The lead trainer writes down their responses using the meta plan cards; posts the answers to the flipcharts on the wall as they are processed. The lead trainer determines any confusions or challenges experienced by the participants while doing the exercise; and resolves such challenges. 5. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants for their hard work and moves to the next activity.
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PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 15	Step 4 - Journalizing and Posting Adjusting Journal Entries	
Purpose	To practice journalizing and posting adjusting journal entries to the ledger of MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Understand the concepts and practice journalizing and posting of adjusting journal entries to the ledgers of MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 106-115 , Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards Flipcharts: Blank Ledgers Handout: Adjustments Examples	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> 1. The lead trainer asks the participants about examples of adjustments in journal entries, why it happens and why it is important to do. Responses may include: <i>deferrals, accruals, others entries, etc.</i> 2. The lead trainer summarizes the responses and explains to the participants that: <i>“It is important because there are cash flows that occur before the expense and revenue recognition (e.g. the portion that applies to future periods is deferred as a prepaid expense or unearned revenue). There are also cash flows that occur after expense and revenue recognition. These are recorded when cash is paid or received for future accounting period. These include re-classification of permanent accounts and estimation of expenses.”</i> 3. The lead trainer then asks the participants to practice using the examples cases of deferrals, accruals, and depreciation. 4. The lead trainer asks the participants to prepare the

		<p>adjusting entries for the examples using the meta plan cards and post the answers to the flipcharts on the wall as they are processed.</p> <p>5. The lead trainer summarizes the points and asks the participants if there are questions at this point. If there are no questions, the lead trainer thanks the participants and proceeds to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 16	Preparation of the Adjusted Trial Balance	
Purpose	To practice preparation of adjusted trial balance in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice preparing adjusted trial balance. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 106-115, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards Flipcharts: Adjusted Trial Balance	<i>Plenary; Small Group Discussions; Exercises</i> 1. The lead trainer asks the participants to prepare the adjusted trial balance using the outputs in Activities 14 and 15. 2. The lead trainer writes down their responses using the meta plan cards and then posts the answers to the flipcharts on the wall as they are processed. The lead trainer reminds the participants to: <ol style="list-style-type: none"> include all account balances after adjustments have been posted this will be used to prepare the financial statements 3. The lead trainer asks the participants if there are questions at this point. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 17	Step 5 - Preparation of the Financial Statements	
Purpose	To practice preparation of financial statements for MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice preparation of financial statements for MFIs. 	
Time:	Materials:	Steps:
30 minutes	Computer, PPT Slide 116-122, Paper, Pens, Flipcharts, Stands,	<i>Plenary; Small Group Discussions; Exercises</i> 1. The lead trainer asks the participants to practice preparing the financial statements, reminding the participants to: <ol style="list-style-type: none"> start with the income statement first include the temporary account balances from the

	<p>Tapes, LCD Projector</p> <p>Flipcharts: Financial Statements</p>	<p><i>adjusted trial balances</i></p> <p>c. <i>prepare the retained earnings statement which explains the changes in the retained earnings during the year</i></p> <p>d. <i>the reflect the permanent accounts in the balance sheet</i></p> <p>e. <i>reflect the retained earnings into the balance sheet from the retained earnings statement</i></p> <p>2. The lead trainer provides the participants about 20 minutes to prepare the financial statements.</p> <p>3. Afterwards, the lead trainer asks the participants if there are questions. If there are no questions, the lead trainer moves to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 18	Step 6 - Journalizing and Posting Closing Journal Entries	
Purpose	To practice journalizing and posting closing journal entries in MFIs.	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> Understand the concepts and practice journalizing and posting closing journal entries in MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	<p>Computer, PPT Slide 123-127, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector</p> <p>Flipcharts: - Diagram</p>	<p><i>Plenary; Small Group Discussions; Exercises</i></p> <p>1. The lead trainer asks the participants about the purpose of closing journal entries. The lead trainer summarizes the points raised by the participants and emphasizes that: <i>"The purpose of closing the journal entries is (a) to determine the net income or losses for the period to be able to make adjustments to the retained earnings (increase, if there are gains or decrease, if there are losses). And (b) to reduce the balances of temporary accounts (revenue, expense, withdrawal) to "zero" related to earnings measurements and dividends."</i></p> <p>2. The lead trainer then describes to the participants through a diagram the process of closing journal entries: a. <i>identify accounts for closing</i> b. <i>record and post closing entries</i> c. <i>prepare post-closing trial balance</i></p> <p>3. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>

PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 19	Step 7 - Preparing Post Closing Trial Balance	

Purpose	To practice post-closing trial balance in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concept and practice post-closing trial balance. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 123-127, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector Flipcharts: Trial Balance	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> The lead trainer asks the participants to list the balances of the permanent accounts after the closing process is finished (Activity 18). When done, the lead trainer asks the participants to determine the retained earnings for the period. The lead trainer ensures that the participants arrive at the same figures. If not, the lead trainer discusses further and walks the participants through the process. The lead trainer then asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Session 3	The Accounting Cycle	
Activity 20	Step 8 – Journalizing and Post Reversing Journal Entries	
Purpose	To practice posting reversing journal entries in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice posting reversing journal entries in MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 123-127, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> The lead trainer asks the participants about reversing journal entries, the importance of doing it and when it should be done. The lead trainer summarizes the responses and emphasizes that: <ol style="list-style-type: none"> <i>the dates should be the first day of next accounting period</i> <i>it reverses the adjusting journal entries</i> <i>used when the “expedient method” is used for adjusting journal entries</i> The lead trainer then asks the participants to practice posting the reversing journal entries. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Session 4	Accounting Entries Unique to MFIs	
Activity 21	Accounting for Grants and Concessional Funds	
Purpose	To practice preparing accounting entries for grants and concession funds in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice preparing accounting entries for grants and concessional funds. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 100-101, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector Handout: Transactions Unique to MFIs Flipcharts: Blank General Journal	<i>Plenary; Small Group Discussions; Exercises</i> 1. The lead trainer asks the participants the current practices in the MFIs in dealing with grants, donations, subsidies or concessional funds received from third parties. 2. The lead trainer lists down and summarizes the participants' responses. The lead trainer explains to the participants the nature of these accounts and how it should be treated as follows: <i>"These types of funds are not generated as operational revenue or a result of performing the core activities of the MFIs. However, they are still a form of additional fund for the MFI (sort of income). As such, this is still recorded in the Income Statement but after the calculation of the operating profit or loss, to differentiate it from revenues from operation.</i> 3. The lead trainer provides the participants examples to practice preparing accounting entries for such transactions. 4. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	FINANCIAL ACCOUNTING	
Session 4	Accounting Entries Unique to MFIs	
Activity 22	Accounting for Capital	
Purpose	To practice preparing accounting entries for capital of MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concepts and practice preparing the accounting entries for the capital of MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 56-66, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector	<i>Plenary; Small Group Discussions; Exercises</i> 1. The lead trainer asks the participants the current practices in accounting the capital mobilized by the MFIs. 2. The lead trainer summarizes the participants' responses and explains to the participants the nature of this account and how it should be treated. 3. The lead trainer provides the participants with examples

		<p>to practice preparing accounting entries for capital.</p> <p>4. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.</p>
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PART II	FINANCIAL ACCOUNTING	
Session 4	Accounting Entries Unique to MFIs	
Activity 23	Accounting for Delinquent Accounts, Provisions for Bad Debts, and Write Offs	
Purpose	To practice preparing accounting entries for delinquent accounts, provisions for bad debts, and write offs in MFIs.	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> • Understand the concepts and practice preparing accounting entries for delinquent accounts, provisions for bad debts, and write offs in MFIs. • Understand the SBV Circular No. 15 	
Time:	Materials:	Steps/Method:
30 minutes	<p>Computer, PPT Slide 67-86, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector</p> <p>Handout: SBV Circular No. 15</p>	<p><i>Plenary; Small Group Discussions; Exercises</i></p> <ol style="list-style-type: none"> 1. The lead trainer asks the participants about delinquent account. Responses may include: <i>past due loans, unpaid loans, portfolio at risk, missed payments, etc.</i> 2. The lead trainer deepens the participants' understanding with the explanation of the contents of the SBV Circular No. 15. 3. The lead trainer asks the participants if there are questions about the circular. If there are no questions, the lead trainer continues with the discussions. 4. The lead trainer explains to the participants that: <i>"When credit is extended, some amount of uncollectible loan is generally inevitable, but can be minimized. If delinquency is probable and can be estimated, an estimate should be made of the delinquent amount and recorded in the period in which the revenue was produced (allowance method)."</i> 5. The lead trainer also explains the two methods in defining the provisions for bad debts as follows: <ol style="list-style-type: none"> a. <i>The general provision method – a certain percentage is applied to the current period' outstanding loan amount to estimate the bad debt expense.</i> b. <i>The accounts receivable method uses historical relationship between accounts receivables and bad debt losses. The historical rate or multiple rates are applied to the net accounts receivable to determine the desired balance in the allowance for doubtful accounts.</i> <p><i>Bad debts expense is the amount of adjustment necessary to bring the allowance account to its desired</i></p>

		<p><i>ending balance. However, instead of using single composite rate, different rates can be developed depending on the length of time the account is past due. The longer the account is past due, the higher the rate of uncollectible receivable (aging of accounts method)."</i></p> <ol style="list-style-type: none"> 6. The lead trainer provides examples of the two methods of provisioning and differentiates calculation based on the two methods. 7. The lead trainer also provides example of bad debts and then asks the participants to calculate delinquency and allowance based on definition in SBV Circular No. 15. 8. Afterwards, the lead trainer asks the participants to prepare the accounting entries. The lead trainer reminds the participants that: <i>"The allowance for delinquency is a contra-asset account to the Loan/Loans Receivable Account. As such it will reduce the amount of outstanding loans reflected in the Balance Sheet."</i> 9. The lead trainer reviews the prepared entries together with the participants. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer continues with the discussions. 10. The lead trainer asks the participants what the MFIs with accounts that remain unpaid for a long period of time or have become unrecoverable. 11. The lead trainer summarizes responses and explains to the participants the positive and negative effects of their practices. The lead trainer also introduces the concept of writing off based on the SBV Circular No. 15. The lead trainer reminds the participants that: <ol style="list-style-type: none"> a. <i>There should be a write off policy duly approved by the Board before any recommendations for write off is made.</i> b. <i>There should be enough reserves created before writing off any portion of the delinquent loans.</i> c. <i>Writing off delinquent loans reduces the reserves and increases the provision for loan losses to achieve full protection of the assets.</i> 12. The lead trainer then asks the participants to prepare the accounting entries for the bad debts written off. The lead trainer reviews the prepared entries of the participants and ensures that all participants have the correct entries. 13. The lead trainer then asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.
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PART II	FINANCIAL ACCOUNTING	
Session 4	Accounting Entries Unique to MFIs	
Activity 24	Asset Value Depreciation	
Purpose	To practice preparing accounting entries for asset value depreciation in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Understand the concepts and practice preparing accounting entries for asset value depreciation in MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	Computer, PPT Slide 92-99, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector	<i>Plenary; Small Group Discussions; Exercises</i> <ol style="list-style-type: none"> 1. The lead trainer asks the participants their understanding of depreciation, the types of assets that are depreciated, and the types of methods of depreciation applied by the MFIs. 2. The lead trainer lists down the responses of the participants and confirms their responses with the presentation and highlights the different methods as follows: <ol style="list-style-type: none"> a. <i>Straight line method</i> b. <i>Depreciation based on inputs and outputs (service hours method, productive output (PO) or units of production method</i> c. <i>Accelerated methods – sum of the years' digits (SYD); double declining balance</i> d. <i>Tax depreciation</i> e. <i>Depreciation systems – inventory appraisal, group and composite</i> 4. The lead trainer explains each of the methods and provides examples. The lead trainer asks the participants if there are questions at this point. If there are no questions, the lead trainer continues with the discussions. 5. The lead trainer asks the participants to prepare the accounting entries for the depreciation of assets. The lead trainer reviews the prepared entries of the participants and ensures that all participants have the same entries. 6. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.


