

# FINOVATEPRO

## **MICROFINANCE, CREDIT UNION & SAVINGS-AND-LOANS ACCOUNTING MANUAL**

*IFRS + U.S. GAAP Support Manual*

finovatepro.com

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## EXECUTIVE ORIENTATION

This manual is designed for organizations that collect savings, issue loans, earn interest, manage member accounts, and report financial results to boards, regulators, lenders, donors, investors, and auditors.

It applies to:

microfinance institutions,  
credit unions,  
savings-and-loans institutions,  
cooperative finance organizations,  
community lending institutions,  
and development finance lenders.

The manual is written at an 8th-grade reading level, but the accounting logic must be strong enough for audit, board reporting, banking supervision, and lender due diligence.

### 1. What Makes This Industry Different

A normal service business sells work.

A microfinance or credit union institution manages **financial trust**.

It handles:

- deposits and savings,
- loans to members or customers,
- interest income,
- fees,
- loan losses,
- liquidity,
- capital,
- delinquency,
- and regulatory risk.

The core question is not only:

“Did we make profit?”

The real question is:

“Are member funds safe, are loans collectible, and are losses recognized early enough?”

### 2. The Four Accounting Realities

#### Reality 1 — Loans Are Assets, But Not All Loans Are Good Assets

A loan may appear as an asset on the balance sheet, but if borrowers are not paying, that asset may be weak.

That is why the system must track:

- current loans,
- past-due loans,
- nonperforming loans,
- restructured loans,
- written-off loans,
- and expected credit losses.

Under IFRS, IFRS 9 uses an expected credit loss model for impairment of financial assets. Under U.S. GAAP, ASC 326 introduced the CECL model, which estimates expected credit losses over the life of financial assets.

### Reality 2 — Deposits Are Liabilities

Member savings and customer deposits are not income.

They are money owed back to members or customers.

When a member deposits \$1,000:

#### Correct treatment:

Dr Cash

Cr Member Deposits / Savings Liability

The institution is holding money. It has not earned revenue.

### Reality 3 — Interest Income Must Be Earned Carefully

Interest income is not just “cash collected.”

The system must know:

- loan principal,
- interest rate,
- repayment schedule,
- accrued interest,
- late interest,
- penalty fees,
- and nonaccrual status if applicable.

Bad systems overstate income by continuing to accrue interest on loans that may not be collectible.

### Reality 4 — Liquidity Can Kill the Institution Before Profit Does

An institution may show profit but still fail if it cannot meet withdrawals.

That means the accounting system must track:

- cash on hand,
- bank balances,
- liquid investments,
- expected loan repayments,
- deposit withdrawals,
- reserve requirements,
- and liquidity ratios.

## 3. IFRS vs U.S. GAAP — Core Difference

Both frameworks care about accurate loan measurement and credit losses, but the models differ.

Area	IFRS	U.S. GAAP
Main financial instruments standard	IFRS 9	ASC 326 / ASC 310 / ASC 825

Area	IFRS	U.S. GAAP
Credit loss model	Expected Credit Loss, often staged	CECL, lifetime expected credit loss
Loan impairment timing	Stage 1, Stage 2, Stage 3 logic	Lifetime losses from initial recognition under CECL
Financial statement focus	Amortized cost, fair value categories, ECL	Amortized cost, CECL allowance, disclosures
Smaller-entity option	IFRS for SMEs may apply where permitted	U.S. GAAP applies based on entity/reporting requirement

The IFRS Foundation issued the third edition of the IFRS for SMEs Accounting Standard in 2025; it is effective for annual periods beginning on or after January 1, 2027, with earlier application permitted.

#### 4. Five-Test Rule for Every Transaction

Every transaction must pass five tests:

**Reality Test** — Did it actually happen?

**Classification Test** — Is it asset, liability, income, expense, equity, or member capital?

**Measurement Test** — Is the amount correct?

**Collectability / Risk Test** — Does credit risk need to be recognized?

**Support Test** — Can we prove it with documents?

If one test fails, the transaction is not complete.

#### 5. How This Manual Will Be Structured

##### Volume 1 — Foundations

Accounting model, chart of accounts, member/customer structure, loan portfolio structure, deposit liability structure, IFRS vs U.S. GAAP framework.

##### Volume 2 — Daily Operations

Loan disbursements, repayments, deposits, withdrawals, fees, interest posting, cash controls, teller activity, mobile money, bank reconciliation.

##### Volume 3 — Loan Portfolio & Credit Loss Engine

Loan aging, delinquency, nonperforming loans, write-offs, recoveries, collateral, restructuring, IFRS 9 ECL, U.S. GAAP CECL.

##### Volume 4 — Deposits, Member Equity & Liquidity

Savings liabilities, share capital, member accounts, dividend/interest on savings, withdrawals, liquidity monitoring, reserve requirements.

##### Volume 5 — Revenue, Fees & Interest Recognition

Effective interest, accrued interest, late fees, loan origination fees, service charges, nonaccrual considerations, revenue cut-off.

##### Volume 6 — Month-End Close

Loan subledger reconciliation, deposit subledger reconciliation, interest accruals, impairment allowance, cash and bank reconciliation, financial statements.

#### **Volume 7 — Audit, Regulatory & Board Reporting**

Audit pack, portfolio quality reports, PAR, liquidity reports, capital adequacy, regulatory schedules, board dashboards.

#### **Volume 8 — Special Accounting Treatments**

Restructured loans, collateral repossession, guarantees, donor-funded lending pools, grants, subsidized loans, write-offs and recoveries, fraud losses.

### **6. Core Case Studies**

#### **Case 1 — Deposit Treated as Revenue**

A member deposits \$500 into savings, but staff records it as income.

**Liability understated, income overstated.**

#### **Case 2 — Bad Loan Still Shown as Good**

A borrower has not paid for 180 days, but the loan remains current in the system.

**Assets overstated, credit losses understated.**

#### **Case 3 — Interest Accrued on Nonperforming Loan**

Interest continues to accrue on loans that may not be collectible.

**Income overstated.**

#### **Case 4 — Loan Disbursement Not Tied to Approved Loan File**

Cash is disbursed before approval documents are complete.

**Fraud and credit risk.**

#### **Case 5 — Repayment Applied Incorrectly**

Customer payment is posted to interest only, instead of principal and interest according to policy.

**Loan balance wrong.**

#### **Case 6 — Deposits and Loans Not Reconciled**

Loan system shows one balance, general ledger shows another.

**Financial statements cannot be trusted.**

#### **Case 7 — No Allowance for Expected Credit Losses**

Management waits until loans are completely bad before recognizing loss.

**Credit losses recognized too late.**

#### **Case 8 — Write-Off Without Approval**

Loan is written off without board or management approval.

**Control failure.**

#### **Case 9 — Liquidity Looks Strong but Is Not**

Cash includes restricted funds or pledged deposits that cannot be used.

**Liquidity overstated.**

#### **Case 10 — Regulatory Report Does Not Tie to Financial Statements**

Report sent to regulator does not match the GL.

**Regulatory credibility risk.**

#### **7. Core Reports FinovatePro Must Produce**

At minimum, the system must produce:

- Loan portfolio report
- Loan aging report
- Past-due / delinquency report
- Portfolio at Risk report
- Expected credit loss / CECL allowance report
- Deposit liability report
- Member savings report
- Interest income report
- Loan repayment schedule
- Write-off and recovery report
- Liquidity report
- Capital / net worth report
- Loan officer performance report
- Branch performance report
- Regulatory reporting pack
- Board dashboard

#### **8. Final Commandment**

**Deposits are trust. Loans are risk. Interest is earned. Losses must be recognized early.**

If FinovatePro gets this right, it becomes more than accounting software.

It becomes a financial discipline system for institutions that serve real people.

## VOLUME 1 — FOUNDATIONS (MICROFINANCE, CREDIT UNION & S&L)

Accounting Model | Chart of Accounts | Member Structure | Loan & Deposit Engine | IFRS vs U.S. GAAP

### ◇ CORE PRINCIPLE

This is not normal accounting — this is financial institution accounting

### ◇ CHAPTER 1 — THE ACCOUNTING MODEL (HOW EVERYTHING FLOWS)

#### 1.1 The Financial Engine

This system has **two core cycles**:

##### A. Deposit Cycle (Liability Side)

Members deposit money

Institution owes that money back

##### B. Loan Cycle (Asset Side)

Institution lends money

Borrowers repay with interest

#### 1.2 The Balance Sheet Reality

Category	What It Means
Assets	Loans, cash, investments
Liabilities	Deposits, savings
Equity	Capital, retained earnings

#### Golden Rule

Deposits are NOT revenue — they are obligations

### ◇ CHAPTER 2 — ACCOUNTING FLOW (TRANSACTION LEVEL)

#### Example 1 — Deposit

Member deposits \$1,000

Dr Cash

Cr Member Deposits (Liability)

#### Example 2 — Loan Disbursement

Loan issued \$1,000

Dr Loans Receivable

Cr Cash

### Example 3 — Loan Repayment

Customer pays \$200 (principal + interest)

