

## Accounting - Self Study Guide for Staff of Micro Finance Institutions

### PRACTICAL EXERCISE

#### Accounting Case Study

**OBJECTIVES** The purpose of this session is to provide a practical exercise to consolidate most of the information presented in this manual. In the following case study, you are asked to play the role of a loan fund manager and develop a presentation regarding the financial position of the loan fund. A series of transactions are provided which you must enter into the accounting system to create interim financial statements.

You will confirm your understanding of the accounting process including recording each transaction and creating financial statements.

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#### *Instructions*

Read through the following case study information and create a General Journal, General Ledger, Trial Balance, Income Statement and Balance Sheets for a six-month period.

Answers are provided at the end.

## BLUE SKIES CITYFUND

Blue Skies Credit Inc. is a micro-lending organization which has been operating several Loan Funds for over eight years. In 1992, they started a Loan Fund called Blue Skies CityFund.

In August, 1995, a new manager was hired. She was responsible for the overall management of the Fund. One week after the new manager arrived, she was asked to prepare a presentation to the Board of Directors of Blue Skies Credit highlighting CityFund's financial results over the past six months. Specifically, she was asked to prepare:

- Balance Sheet as at June 30, 1995
- Income Statement for the 6 month period ended June 30, 1995

By examining the existing records at CityFund, she discovered that a Balance Sheet was prepared as at CityFund's fiscal year-end of December 31, 1994. She also discovered, to her dismay, that proper accounting records had not been kept over the past six months and that she would need to create a General Journal and Trial Balance in order to develop the statements that she needed. By examining the bank statements and other records on hand, she was able to make a list of the transactions which occurred in the past six months. She determined that any expenses incurred that were greater than \$500 should be capitalized and depreciated. She also determined that no interest accruals had been made for loans outstanding, investments or debt.

She began by listing transactions which occurred each month:

- Current Loans Outstanding of \$36,700 are repaid on the 30th of each month at \$6,000/month principal and \$720/month interest (assume 100% on-time repayment).
- Salaries & Benefits     \$1,500 /month
- Rent                             \$500 /month
- Utilities                         \$50 /month
- Telephone                       \$30 /month

Next, she made a list of transactions by month:

### Transactions - January, 1995

- Jan. 6     Credit Officer visited another Loan Fund for training - paid fee of \$500 cash.
- Jan. 8     Received a \$25,000 donation for loan fund capital.
- Jan. 10     Re-paid \$7,000 long-term debt (commercial).
- Jan. 10     Purchased Computer Equipment for \$5,000 - paid \$2,500 cash and \$2,500 on credit
- Jan. 21     Paid \$50 for postage & courier.
- Jan. 30     Disbursed 2 loans of \$1,500 and 3 loans of \$2,000 all @ 2% flat monthly rate on disbursed amount with a 3% up front fee. Each loan had a 12 month term with monthly payments (assume 100% on-time repayment).
- Jan. 31     Purchased a two year term deposit \$5,000, interest @ 6% per annum.
- Jan. 31     Paid \$20 in bank charges.

Transactions - February, 1995

- Feb. 1 Collected a quarterly interest payment of \$100 on long-term investment.
- Feb. 1 Negotiated a \$12,000 two year loan from the bank @ 8% flat annual rate, with monthly payments.
- Feb. 6 Purchased motorcycles for use by credit officers - paid \$5,000 cash.
- Feb. 12 Printed promotional materials - paid \$150 cash.
- Feb. 15 Received past due loan payment of \$2,000 principal only.
- Feb. 19 Short-term deposit of \$3,000 matures - collected \$60 interest.
- Feb. 22 Paid \$60 for postage & courier.
- Feb. 28 Paid \$15 bank in charges.
- Feb. 30 Disbursed 5 loans of \$1,500 @ 2% flat monthly rate on disbursed amount with a 3% up front fee. Each loan had a 12 month term with monthly payments (assume 100% on-time repayment).