PART II	FINANCIAL ACCOUNTING	
Session 5	Statement of Cash Flows	
Activity 25	Introduction to Cash Flow Statement	
Purpose	To practice preparing cash flow statement for MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Understand the concept and practice preparing cash flow statement for MFIs. 	
Time:	Materials:	Steps/Method:
30 minutes	<p>Computer, PPT Slide 128-142, Paper, Pens, Flipcharts, Stands, Tapes, LCD Projector, Meta Plan Cards</p> <p>Flipcharts: Cash Flow Statement</p> <p>Handout: Examples Of Complex Situations in MFIs</p>	<p><i>Plenary; Small Group Discussions; Exercises</i></p> <ol style="list-style-type: none"> The lead trainer asks the participants about cash flow statement as well as the purpose and importance of preparing cash flow statements. The lead trainer summarizes the participants' responses from the participants and emphasizes that: <i>"Cash flow statement helps the MFIs assess:</i> <ol style="list-style-type: none"> <i>their ability to generate cash</i> <i>ability to meet obligations</i> <i>reasons for differences between income and associated cash flows</i> <i>effect of cash and non-cash investments and financing activities on an MFI's financial position</i> <i>how much money they need to generate immediately to fulfill their obligations</i> The lead trainer also explains the two methods of reporting cash flows as follows: <ol style="list-style-type: none"> <i>Direct method – shows the actual net cash inflow (outflow) from operations</i> <i>Indirect method – shows the net cash inflow (outflow) from operations as an adjustment of net income</i> The lead trainer further explains and provides examples for each of the categories as follows: <ol style="list-style-type: none"> <i>cash flows from operating activities</i> <i>cash flows from investing activities</i> <i>cash flows from financing activities</i> The lead trainer asks the participants to practice the two methods using the examples given. The lead trainer reviews the entries prepared by the participants and ensures that all participants have the same entries. The lead trainer then provides examples of complex situations (e.g. bad debts and write offs) and how to handle such accounts. The lead trainer explains the two methods – <i>the general account method and the voucher-journal account method</i> – and the difference between the two methods. The lead trainer asks the participants to practice the two methods using the examples given. The lead trainer reviews the entries prepared entries by the participants and ensures that all participants have the same entries. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART IV	CLOSING ACTIVITIES	
SESSION 1	Wrap Up and Evaluations	
Activity 26	Evaluations	
Purpose	To validate whether the training objectives have been met.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Validate achievement of the training objectives, participants' training expectations, and resolve "parking lot" issues. • Complete the evaluation form. 	
Time:	Materials:	Steps/Method:
15-20 minutes	Pens, Agenda, Computer, LCD Projector Evaluation Forms	<i>Plenary; Post Training Evaluation</i> <ol style="list-style-type: none"> 1. The support staff distributes the evaluation forms to the participants and asks them to fill up the form. 2. The support staff provides a short explanation on the content and how the form should be filled up by the participants. 3. The support staff collects the forms from the participants. 4. The training coordinator reviews the training objectives against the learning experiences of the participants along with their expectations from the training. 5. The training coordinator reviews the issues listed in the parking lot, if any and tries to resolve such issues. 6. The training coordinator asks the participants if they want to share anything to the group 7. The lead trainer asks the participants if all is clear. If there are no questions, the lead trainer thanks the participants and moves to the next activity

PART IV	CLOSING ACTIVITIES	
SESSION 1	Closing	
Activity 27	Closing Remarks	
Purpose	To officially mark the end of the training.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Complete the requirements of the training. • Receive the certificate of completion. 	
Time:	Materials:	Steps/Method:
15-20 minutes	Certificates	<i>Plenary</i> <ol style="list-style-type: none"> 1. The training coordinator requests the representatives of host institutions (e.g. ADB, SBV) to deliver the closing remarks. 2. The training coordinator thanks all the people that supports the delivery of the training (ADB, SBV, PMU, MFI, others) and thanks the participants for the hard work and active participation. 3. The hosts' organization representatives issue the certificate of completion to the participants. 4. The host, trainers and participants pose for the group picture.

PRESENTATION MATERIAL


**FINANCIAL
ACCOUNTING FOR
MFIs**



The illustration features a blue inverted triangle containing silhouettes of three people working at a computer. Below the triangle is a large orange speech bubble. At the base of the bubble are several financial documents: a red 'SAVINGS BOOK', a 'LOAN APPLICATION' form, and a stack of green banknotes. A globe is also visible among the documents.

SLIDE 1

Introduction of participants



A cartoon illustration of a man in a white shirt and tie, walking and leading a small group of people.

Group Activity:
Divide the group to discuss and prepare group presentations on:

1. Introduction of group members?
2. Reason for attending this course?
3. Expectations/ learning from this course?
4. Total years of experience of the group members?

SLIDE 2

Course rules

Punctuality



Turn off Mobile phone



Active participation



Respect



SLIDE 3

Course Objectives

After attending this course, participants who already have basic knowledge of accounting or accounting experience can master the knowledge of:

- . The concept of financial accounting
- . Accounting Formula
- . Accounting principles
- . Accounting for the basic journal entries
- . The basic adjusting entries
- . Preparing financial statements

SLIDE 4

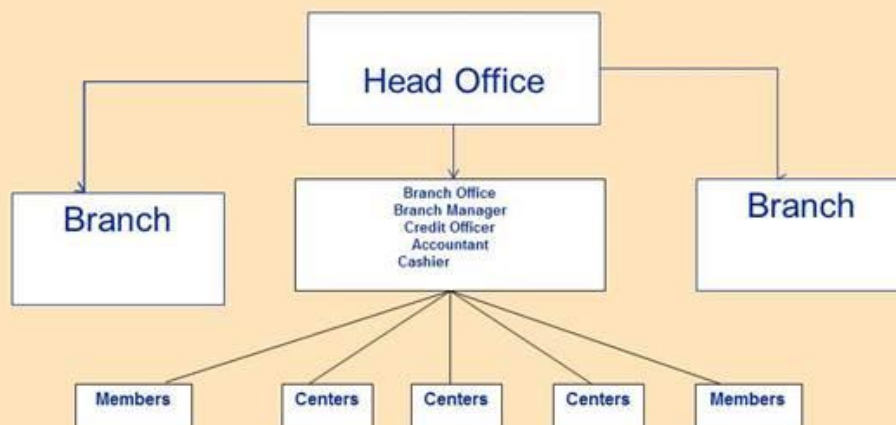
PART 1

The Environment of Accounting



SLIDE 5

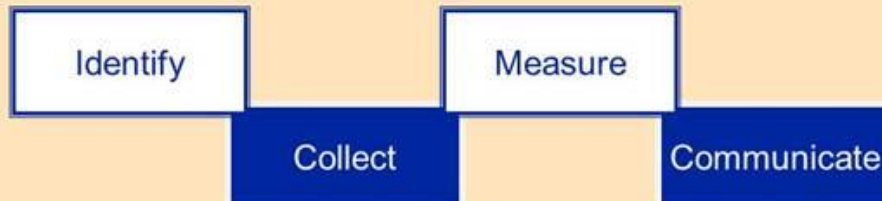
Organizational Structure in terms of Accounting



SLIDE 6

Nature of Financial Accounting

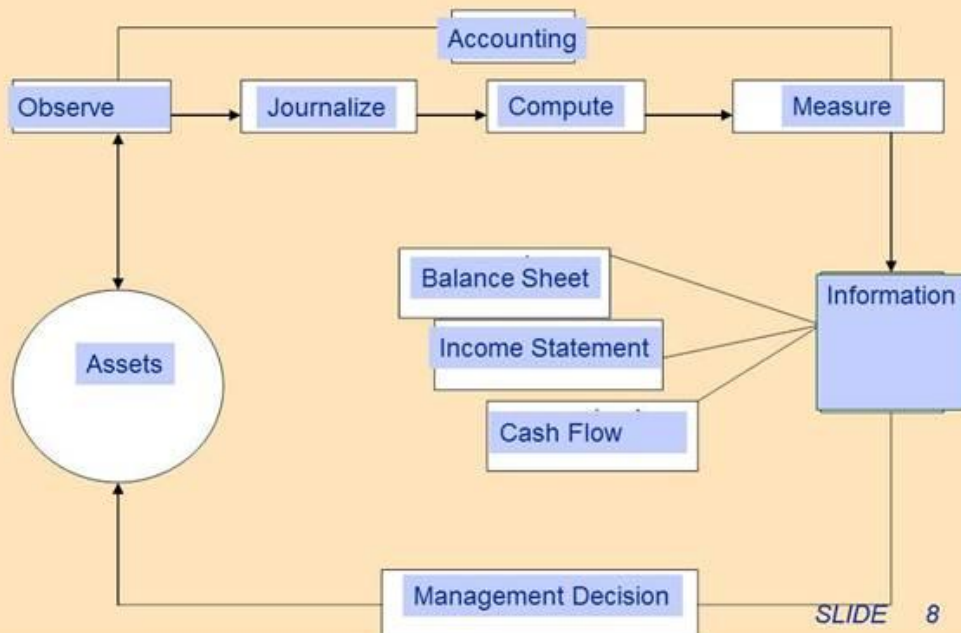
An information system is to . . .



Accounting is a system which includes observation - recording - calculation and measuring of the economic - financial processes, as well as an information system about enterprise's assets which help the enterprise run in the right direction and in an effective manner.

SLIDE 7

Role of Financial Accounting



SLIDE 8

Financial Reporting Objective

- Report the effects of completed business transactions and other events on the MFIs.



- Two basic types of financial statements:

- Relating to a specific point in the period (Balance Sheet)
- Relating to a specific period of time (Income, Retained Earnings and Cash Flows)

SLIDE 9

Accounting Principles

- Monetization of assets of the organization
- Cautious
- Timely and adequate
- Honest and reasonable
- Use consistent mode / method of accounting
- Correct accounting period
- Accounts System: according to regulations
- Method of accounting: dual recording
- Accounting books system: according to regulations
- Accounting for revenues and expenditures: Estimated revenues and projected expenditures

SLIDE 10

Accounting Equations

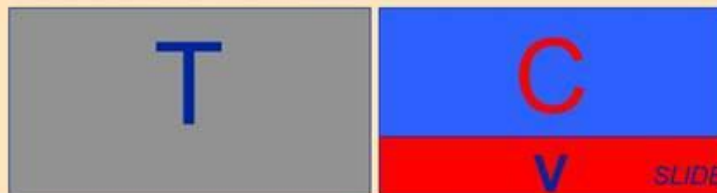
Accounting equation is considered as a framework for the entire accounting process, which is reflected in the Balance Sheet. It shows the balance between total value of assets and total capital sources.

SLIDE 11

What does the Balance Sheet reflect?

- || **Assets:** valuable things that MFI is possessing
- || **Liabilities:** the amount that MFI is responsible to pay in the short term or long term
- || **Owner's equity:** the capital contributed by owners (members), donors and income generated from MFI's financial activities.

$$T = C + V$$



12

Revenues

“Refers to money earned by an organization for goods and services rendered during an accounting period, including

- Interest earned on loans to clients
- Fees earned on loans to clients
- Interest earned on deposits in a bank

...”

T

C

$V = \text{Equity} + (\text{Revenues} - \text{Expenses})$

SLIDE 13

Expenses

“Refer to costs incurred for goods and services used in the process of earning revenue. Direct expenses for an MFI include

- Financial expenses
- Administrative expenses
- Loan loss provisions”

...

T

C

$V = \text{Equity} + (\text{Revenues} - \text{Expenses})$

SLIDE 14

Gains and losses

Gains: “Increases to owner’s equity resulting from incidental transactions”

Losses: “Decreases to owner’s equity resulting from incidental transactions”



SLIDE 15

End of Part 1



SLIDE 16

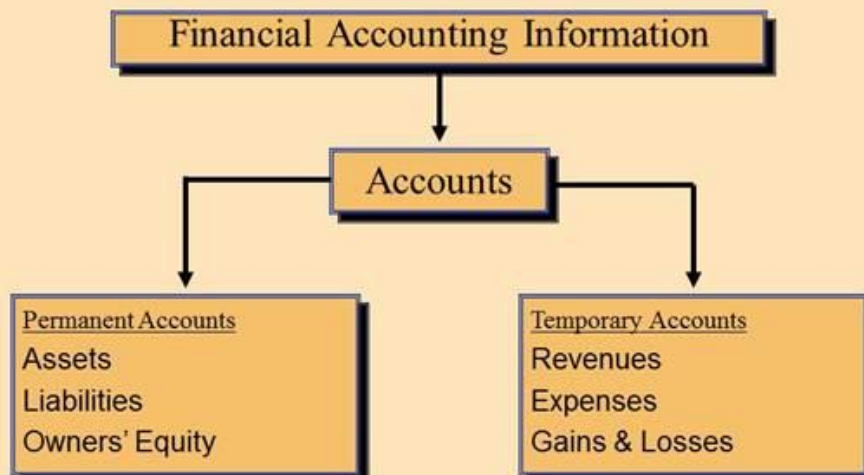
PART 2

Overview: Accounting Information Process & System



SLIDE 17

Accounts and Transaction Recording



SLIDE 18

Accounting Identities

The balances in **PERMANENT** accounts are carried over to future accounting periods.



SLIDE 19

Accounting Identities

The double-entry system records the changes in assets, liabilities, capital



SLIDE 20

Accounting Identities...