Dr Cash

Cr Loans Receivable

Cr Interest Income

#### Control Rule

Every transaction must tie to:

a member

a loan or deposit account

## ◇ CHAPTER 3 — MEMBER / CUSTOMER STRUCTURE

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### 3.1 Types of Accounts

Each member/customer must have:

unique ID

savings account(s)

loan account(s)

### 3.2 Member Types

individual

group (microfinance groups)

corporate

institutional

### 3.3 Required Data

name

ID / KYC

contact details

risk category

credit history

#### Control Rule

No transaction without a valid member

## ◇ CHAPTER 4 — CHART OF ACCOUNTS (COA)

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### 4.1 ASSETS

#### Cash & Liquid

Cash on Hand

Bank Accounts

Short-Term Investments

**Loan Portfolio**

Performing Loans  
Past-Due Loans  
Non-Performing Loans  
Restructured Loans

**Loan Adjustments**

Loan Loss Allowance (contra asset)

**4.2 LIABILITIES****Member Deposits**

Savings Accounts  
Fixed Deposits  
Demand Deposits

**Other Liabilities**

Borrowings  
Payables  
Accrued Expenses

**4.3 EQUITY**

Share Capital (Credit Union Members)  
Retained Earnings  
Reserves

**4.4 INCOME**

Interest Income — Loans  
Fees & Charges  
Penalties

**4.5 EXPENSES**

Interest Expense (Deposits)  
Loan Loss Provision  
Salaries  
Operating Expenses

**Control Rule**

**COA must separate:**

loan types  
deposit types  
performing vs non-performing

**◇ CHAPTER 5 — LOAN PORTFOLIO STRUCTURE**

### 5.1 Loan Classification

Each loan must be categorized:

current

1–30 days past due

31–60 days

61–90 days

90+ days (nonperforming)

### 5.2 Key Loan Data

principal

interest rate

term

repayment schedule

collateral

### 5.3 Portfolio at Risk (PAR)

**Critical metric:**

PAR = Loans overdue ÷ Total loan portfolio

#### Control Rule

**Delinquency must be tracked daily**

## ◇ CHAPTER 6 — DEPOSIT LIABILITY STRUCTURE

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### 6.1 Types

savings

fixed deposits

current accounts

### 6.2 Key Features

balance tracking

interest calculation

withdrawal capability

### 6.3 Accounting

Deposits remain liabilities until withdrawn

#### Control Rule

**Deposits must reconcile:**

member ledger

general ledger

## ◇ CHAPTER 7 — INTEREST ENGINE (FOUNDATION)

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### 7.1 Loan Interest

based on principal  
accrues over time

### 7.2 Deposit Interest

expense to institution

### 7.3 Key Rule

**Interest must be calculated systematically—not manually**

## ◇ CHAPTER 8 — IFRS FRAMEWORK

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### 8.1 Key Standard

IFRS 9 Financial Instruments

### 8.2 Core Requirements

classify loans (amortized cost)  
recognize expected credit losses  
adjust for risk over time

### 8.3 Expected Credit Loss (ECL)

Three stages:

Stage 1 → performing

Stage 2 → increased risk

Stage 3 → impaired

### Control Rule

**Losses must be recognized early—not when loans fail**

## ◇ CHAPTER 9 — U.S. GAAP FRAMEWORK

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### 9.1 Key Standard

ASC 326 CECL

### 9.2 Core Requirements

lifetime expected losses  
forward-looking estimates

### 9.3 Key Difference from IFRS

no staging model

recognize expected loss upfront

### Control Rule

**Allowance must reflect expected loss—not historical loss**

## ◇ CHAPTER 10 — INTERNAL CONTROL FOUNDATION

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### **Critical Controls**

loan approval workflow  
disbursement authorization  
deposit validation  
reconciliation procedures

### **Segregation**

loan approval ≠ disbursement  
cash handling ≠ recording

### **Control Rule**

**No single person controls entire process**

## ◇ CHAPTER 11 — COMMON FOUNDATIONAL FAILURES

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### **Top Issues**

deposits treated as income  
weak loan classification  
no loan loss allowance  
missing member records  
no reconciliation between systems

### ◇ **SIMPLE VERSION (8TH GRADE LEVEL)**

This business has two main things:  
people give you money → you owe them  
you lend money → people owe you  
Everything else builds from that.

### ◇ **FINAL RULE — VOLUME 1**

**If your foundation is wrong, everything built on it will be wrong**

### ◇ **WHAT THIS BUILDS FOR FINOVATEPRO**

This becomes:  
core financial engine  
loan and deposit system  
IFRS/GAAP-ready foundation

**This is what turns FinovatePro into a financial institution platform**

### **NEXT STEP**

## Volume 2 — Daily Operations

Including:

loan disbursement

repayments

deposits

withdrawals

teller workflows

mobile money integration

### ■ VOLUME 2 — DAILY OPERATIONS (MFI, CREDIT UNION, S&L)

**Loans | Deposits | Cash | Interest | Teller | Mobile Money | Bank Reconciliation**

#### ◇ CORE PRINCIPLE

**Every dollar must move through a controlled, traceable path**

#### ◇ DAILY OPERATIONS FLOW

Every transaction follows this path:

Member initiates transaction

System validates account

Transaction is recorded

Cash/bank is updated

Ledger is updated

Supervisor reviews

#### ◇ CHAPTER 11 — LOAN DISBURSEMENT

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##### **Step-by-Step**

Before disbursement:

- ✓ Loan approved
- ✓ Documentation complete
- ✓ Member verified (KYC)
- ✓ Disbursement method defined

##### **Disbursement Methods**

cash

bank transfer

mobile money

##### **Accounting Entry**

Dr Loans Receivable

Cr Cash / Bank

##### **Control Rules**

**Loan must exist before disbursement**

**Approval must be independent**

**Amount must match approved loan**

### **Red Flags**

disbursement before approval

mismatch between approved and disbursed amount

## **◇ CHAPTER 12 — LOAN REPAYMENTS**

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### **Step-by-Step**

Receive payment

Identify loan

Apply payment:

interest

principal

penalties

### **Accounting Entry**

Dr Cash

Cr Interest Income

Cr Loans Receivable

### **Control Rule**

**Payment allocation must follow policy**

### **Red Flags**

incorrect allocation

manual overrides

## **◇ CHAPTER 13 — DEPOSITS (SAVINGS INTAKE)**

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### **Step-by-Step**

Member deposits funds

Validate account

Record deposit

### **Accounting Entry**

Dr Cash

Cr Member Deposits (Liability)

### **Control Rule**

**Deposit must reflect in member account immediately**

**Red Flags**

deposit recorded late  
mismatch between cash and system

**◇ CHAPTER 14 — WITHDRAWALS**

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**Step-by-Step**

Verify member identity  
Confirm sufficient balance  
Process withdrawal

**Accounting Entry**

Dr Member Deposits  
Cr Cash

**Control Rule**

**No overdraft unless authorized**

**Red Flags**

withdrawals without verification  
negative balances

**◇ CHAPTER 15 — FEES & CHARGES**

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**Types**

account maintenance fees  
loan processing fees  
penalties

**Accounting Entry**

Dr Cash / Receivable  
Cr Fee Income

**Control Rule**

**Fees must match approved schedule**

**Red Flags**

unauthorized fees  
inconsistent application

**◇ CHAPTER 16 — INTEREST POSTING (CRITICAL)**

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**Loan Interest**

accrues daily or monthly

based on outstanding principal

### **Deposit Interest**

expense to institution

### **Accounting Entry**

Loan:

Dr Interest Receivable

Cr Interest Income

Deposit:

Dr Interest Expense

Cr Deposit Liability

### **Control Rule**

**Interest must be system-calculated—not manual**

### **Red Flags**

manual adjustments

incorrect rates

## **◇ CHAPTER 17 — CASH CONTROLS**

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### **Daily Controls**

✓ Opening cash balance

✓ All transactions recorded

✓ Closing cash count

### **Reconciliation**

Cash per teller = cash per system

### **Control Rule**

**Differences must be investigated immediately**

### **Red Flags**

cash shortages

unexplained differences

## **◇ CHAPTER 18 — TELLER OPERATIONS**

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### **Teller Responsibilities**

process deposits

process withdrawals

collect loan payments

issue receipts

**Daily Teller Close**

- ✓ total transactions
- ✓ cash count
- ✓ reconciliation

**Control Rule**

Teller cannot approve own transactions

**◇ CHAPTER 19 — MOBILE MONEY OPERATIONS**

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**Types**

mobile deposits  
loan disbursements  
repayments

**Process**

receive transaction  
validate mobile account  
post to system

**Accounting Entry**

Dr Mobile Clearing Account  
Cr Member Deposits / Loans

**Reconciliation**

Daily reconcile:  
mobile provider statement  
system records

**Control Rule**

Mobile balances must tie daily

**Red Flags**

unmatched transactions  
delays in posting

**◇ CHAPTER 20 — BANK TRANSACTIONS**

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**Types**

deposits  
withdrawals  
transfers  
loan funding

**Control Rule**

All bank transactions must be recorded

**◇ CHAPTER 21 — BANK RECONCILIATION**

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**Daily / Monthly Process**

obtain bank statement  
match transactions  
identify differences

**Common Differences**

timing  
bank fees  
errors

**Control Rule**

Bank must reconcile 100%

**Red Flags**

unreconciled balances  
long outstanding items

**◇ CHAPTER 22 — DAILY REPORTING**

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**Daily Reports Must Include**

total deposits  
total withdrawals  
loan disbursements  
loan repayments  
cash balance  
mobile money summary