Transactions - March, 1995

- March 1 Invest \$2,000 in a short-term deposit (matures October 31, 1995 @ \$2,040).
- March 5 Produced a promotional video - paid \$500 cash.
- March 10 Loan Fund Manager attended financial management training course - paid \$500 cash.
- March 17 Received an unrestricted donation of \$10,000.
- March 22 \$1,000 in Loans Outstanding - Past Due are paid in full plus \$50 in interest.
- March 29 Paid \$25 for postage & courier.
- March 30 Disbursed 3 loans of \$1,000 @ 2% flat monthly rate on disbursed amount with a 3% up front fee. Each loan had a 12 month term with monthly payments (assume 100% on-time repayment).
- March 31 Paid \$20 in bank charges.

Transactions - April, 1995

- April 4 Paid \$150 membership fee to local Chamber of Commerce.
- April 8 Paid \$75 cleaning expense.
- April 12 Purchased an upgraded computer software package - paid \$450 cash.
- April 19 Paid \$500 insurance bill with cash.
- April 22 Paid \$6,500 short-term loan plus \$150 interest.
- April 26 Paid \$20 for postage & courier.
- April 29 Paid \$15 in bank charges.
- April 30 Disbursed 5 loans of \$3,000 @ 2% flat monthly rate on disbursed amount with a 3% up front fee. Each loan had a 12 month term with monthly payments (assume 4 of 5 loans are repaid on-time).

Transactions - May, 1995

- May 2 Long-term investment of \$5,000 matured with \$75 interest income.
- May 11 Promotional breakfast - paid \$75 for refreshments.
- May 26 Paid \$25 for postage & courier.
- May 29 Paid \$15 in bank charges.
- May 30 Disbursed 6 loans of \$2,000 @ 2% flat monthly rate on disbursed amount with a 3% up front fee. Each loan had a 12 month term with monthly payments (assume 100% on-time repayment).
- May 30 Re-paid a \$4,000 short-term loan plus \$70 interest.

Transactions - June, 1995

- June 1 \$3,000 in current loans outstanding became past due.  
June 2 Made a semi-annual interest payment of \$500 on long term debt (concessional).  
June 3 Paid \$8,000 short-term loan plus \$100 interest.  
June 7 Paid \$145 for printing of information brochure.  
June 17 Received a \$5,000 unrestricted donation.  
June 22 Paid \$25 for postage & courier.  
June 28 Paid \$15 in bank charges.  
June 30 Disbursed 6 loans of \$1,500 and 4 loans of \$1,000 @ 2% flat monthly rate on disbursed amount with a 3% up front fee. Each loan had a 12 month term with monthly payments (assume 100% on-time repayment).

Finally, she made a list of adjusting entries to be made. (Adjusting entries would normally be made at year-end, however, in order to present accurate information to the Board of Directors, it was necessary to include adjusting entries).

Adjusting Entries

- make a loan loss provision to create a total loan loss reserve equal to 10% of the gross loans outstanding (this was determined based on the quality of the outstanding portfolio).
- record a depreciation expense:
  - computers \$850
  - motorcycles \$500
- record any accrued revenue on term-deposits

**EXERCISE**

With reference to the information given above and the following Balance Sheet, Loan Schedule and Chart of Accounts, use the forms provided to develop a General Journal, General Ledger, Trial Balance and the Financial Statements that the Loan Fund Manager will need for her presentation.

**Note:** It will be necessary to create additional sheets to complete the General Journal and General Ledger. A minimum of seven photocopied sheets for the General Journal and five for the General Ledger are required.