For example: If money is borrowed, then Cash (or Assets) is increased and Liabilities is increased.

$$\begin{array}{ccccc} T & = & C & + & V \\ + \$250,000 & & + \$250,000 & & \end{array}$$

\$250,000 is borrowed from a bank

SLIDE 21

Accounting Identities

Each account is regularly affected by debits and credits

$$T = C + V$$

Account Name	
Debit	Credit

Account Name	
Debit	Credit

Account Name	
Debit	Credit

SLIDE 22

Accounting Identities

Each account is regularly affected by debits and credits.

$$T = C + V$$

Assets		Liabilities		Equities	
Debit: increase	Credit: decrease	Debit: decrease	Credit: increase	Debit: decrease	Credit: increase

SLIDE 23

The Income Statement and Temporary Accounts

The **Revenues** account is affected by debits and credits as follows:

$$\text{Net Income} = \text{Revenues} - \text{Expenses}$$

REVENUES	
Debit: decrease	Credit: increase

SLIDE 24

The Income Statement and Temporary Accounts

The **Expenses** account is affected by debits and credits as follows:

$$\text{Net Income} = \text{Revenues} - \text{Expenses}$$

EXPENSES	
Debit: increase	Credit: decrease

SLIDE 25

Let's Practice Transaction Analysis

Assets						=	Liabilities			Stockholders' Equity		Type of Transaction
Accounts							Account	Notes	Unearned	Capital	Retained Earnings	
Cash +	Loans +	Supplies +	License +	Equipment +	Land	=	Payable +	Payable +	Revenue	Capital +	Earnings	
(a) 95,000											95,000	

a) On July 1, an amount of \$95,000 was invested in the MFI as owner's equity.

SLIDE 26

	Assets						=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	=	Account Payable +	Unearned Savings +	Revenue	Capital +	Retained Earnings	
(a)	95,000										95,000		
(b)	(60,000)	60,000											

b) MFI releases loans worth \$60,000 in cash

SLIDE 27

	Assets						=	Liabilities		Stockholders' Equity		Type of Transaction
	Cash +	loans +	Supplies +	License +	Equipment +	Land	= Payable +	Savings	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					

c) MFI purchased an estimated three month office supplies on account. The MFI will pay \$600 for these supplies later.

SLIDE 28

	Assets						=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	=	Accounts Payable +	Unearned Savings +	Revenue	Capital +	Retained Earnings	
(a)	95,000										95,000		
(b)	(60,000)	60,000											
(c)			600					600					
(d)	800											800	Service Revenue

d) MFI received \$800 for loans' fee

SLIDE 29

	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Note Payable +	Unearned Revenue	Capital +	Retained Earnings	Type of Transaction
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loan Service
(f)												

e) MFI delivers loans of \$20,000.

SLIDE 30

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)					60,000						
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loans Service
(f)												

f) MFI received audit contract offer of 2000\$

NO TRANSACTION

SLIDE 31

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loans Service
(f)												
(g)					6,000			6,000				

g) MFI purchased office equipment worth \$6,000. The MFI signed a 2-year contract with an Office Equipment Supplier.

SLIDE 32

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loans Service
(f)												
(g)					6,000			6,000				
(h)	(1,800)			1,800								

h) MFI paid \$1,800 for a 1-year license to use software. The license expires June 30th of next year.

SLIDE 33

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loan Service
(f)												
(g)					6,000			6,000				
(h)	(1,800)			1,800								
(i)	800	(800)										

i) MFI collected \$800 of the loans owed from (e).

SLIDE 34

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	=	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings
(a)	95,000										95,000	
(b)	(60,000)	60,000										
(c)			600					600				
(d)	800											800
(e)	(20,000)	20,000										
(f)												
(g)					6,000				6,000			
(h)	(1,800)			1,800								
(i)	800	(800)										
(j)	(400)							(400)				

j) MFI paid \$400 of the amount it owed from (c).

SLIDE 35

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loan Service
(f)												
(g)					6,000			6,000				
(h)	(1,800)			1,800								
(i)	800	(800)										
(j)	(400)							(400)				
(k)	(600)										(600)	Salaries Expense

k) An employee earned \$600 which was paid during the month.

SLIDE 36

	Assets					=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loan Service
(f)												
(g)					6,000			6,000				
(h)	(1,800)			1,800								
(i)	800	(800)										
(j)	(400)						(400)					
(k)	(600)										(600)	Salaries Expense
(l)	5,000								5,000			

I) MFI received a savings of \$5,000 from clients

SLIDE 37

	Assets						=	Liabilities		Stockholders' Equity		Type of Transaction	
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	=	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000										95,000		
(b)	(60,000)	60,000											
(c)			600					600					
(d)	800											800	Service Revenue
(e)	(20,000)	20,000											Loan Service
(f)													
(g)					6,000				6,000				
(h)	(1,800)			1,800									
(i)	800	(800)											
(j)	(400)							(400)					
(k)	(600)											(600)	Salaries Expense
(l)	5,000									5,000			
(m)	(500)											(500)	Rent Expense

m) MFI paid \$500 for office rental during the month.

SLIDE 38

	Assets					=	Liabilities			Stockholders' Equity		Type of Transaction
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)											
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										
(f)												
(g)					6,000			6,000				
(h)	(1,800)			1,800								
(i)	800	(800)										
(j)	(400)						(400)					
(k)	(600)										(600)	Salaries Expense
(l)	5,000								5,000			
(m)	(500)										(500)	Rent Expense
(n)	(700)										(700)	Dividends

n) Dividends of \$700 were paid during the month.

SLIDE 39

Balance Sheet												
	Assets					=	Liabilities			Stockholders' Equity		Type of Transaction
	Cash +	Loans +	Supplies +	License +	Equipment +	Land	Accounts Payable +	Notes Payable +	Unearned Revenue	Capital +	Retained Earnings	
(a)	95,000									95,000		
(b)	(60,000)	60,000										
(c)			600				600					
(d)	800										800	Service Revenue
(e)	(20,000)	20,000										Loan Service
(f)												
(g)					6,000			6,000				
(h)	(1,800)			1,800								
(i)	800	(800)										
(j)	(400)						(400)					
(k)	(600)										(600)	Salaries Expense
(l)	5,000								5,000			
(m)	(500)										(500)	Rent Expense
(n)	(700)										(700)	Dividends
Total	17,600	79,200	600	1,800	6,000	-	200	6,000	5,000	95,000	(1,000)	
105,200						105,200						SLIDE 40

Part 3

Accounting Cycle



SLIDE 41

Accounting Cycle

The Accounting Cycle is a series of sequential steps leading to the financial statements.



SLIDE 42

Step 1: Review documents, Identify Transactions or Events

Events that change MFI's resources or obligations are categorized into three categories:

Exchanges of assets and liabilities between MFI and outside parties.

Internal events that affect MFI's assets and capital but do not involve outside parties.

External economic and environmental events beyond the control of the MFI

SLIDE 43

Step 2: Journalize Transactions and Events

SLIDE 44

- A chronological record of transactions using the Debit/Credit format
- Generally two types of journals:
 - Special journals - repetitive entries
 - General journal – non repetitive entries, non-cash

Date	Recei pt No.	Desc ription	Debit in cash	Credit entries										Savings
				Bank withd rawal	Withd rawal from Fund	Withdr awal of term- deposi t in Bank	Withdr awal from PCF	Principal Collection				Loan Collection		
								General loan	Increme ntal loan	Seasonal loan	Medi um term loan	Intern al Borrow ing	Extern al Borrow ing	Accoun t
			1011	13119	13119	13129	13129	2111.1	2111.2	2111.3	212	41488	41489	4331.1

Step 2: Journalize Transactions and Events

On January 1, 2011, MFI borrows \$10,000 from the bank.

Prepare the appropriate journal entry for the above transaction.



SLIDE 45

Step 2: Journalize Transactions and Events

- Two accounts are affected:
 - Cash is increased by \$10,000.
 - Notes Payable is increased by \$10,000.



SLIDE 46

Step 2: Journalize Transactions and Events

Date	Recei pt No.	Desc ription	Debit in cchs	Credit entries										Savings
				Bank withd rawal	Withd rawal from Fund	Withd rawal of term- deposi t in Bank	Withd rawal from PCF	Principal Collection				Loan Collection		
								General loan	Increme ntal loan	Seasonal loan	Medi um term loan	Intern al Borrow ing	Extern al Borrow ing	Accoun t
			1011	13119	13119	13129	13129	2111.1	2111.2	2111.3	212	41488	41489	4331.1
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1/1/11	36	Vay NH	10000										10000	

SLIDE 47

Step 2: Journalize Transactions and Events

On January 1, 2011, MFI received materials worth \$1,000 from donor.
Prepare the appropriate journal entry for the above transaction.



SLIDE 48

Step 2: Journalize Transactions and Events

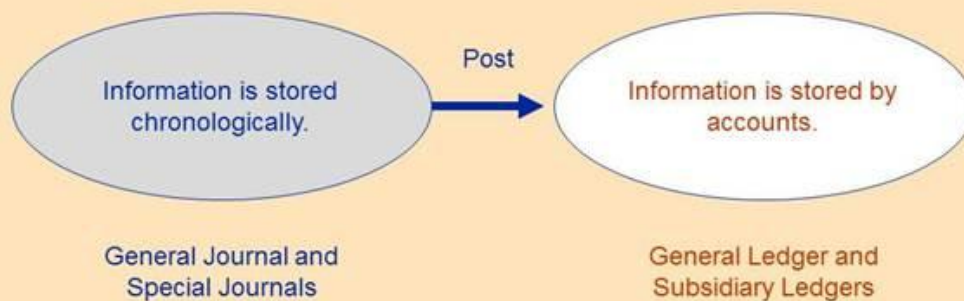
GENERAL JOURNAL				Page	1
Date	Discription	Acc.	Debit	Credit	
1/1/2011	Material	313	1,000		
	Donation Fund in kind	6019		1,000	
	Receiving donation fund inkind				



SLIDE 49

Step 2: Posting From Journals to Ledger

|| **Posting** refers to the process of recording information from the journals to the ledger.



SLIDE 50

Step 2: Posting From Journals to Ledger

|| General Ledger format is as follows:

ACCOUNT NAME:			ACCOUNT No.		
Date	Description	PR	Debit	Credit	Balance

SLIDE 51

Example

GENERAL JOURNAL			Page: 1	
Date	Description	PR	Debit	Credit
1-Jan	Cash	101	10,000	
	Notes Payable	215		10,000
	To record bank loan			

Start with the entry from the General Journal.

SLIDE 52

Step 3: Example

Next, find the appropriate page in the General Ledger for Cash

ACCOUNT NAME: CASH			ACCOUNT No. 101		
Date	Description	PR	Debit	Credit	Balance
	Beginning Balance		0		0

SLIDE 53

Example

Identify the information to be posted to the General Ledger

GENERAL JOURNAL			Page: 1		
Date	Description	PR	Debit	Credit	
1-Jan	Cash	101	10,000		
	Notes Payable	215		10,000	
	To record bank loan				

ACCOUNT NAME: CASH			ACCOUNT No. 101		
Date	Description	PR	Debit	Credit	Balance
	Beginning Balance		0		0

SLIDE 54

Example

Enter the information to be posted into the General Ledger.

GENERAL JOURNAL					Page:	1
Date	Description	PR	Debit	Credit		
1-Jan	Cash	101	10,000			
	Notes Payable	215		10,000		
	To record bank loan					

ACCOUNT NAME: CASH			ACCOUNT No. 101		
Date	Description	PR	Debit	Credit	Balance
	Beginning Balance		0		0
1-Jan	Bank Loan	GJ1	10,000		10,000

Update the balance in the General Ledger account for cash.

SLIDE 55

PART 3

Accounting Entries



SLIDE 56

Accounting for Capital Sources

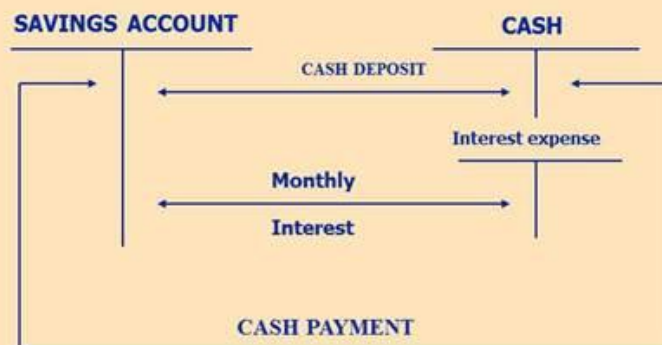
- **Deposit**
 - Non-term
 - Term
- **Savings**
 - Non-term
 - Term
- **Borrowings**

57

Tài liệu dùng cho lớp Kiểm toán Nhà nước

SLIDE 57

Accounting cycle for Non-Term Savings/Deposit



>Interest for clients is calculated by the accrual method on the near end of the month and interest is added to principal

SLIDE 58

Example of Interest Calculation by Non-Term Savings/Deposit

Day (1)	Balance (2)	Actual days (3)	Multiple (=2*3)
27/7 carried over	1.280	4	
31/07/05	720	4	
04/08/05	1.800	10	
14/08/05	5.900	2	
16/08/05	3.500	8	
24/08/05	9.600	3	
27/08/05	---	---	
		= 31	Total

Total multiplication * interest rate (month)

Monthly interest = _____

30

SLIDE 59

Accounting for Term Savings/Deposits

Prepaid interest:



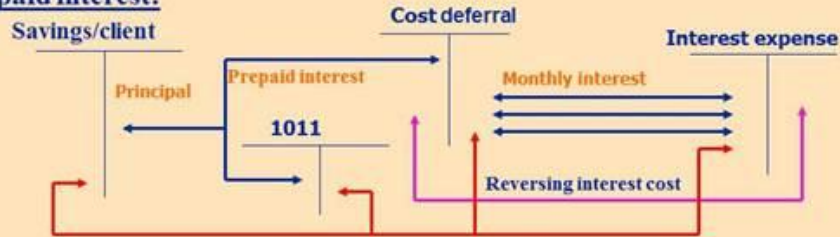
Post-paid interest:



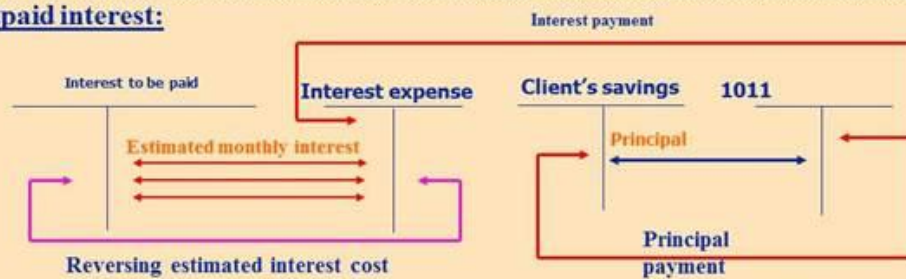
SLIDE 60

Pre-mature Withdrawals

Prepaid interest:



Postpaid interest:



SLIDE 61

Example of Loans Accounting

On 1 Sept, MFI borrows from bank \$80,000.
The note is due in 180 days and has a
stated interest rate of 9%

GENERAL JOURNAL

Page: 56

Date	Description	PR	Debit	Credit
1-Sep	Cash		80,000	
	Notes Payable			80,000
	to record receipt of short-term			
	loan proceeds from the			
	Bank			

SLIDE 62

Example of Loans Accounting

On 1 Sept, MFI borrows from bank \$80,000. The note is due in 180 days and has a stated interest rate of 9%

Fiscal year ends on 31 December.