**Control Rule**

Management must review daily

**◇ CHAPTER 23 — CUT-OFF CONTROL**

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**End of Day**

✓ All transactions recorded  
✓ Cash reconciled  
✓ System closed

**Control Rule**

**No backdating without approval**

## ◇ CHAPTER 24 — COMMON DAILY FAILURES

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### Top Issues

cash not reconciled  
loan payments misapplied  
deposits recorded late  
mobile money not reconciled  
interest calculated incorrectly

### ◇ SIMPLE VERSION (8TH GRADE LEVEL)

Every day:  
record all deposits  
record all withdrawals  
record all loan payments  
count your cash  
make sure everything matches

### ◇ FINAL RULE — VOLUME 2

**If daily operations are weak, your financial statements are lies**

### ◇ WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:  
teller system  
loan servicing engine  
deposit management system  
real-time financial tracking

**This is the core banking engine**

### NEXT STEP

**Volume 3 — Loan Portfolio & Credit Loss Engine**

Including:  
loan aging  
delinquency  
PAR  
IFRS 9 ECL  
CECL model  
Volume 2 recorded transactions.

**Volume 3 determines whether those loans are real, collectible, and properly valued.**

## VOLUME 3 — LOAN PORTFOLIO & CREDIT LOSS ENGINE

Aging | Delinquency | NPLs | Write-offs | Recoveries | Collateral | Restructuring | IFRS 9 ECL | CECL

### ◇ CORE PRINCIPLE

A loan is only valuable if it will be repaid

### ◇ OBJECTIVE OF THIS VOLUME

You must be able to:

track loan performance

identify risk early

measure delinquency

estimate expected losses

adjust financial statements accordingly

### ◇ CHAPTER 25 — LOAN AGING STRUCTURE

#### Purpose

Loan aging shows how late payments are.

#### Standard Aging Buckets

Days Past Due	Category
0 days	Current
1–30	Watch
31–60	Moderate risk
61–90	High risk
90+	Nonperforming

#### Calculation

Days past due =

Current date – due date

#### Control Rule

Aging must update daily

#### Red Flags

loans not moving between buckets

manual overrides

## ◇ CHAPTER 26 — DELINQUENCY MANAGEMENT

---

### Definition

Loan is delinquent when payment is missed.

### Key Metrics

number of delinquent loans

value of delinquent loans

percentage of portfolio

### Portfolio at Risk (PAR)

PAR =

Outstanding balance of delinquent loans ÷ total portfolio

### Control Rule

**PAR must be monitored daily**

### Red Flags

increasing PAR

delayed recognition

## ◇ CHAPTER 27 — NONPERFORMING LOANS (NPLs)

---

### Definition

Loans overdue 90+ days

### Impact

high default risk

interest income questionable

### Accounting Treatment

**Stop accruing interest (nonaccrual)**

### Control Rule

**NPLs must be identified and tracked separately**

### Red Flags

NPLs hidden in performing loans

## ◇ CHAPTER 28 — WRITE-OFFS

---

### Definition

Loan deemed uncollectible

### Process

management approval

remove loan from books

**Accounting Entry**

Dr Loan Loss Allowance

Cr Loans Receivable

**Control Rule**

**Write-offs must follow policy**

**Red Flags**

write-offs without approval

delaying write-offs

---

**◇ CHAPTER 29 — RECOVERIES**

---

**Definition**

Previously written-off loan partially or fully recovered

**Accounting Entry**

Dr Cash

Cr Recovery Income

**Control Rule**

**Recoveries must be tracked separately**

---

**◇ CHAPTER 30 — COLLATERAL MANAGEMENT**

---

**Types**

cash

property

guarantors

**Purpose**

Reduce loss if borrower defaults

**Control Rule**

**Collateral must be documented and valued**

**Red Flags**

outdated valuations

missing documentation

---

**◇ CHAPTER 31 — LOAN RESTRUCTURING**

---

**Definition**

Modify loan terms due to borrower difficulty

#### Examples

extend term  
reduce interest  
payment holidays

#### Accounting Impact

may indicate increased credit risk

#### Control Rule

**Restructured loans must be tracked separately**

#### Red Flags

restructuring used to hide delinquency

## ◇ CHAPTER 32 — IFRS 9 EXPECTED CREDIT LOSS (ECL)

---

#### Standard

IFRS 9 Financial Instruments

#### Three Stages

##### Stage 1 — Performing

low risk  
recognize 12-month ECL

##### Stage 2 — Increased Risk

significant deterioration  
lifetime ECL

##### Stage 3 — Credit-Impaired

default or near default  
lifetime ECL

#### ECL Formula

ECL =  
Probability of Default × Loss Given Default × Exposure

#### Control Rule

**Movement between stages must be tracked**

#### Red Flags

all loans kept in Stage 1  
no risk migration

## ◇ CHAPTER 33 — U.S. GAAP CECL MODEL

---

### Standard

ASC 326 CECL

### Core Concept

**Recognize lifetime expected losses upfront**

### Key Elements

historical loss data

current conditions

future forecasts

### Control Rule

**Estimate must be reasonable and documented**

### Difference from IFRS

no staging

immediate lifetime loss

## ◇ CHAPTER 34 — LOAN LOSS ALLOWANCE

---

### Definition

Reserve for expected losses

### Accounting Entry

Dr Loan Loss Expense

Cr Loan Loss Allowance

### Purpose

**Adjust loan value to realistic level**

### Control Rule

**Allowance must reflect risk**

## ◇ CHAPTER 35 — PORTFOLIO REPORTING

---

### Key Reports

loan aging

delinquency report

PAR report

NPL report

ECL / CECL report

### Control Rule

**Reports must tie to GL**

## ◇ CHAPTER 36 — DAILY / MONTHLY MONITORING

---

### Daily

loan aging  
delinquency

### Monthly

ECL / CECL calculation  
allowance review

### Control Rule

**Monitoring must be continuous**

## ◇ CHAPTER 37 — COMMON FAILURES

---

### Top Issues

delayed recognition of bad loans  
no credit loss model  
incorrect loan classification  
hidden NPLs  
weak documentation

### ◇ SIMPLE VERSION (8TH GRADE LEVEL)

Every loan must answer:  
is it being paid?  
if not, how late?  
will we lose money?

### ◇ FINAL RULE — VOLUME 3

**If you do not recognize loan losses early, your financial statements are misleading**

### ◇ IN FINOVATEPRO

This becomes:  
risk engine  
credit monitoring system  
regulatory reporting tool

**This is what makes FinovatePro credible for financial institutions**

### NEXT STEP

**Volume 4 — Deposits, Member Equity & Liquidity**

Including:

savings management

interest on deposits

withdrawals

liquidity ratios

capital adequacy

Volume 3 handled **risk on the asset side (loans)**.

**Volume 4 controls the liability side (deposits) and survival (liquidity).**

If this is weak:

members lose confidence

withdrawals spike

institution collapses—even if “profitable”

## VOLUME 4 — DEPOSITS, MEMBER EQUITY & LIQUIDITY

Savings | Share Capital | Withdrawals | Interest | Liquidity | Reserves

### ◇ CORE PRINCIPLE

Deposits are not your money—they are your responsibility

### ◇ OBJECTIVES OF THIS VOLUME

You must be able to:

track all member balances accurately

manage withdrawals safely

calculate interest/dividends correctly

maintain liquidity at all times

meet regulatory requirements

### ◇ CHAPTER 38 — DEPOSIT LIABILITY STRUCTURE

---

#### Types of Deposits

##### 1. Savings Accounts

withdrawable

may earn interest

##### 2. Fixed / Term Deposits

locked for a period

higher interest

##### 3. Demand / Current Accounts

frequent transactions

usually low or no interest

#### Accounting Entry (Deposit)

Dr Cash

Cr Member Deposits (Liability)

#### Control Rule

Every deposit must tie to a member account

#### Red Flags

deposits not linked to members

mismatch between system and GL

### ◇ CHAPTER 39 — MEMBER ACCOUNT STRUCTURE

---

#### Each Member Must Have

unique ID  
savings accounts  
loan accounts  
transaction history

#### **Key Features**

balance tracking  
transaction log  
interest calculation

#### **Control Rule**

**Member ledger must equal total deposits**

## ◇ CHAPTER 40 — SHARE CAPITAL (CREDIT UNIONS)

---

#### **Definition**

Member ownership stake

#### **Characteristics**

not withdrawable like savings (in some cases)  
may earn dividends  
part of equity