<b>BLUE SKIES CITYFUND BALANCE SHEET As at 31st December, 1994</b>			
<b>ASSETS</b>		<b>LIABILITY AND EQUITY</b>	
Cash & Bank Current Accounts	1,100	<b>LIABILITIES</b>	
Interest Bearing Deposits	<u>3,000</u>	Short-term Borrowings (commercial rate)	16,000
	4,100	Client Savings	0
Loans Outstanding:		<b>Total Current Liabilities</b>	<b>16,000</b>
Current	36,700		
Past-Due	10,300		
Restructured	<u>500</u>		
Loans Outstanding (Gross)	47,500	Long-term Debt (commercial rate)	7,000
(Loan Loss Reserve)	<u>(3,950)</u>	Long-term Debt (concessional rate)	15,000
Net Loans Outstanding	43,550	Restricted/Deferred Revenue	0
Other Current Assets	200		
<b>Total Current Assets</b>	<b>47,850</b>	<b>TOTAL LIABILITIES</b>	<b>38,000</b>
Long-term Investments	5,000	<b>EQUITY</b>	
Property and Equipment:		Loan Fund Capital	21,630
Cost	8,000	Retained Net Surplus/(Deficit) prior years	90
(Accumulated Depreciation)	<u>(400)</u>	Net Surplus/(Deficit) current year	730
Net Property and Equipment	7,600		
<b>Total Long-term Assets</b>	<b>12,600</b>	<b>TOTAL EQUITY</b>	<b>22,450</b>
<b>TOTAL ASSETS</b>	<b>60,450</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>60,450</b>

**BLUE SKIES CITYFUND  
Loan Schedule**

Date Disbursed	Amount Disbursed	Payment Schedule			
		3% Fee (up front)	Principal (monthly)	Interest (monthly)	Total (monthly)
	(Current Outstanding) 36,700		6,000	720	6,720
Jan 30	9,000	270	750	180	930
Feb 30	7,500	225	625	150	775
Mar 30	3,000	90	250	60	310
Apr 30	15,000	450	1,250	300	1,550
May 30	12,000	360	1,000	240	1,240
Jun 30	13,000	390	1,083	260	1,343

**BLUE SKIES CITYFUND****Chart of Accounts**

<b>ASSETS</b>	<b>LIABILITIES</b>	<b>EQUITY</b>
101 Cash	201 Short-term Borrowing	301 Loan Fund Capital
102 Deposits	202 Client Savings	302 Retained Net Surplus (Deficit)
103 Current Loans	203 Long-term Debt (commercial)	
104 Past-due Loans	204 Long-term Debt (concessional)	
105 Restructured Loans	205 Restricted / Deferred Revenue	
106 Loan Loss Reserve		
107 Other Current Assets		
114 Long-Term Investments		
115 Property		
116 Equipment		
117 Accumulated Depreciation		
118 Other Assets		

<b>REVENUE</b>	<b>EXPENSES</b>
401 Interest on Current & Past Due Loans	501 Interest Paid on Short-term Borrowings
402 Interest Restructured Loans	502 Interest Paid on Client Savings
403 Interest on Investments	503 Interest Paid on Long-term Debt
404 Loan Fees/Service Charges	505 Provision for Loan Losses
405 Late Fees on Loans	510 Salaries and Benefits
410 Donations - Unrestricted	512 Communications
	513 Courier/Postage
	514 Rent
	515 Utilities
	516 Equipment
	517 Equipment Leasing
	518 Depreciation
	519 Bank Charges
	520 Advertising and Promotion
	521 Insurance
	522 Supplies
	523 Maintenance
	524 Travel & Accommodation
	525 Legal Fees
	526 Professional Development
	527 Computer Software
	528 Printing
	529 Fees/Dues
	530 Miscellaneous