Record necessary adjustments when the note is due on 28 Feb.

GENERAL JOURNAL

Page: 28

Date	Description	PR	Debit	Credit
31-Dec	Interest Expense		2,400	
	Interest Payable			2,400
	to accrue interest on note due to Bank.			

SLIDE 63

Example of Loans Accounting

On due day 28 Feb



GENERAL JOURNAL

Page: 12

Date	Description	PR	Debit	Credit
28-Feb	Interest Payable		2,400	
	Interest Expense		1,200	
	Note Payable		80,000	
	Cash			83,600
	to pay off note and interest			

SLIDE 64

Accounting for Internal Cash Transfer

□ Accounting entries:

Cash transferred from HO			Cash received in branch		
<u>Option 1:</u>					
Acc.1011		Transferring Acc.	Transferring Acc.		Acc. 1011
	(1)			(2)	
←		→	←		→
<u>Option 2:</u>					
Acc 1011	Acc 1019	Transferring Acc.	Transferring Acc.		Acc 1011
←	(1')	←	(3')	←	(2')
→		→		→	

SLIDE 65

Accounting for Internal Fund Transfer

□ Accounting entries:

Fund transferred from HO			Fund received in branch		
<u>Option 1:</u>					
Acc 1311		Transferring Acc.	Transferring Acc.		Acc 1311
	(1)			(2)	
←		→	←		→

SLIDE 66

Loan Accounting

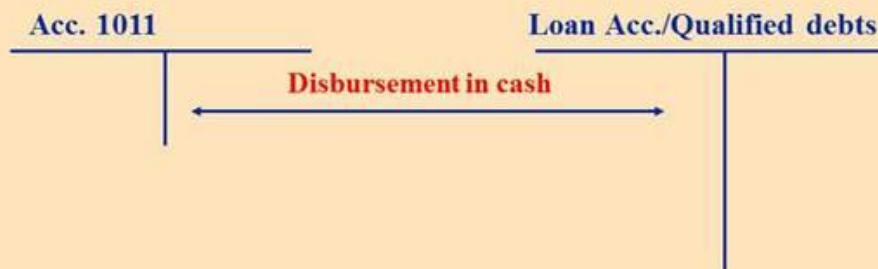


SLIDE 67

Loan Accounting Cycle

Accounting for loan disbursement

- Entry: AC994- Collaterals from client (if any)
- At the same time accounting the principal amount in Balance Sheet:



SLIDE 68

Loan Accounting Cycle

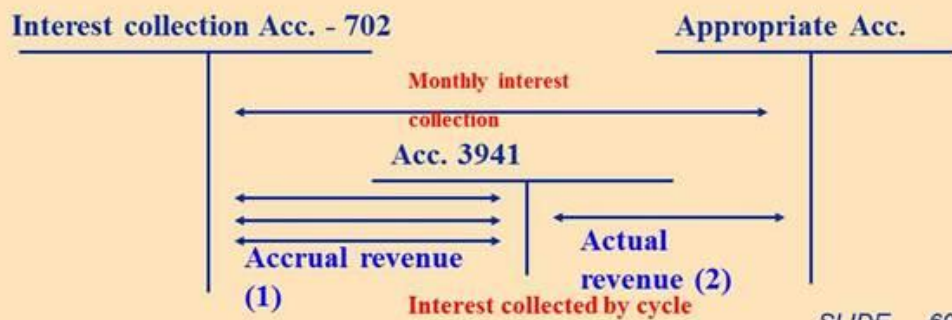
□ Calculate interest and make entries

□ Calculate interest by loan

□ Interest Collection Term

Monthly collection: Interest Receivables account is not used

Collection by cycle or at due time: Interest Receivables account is used



SLIDE 69

Loan Accounting Cycle

□ In case interest is not collected:

□ For interest: - stop calculating accrual interest

- Definitely unable to collect => Expense

- Track uncollected interests in off-balance sheet account 941

□ For principal: Move (principal) to appropriate delinquency category

□ In case interest past due is collected:

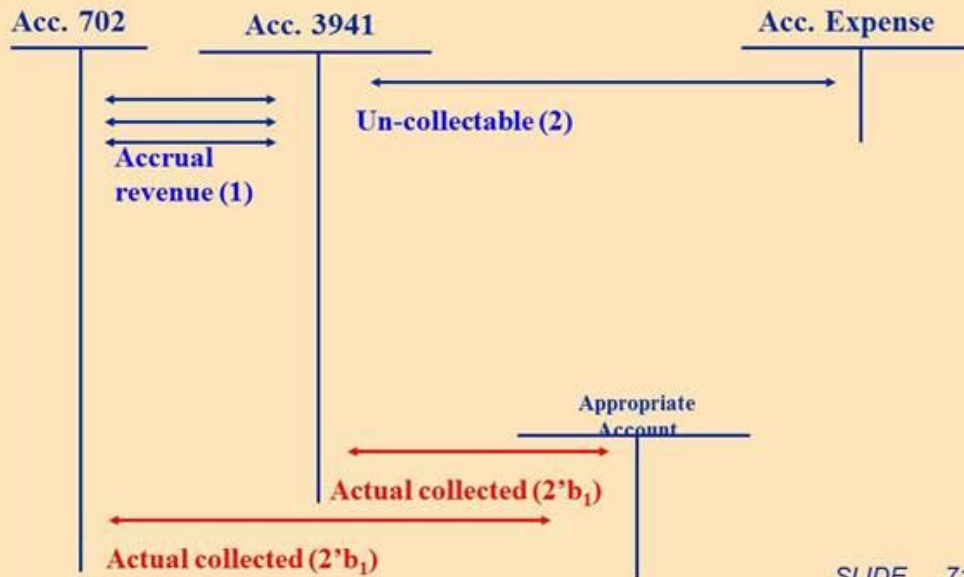
□ For interest: - Journalizing into appropriate account, part is journalized into accrual revenue account, the rest is journalized into Loan interest account – 702

- Refund accrual interest receivable

□ For principal: Move (principal) to appropriate delinquency category

SLIDE 70

Handling Interest Receivables



SLIDE 71

Example of Loan Accounting

On 1 Sept, MFI disburses \$1200 loan to a client. The loan term is 180 days and interest rate is 12%

GENERAL JORNAL

Page 56

Date	Discriptions	Acc.	Debit	Credit
1/9	Loan to Mr. B		1,200	
	Cash			1,200
	Disbursed to Mr. B			

SLIDE 72

Example of Loan Accounting

On 31 Oct, MFI prepares financial statements.

Record adjusting entries as necessary.

Accounting accrual interest (NEW according to draft Circular)

GENERAL JOURNAL				
				Page 28
Date	Discriptions	Acc.	Debit	Credit
31/10	Accrual Interest		12	
	Interest			12
	Journalizing interest entry			
				SLIDE 73

Overdue Transfer

Up to 3 Oct 2010, client B can not pay \$10 interest for the period. Outstanding loan is \$1200. One month later, client B still can not pay for the next period

Outstanding loan		Debt to be noted		Debt below standard	
1,200	1,200	1200	1,200	1200
Loan Interest Receivables (941)		Accrual interest		Expense	
12		12	12	12	12
					SLIDE 74

Example of Loan Accounting



**If all outstanding loans are fully paid
by client on due date 28 Feb?**

GENERAL JOURNAL				
			Page	12
Date	Discriptions	Acc.	Debit	Credit
28/2	Cash		212	
	Interest			12
	Oustanding loan			200
	Loan Payment			

SLIDE 75

Provisioning

- **When credit is extended, some amount of uncollectible loan is generally inevitable.**
- **Risk provision is the amount of money to be reserved for possible losses occurred when MFI's clients do not fulfill their obligations under the loan commitment**

Circular 15/2010

SLIDE 76

Provisioning for Bad Debts

- **General Provisions (Portfolio outstanding)**
- **Specific Provisions (Aging Method)**



SLIDE 77

General Provisions

- The percentage is applied to current outstanding loans to estimate bad debt expense.
- MFIs set up and maintain a general reserve equal to 0.5% of the entire principal balance of loans from Group 1 to Group 4 as defined in Item 1 of Article 4 of Circular 15/2010

SLIDE 78

General Provision Example

Loans for 20XX	\$ 2,000,000
General provision percentage	0.5%
Provision	<u>\$ 1,000</u>

SLIDE 79

General Provision Example

GENERAL JOURNAL					Page 69
Date	Description	Post. Ref.	Debit	Credit	
Dec 31	Provision Expense		40,000		
	Allowance for Doubtful Accounts			40,000	

**Risk provisions will reduce the outstanding
loans on the Balance Sheet.**

SLIDE 80

Specific Provisioning

- This method uses the historical relationship between aging of loan accounts and bad debts (losses).
- One or more rates will be applied for a loan or a customer to determine the outstanding amount requiring provisions for suspected debts
- The provisioning will gradually form the fund for handling risks

SLIDE 81

Aging of Loan Accounts Example

MFI reports loans of \$233,000 at December 31, 2000. It uses aging of account to estimate bad debts. The MFI has calculated for accounts currently due, those 30, 60 and over 60 days past due. The Allowance account has a credit balance of \$327 on December 31.

SLIDE 82

Provisions Calculation Example

Age Category	Receivable Amount	Loss Percentage	Allowance Balance
Current	\$ 200,000	0.00%	\$ -
10-30 days past due	25,000	2.00%	500.00
31-90 days past due	5,000	25.00%	1,250.00
91-180 days past due	3,000	50.00%	1,500.00
Total Outstanding Loan	<u>\$ 233,000</u>		<u>\$ 3,250.00</u>

SLIDE 83

Aging of Receivables Example

Desired balance in allowance	\$ 3,250.00
Current allowance balance	<u>(327.00)</u>
Amount of adjustment	<u>\$ 2,923.00</u>

SLIDE 84

Aging of Receivables Example

Desired balance in allowance	\$ 3,250.00
Current allowance balance	(327.00)
Amount of adjustment	<u><u>\$ 2,923.00</u></u>

GENERAL JOURNAL					Page 69
Date	Description	Post. Ref.	Debit	Credit	
Dec 31	Provision Expense		2,923.00		
	Allowance for Doubtful Accounts			2,923.00	

SLIDE 85

Written-off

Write off is made when all documents as
required at Circular 15/2010 are
available

GENERAL JOURNAL					Page 69
Date	Description	Post. Ref.	Debit	Credit	
	Allowance for Doubtful Accounts		####		
	Loans			####	

The balance in the Allowance account reduces Loan account on the Balance Sheet.

SLIDE 86

Payroll Taxes - Employee Example



Prepare the journal entry to record the payroll for the month ending June 14.

GENERAL JOURNAL

Page: 15

Date	Description	PR	Debit	Credit
14-Jun	Salary Expense		5,000.00	
	Health Insurance Payable			50.00
	Social Insurance			250.00
	Redundant Insurance Payable			50.00
	Cash			4,650.00
	to record 6/14 payroll			

SLIDE 87

Payroll Taxes - Employee Example



Note: The expense to the MFI is \$5,000 while the actual payment to the employees is \$ 4,650.