#### **Accounting Entry**

Dr Cash  
Cr Share Capital

#### **Control Rule**

**Share capital must be separated from deposits**

#### **Red Flags**

treating share capital as savings  
mixing equity with liabilities

## ◇ CHAPTER 41 — WITHDRAWALS

---

#### **Step-by-Step**

verify member identity  
check balance  
approve withdrawal  
process payment

#### **Accounting Entry**

Dr Member Deposits

Cr Cash

**Control Rule**

**No withdrawal without verification**

**Red Flags**

unauthorized withdrawals  
overdrafts

◇ **CHAPTER 42 — INTEREST ON DEPOSITS**

---

**Definition**

Cost paid to members for holding funds

**Calculation**

based on balance  
based on time

**Accounting Entry**

Dr Interest Expense  
Cr Member Deposits

**Control Rule**

**Interest must be calculated automatically**

**Red Flags**

incorrect rates  
manual adjustments

◇ **CHAPTER 43 — DIVIDENDS (CREDIT UNIONS)**

---

**Definition**

Profit distribution to members

**Conditions**

based on performance  
approved by board

**Accounting Entry**

Dr Retained Earnings  
Cr Member Dividends Payable

**Control Rule**

**Dividends must be approved and documented**

## ◇ CHAPTER 44 — LIQUIDITY MANAGEMENT (CRITICAL)

---

### Definition

Ability to meet withdrawals and obligations

### Key Components

cash on hand

bank balances

liquid investments

expected inflows/outflows

### Control Rule

**Institution must always meet withdrawal demands**

### Red Flags

low cash reserves

high withdrawal demand

## ◇ CHAPTER 45 — LIQUIDITY RATIOS

---

### 1. Liquidity Ratio

Liquid Assets ÷ Total Deposits

### Target

**Typically 20%–30% (varies by regulator)**

### 2. Cash Ratio

Cash ÷ Total Deposits

### Control Rule

**Ratios must be monitored daily**

## ◇ CHAPTER 46 — RESERVE REQUIREMENTS

---

### Definition

Minimum funds required by regulator

### Types

central bank reserves

internal liquidity reserves

### Control Rule

**Reserves must be maintained at all times**

### Red Flags

dipping below required levels

## ◇ CHAPTER 47 — DEPOSIT RECONCILIATION

---

### Process

total member balances  
compare with GL  
resolve differences

### Control Rule

**Must reconcile daily or monthly**

### Red Flags

mismatched balances  
unexplained differences

## ◇ CHAPTER 48 — WITHDRAWAL RISK MANAGEMENT

---

### Scenario

Large withdrawals or panic withdrawals

### Actions

monitor trends  
maintain buffers  
limit large withdrawals if policy allows

### Control Rule

**Always plan for worst-case scenario**

## ◇ CHAPTER 49 — MEMBER TRUST & TRANSPARENCY

---

### Requirements

accurate balances  
clear statements  
timely transactions

### Impact

**Trust drives stability**

## ◇ CHAPTER 50 — COMMON FAILURES

---

### Top Issues

deposits treated as income  
liquidity not monitored  
withdrawals not controlled

interest calculated incorrectly  
no reconciliation

◇ **SIMPLE VERSION (8TH GRADE LEVEL)**

Members give you money.

You must:

keep it safe

track it correctly

give it back when they ask

◇ **FINAL RULE — VOLUME 4**

**If you cannot meet withdrawals, nothing else matters**

◇ **IN FINOVATEPRO**

This becomes:

deposit management system

liquidity monitoring engine

member accounting platform

**This is what makes FinovatePro a financial institution core system**

**NEXT STEP**

We build:

**Volume 5 — Revenue, Fees & Interest Recognition**

Including:

loan interest

fee income

accruals

nonaccrual loans

revenue integrity

Volume 3 handled loan risk.

Volume 4 handled deposits and liquidity.

**Volume 5 determines whether your income is real, earned, and compliant.**

If this layer is weak:

revenue is overstated

interest income is inflated

audits fail

regulators intervene

## VOLUME 5 — REVENUE, FEES & INTEREST RECOGNITION

Effective Interest | Accruals | Fees | Nonaccrual | Cut-Off | IFRS & U.S. GAAP

### ◇ CORE PRINCIPLE

Revenue is earned over time—not when cash is received

### ◇ OBJECTIVES OF THIS VOLUME

You must be able to:

calculate interest correctly

recognize revenue over time

apply fees properly

stop recognizing income when risk increases

ensure proper cut-off

### ◇ CHAPTER 51 — TYPES OF REVENUE

---

#### Primary Sources

Interest Income (Loans)

Fees & Charges

Penalties (Late Fees)

Service Charges

#### Control Rule

Each revenue type must be tracked separately

### ◇ CHAPTER 52 — EFFECTIVE INTEREST METHOD (CORE)

---

#### Definition

Interest recognized over time using the **true yield of the loan**, including fees and costs.

#### Standards

IFRS 9 Financial Instruments

ASC 310-20 Nonrefundable Fees and Other Costs

#### What It Includes

loan principal

interest rate

origination fees

transaction costs

#### Purpose

Spread income over loan life correctly

**Control Rule**

**Do not recognize full fees upfront**

**Red Flags**

immediate fee recognition  
ignoring effective yield

**◇ CHAPTER 53 — INTEREST ACCRUAL**

---

**Definition**

Interest earned but not yet received

**Accounting Entry**

Dr Interest Receivable  
Cr Interest Income

**Key Requirement**

accrue daily or monthly  
based on outstanding principal

**Control Rule**

**Interest must be calculated systematically**

**Red Flags**

manual interest calculations  
inconsistent accrual

**◇ CHAPTER 54 — LOAN ORIGINATION FEES**

---

**Definition**

Fees charged when loan is issued

**Treatment**

included in effective interest  
amortized over loan life

**Accounting Entry (Initial)**

Dr Cash  
Cr Deferred Fee Income

**Over Time**

Dr Deferred Fee  
Cr Interest Income

**Control Rule**

Do not recognize all at once

## ◇ CHAPTER 55 — LATE FEES & PENALTIES

---

### Definition

Charges for missed payments

### Recognition

Recognize only when:

probable of collection

measurable

### Accounting Entry

Dr Receivable / Cash

Cr Fee Income

### Control Rule

Avoid recognizing uncollectible penalties

### Red Flags

inflated penalty income

recognizing without collection likelihood

## ◇ CHAPTER 56 — SERVICE CHARGES

---

### Examples

account maintenance

transaction fees

withdrawal fees

### Recognition

When service is performed

### Accounting Entry

Dr Cash / Receivable

Cr Fee Income

### Control Rule

Fees must match services provided

## ◇ CHAPTER 57 — NONACCRUAL LOANS (CRITICAL)

---

### Definition

Loans where interest should no longer be recognized

**Trigger**

90+ days past due (common rule)

**Treatment**

**Stop accruing interest**

**Accounting Impact**

reverse previously accrued interest if necessary

**Control Rule**

**Income must stop when collectability is doubtful**

**Red Flags**

continuing to accrue interest on bad loans

---

**◇ CHAPTER 58 — REVENUE CUT-OFF**

---

**Definition**

Recording revenue in the correct period

**Rules**

interest up to period-end

fees when earned

no early recognition

**Control Rule**

**Revenue must belong to the correct period**

**Red Flags**

shifting revenue between periods

end-of-period manipulation

---

**◇ CHAPTER 59 — INTEREST REVERSALS**

---

**Scenario**

Interest was accrued but not collectible

**Entry**

Dr Interest Income

Cr Interest Receivable

**Control Rule**

**Reverse uncollectible income immediately**

---

**◇ CHAPTER 60 — REVENUE RECONCILIATION**

---

### Tasks

- ✓ interest income vs loan balances
- ✓ fees vs transactions
- ✓ accrual vs cash

### Control Rule

**Revenue must tie to underlying activity**

## ◇ CHAPTER 61 — REPORTING

---

### Key Reports

interest income report  
fee income report  
accrued interest report  
nonaccrual loan report

### Control Rule

**Reports must tie to GL**

## ◇ CHAPTER 62 — COMMON FAILURES

---

### Top Issues

interest overstated  
fees recognized too early  
nonaccrual ignored  
poor cut-off  
lack of reconciliation

### ◇ SIMPLE VERSION (8TH GRADE LEVEL)

interest grows over time  
fees are earned when service is done  
stop counting income if loan is not being paid

### ◇ FINAL RULE — VOLUME 5

**If revenue is overstated, everything else becomes meaningless**

### ◇ WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:  
revenue engine  
interest calculation system  
compliance layer

**This is what regulators and auditors care about most**

## NEXT STEP

### Volume 6 — Month-End Close

Including:

loan reconciliation

deposit reconciliation

interest validation

ECL/CECL updates

financial statements

Volumes 2–5 generated activity, balances, and revenue.