<i>BLUE SKIES CITYFUND</i>					
General Journal					
	DATE	ACCOUNT TITLE AND EXPLANATION	Ref	DEBIT	CREDIT
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<i>BLUE SKIES CITYFUND</i> General Ledger						
	DATE	ACCOUNT TITLE AND EXPLANATION	Ref	DEBIT	CREDIT	BALANCE
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<i>BLUE SKIES CITYFUND</i>				
Trial Balance				
June 30, 1995				
	Ref.	ACCOUNT TITLE	DEBIT	CREDIT
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<b>BLUE SKIES CITYFUND</b>			
<b>BALANCE SHEET</b>			
<b>As at 30th June, 1995</b>			
<b>ASSETS</b>		<b>LIABILITY AND EQUITY</b>	
Cash & Bank Current Accounts		<b>LIABILITIES</b>	
Interest Bearing Deposits		Short-term Borrowings (commercial rate)	
		Client Savings	
Loans Outstanding:		<b>Total Current Liabilities</b>	
Current			
Past-Due			
Restructured			
Loans Outstanding (Gross)		Long-term Debt (commercial rate)	
(Loan Loss Reserve)		Long-term Debt (concessional rate)	
Net Loans Outstanding		Restricted/Deferred Revenue	
Other Current Assets			
<b>Total Current Assets</b>		<b>TOTAL LIABILITIES</b>	
Long-term Investments		<b>EQUITY</b>	
Property and Equipment:		Loan Fund Capital	
Cost		Retained Net Surplus/(Deficit) prior years	
(Accumulated Depreciation)		Net Surplus/(Deficit) current year	
Net Property and Equipment			
<b>Total Long-term Assets</b>		<b>TOTAL EQUITY</b>	
<b>TOTAL ASSETS</b>		<b>TOTAL LIABILITIES AND EQUITY</b>	

<b>BLUE SKIES CITYFUND</b>			
<b>BALANCE SHEET (Comparative)</b>			
as at 30th June, 1995			
	Jun. 30, 1995	Dec. 31, 1994	% Change
<b>ASSETS</b>			
Cash & Bank Current Accounts		1,100	
Interest-bearing Deposits		3,000	
Loans Outstanding:			
Current			
Past-Due			
Restructured			
Loans Outstanding (Gross)			
Current		36,700	
Past-Due		10,300	
Restructured		<u>500</u>	
Loans Outstanding (Gross)		47,500	
(Loan Loss Reserve)		<u>(3,950)</u>	
Net Loans Outstanding		43,550	
Other Current Assets		200	
<b>TOTAL CURRENT ASSETS</b>		<b>47,850</b>	
Long-term Investments		5,000	
Property and Equipment:			
Cost			
(Accumulated Depreciation)			
Net Property and Equipment			
Cost		8,000	
(Accumulated Depreciation)		<u>(400)</u>	
Net Property and Equipment		7,600	
<b>TOTAL LONG-TERM ASSETS</b>		<b>12,600</b>	
<b>TOTAL ASSETS</b>		<b>60,450</b>	
<b>LIABILITIES</b>			
Short-term Borrowings (commercial rate)		16,000	
Client Savings		0	
<b>TOTAL CURRENT LIABILITIES</b>		<b>16,000</b>	
Long-term Debt (commercial rate)		7,000	
Long-term Debt (concessional rate)		15,000	
Restricted/Deferred Revenue		0	
<b>TOTAL LIABILITIES</b>		<b>38,000</b>	
<b>EQUITY</b>			
Loan Fund Capital		21,630	
Retained Net Surplus/(Deficit) prior years		90	
Net Surplus/(Deficit) current year		730	
<b>TOTAL EQUITY</b>		<b>22,450</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>60,450</b>	

<b>BLUE SKIES CITYFUND</b> <b>STATEMENT OF INCOME AND EXPENDITURE</b> For the period ended 30th June, 1995	
<b>FINANCIAL INCOME:</b> Interest on Current & Past Due Loans Interest on Restructured Loans Interest on Investments Loan Fees/Service Charges Late fees on Loans <b>Total Financial Income</b>	
<b>FINANCIAL COSTS:</b> Interest on Debt Interest paid on Deposits <b>Total Financial Costs</b>	
<b>GROSS FINANCIAL MARGIN</b>	
Provision for Loan Losses	
<b>NET FINANCIAL MARGIN</b>	
<b>OPERATING EXPENSES</b> Salaries and benefits Rent & Utilities Communications Postage/Courier Advertising & Promotion Bank Charges Travel Equipment Depreciation Fees/Dues Computer Software Insurance Other <b>Total Operating Expenses</b>	
<b>NET INCOME FROM OPERATIONS</b>	
Income from Grants for Credit Services	
<b>EXCESS OF INCOME OVER EXPENSES</b>	