GENERAL JOURNAL

Page: 15

Date	Description	PR	Debit	Credit
14-Jun	Salary Expense		5,000.00	
	Health Insurance Payable			50.00
	Social Insurance			250.00
	Redundant Insurance Payable			50.00
	Cash			4,650.00
	to record 6/14 payroll			

SLIDE 88

Payroll Taxes - Employee Example



Note: The employer transfers the deduction amounts to the government agencies on the employees' behalf.

GENERAL JOURNAL				
			Page:	15
Date	Description	PR	Debit	Credit
14-Jun	Salary Expense		5,000.00	
	Health Insurance Payable			50.00
	Social Insurance			250.00
	Redundant Insurance Payable			50.00
	Cash			4,650.00
	to record 6/14 payroll			

SLIDE 89

Payroll Taxes - Employer Example



GENERAL JOURNAL				
			Page:	18
Date	Description	PR	Debit	Credit
14-Jun	Payroll Tax Expense		950.00	
	Social Insurance Payable			750.00
	Health Insurance payable			100.00
	Redundant Insurance Payable			100.00
	to record payroll taxes for			
	6/14 payroll			

SLIDE 90

Payroll Taxes - Employer Example



Note: the total insurance expense is 26% partially paid by MFI and employees; health insurance rate is 3%(2%;1%); social insurance 20%(15%;5%); redundant insurance rate is 3%(2%; 1%).

GENERAL JOURNAL				
			Page:	18
Date	Description	PR	Debit	Credit
14-Jun	Payroll Tax Expense		950.00	
	Social Insurance Payable			750.00
	Health Insurance payable			100.00
	Redundant Insurance Payable			100.00
	to record payroll taxes for			
	6/14 payroll			

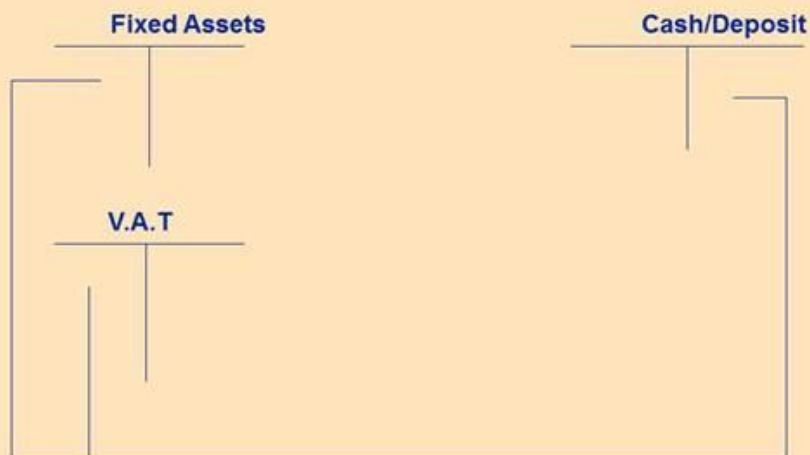
SLIDE 91

Fixed Assets and Depreciation Accounting



SLIDE 92

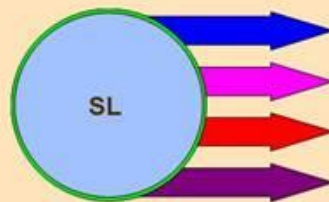
Accounting for Fixed Assets and Depreciation



SLIDE 93

Straight-Line (SL)

$$\text{Annual SL Depreciation} = \frac{\text{Acquisition cost} - \text{Residual value}}{\text{Estimated useful life in years}}$$

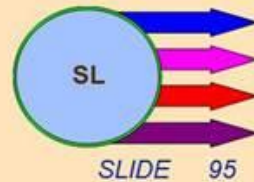


SLIDE 94

Straight-Line Example

On January 1, we purchase equipment for \$50,000 cash. The equipment has an estimated useful life of 5 years and residual value of \$5,000.

What is the annual straight-line depreciation?

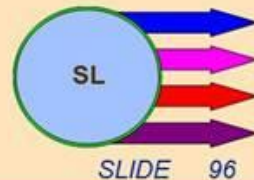


Straight-Line Example

$$\text{Annual SL Depreciation} = \frac{\text{Acquisition cost} - \text{Residual value}}{\text{Estimated useful life in years}}$$

$$\text{Annual SL Depreciation} = \frac{\$50,000 - \$5,000}{5 \text{ years}}$$

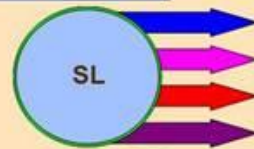
$$\text{Annual SL Depreciation} = \$9,000$$



Straight-Line Example

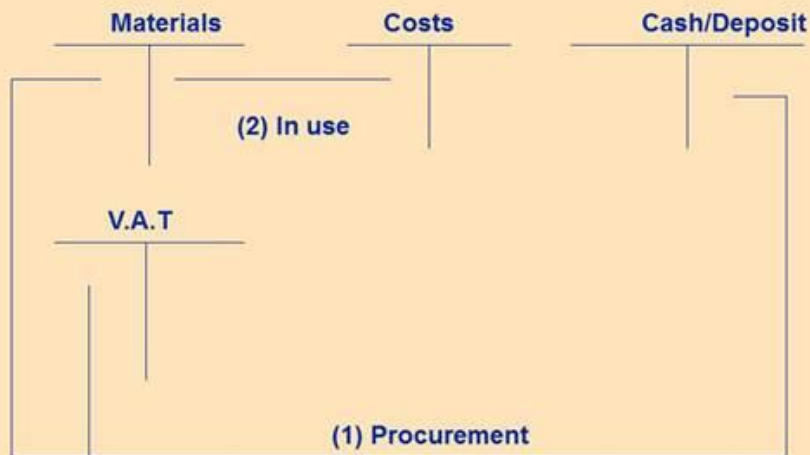
Year	Depreciation Expense (debit)	Accumulated Depreciation (credit)	Accumulated Depreciation Balance	Undepreciated Balance (book value)
				\$ 50,000
1	\$ 9,000	\$ 9,000	\$ 9,000	41,000
2	9,000	9,000	18,000	32,000
3	9,000	9,000	27,000	23,000
4	9,000	9,000	36,000	14,000
5	9,000	9,000	45,000	5,000
	<u>\$ 45,000</u>	<u>\$ 45,000</u>		

Residual Value



SLIDE 97

Accounting for Materials



SLIDE 98

ACCOUNTING FOR GRANTS

According to draft Circular

Appr. Account

AC 72 Non-financial Income

Income from technical assistance, labor tools, materials...

Cash/Deposit AC

AC 603 Donated Funds

Receive donated funds

SLIDE 101

ACCOUNTING IN ASSOCIATION WITH INFLATION, GRANTS, FINANCIAL SUSTAINABILITY

See Hand-outs

SLIDE 102

Step 3: Prepare Unadjusted Trial Balance

- Consists of a listing of accounts in the general ledger and the balances at the end of period.
 - Debit balances in one column and credit balances in another
 - Convenient for checking: total debit balance equals total credit balance.

SLIDE 103

Trial Balance - Example

Sample MFI
Unadjusted Trial Balance
December 31, 2000

	Debits	Credits
Cash	\$ 500	
Loans	31,200	
Equipment	3,800	
Accounts Payable		\$ 700
Notes Payable		1,450
Capital Stock		33,000
Retained Earnings - 1/1/00		-
Revenues		11,000
Salary Expense	5,250	
Utility Expense	3,000	
Rent Expense	2,400	
Total	\$ 46,150	\$ 46,150

SLIDE 104

Trial Balance - Example

Sample Company
Unadjusted Trial Balance
December 31, 2000

	Debits	Credits
Cash	\$ 500	
	31,200	
	3,800	
		\$ 700
		1,450
		33,000
		-
		11,000
Salary Expense	5,250	
Utility Expense	3,000	
Rent Expense	2,400	
Total	\$ 46,150	\$ 46,150

The General Ledger
is in balance!

$$DR = CR$$

SLIDE 105

Step 4: Journalize and Post Adjusting Journal Entries

- Deferrals
- Accruals
- Other
Adjusting
Journal
Entries



SLIDE 106

Step 4: Journalize and Post Adjusting Journal Entries



☐ Deferrals

☐ Accruals

☐ Other Adjusting Journal Entries

☐ Cash flows that occur before expense and revenue recognition.

☐ The portion that applies to future periods is deferred as a prepaid expense or unearned revenue.

SLIDE 107

Deferral Example

On 1 Dec 2011, your MFI paid \$1,200 for a six-month insurance policy. The \$1,200 was recorded as Prepaid Insurance (an asset).

What AJE is needed on 31 Dec 2011?

GENERAL JOURNAL				Page: 1
Date	Description	PR	Debit	Credit
31-Dec	Insurance Expense		200	
	Prepaid Insurance			200

SLIDE 108

Step 4: Journalize and Post Adjusting Journal Entries



□ Deferrals

□ **Accruals**

□ Other
Adjusting
Journal
Entries

□ Cash flows that occur after expense and revenue recognition.

□ Recorded when cash is to be paid or received in a future accounting period.

SLIDE 109

Accrual Example

Your MFI pays its workers every Friday.
Year-end, 31 Dec XY, falls on
Wednesday. It is estimated that
employees have earned salaries of
\$47,250 through Wednesday of the week
ended 1/2/XY.

What entry is required on 12/31/XY?

SLIDE 110

Accrual Example

Your MFI pays its workers every Friday.
Year-end ,31 Dec XY falls on
Wednesday. It is estimated that
employees have earned salaries of
\$47,250 through Wednesday of the week
ended 1/2/XY.

GENERAL JOURNAL				Page: 1
Date	Description	PR	Debit	Credit
31-Dec	Salary Expense		47,250	
	Salary Payable			47,250

SLIDE 111

Step 4: Journalize and Post Adjusting Journal Entries



□ Deferrals

□ Accruals

□ **Other
Adjusting
Journal
Entries**

Include:

- Reclassifications of permanent accounts.
- Estimations and allocation of expenses.
- Corrections of errors.

SLIDE 112

Other Example

MFI purchased equipment on 30 June XY that cost \$30,000. The equipment has an estimated useful life of 5 years and no salvage value. MFI uses straight-line depreciation.

What entry is required on 31 Dec XY?

SLIDE 113

Other Example...

MFI purchased equipment on 30 June XY that cost \$30,000. The equipment has an estimated useful life of 5 years and no salvage value. MFI uses straight-line depreciation.

What entry is required on 31 Dec XY?

GENERAL JOURNAL				Page: 1
Date	Description	PR	Debit	Credit
31-Dec	Depreciation Expense		2,500	
	Accumulated Depr.			2,500

SLIDE 114

Step 5: Prepare Financial Statement

Sample MFI Unadjusted Trial Balance December 31, 2010

	Debits	Credits
Cash	\$ 500	
Loans	31,200	
Equipment	3,800	
Accounts Payable		\$ 700
Notes Payable		1,450
Capital Stock		33,000
Retained Earnings - 1/1/10		-
Revenues		11,000
Salary Expense	5,250	
Utility Expense	3,000	
Rent Expense	2,400	
Total	\$ 46,150	\$ 46,150

SLIDE 115

Step 5: Prepare Adjusted Trial Balance

- Includes all account balances after adjustments have been posted.
- Used to produce the financial statements.

Sample MFI Adjusted Trial Balance December 31, 2010

	Debits	Credits
Cash	\$ 500	
Loans	31,200	
Interest Receivable	200	
Equipment	3,800	
Accumulated Depreciation		\$ 400
Accounts Payable		700
Interest Payable		65
Notes Payable		31,450
Capital Stock		3,000
Retained Earnings - 1/1/10		-
Interest Revenues		11,000
Fee Revenue		200
Salary Expense	5,250	
Interest Expense	3,000	
Rent Expense	2,400	
Other Expense	65	
Depreciation Expense	400	
Total	\$ 46,815	\$ 46,815

SLIDE 116

Step 5: Prepare Financial Statements

- || The income statement is always prepared first.
- || Includes the temporary account balances from the adjusted trial balance.

Sample MFI Income Statement For the Year Ended 12/31/10			
Revenues:			
Interest	\$	11,000	
Fee		200	
Total			\$ 11,200
Expenses:			
Salary		5,250	
Interest		3,000	
Rent		2,400	
Other		65	
Depreciation		400	
Total			11,115
Net Income			<u>\$ 85</u>

SLIDE 117

Step 5: Prepare Financial Statements

- || The retained earnings statement explains the changes in retained earnings during the year.

Sample MFI Retained Earnings Statement For the Year Ended 12/31/10		
Retained Earnings - 1/1/10	\$	-
Add: Net Income		<u>85</u>
Retained Earnings - 12/31/10	\$	<u>85</u>

SLIDE 118

Step 5: Prepare Financial Statements

- The balance sheet includes the permanent accounts.
- Retained Earnings is taken from the Retained Earnings Statement.