**Volume 6 proves that everything ties, is complete, and is defensible under audit and regulatory review.**

If this layer is weak:

loans don't match reality

deposits don't reconcile

interest is wrong

impairment is misstated

regulators and auditors will not rely on your numbers

## VOLUME 6 — MONTH-END CLOSE (MFI, CREDIT UNION & S&L)

Reconciliation | Interest Validation | ECL/CECL | Financial Statements | Audit-Ready Close

### ◇ CORE PRINCIPLE

**Month-end close is not bookkeeping—it is proof of financial integrity**

### ◇ CLOSE OBJECTIVES

At the end of each month, you must prove:

loan balances are correct

deposit balances are accurate

interest income and expense are properly recorded

expected credit losses are recognized

cash and bank balances are reconciled

financial statements are complete and reliable

### ◇ CLOSE STRUCTURE (MANDATORY ORDER)

Loan Subledger Reconciliation

Deposit Subledger Reconciliation

Interest Accrual & Validation

Credit Loss / Impairment (ECL/CECL)

Cash & Bank Reconciliation

General Ledger Reconciliation

Financial Statements Preparation

Management Review & Certification

**Do not change the order**

## ◇ CHAPTER 63 — LOAN SUBLEDGER RECONCILIATION (CRITICAL)

---

### Objective

Ensure all loan records match the general ledger

### Tasks

✓ Total loan balances by product

✓ Match to GL Loans Receivable

✓ Verify:

principal

interest receivable

loan classifications

### Control Rule

**Loan system = GL = reports**

**Red Flags**

mismatched balances  
missing loans  
incorrect classifications

**◇ CHAPTER 64 — DEPOSIT SUBLEDGER RECONCILIATION**

---

**Objective**

Ensure all member balances match GL

**Tasks**

- ✓ Total all member savings
- ✓ Match to deposit liability accounts
- ✓ Verify:
  - savings
  - fixed deposits
  - interest payable

**Control Rule**

**Member balances must tie exactly**

**Red Flags**

differences between member system and GL  
missing accounts

**◇ CHAPTER 65 — INTEREST ACCRUAL & VALIDATION**

---

**Loan Interest**

- ✓ recalculate expected interest
- ✓ compare with system output

**Deposit Interest**

- ✓ verify interest expense
- ✓ confirm correct rates

**Control Rule**

**Interest must be accurate and consistent**

**Red Flags**

manual adjustments  
unexplained variances

**◇ CHAPTER 66 — NONACCRUAL & REVERSALS**

---

**Tasks**

- ✓ identify nonperforming loans
- ✓ stop interest accrual
- ✓ reverse uncollectible interest

**Control Rule**

**Do not recognize income on doubtful loans**

**◇ CHAPTER 67 — IMPAIRMENT (ECL / CECL)**

---

**Standards**

IFRS 9 Financial Instruments  
ASC 326 CECL

**Tasks**

- ✓ calculate expected losses
- ✓ update allowance
- ✓ classify loans by risk

**Accounting Entry**

Dr Credit Loss Expense  
Cr Loan Loss Allowance

**Control Rule**

**Allowance must reflect current risk**

**Red Flags**

no change in allowance despite risk  
unrealistic assumptions

**◇ CHAPTER 68 — CASH & BANK RECONCILIATION**

---

**Tasks**

- ✓ reconcile all bank accounts
- ✓ match:
  - deposits
  - withdrawals
  - transfers

**Control Rule**

**Cash must reconcile 100%**

**Red Flags**

unreconciled balances  
stale reconciling items

## ◇ CHAPTER 69 — GENERAL LEDGER RECONCILIATION

---

### Reconcile Key Accounts

- ✓ Loans Receivable
- ✓ Loan Loss Allowance
- ✓ Member Deposits
- ✓ Interest Receivable
- ✓ Interest Payable
- ✓ Cash

### Control Rule

Every balance must have support

## ◇ CHAPTER 70 — FINANCIAL STATEMENTS PREPARATION

---

### Prepare

- ✓ Balance Sheet
- ✓ Income Statement
- ✓ Cash Flow Statement

### Key Focus Areas

loan portfolio quality  
deposit balances  
interest income  
impairment

### Control Rule

Financials must reflect true condition

## ◇ CHAPTER 71 — REGULATORY & PORTFOLIO REPORTS

---

### Prepare

- ✓ loan aging
- ✓ PAR report
- ✓ NPL report
- ✓ liquidity report

### Control Rule

**Reports must tie to financial statements****◇ CHAPTER 72 — VARIANCE ANALYSIS**

---

**Compare**

- ✓ current vs prior month
- ✓ actual vs expected

**Questions**

- why did loans increase?
- why did deposits change?
- why did income change?

**Control Rule****All major changes must be explained****◇ CHAPTER 73 — MANAGEMENT REVIEW**

---

**Review Items**

- ✓ financial statements
- ✓ risk indicators
- ✓ liquidity position

**Outcome**

- decisions
- corrections
- actions

**◇ CHAPTER 74 — CLOSE CERTIFICATION**

---

**Management Statement**

- "I confirm that:
- loan balances are accurate
- deposits are correct
- interest is properly recorded
- impairment is adequate
- financial statements are complete"

**◇ CHAPTER 75 — CLOSE CHECKLIST**

---

**Before closing:**

- ✓ loans reconciled

- ✓ deposits reconciled
- ✓ interest validated
- ✓ impairment updated
- ✓ cash reconciled
- ✓ financial statements prepared
- ✓ reports completed
- ✓ variances explained

## ◇ CHAPTER 76 — COMMON CLOSE FAILURES

---

### Top Issues

loan system not reconciled  
deposit mismatches  
incorrect interest  
weak impairment model  
unreconciled cash

### ◇ SIMPLE VERSION (8TH GRADE LEVEL)

At month end:  
make sure loans are correct  
make sure deposits are correct  
make sure interest is correct  
make sure losses are recognized  
make sure cash matches

### ◇ FINAL RULE — VOLUME 6

**If your numbers don't reconcile, they are not real**

### ◇ WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:  
automated close engine  
regulatory reporting system  
audit-ready platform

**This is where trust is proven**

### NEXT STEP

**Volume 7 — Audit, Regulatory & Board Reporting**

Including:  
audit pack  
regulatory schedules  
board dashboards

compliance framework

Volumes 1–6 built the system.

**Volume 7 proves it can withstand auditors, regulators, lenders, and the board.**

If this layer is weak:

audits fail

regulators lose confidence

funding dries up

leadership loses control

## VOLUME 7 — AUDIT, REGULATORY & BOARD REPORTING

Audit Pack | Portfolio Quality | PAR | Liquidity | Capital | Regulatory Schedules | Board Dashboards

### ◇ CORE PRINCIPLE

If you cannot explain your numbers clearly, they will not be trusted

### ◇ OBJECTIVES OF THIS VOLUME

You must be able to:

- produce audit-ready documentation
- generate regulatory-compliant reports
- present clear, decision-ready information to the board
- demonstrate portfolio quality and risk
- prove liquidity and capital strength

### ◇ CHAPTER 77 — THE AUDIT PACK (FOUNDATION)

---

#### What Is an Audit Pack?

A structured set of documents that supports every number in the financial statements.

#### Must Include

- ✓ Financial statements
- ✓ Trial balance
- ✓ General ledger
- ✓ Loan subledger
- ✓ Deposit subledger
- ✓ Reconciliations
- ✓ Interest calculations
- ✓ ECL / CECL schedules
- ✓ Bank reconciliations

#### Control Rule

Every number must tie to supporting documents

#### Red Flags

- missing support
- inconsistent balances

### ◇ CHAPTER 78 — LOAN PORTFOLIO QUALITY REPORTS

---

#### Key Reports

- ✓ Loan Aging Report

- ✓ Delinquency Report
- ✓ Nonperforming Loan (NPL) Report
- ✓ Restructured Loans Report

**Purpose**

Show quality of loan portfolio

**Control Rule**

Reports must update automatically and tie to GL

## ◇ CHAPTER 79 — PORTFOLIO AT RISK (PAR)

---

**Definition**

Loans overdue divided by total loan portfolio

**Formula**

PAR =

Delinquent Loan Balance ÷ Total Loan Portfolio

**Benchmarks**

<5% = strong

5–10% = moderate risk

10% = high risk

**Control Rule**

Must be monitored continuously

**Red Flags**

sudden increase

delayed reporting

## ◇ CHAPTER 80 — LIQUIDITY REPORTING

---

**Key Reports**

- ✓ Cash Position Report
- ✓ Liquidity Ratio Report
- ✓ Cash Flow Projection

**Key Metrics**

liquid assets vs deposits

expected inflows/outflows

**Control Rule**

Must demonstrate ability to meet withdrawals

## ◇ CHAPTER 81 — CAPITAL ADEQUACY

---

### Definition

Measure of financial strength

### Components

equity

retained earnings

reserves

### Key Ratio

Capital ÷ Total Assets

### Purpose

Protect against losses

### Control Rule

Must meet regulatory minimums

## ◇ CHAPTER 82 — REGULATORY REPORTING

---

### Examples

✓ Central bank reports

✓ supervisory authority filings

✓ donor/lender reports

### Requirements

accuracy

timeliness

consistency

### Control Rule

Regulatory reports must tie to financial statements

### Red Flags

differences between reports and GL

## ◇ CHAPTER 83 — BOARD REPORTING

---

### Purpose

Provide clear, actionable information

### Must Include

✓ financial statements

✓ portfolio quality

- ✓ liquidity status
- ✓ capital position
- ✓ key risks

**Control Rule**

Reports must be understandable

**◇ CHAPTER 84 — BOARD DASHBOARD (CRITICAL)**

---

**Key KPIs****Portfolio Quality**

PAR

NPL ratio

**Profitability**

interest income

net income

**Liquidity**

liquidity ratio

cash balance

**Capital**

capital adequacy

**Control Rule**

Board must see key risks quickly

**◇ CHAPTER 85 — AUDIT PROCESS**

---

**Steps**

planning

fieldwork

testing

reporting

**Focus Areas**

loans

deposits

revenue

controls

**◇ CHAPTER 86 — COMMON AUDIT FINDINGS**

---

### Top Issues

poor loan classification  
weak ECL / CECL model  
incorrect interest income  
deposit reconciliation issues  
weak controls

## ◇ CHAPTER 87 — MANAGEMENT RESPONSE

---

### Steps

identify issue  
determine root cause  
implement corrective action  
monitor

### Control Rule

**Findings must be resolved—not ignored**

## ◇ CHAPTER 88 — INTERNAL AUDIT & MONITORING

---

### Activities

✓ test controls  
✓ review transactions  
✓ validate reports

### Purpose

**Detect issues early**

## ◇ CHAPTER 89 — DATA INTEGRITY & SYSTEM CONTROLS

---

### Requirements

audit trails  
restricted access  
change logs

### Control Rule

**All changes must be traceable**

## ◇ CHAPTER 90 — REPORTING TIMELINES

---

### Best Practice

Report	Frequency
Daily cash	daily
Loan portfolio	weekly
Financials	monthly
Regulatory	monthly/quarterly

## ◇ CHAPTER 91 — COMMON REPORTING FAILURES

### Top Issues

late reporting  
 inconsistent numbers  
 lack of clarity  
 missing documentation

### ◇ SIMPLE VERSION (8TH GRADE LEVEL)

You must be able to show:  
 how much money you have  
 how much people owe you  
 how much you owe people  
 how risky your loans are  
 whether you can survive

### ◇ FINAL RULE — VOLUME 7

**If your reports are not clear and accurate, no one will trust your institution**

### ◇ IN FINOVATEPRO

This becomes:  
 audit-ready reporting system  
 regulatory compliance engine  
 executive dashboard

**This is where FinovatePro becomes a serious financial platform**

### NEXT STEP

**Volume 8 — Special Accounting Treatments**

Including:  
 restructured loans  
 write-offs & recoveries  
 donor-funded lending  
 subsidized interest

fraud losses

Volumes 1–7 handle **standard operations**.

**Volume 8 handles real-world complexity—where judgment, controls, and compliance matter most.**

If this layer is weak:

losses are hidden

assets are overstated

donor funds are misused

fraud goes undetected

auditors and regulators lose confidence

## VOLUME 8 — SPECIAL ACCOUNTING TREATMENTS

Restructuring | Collateral | Guarantees | Donor Funds | Subsidies | Write-offs | Fraud

### ◇ CORE PRINCIPLE

When transactions become complex, controls must become stronger—not weaker

### ◇ OBJECTIVES OF THIS VOLUME

You must be able to:

- account for non-standard loan situations
- properly recognize losses and recoveries
- handle donor and restricted funds correctly
- reflect economic reality in financial statements

### ◇ CHAPTER 92 — RESTRUCTURED LOANS

---

#### Definition

Loans modified due to borrower difficulty

#### Examples

- extended term
- reduced interest rate
- payment holiday

#### Accounting Impact

- indicates increased credit risk
- may require higher impairment

#### Key Treatment

- continue to recognize loan
- reassess ECL / CECL
- track separately

#### Control Rule

Restructured loans must not be treated as performing without justification

#### Red Flags

- frequent restructuring
- restructuring used to hide delinquency

### ◇ CHAPTER 93 — COLLATERAL REPOSSESSION

---

#### Definition

Institution takes possession of asset due to default

**Examples**

property  
equipment  
vehicles

**Accounting Treatment**

remove loan balance  
recognize collateral as asset

**Entry**

Dr Repossessed Asset  
Cr Loans Receivable

**Valuation**

**Record at fair value**

**Control Rule**

**Collateral must be:**

properly valued  
documented  
monitored

**Red Flags**

overvaluation  
no valuation support

**◇ CHAPTER 94 — GUARANTEES**

---

**Definition**

Third party promises to repay loan

**Types**

personal guarantees  
institutional guarantees

**Accounting Impact**

may reduce expected credit loss  
does NOT eliminate risk

**Control Rule**

**Guarantees must be:**

documented  
legally enforceable

**Red Flags**

relying on weak guarantees  
no documentation

## ◇ CHAPTER 95 — DONOR-FUNDED LENDING POOLS

---

### Definition

Funds provided by donors for lending purposes

### Key Issue

**Ownership and restrictions**

### Accounting Treatment

Depends on structure:

#### If restricted fund:

Dr Cash

Cr Restricted Fund Liability / Equity

### Control Rule

**Funds must be used only for intended purpose**

### Red Flags

mixing donor funds with general funds

misuse of restricted funds

## ◇ CHAPTER 96 — GRANTS

---

### Definition

Funds received without repayment obligation

### Types

unrestricted

restricted

### Accounting Treatment

#### Unrestricted

Dr Cash

Cr Grant Income

#### Restricted

Dr Cash

Cr Deferred / Restricted Income

### Recognition

**Recognize when conditions are met**

**Control Rule**

**Do not recognize income before conditions are satisfied**

**◇ CHAPTER 97 — SUBSIDIZED LOANS**

---

**Definition**

Loans with below-market interest rates

**Impact**

economic value differs from nominal value

**Accounting Consideration**

may require adjustment to fair value

difference treated as subsidy

**Control Rule**

**Must reflect true economic cost**

**◇ CHAPTER 98 — WRITE-OFFS (ADVANCED)**

---

**Definition**

Removal of uncollectible loan

**Accounting Entry**

Dr Loan Loss Allowance

Cr Loans Receivable

**Key Rule**

**Write-off does NOT mean loan forgotten**

**Control Rule**

**Must follow approval process**

**Red Flags**

delaying write-offs

inconsistent policies

**◇ CHAPTER 99 — RECOVERIES (ADVANCED)**

---

**Definition**

Collection after write-off

**Accounting Entry**

Dr Cash

Cr Recovery Income

**Control Rule**

Must track separately from normal income

**◇ CHAPTER 100 — FRAUD LOSSES**

---

**Definition**

Loss due to theft, manipulation, or misconduct

**Examples**

unauthorized withdrawals

fake loans

misappropriation

**Accounting Treatment**

Dr Fraud Loss Expense

Cr Cash / Loans / Assets

**Control Rule**

Fraud must be:

identified

reported

investigated

**Red Flags**

unexplained differences

unusual transactions

**◇ CHAPTER 101 — LOSS DISCLOSURE & REPORTING**

---

**Requirements**

disclose material losses

explain causes

outline corrective actions

**Control Rule**

Transparency is mandatory

**◇ CHAPTER 102 — SYSTEM CONTROLS FOR SPECIAL CASES**

---

**Must Include**

approval workflows

audit trails

segregation of duties

documentation

### Control Rule

**Complex transactions must have stronger controls**

## ◇ CHAPTER 103 — COMMON FAILURES

---

### Top Issues

hiding restructured loans  
overvaluing collateral  
misusing donor funds  
improper grant recognition  
ignoring fraud

### ◇ SIMPLE VERSION (8TH GRADE LEVEL)

When things go wrong:  
track it  
record it correctly  
show the loss  
explain what happened

### ◇ FINAL RULE — VOLUME 8

**If you hide complexity, you create risk. If you expose it, you control it.**

### ◇ FINAL SYSTEM SUMMARY (FULL MANUAL COMPLETE)

You now have a complete system:  
Volume 1 → Foundation  
Volume 2 → Daily operations  
Volume 3 → Loan risk engine  
Volume 4 → Deposits & liquidity  
Volume 5 → Revenue & interest  
Volume 6 → Month-end close  
Volume 7 → Audit & reporting  
Volume 8 → Special cases

### ◇ IN FINOVATEPRO

This is no longer accounting software.

**It is a core financial system for lending institutions**

## CORE CASE STUDIES (MICROFINANCE / CREDIT UNION / S&L — REALITY VERSION)

Operational Failures → Financial Damage → Control Fixes

### CASE 1 — DEPOSIT TREATED AS REVENUE

---

#### Reality (What Actually Happens)

A teller receives a \$500 deposit.

Instead of posting:

to member savings (liability),

they post it as:

income.

Why?

poor training

weak system setup

manual entries

#### What It Looks Like in the System

revenue increases

deposits are understated

member balance is wrong

#### Real Impact

financial statements inflated

institution owes money it is not recording

reconciliation issues begin immediately

#### Example

Actual:

Cash: +\$500

Deposits: +\$500

Incorrect:

Cash: +\$500

Revenue: +\$500

**Profit is falsely increased**

#### Root Cause

misunderstanding of deposits

poor chart of accounts design

#### Fix (Practical)

**System enforcement:**

deposits can ONLY hit deposit liability accounts

no manual override

**Training:**

“If it must be returned → it is NOT income”

**Final Lesson**

**Deposits are borrowed money, not earned money**

---

**CASE 2 — BAD LOAN STILL SHOWN AS GOOD**

**Reality**

A borrower stops paying for 6 months.