Sample MFI Balance Sheet December 31, 2010

ASSETS:	
Cash	\$ 500
Accounts Receivable	31,200
Interest Receivable	200
Equipment	\$ 3,800
Less: Accum. Depr.	(400)
Equipment (net)	3,400
Total Assets	\$ 35,300
LIABILITIES:	
Accounts Payable	\$ 700
Interest Payable	65
Notes Payable	31,450
Total Liabilities	\$ 32,215
EQUITY:	
Capital	\$ 3,000
R/E - 12/31/10	85
Total Equity	\$ 3,085
Total Liabilities & Equity	\$ 35,300

SLIDE 119

Diagram Illustrating How Balance Sheet Is Prepared

Adjusted Trial Balance of MFI 31/12/2010			Financial Statement Balance Sheet Example 31/12/2010	
Account	Debit	Credit	Revenue	
Cash	\$ 500		Interest earning	\$ 11,000
Loans	31,200		Fee earning	200
Interest Receivable	200			
Equipment	3,800		EXPENSES	
Accum. Depreciation		\$400	Salary	\$ 5,250
Accounts Payable		700	Interest	3,000
Interest Payable		65	Rent	2,400
Notes Payable		31,450	Others	65
Capital		3,000	Depreciation	400
Retained earning -1/1/00		-		\$ 85
Interest revenue		1,100		
Fee revenue		200		
Salary expense	5,250		EQUITY	
Interest expense	3,000		Capital	\$3,000
Rent expense	2,400		Retained earning -12/31/10	85
Other expenses	65		Total Equity	\$3,085
Depreciation expense	400			
Total	\$ 46,815	\$ 46,815		

SLIDE 120

Diagram Illustrating How Balance Sheet Is Prepared

Adjusted Trial Balance of MFI 31/12/2010			FINANCIAL STATEMENT Balance Sheet Example 31/12/2010	
Accounts	Debit	Credit	ASSETS	
Cash	\$ 500		Tiền mặt	\$ 500
Loans	31,200		Accounts Receivable	31,200
Projected Interest	200		Projected Interest	200
Equipment	3,800		Equipment	\$3,800
Accum. depreciation		\$400	Less: Accum. Depr.	(400)
Accounts Payable		700	Equipment	3,400
Interest Payable		65	Total Assets	\$35,300
Notes Payable		31,450		
Capital		3,000	LIABILITIES	
Retained Earning -1/1/00		-	Accounts Payable	\$ 700
Interest earning		1,100	Interest Payable	65
Fee earning		200	Notes Payable	31,450
Salary expense	5,250		Total Liabilities	\$32,215
Interest expense	3,000		EQUITY	
Rent expense	2,400		Capital	\$3,000
Depreciation expense	65		Retained Earning -12/31/00	85
	400		Total Equity	\$3,085
Total	\$ 46,815	\$ 46,815	Total Liabilities and Equity	\$ 35,300

SLIDE 121

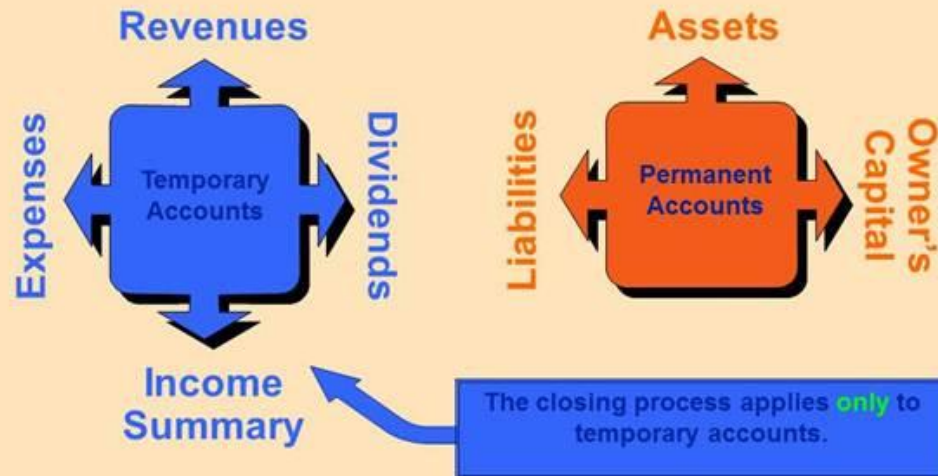
Step 6: Journalize and Post Closing Journal Entries

- Two purposes of closing journal entries:
 - Increase (or decrease) retained earnings by the net income (or net loss) amount for the period.
 - Reduce to zero the balances of temporary accounts related to earnings, expenses.



SLIDE 122

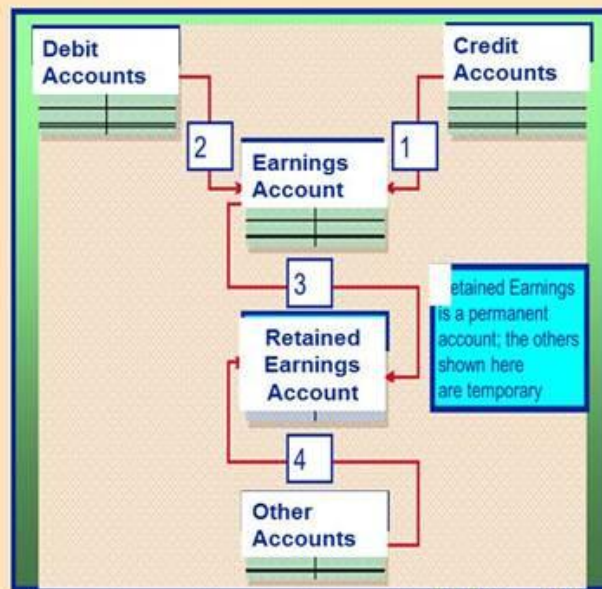
Temporary and Permanent Accounts



SLIDE 123

Closing Entries

- ❶ Close Revenue accounts to Income Summary.
- ❷ Close Expense accounts to Income Summary.
- ❸ Close Income Summary account to Retained Earnings.



SLIDE 124

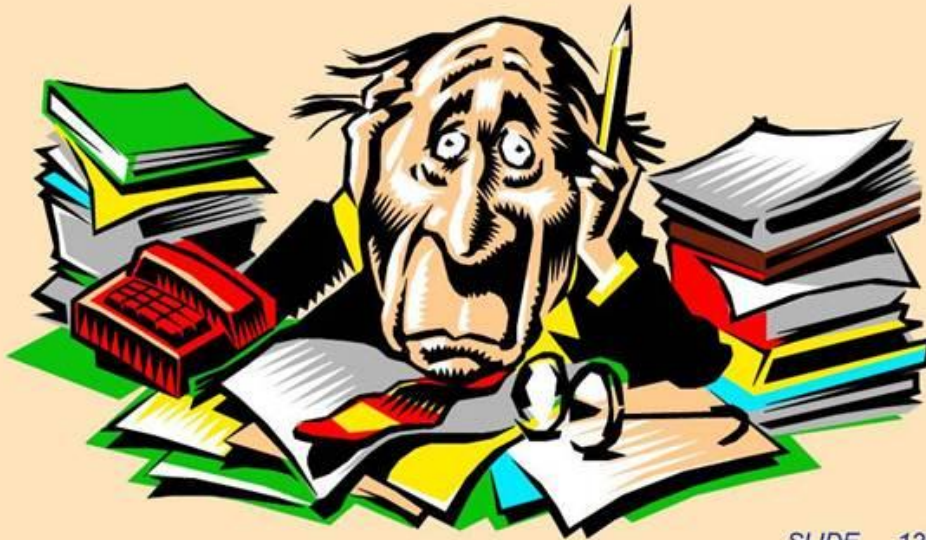
Step 6: Prepare Post-Closing

- Lists the balances of the permanent accounts after the closing process is finished.
- Retained Earnings will be shown in the end of period balance.



SLIDE 125

WOW!



SLIDE 126

Part 4

Statement of Cash Flows



SLIDE 127

The Statement of Cash Flows (SCF) . . .

- . . . is a report listing cash inflows and outflows by category.
- . . . explains the change in cash during the period.



SLIDE 128

Statement of Cash Flows Purpose

The Statement helps users assess . . .

- || **an MFI's ability to generate cash.**
- || **an MFI's ability to meet its obligations.**
- || **the reasons for differences between income and associated cash flows.**
- || **the effect of cash and noncash investing and financing activities on an MFI's financial position.**

SLIDE 129

Two methods of reporting

□ Direct Method

Shows actual net cash inflow (outflow) from operations.

□ Indirect Method

Shows net cash inflow (outflow) from operations as an adjustment of net income.

SLIDE 130

Cash Flow Categories

- Cash Flows from Operating Activities
- Cash Flows from Investing Activities
- Cash Flows from Financing Activities



SLIDE 131

Cash From Operating Activities

|| Inflows

- Receipts from customers
- Interest received
- Dividends received
- Refunds from suppliers
- Revenues received in advance

|| Outflows

- Payments to suppliers
- Payments to employees
- Interest payments
- Income tax payments
- Payments on financial leases



SLIDE 132

Cash Flows From Investing Activities

|| Inflows

- ▢ Proceeds from plant assets sales
- ▢ Proceeds from sales and maturities of debt and equity securities
- ▢ Collections of loan principal
- ▢ Sale of real estate

|| Outflows

- ▢ Payments to purchase plant assets
- ▢ Purchases of debt and equity securities
- ▢ Loans to others
- ▢ Payments to purchase real estate



SLIDE 133

Cash Flows From Financing Activities

|| Inflows

- ▢ Proceeds from debt for specific investing activities
- ▢ Proceeds from loans from financial institutions
- ▢ Proceeds from stock or bond issues

|| Outflows

- ▢ Dividends paid to stockholders
- ▢ Principal payments on loans from financial institutions
- ▢ Principal payments on capital leases



SLIDE 134

Operating Cash Flows Indirect Method

- Determines net cash flows from operating activities by
 - starting with net income.
 - disclosing items that reconcile net income to operating cash flows.

SLIDE 135

Indirect Method Working Capital Accounts

	Change in Account Balance during Year	
	Increase	Decrease
Current Assets	Subtract from net income	Add to net income
Current Liabilities	Add to net income	Subtract from net income

SLIDE 136

Indirect Method Other Reconciling Items

- ❑ **Add to net income**
 - ❑ Depreciation, depletion and amortization expense.
 - ❑ Losses.
 - ❑ Non-cash expenses.
- ❑ **Subtract from net income**
 - ❑ Gains.
 - ❑ Bond premium amortization.
 - ❑ Non-cash Revenues.