Loan officer:

avoids reclassifying

hopes borrower will pay

**What Happens**

loan stays “current”

no delinquency reported

no impairment recorded

**Impact**

assets overstated

PAR understated

management blind to risk

**Real Example**

Loan: \$10,000

No payments for 180 days

System still shows:

**Performing loan**

**Root Cause**

fear of reporting bad performance

weak system controls

**Fix**

**Automatic aging:**

system moves loan to delinquent category

**Reporting:**

daily PAR monitoring

**Final Lesson**

**A bad loan ignored becomes a bigger loss**

### CASE 3 — INTEREST ACCRUED ON NONPERFORMING LOAN

---

#### Reality

System continues to calculate interest even when borrower is not paying.

#### What Happens

interest income increases

cash never comes

#### Impact

income overstated

financial statements misleading

#### Example

Loan: \$5,000

Interest accrued: \$500

But borrower has not paid in months

**Income is fake**

#### Root Cause

system not set to nonaccrual

management wants higher income

#### Fix

**Automatic rule:**

stop interest at 90+ days past due

**Reverse accrued interest**

#### Final Lesson

**You cannot earn interest from a loan that is not being paid**

### CASE 4 — LOAN DISBURSEMENT WITHOUT APPROVAL

---

#### Reality

Loan officer pressures cashier:

“Disburse now—we will complete paperwork later.”

#### What Happens

loan disbursed without approval

no proper documentation

#### Impact

fraud risk

credit risk

regulatory violation

**Real Scenario**

Loan disbursed: \$2,000

No signed agreement

No collateral

**Loan becomes uncollectible**

**Root Cause**

weak controls

poor segregation of duties

**Fix**

**Hard system control:**

no disbursement without approved loan ID

**Process:**

approval ≠ disbursement

**Final Lesson**

**If a loan is not approved, it should not exist**

**CASE 5 — REPAYMENT APPLIED INCORRECTLY**

---

**Reality**

Customer pays \$200.

System or staff applies:

100% to interest

Instead of:

interest first, then principal

**What Happens**

loan balance remains high

repayment schedule wrong

**Impact**

customer confusion

incorrect loan balances

reporting errors

**Example**

Actual balance should drop

But system shows:

**no reduction**

**Root Cause**

manual posting  
unclear policy

#### Fix

**Automated allocation rules:**

penalties  
interest  
principal

#### Final Lesson

**Payment logic must be controlled, not manual**

## CASE 6 — LOANS & DEPOSITS NOT RECONCILED

---

### Reality

Loan system shows:  
\$1,000,000  
General ledger shows:  
\$950,000

### What Happens

reports don't match  
errors accumulate

### Impact

financial statements unreliable  
audit failure

### Root Cause

no reconciliation process  
multiple systems

#### Fix

**Monthly reconciliation:**

subledger vs GL

**Investigate ALL differences**

#### Final Lesson

**If systems don't agree, your numbers are not real**

## CASE 7 — NO ALLOWANCE FOR EXPECTED CREDIT LOSSES

---

### Reality

Management waits until loans default fully before recognizing losses.

**What Happens**

income looks strong  
losses appear suddenly later

**Impact**

delayed recognition  
shock losses

**Example**

Portfolio: \$1M  
Expected losses: \$50K  
But recorded: \$0

**Financials overstated**

**Root Cause**

misunderstanding of IFRS/GAAP  
avoidance of bad news

**Fix**

**Apply:**

IFRS 9 Financial Instruments  
ASC 326 CECL

**Monthly ECL/CECL calculation**

**Final Lesson**

**Losses must be recognized early—not when too late**

**CASE 8 — WRITE-OFF WITHOUT APPROVAL**

---

**Reality**

Staff removes bad loan quietly to clean reports.

**What Happens**

loan disappears  
no approval  
no tracking

**Impact**

control breakdown  
potential fraud

**Root Cause**

lack of governance  
poor oversight

**Fix****Require:**

management approval  
audit trail  
documentation

**Final Lesson**

**Every write-off must be visible and approved**

**CASE 9 — LIQUIDITY LOOKS STRONG BUT IS NOT**

---

**Reality**

Cash includes:  
restricted donor funds  
pledged deposits

**What Happens**

liquidity appears high  
actual usable cash is low

**Impact**

inability to meet withdrawals  
liquidity crisis

**Example**

Cash: \$500K  
Restricted: \$300K  
Real liquidity:

**\$200K**

**Root Cause**

poor classification  
no liquidity analysis

**Fix****Separate:**

restricted vs unrestricted funds

**Monitor real liquidity**

**Final Lesson**

**Not all cash is available cash**

**CASE 10 — REGULATORY REPORT DOES NOT TIE**

---

### Reality

Report to regulator shows:

\$1.2M loans

Financial statements show:

\$1.1M

### What Happens

inconsistency detected

credibility damaged

### Impact

regulatory sanctions

audit issues

### Root Cause

manual reporting

disconnected systems

### Fix

**Automate reports from GL**

**Reconcile before submission**

### Final Lesson

**If reports don't match, trust is lost immediately**

### ◇ FINAL SUMMARY

#### Pattern Across All Cases

Failures come from:

weak systems

poor controls

lack of discipline

manual overrides

#### Ultimate Rule

**Every error starts small—but grows silently until it becomes a crisis**

### ◇ IN FINOVATEPRO

These cases become:

automated alerts

system validations

audit flags

control workflows

**This is how you turn FinovatePro into a risk-aware financial system**



## APPENDIX 1 — MONTH-END CLOSE CHECKLIST

### Microfinance, Credit Union & Savings-and-Loans

JSM Grade | IFRS + U.S. GAAP | Audit-Ready | Zero Deviations

#### ◇ 1. PURPOSE

This checklist ensures:

loans are accurately stated  
deposits are fully accounted for  
interest income and expense are correct  
credit losses are recognized  
liquidity is real (not inflated)  
financial statements are reliable

**If this checklist is not completed, the financials are not complete**

#### ◇ 2. CORE PRINCIPLE

**You are not closing books—you are proving financial reality**

#### ◇ 3. CLOSE STRUCTURE (MANDATORY ORDER)

Loan Portfolio Reconciliation  
Deposit Reconciliation  
Interest Recognition Validation  
Nonaccrual & Revenue Adjustments  
ECL / CECL (Impairment)  
Cash & Bank Reconciliation  
General Ledger Reconciliation  
Liquidity & Capital Review  
Financial Statements Preparation  
Management Review & Certification

**Do not skip or reorder**

#### ◇ 4. DETAILED STEP-BY-STEP CHECKLIST

##### SECTION 1 — LOAN PORTFOLIO RECONCILIATION (CRITICAL)

###### Tasks

- ✓ Reconcile loan subledger to GL
- ✓ Verify:
  - total loan balances
  - loan classifications (current, delinquent, NPL)
  - interest receivable
- ✓ Confirm loan aging accuracy

**Control Rule**

**Loan system = GL = reports**

**Red Flags**

mismatched balances  
incorrect loan status  
missing loans

**SECTION 2 — DEPOSIT RECONCILIATION****Tasks**

- ✓ Reconcile member balances to GL
- ✓ Verify:
  - savings accounts
  - fixed deposits
  - accrued interest payable

**Control Rule**

**Total member balances must equal deposit liabilities**

**Red Flags**

differences between systems  
missing accounts

**SECTION 3 — INTEREST RECOGNITION VALIDATION****Tasks**

- ✓ Recalculate loan interest
- ✓ Validate deposit interest expense
- ✓ Confirm rates applied correctly

**Control Rule**

**Interest must be system-calculated and accurate**

**Red Flags**

manual adjustments  
inconsistent rates

**SECTION 4 — NONACCRUAL & REVENUE ADJUSTMENTS****Tasks**

- ✓ Identify loans 90+ days past due
- ✓ Stop interest accrual
- ✓ Reverse uncollectible interest

**Control Rule**

**Do not recognize income on doubtful loans****Red Flags**

interest on bad loans  
no reversals

**SECTION 5 — CREDIT LOSS (ECL / CECL)****Standards**

IFRS 9 Financial Instruments  
ASC 326 CECL

**Tasks**

- ✓ Calculate expected credit losses
- ✓ Update loan loss allowance
- ✓ Review:
  - staging (IFRS)
  - lifetime losses (CECL)

**Entry**

Dr Credit Loss Expense  
Cr Loan Loss Allowance

**Control Rule****Allowance must reflect current risk****Red Flags**

unchanged allowance despite risk changes  
unrealistic assumptions

**SECTION 6 — CASH & BANK RECONCILIATION****Tasks**

- ✓ Reconcile all bank accounts
- ✓ Match:
  - deposits
  - withdrawals
  - transfers

**Control Rule****Cash must reconcile 100%****Red Flags**

unreconciled balances  
old reconciling items

**SECTION 7 — GENERAL LEDGER RECONCILIATION**

### Reconcile Key Accounts

- ✓ Loans Receivable
- ✓ Loan Loss Allowance
- ✓ Member Deposits
- ✓ Interest Receivable
- ✓ Interest Payable
- ✓ Cash

### Control Rule

Every balance must have support

## SECTION 8 — LIQUIDITY VALIDATION (CRITICAL)

### Tasks

- ✓ Identify:
  - available cash
  - restricted funds
  - pledged deposits
- ✓ Calculate liquidity ratios

### Control Rule

Liquidity must reflect usable funds only

### Red Flags

- restricted cash included
- overstated liquidity

## SECTION 9 — CAPITAL & EQUITY REVIEW

### Tasks

- ✓ Verify:
  - retained earnings
  - share capital
  - reserves
- ✓ Confirm capital adequacy

### Control Rule

Capital must support risk exposure

## SECTION 10 — FINANCIAL STATEMENTS PREPARATION

### Prepare

- ✓ Balance Sheet
- ✓ Income Statement

✓ Cash Flow Statement

#### Key Focus

loan portfolio  
deposit balances  
interest income  
impairment

#### Control Rule

**Financials must reflect true condition**

### SECTION 11 — REGULATORY & PORTFOLIO REPORTS

#### Prepare

✓ PAR report  
✓ loan aging  
✓ NPL report  
✓ liquidity report

#### Control Rule

**Reports must tie to GL**

### SECTION 12 — VARIANCE ANALYSIS

#### Compare

✓ current vs prior month  
✓ actual vs expected

#### Questions

why did loans change?  
why did deposits change?  
why did income change?