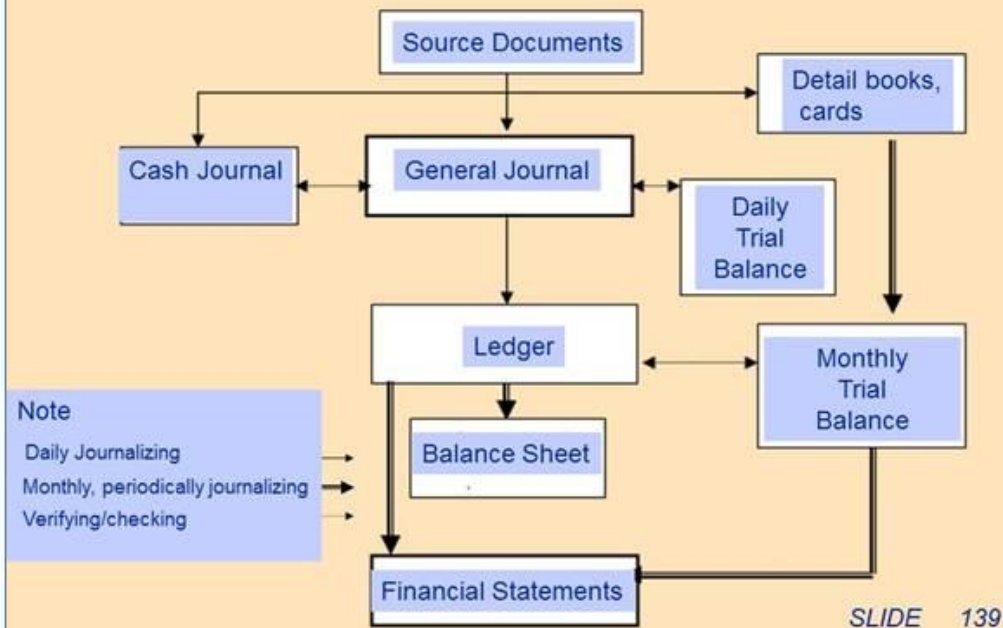
SLIDE 137

Accounting Formats

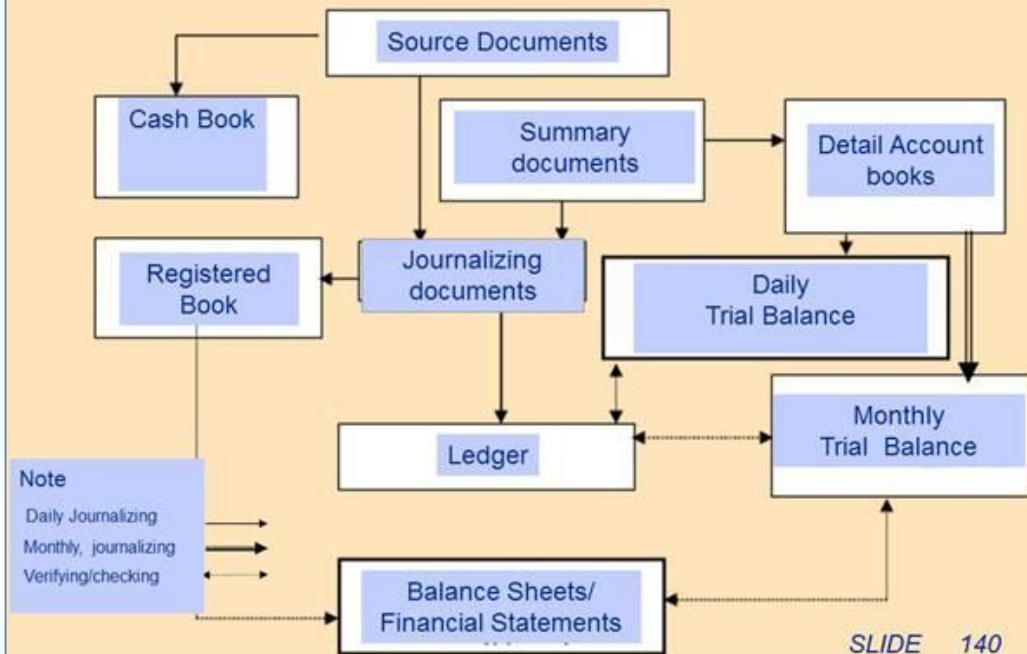


SLIDE 138

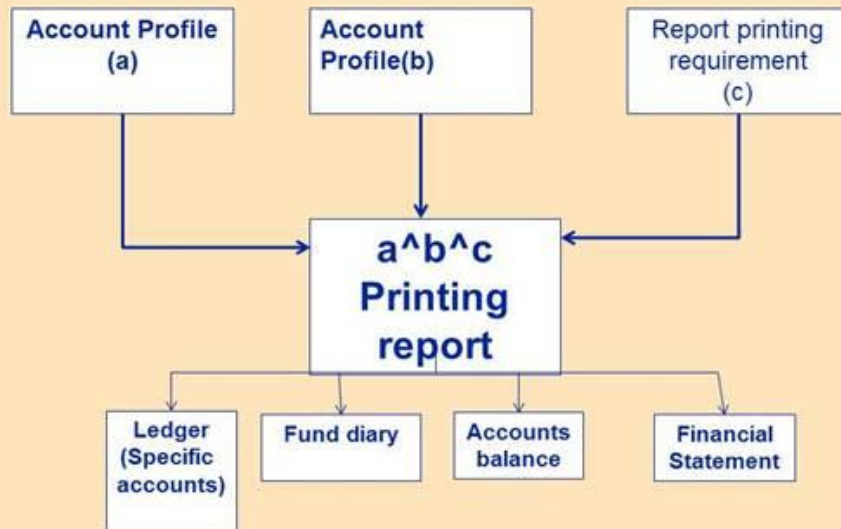
General Journal



Voucher Journal



Computerized Journal



SLIDE 141



SLIDE 142

HANDOUTS

Handout 4 Sample Adjustments in Microfinance Institutions

REFERENCE: NECESSARY ADJUSTMENTS TO BE CONSIDERED

The original financial report is presented accurately on the financial status of organizations under accounting principles. But, they are not a useful management tool to examine the extent to which institutions can afford the fluctuations such as inflation or viability considerations.

Suppose the CEO of the organization wants to see if the organization is self-sustainable which means it is completely independent from the sponsor and can tolerate inflation, what information is needed? In other words, any costs incurred should be reviewed but in fact it has not been fully reflected?

These factors include:

- Inflation
- Subsidized capital cost
- Non-monetary financing
- Loan Loss Reserve
- Write off

These are additional costs or "hidden costs" incurred that MFIs must acknowledge for internal management purposes. They are not reflected in the audited financial statements but they are adjustments necessary for internal management purposes.

(In some countries with high inflation, inflation adjustments are required in the audited financial statements, but in this case we consider inflation as a matter of internal management)

1. INFLATION

Inflation is the decrease in value / purchasing power of money against the value of goods

Inflation negatively affects the value of equity (capital or net value).

- The depreciation in value of equity is a cost.
- Even with low inflation, the decrease in value when combined is significant.
- As inflation attack right on the business focus

Because of severe influences by inflation, we need to calculate the cost of inflation.

Cost inflation is the spending to offset the devaluation of the currency when the value of goods increases. In other words the cost of inflation is added expenses to the nominal value of its currency in order to ensure its real value which balances with the increase in the value of goods. The formula for calculating the loss due to inflation:

$$\text{\% loss due to inflation} = 1 - \left\{ \frac{1}{1 + \text{inflation rate}} \right\}$$

n = Number of years to calculate inflation

Assuming 10% inflation, after three years, the actual value of the equity decreases to 25%; if inflation is 40%/year, after three years of operation, equity decreases to 64%. Thus after three years of observation, the actual value of the equity has reduced a large number, and it depends on the inflation rate.

In other words, inflation has a significant negative impact on equity, particularly when accumulated for many years. So, we'll study deeper the effects of inflation.

How does inflation affect the Balance Sheet?

Financial assets such as loans outstandings based on loan contracts and inflation can be included in the price. If you set the interest rates on loans sufficient to cover the losses caused by inflation, your income is preserved. If interest rates do not cover enough for inflation, your income is reduced, but the assets itself is not affected. Equity is affected by the income reflected in the Balance sheet.

Liabilities (such as loans from commercial banks on a contractual basis). Liabilities unrelated to inflation will benefit the MFI, because interest rates do not include the cost of inflation, it is the loss born by the bank. On the other hand, equity is affected if the loan is to cover the cost of inflation because it will be an additional cost in balance sheet.

Net fixed assets are preserved and not depreciated due to inflation. For example, micro-entrepreneurs often invest in assets such as jewelries because they still maintain the pre-inflation values. In fact, fixed asset is depreciated in line with inflation. When fixed assets lose value over time, it is reflected in accumulated depreciation, we use net fixed assets to calculate the inflation adjustments.

Equity does not depends on contracts and its value is eroded by inflation as earlier mentioned.

There are two ways inflation influences on the balance sheet.

→ Although equity is eroded by inflation, some equity is invested in fixed assets, that asset price increases by inflation, so the impact of inflation on fixed assets is contradictory to the effect of inflation on equity. In other words, the only effect of inflation is the difference between equity and net fixed assets.

→ Or, inflation affects 'the difference between financial assets and financial liabilities'. That is, inflation will affect equity (CGAP Special issue No. 1, pp. 3 - The CGAP Occasional Paper No. 1, p3).

The two approaches give exactly the same value of equity affected by inflation. Therefore, the real formula for **inflation adjustment** is:

(Beginning Equity - beginning net fixed assets) x annual inflation rate

In the above formula, beginning equity and beginning net fixed assets are used because they reflect the impact of inflation on the value of equity and fixed asset during the whole period observed. Although this calculation is not absolutely accurate, it can show the effects of inflation.

Calculating the effects of inflation in a period of time

The inflation rate used to calculate for a period of 6 months is not true because it exaggerates the extent of inflation, so how is it calculated?

Calculate the monthly inflation rate by dividing the yearly inflation rate by 12 and then multiplying the monthly inflation rate by the number of months in the calculated period. For example, to calculate inflation for three months, divide the annual inflation rate in 12 and then multiply 3.

How to prevent the loss in value of the institution's equity?

♣ The first option is to **set interest rates sufficient to cover inflation costs**

♣ The second option is to **increase the loans with fixed interest rates**.

♣ The third option in theory is to **invest any surplus cash in fixed assets** which thereby reduces financial assets and increases fixed assets. BUT fixed assets are not profitable for the organization and reduces the cash amount which may affect the liquidity, so this option is not recommended.

2. SUBSIDIZED CAPITAL COST

What costs does MFI incur if the MFI is a business relying on borrowed funds such as commercial banks or deposit savings instead of being treated preferentially? In this section we consider how MFI can avoid depending on external fundings for long term, so we need to determine what the subsidies are and their extents. In other words we will adjust the subsidies / incentives for management purposes.

Subsidized capital costs are based on commercial loan interest rate or market rate. This rate is applied because it shows how much is spent for the funds if borrowings from commercial banks or deposits with attractive interest rates are necessary.

This interest rate depends on the commercial capital. If MFI borrows from various sources, the commercial interest rates will be the ones charged on bank loans. These are the latest interest rates of banks.

If MFIs mobilize compulsory savings, the capital cost is calculated based on the commercial interest rate for savings or interest rate for voluntary public savings. (If not, the commercial interest rate for compulsory savings should be the interest rate on bank loans).

The cost of subsidized capital is the cost of loans or savings based on corresponding commercial rate and then subtract the amount paid for these loans.

The formula for adjustments of subsidized funds is:

(Average subsidized/non-interest liabilities x commercial interest rate) - Interest expenses and costs of subsidized/non-interest liabilities

Considerations on adjustments for compulsory savings

— In general, all the liabilities should be adjusted according to commercial rates. However, in the case of compulsory savings, a number of factors are taken into account. First, compulsory savings must be viewed as an integral part of the loan. If MFI plans to continue providing loan products combined with compulsory savings, technically compulsory savings should not be adjusted. Why? Because MFI is not looking for capital sources for lendings covered by compulsory savings. For example, if MFI requires 20% compulsory savings or covered

outstanding balance, then for each loan of \$ 100, \$ 80 is spent by MFI and \$ 20 will be contributed by clients.

— If MFI excludes compulsory savings products and continues to provide loans with the same loan amount (ie \$ 100 instead of \$ 80), the compulsory savings should be adjusted because in the future, compulsory savings shall be replaced by commercial funds (or voluntary savings or commercial borrowings), and therefore must provide the entire \$ 100.

Low interest compulsory savings and loans are actually forms of subsidies to the organization. If MFI borrows from commercial sources instead of compulsory savings mobilization or concessional loans, these loans will incur higher costs.

The first option is to set interest rates sufficient to cover the commercial capital cost (commercial interest rate) so that the MFI can afford these financing sources. It should be noted that the adjustments for subsidized loans are non-cash expenses so no cash is required to cover the costs, but these are additional costs incurred when MFI operates as a business.

Recognizing the necessity of MFI being independent from funding sources, the second option is to find commercial sources with lowest cost. This means mobilizing voluntary savings from the public should be concentrated. This may require approval from the central bank, and for the long term, this source is cheaper than commercial bank loans and promotes mobilization of available compulsory savings.

However, savings is not always a cheaper source than commercial loans, especially for MFIs mobilizing voluntary savings for the first time. The other costs to be considered include the cost of infrastructure (safety box, management information system, systems and procedures), human resource professionals (both transactional and office work), liquidity policies require a higher cash reserve while cash is non profit, and costs related to licensing for savings mobilization and being regulated by the competent authorities.

3. NON-MONETARY AID

Non-monetary financing are grants not reflected in the income statement such as technical consultancy, training, facilities and other foreign advisers ...

Adjustment of non-monetary aid

This adjustment adds to the cost or rational market value of goods and services that MFIs do not have to cover but it is important for MFIs to carry out their business activities.

For example, an MFI is provided a technical assistance from the donor in three years. The sponsor covers all costs for foreign consultants provided. Assuming that the MFI is to pay the cost for experts, how will this impact the total financial cost?

Non-monetary aid will significantly increase the cost of adjustments and lengthen the time needed to achieve sustainability. The point is that whether your organization really needs this aid. If not, please refuse it.

STATE BANK
OF VIETNAM

SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness

No. 15/2010/TT-NHNN

Hanoi, June 6, 2010

CIRCULAR

ON DEBT CLASSIFICATION, PROVISIONING, AND THE USE OF PROVISIONS TO MANAGE THE CREDIT RISKS OF SMALL FINANCIAL INSTITUTIONS

Pursuant to the December 12, 1997 Vietnam State Bank Law and the June 17, 2003 Law Amending and Supplementing a Number of Articles of the Vietnam State Bank Law;

Pursuant to the December 12, 1997 Credit Institutions Law and the June 15, 2004 Law Amending and Supplementing a Number of Articles of the Credit Institutions Law;

Pursuant to the Government's Decree No. 96/2008/ND-CP of August 26, 2008, defining the functions, tasks, powers and organizational structure of the State Bank of Vietnam;

Pursuant to No. 28/2005/ND-CP dated March 9, 2005, on organization and operation of small-sized financial institutions in Vietnam and Decree No. 165/2007/ND-CP dated November 15, 2007, amending, supplementing and annulling a number of articles of Decree No. 28/2005/ND-CP;

Below The State Bank of Vietnam (below referred to as the State Bank) stipulates debt classification, provisioning, and the use of provision to manage credit risks of small financial institution:

Chapter 1

GENERAL PROVISIONS

Article 1. Governing scope and subjects of application

1. Small financial institutions (SFI) operating in Vietnam (below referred to as SFI) have to classify their debts, provision and use the provision to manage credit risks in conformity with this Circular.
2. Provisioning and the use of provision is carried out in compliance with regulations on finance for SFI.

Article 2. Interpretation of terms

In this Circular, the terms below are construed as follows:

1. *Provisioning* is to classify debts into tiers as stipulated in Paragraph 1, Article 1 of this Circular.
2. *Overdue debt* is a debt where a part or the entire of its principal and/or interest has become overdue.
3. *Bad debts* (NPL) are debts, which have been classified as those in Groups 3, 4 and 5 stipulated in Paragraph 1, Article 4 of this Circular
4. *Debts with restructured repayment term* are debts, the repayment term of which a small financial institution accepts to restructure or reschedule for customers because the credit institution assesses that the capability of customers to duly pay the principals or interests as stated in the credit contract deteriorates, but there are sufficient grounds for the credit institution to assess that customers are capable to fully pay the principals and interests under the restructured repayment term.
5. *Credit risks* (hereinafter referred to as risks) of small financial institution are potential losses that may arise in the banking activities of the credit institutions due to the failure of their customers to perform or their not being able to perform their obligations in accordance with their commitments.
6. *Risk provisions* are an amount to be made available to provide for potential losses that may arise due to failure of credit institutions customers to perform their committed obligations. Risk provisions are determined by outstanding loan principals and charged to the operational expenditure of credit institutions. Risk provisions consist of specific provisions and general provisions.
7. *Specific provisions* are an amount to be made available on the basis of the classification of specific debts in groups to provide against potential losses that may arise for each group.
8. *General provisions* are an amount to be made available to provide against losses that have not yet been determinable during process of specific debts classification and provisioning and for cases where the financial difficulty of credit institutions occurs due to their deteriorating debts quality.
9. *Use of provisions* is an act by which a credit institution uses the risk provisions to compensate for debts, which have been lost.
10. *Security asset* is asset that customer use to secure their committed obligations to the small financial institution in conformity with applicable regulations on guaranteed transaction.
11. *Customer* is an organization or an individual that has credit relations with the credit institution.

Article 3. Period of classifying debts and provisioning

1. Each quarter at least, within the first 15 working days of the following month of the quarter, credit institutions shall carry out the classification of principal debts and set up risk provisions for the period ending by the last day of the previous quarter (month).

For the IV quarter, credit institutions shall, within the first 15 working days of December, perform the debts classification and set up risk provisions for the period ending by 30 November.

2. For the loan funded, trusted by the third party that the third party is responsible for managing risks, the small financial institution do not provision but have to classify debts in conformity with regulation stipulated in Article 4 of this Circular in order to reflect accurately the financial situation, payment ability of customer, supporting the debts management.

Chapter 2

DETAILED PROVISIONS

Article 4. Classification of debts and setting up of general provisions

1. Based on the financial situation of customer and/or payment schedule of the principal and interests, small financial institutions shall classify debts into five (05) groups as follows:

a. Group 1 (standard debts) includes:

- normal/current debts;
- debts which are overdue for a period of less than 10 days.

b. Group 2 (especially intentional debts) includes:

- debts which are overdue for a period of 10 to 29 days;
- debts with restructured (first time) repayment term.

c. Group 3 (sub-standard debts) includes:

- debts which are overdue for a period of 30 to 89 days;
- debts with restructured repayment term, which are overdue for a period of less than 30 days under the restructured (first time) repayment period;
- other debts which are exempted or reduced interest due to the customer cannot pay interest as the credit contract.

d. Group 4 (doubtful debts) includes:

- debts, which are overdue for a period of 90 to 180 days;
- debts with restructured repayment term, which are overdue for a period of 30 to 89 days under the restructured (first time) repayment period;
- debts with restructured (second time) repayment term.

dd. Group 5 (potentially irrecoverable debts) includes:

- debts, which are overdue for a period of more than 180 days;
- debts with restructured repayment term, which are overdue for a period of more than 90 days under the restructured (first time) repayment period;
- debts, which are overdue for a period under the restructured (second time) payment period;

- debts with restructured (third time, or more) repayment term, no matter how still current (not overdue) or overdue.

2. The specific provisioning ratio for groups of debt as provided for in Paragraph 1 of this Article shall be as follows:

- a. Group 1 (standard debts): 0%;
- b. Group 2 (especially intentional debts): 2%
- c. Group 3 (sub-standard debts): 25%
- d. Group 4 (doubtful debts): 50%
- dd. Group 5 (potentially irrecoverable debts): 100%.

3. The value of security assets (C) is discounted the principal before calculating the specific provision, includes:

a. 100% value of the compulsory saving account, voluntary deposit account in the small financial institution;

- The face value of Government Bonds, Treasury Bills and all kinds of valuable papers that are guaranteed by the Government.

4. Amount of specific provisions required to set up shall be calculated under the following formula (detailed instruction in Appendix A of this Circular):

$$R = (A - C) \times r$$

Of which: R: amount of specific provisions required to set up

A: Value of debts

C: Value of security assets

r: ratio of specific provisioning

In case of the value of security assets (C) are greater than the value of debt (A); the debt is not subject to setting up the specific provision.

Article 5. General provisions

1. Small financial institutions shall make the general provisioning and maintain a general provisions equal to 0.5% of the total value of debts from Group 1 to Group 4 stipulated in Paragraph 1, Article 4 of this Circular.

2. Within a maximum period of three (03) years from the effective date of this Circular , small financial institutions must make full provisioning for the general provisions in accordance with provisions in Paragraph 1 of this Article.

Article 6. Use of provisions

1. Credit institutions shall be entitled to use provisions to deal with the credit risks for debts in following cases:

a. Customers are small financial customers who died, are missing or permanently injured with inability of income.

b. Customers are not small financial customers: organizations, enterprises which are dissolved, go bankrupt in accordance with provisions of applicable laws; individuals who die or are missing.

c. Debts belonging to Group 5 in accordance with Paragraph 1 Article 4 of this Circular.

2. Small financial institutions shall be entitled to use provisions to deal with credit risks once a quarter. The use of provisions to deal with credit risks shall be made on the basis of following principles:

a. To use specific provisions which are stipulated in Paragraph 1, Article 4 of this Circular to deal with credit risks for that debt.

b. To dispose of the security assets for debt recovery: The small financial institution must promptly put on sale the security assets according to the agreement with customers and in accordance with provisions of applicable laws on debt recovery.

c. In case where the disposal of asset is not sufficient to cover the credit risks of the debt, the general provisions can be used for the full settlement.

3. In case where the provisions are not sufficient to deal with the entire credit risks of debts to be dealt with, the small financial institutions shall directly charge the deficient amount to the operation expenses.

In case where the provisions, which have been made, remain larger than that to be made, the small financial institution must return the excessive provisions in accordance with provisions of applicable laws on finance regime applicable to small financial institutions.

4. The use of provisions to write off the credit risks by the small financial institution is not a form of the debt forgiveness for customer. The small financial institution and related individuals shall not be permitted to inform customer of the settlement of the credit risks in any form.

5. After provisions have been used to deal with the credit risks, the small financial institution shall transfer the accounting of the debts, the credit risk of which have been dealt with, from the on-balance sheet accounts to the off-balance sheet accounts for continuous following up and taking measures for the debt recovery. For the amount of debt recovery after put into off-balance sheet, the small financial institutions must enter into the profit account in the fiscal year.

6. After 5 years from the use of provisions to deal with the credit risks, the small financial institution shall be entitled to release settled debts from the off-balance sheet.

Article 7. Risks Settlement Committee

1. Small financial institutions must set up a Risks Settlement Committee, which is headed by the Chairman of the Board of Directors or a person who is delegated by the Chairman, and consists of members, who are the Head of Controllers Committee, the Chief of Accounting Division, the Chief of Credit Division, and other members, which are decided upon by the Chairman of the Board of Directors.

2. The duties of the Risks Settlement Committee:

a. To monitor and review the debts classification, setting up of provisions against credit risks, which have been performed by the General Director (Director).

b. To decide on the writing off of the use of provisions to deal with credit risks.

c. To decide on the writing off of the debt recovery for the debts that have been dealt with, in which the time and applicable measures for the debt recovery must be identified.

d. To monitor the debt recovery of debts those have been dealt with provisions to manage the credit risks.

Article 8. File used for risk settlement

1. The file that is used as basis for the risk settlement shall include:

- the file of lending and debt recovery;
- the file of security assets and;
- other related documents.

2. For cases, which are stipulated in Clause a and b, Paragraph 1, Article 6 of this Circular, in addition to the file stated in Paragraph 1 of this Article, following documents must be available:

a. In respect of customers being organizations, enterprises:

- A copy of Courts decision on the bankruptcy or the decision on the dissolution of the competent State Agency in accordance with provisions of applicable laws;
- A copy of the report on the enforcement of the decision on bankruptcy, report on the completion of the enforcement of the decision on the bankruptcy made by the enforcement agency; written documents concerning the settlement of debts of the dissolved organizations, enterprises.

b. In respect of customers being individuals:

- A copy of Death Certificate, Missing Certificate, and Papers certificated permanent injured leading to inability of work, which is granted by the competent agency.

3. For cases, which are stipulated in Clause c, Paragraph 1, Article 6 of this Circular, in addition to the file stated in Paragraph 1 of this Article, following documents must be available:

- File, documents that is basics for debt classification in Group 5;
- File, documents prove that the small financial institution has tried its best but the debts are still not recovered.

Article 9. Accounting, Reporting

1. Provisions and specific provisions shall be charged to the operation expenditure of the small financial institution.

2. General provisions and specific provisions shall be charged to the Risk Provisions account. Small financial institutions shall perform the accounting for the provisioning, the use of provisions and the recovered amounts after the provisions have been used to deal with the credit risks in accordance with the stipulation of the Ministry of Finance.

3. Small financial institutions shall perform the report on the debts classification, the provisioning and use of provisions to deal with the credit risks in accordance with the statistic reporting regime applicable to small financial institutions, issued by the State Bank.

4. Prior to the 15th of the second month of each quarter, small financial institutions shall submit reports on the debts classification, the provisioning and use of provisions to deal with credit risks to the Ministry of Finance and Department of Tax in provinces, cities where the credit institutions locate their head offices under Forms No. 1 and 2 (attached).

Section 6.

Article 10. Examination And Dealing With Violation

1. The State Bank (Banking Supervisory Authority) shall be responsible for examining the implementation of the debt classification, provisioning and use of credit risk provisions in the banking activity of small financial institutions.

2. In case where a credit institution violates this Circular, it shall, depending on the nature and act of violation, be dealt with as follows:

- To be subject to administrative punishment
- To be subject to the increased ratio of provisioning corresponding to the risk level of debts;
- To be subject to the limitation of credit extension, the expansion of the operation network and operation scope;
- To be suspended from the operation in case of serious violation.

Chapter 3

IMPLEMENTING PROVISIONS

Article 11. Implementation effectiveness

This Circular shall be effective after 45 days since its signing date.

Article 11. Responsibility of implementation

The Director of the Administrative Department, the Director of the Banks and Non-banking Credit Institutions Department, Heads of related units of the State Bank, General Managers of State Bank branches in provinces and cities under the central Governments management, Chairman of the Board of Directors and General Directors (Directors) of small financial institutions shall be responsible for the implementation of this Circular.

In the implementation, any query that may arise should be timely reflected to the State Bank for instruction and settlement.

**FOR THE STATE BANK GOVERNOR
DEPUTY GOVERNOR**

Tran Minh Tuan

**SMALL FINANCIAL
INSTITUTION**

SOCIALIST REPUBLIC OF VIETNAM
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REPORT

ON THE DEBTS CLASSIFICATION, PROVISIONING TO DEAL WITH CREDIT RISKS IN THE BANKING ACTIVITIES

Quarteryear 20

Unit: million Dong

Norms	Value of debts	Specific provision s	General provisions
Debts in Group 1: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 2: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 3: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 4: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Debts in Group 5: In which, debts/loans funded, trusted by the third party that the third party is responsible for managing risks			
Total			
Ratio NPLs / Total debts			

....., date.....

REPORT DRAWER
(Clearly state full name)

CONTROLLER
(Clearly state full name)

GENERAL DIRECTOR
(DIRECTOR) OF CI
(Clearly state full name)

**SMALL FINACIAL
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Form No. 2

REPORT

ON THE USE OF PROVISIONS TO DEAL WITH CREDIT RISKS IN THE BANKING ACTIVITY

Quarter..... year 200....

Unit: million Dong

Norms	Amount
1. Total amounts of provisions that have been set up	
2. The use of provisions to deal with credit risks in the quarter	
3. Remaining provisions after dealing with credit risks	
4. Recovered amount from the debts that have been dealt with in the quarter:	
5. Total amounts that have been used for credit risk settlement but not yet been recovered by the reporting date (accumulated):	
6. Total of provision to be made in the quarter	

REPORT DRAWER
(Clearly state full name)

CONTROLLER
(Clearly state full name)

....., date.....
GENERAL DIRECTOR
(DIRECTOR) OF CI
(Clearly state full name)