#### Control Rule

**All variances must be explained**

### SECTION 13 — INTERNAL CONTROL REVIEW

#### Tasks

✓ review approvals  
✓ verify segregation of duties  
✓ test key transactions

#### Control Rule

**Controls must operate—not just exist**

### SECTION 14 — FINAL CLOSE VALIDATION

Before closing:

- ✓ loans reconciled
- ✓ deposits reconciled
- ✓ interest validated
- ✓ impairment updated
- ✓ cash reconciled
- ✓ liquidity confirmed
- ✓ financials prepared
- ✓ reports completed
- ✓ variances explained

#### ◇ 5. CLOSE CERTIFICATION (MANDATORY)

##### Management Statement

"I confirm that:

loan balances are accurate

deposits are complete

interest is properly recorded

credit losses are recognized

liquidity is sufficient

financial statements are reliable"

#### ◇ 6. CLOSE TIMELINE (BEST PRACTICE)

Day	Activity
Day 1–2	loans + deposits
Day 3	interest + impairment
Day 4	cash + GL
Day 5	financials + review

**Target: 5-day close**

#### ◇ 7. COMMON FAILURE POINTS

loan system not reconciled

deposit mismatches

interest errors

weak ECL / CECL

overstated liquidity

#### ◇ 8. SIMPLE VERSION (8TH GRADE LEVEL)

At month end:  
check all loans  
check all deposits  
check all interest  
check for losses  
check cash  
make sure everything matches

◇ **FINAL RULE**

**If your numbers don't reconcile and can't be explained, they are not acceptable**

◇ **WHAT THIS ENABLES (FINOVATEPRO)**

This becomes:  
automated close workflow  
regulator-ready system  
audit-ready reporting

**This is what makes FinovatePro trusted by financial institutions**

## APPENDIX 2 — SIMILARITIES & DIFFERENCES

### Microfinance Institutions (MFI) vs Credit Unions vs Savings & Loans (S&L)

#### Big 4-Level | Fact-Based | Structurally Accurate

#### ◇ 1. PURPOSE OF THIS APPENDIX

This appendix clarifies:

what these institutions have in common

where they fundamentally differ

how accounting, reporting, and controls must adapt

**Treating them as identical leads to wrong accounting and regulatory failure**

#### ◇ 2. HIGH-LEVEL DEFINITIONS

##### Microfinance Institution (MFI)

An MFI provides **small loans, savings, and financial services** primarily to:

low-income individuals

informal sector participants

underserved populations

Often includes:

group lending

micro-loans

donor funding

##### Credit Union

A **member-owned cooperative financial institution** that:

accepts deposits (member shares/savings)

provides loans to members

distributes surplus via dividends

Ownership:

**Members = owners**

##### Savings & Loans (S&L)

A **deposit-taking financial institution** focused on:

savings products

mortgage and consumer lending

Ownership:

**shareholder-owned or privately owned**

#### ◇ 3. CORE SIMILARITIES (WHAT THEY ALL SHARE)

##### 3.1 Financial Intermediation

All three:

accept funds (deposits/savings)

lend money  
earn interest income

### 3.2 Core Accounting Structure

All require:  
loan accounting  
deposit liability accounting  
interest recognition  
impairment (ECL/CECL)

### 3.3 Key Risks

All face:  
credit risk (loan defaults)  
liquidity risk (withdrawals)  
operational risk

### 3.4 Required Reporting

All must produce:  
financial statements  
loan portfolio reports  
liquidity metrics  
regulatory filings (where applicable)

### 3.5 Internal Control Requirements

All require:  
segregation of duties  
loan approval controls  
reconciliation processes

#### ◇ KEY TAKEAWAY

Operationally similar, structurally different

#### ◇ 4. CRITICAL DIFFERENCES (STRUCTURAL & ACCOUNTING)

##### 4.1 OWNERSHIP STRUCTURE

Institution	Ownership
MFI	Private, NGO, or hybrid
Credit Union	Members (cooperative)
S&L	Shareholders

#### Impact

Credit unions → equity = member shares

S&L → equity = shareholder capital

MFIs → may include donor capital

#### 4.2 FUNDING SOURCES

Institution	Primary Funding
MFI	donor funds, loans, limited deposits
Credit Union	member deposits & shares
S&L	deposits + wholesale funding

#### Impact

##### MFIs must handle:

restricted funds

grants

##### S&Ls:

rely more on market funding

#### 4.3 CUSTOMER BASE

Institution	Client Type
MFI	low-income / unbanked
Credit Union	members only
S&L	general public

#### Impact

MFIs → higher credit risk

Credit unions → relationship-based lending

S&Ls → broader lending portfolio

#### 4.4 LOAN CHARACTERISTICS

Institution	Loan Type
MFI	small, short-term, group lending
Credit Union	consumer, SME
S&L	mortgages, consumer loans

**Impact**

MFIs → high volume, small value

S&Ls → lower volume, higher value

**4.5 DEPOSIT STRUCTURE**

Institution	Deposit Type
MFI	may be limited or regulated
Credit Union	member savings/shares
S&L	full deposit products

**Impact**
**Credit unions:**

deposits tied to membership

**S&Ls:**

broader deposit base

**4.6 PROFIT DISTRIBUTION**

Institution	Distribution
MFI	reinvest or donor-driven
Credit Union	dividends to members
S&L	dividends to shareholders

**Impact**
**Accounting for equity differs significantly**
**4.7 REGULATORY ENVIRONMENT**

Institution	Regulation Level
MFI	varies widely (light to moderate)
Credit Union	regulated cooperative sector
S&L	heavily regulated (bank-like)

## Impact

### S&Ls:

strict capital and liquidity rules

### MFIs:

may follow donor + local regulations

## 4.8 ACCOUNTING COMPLEXITY

Institution	Complexity
MFI	moderate (with donor complexities)
Credit Union	moderate
S&L	high (bank-like reporting)

## Impact

### S&Ls require:

advanced financial reporting

stricter compliance

## 4.9 IMPAIRMENT (ECL / CECL) APPLICATION

### Standards

IFRS 9 Financial Instruments

ASC 326 CECL

### Differences in Practice

Institution	Application
MFI	simplified or proxy models often used
Credit Union	structured models
S&L	fully developed models

## Impact

### Data availability drives model complexity

## 4.10 LIQUIDITY MANAGEMENT

Institution	Liquidity Focus
MFI	operational survival
Credit Union	member withdrawals
S&L	regulatory ratios

## Impact

### S&Ls:

strict liquidity requirements

### MFIs:

more operational focus

## ◇ 5. ACCOUNTING TREATMENT DIFFERENCES (PRACTICAL)

### Deposits

All treat deposits as liabilities

Credit unions may classify some as member shares

### Equity

MFIs → donor funds may be restricted

Credit unions → member equity

S&Ls → shareholder equity

### Revenue

all use interest-based income

MFIs rely more on fees

### Loss Recognition

all must apply ECL/CECL

sophistication varies

## ◇ 6. SYSTEM DESIGN IMPLICATIONS (FOR FINOVATEPRO)

### MFI Requirements

group lending support

donor fund tracking

flexible impairment

### Credit Union Requirements

member ownership tracking

dividend calculation

share capital accounting

### S&L Requirements

full banking features  
advanced reporting  
regulatory compliance

#### ◇ 7. COMMON MISTAKE

##### **Mistake**

Treating all three as “loan + deposit systems”

##### **Reality**

They differ in:

ownership  
funding  
reporting  
regulation

##### **Result of Mistake**

wrong accounting  
compliance failure  
system breakdown

#### ◇ 8. SIMPLE VERSION (8TH GRADE LEVEL)

All three:

take money  
lend money

But:

MFIs serve the poor  
Credit unions serve members  
S&Ls serve the public  
And they follow different rules.

#### ◇ FINAL RULE

**They may look similar—but they must not be treated the same**

#### ◇ WHAT THIS ENABLES

This appendix allows:  
correct system design  
proper accounting treatment  
regulatory compliance  
scalable product architecture

**This is how FinovatePro becomes multi-institution ready**