

Accounting in Not-for -Profits

The seriously short version.

Uses and Users of Accounting

- Accounting identifies and records the economic events of an organization and communicates to interested users
- There are two broad categories of users
 - Internal users
 - External users

Users of Financial Information

- Internal users
 - Manage the company, non-profit, government organization
 - Company officers, managers and directors in finance, marketing, human resources, production or program supervisors
- External users
 - Do not work for the company
 - Investors, lenders, and other creditors.
 - Customers, employees, labour unions, board members
 - Taxing authorities and regulators

Uses and Users of Accounting

- Typically internal users need more and different information as they are running the organization
- Typically external users want more summarized information
- Both groups need subdivision by program area
- The net result is you need different statements for different people all drawn from the same dataset

Cash vs. Accrual Accounting

- The Cash basis of accounting is when transactions are recorded as they arise. No effort is made to attach the revenue received to the expenditures in a period. It is used by smaller organizations and often for internal statements.
- Accrual accounting does adjusting transactions that do try to match the timing of revenues and expenses by introducing receivables, payables, prepaid items and deferred revenue.

Generally Accepted Accounting Principles (GAAP)

- Rules and practices for the preparation of financial statements
- Different for publicly-traded and private corporations
 - Publicly-traded corporations use International Financial Reporting Standards (IFRS)
 - Private corporations may use IFRS or Accounting Standards for Private Enterprises (ASPE)
- Not-for-Profits follow Canadian accounting standards for not-for-profit organizations.
- No one is required to follow any particular standards for internal use statements

Three Types of Organizational Activities

- All organizations and companies are involved in all three activities:
- Financing
- Investing
- Operating

Financing Activities

- Obtaining (and repaying) funds to finance the operations of the business. For this group it is generally borrowing money or repaying loans (debt)
- Forms of debt
 - Bank indebtedness, bank loans, long-term debt such as mortgages, bonds, finance leases

Investing Activities

- Purchase or sale of long-lived assets needed to operate the organization
- Examples
 - Purchase or sale of long-lived assets such as property, plant and equipment and possibly intangible assets (licenses)
 - Purchase or sale of investments, such as shares or debt securities of companies for reserve funds

Operating Activities

- Operating activities are the main day-to-day activities of the organization
- Examples
 - Revenues (income)
 - Expenses
 - Related accounts such as accounts receivable and accounts payable if applicable

Financial Statements (1 of 2)

- Income statement
 - Reports revenues and expenses for a specific period of time
- Statement of changes in equity
 - Reports the changes in each component of organizations' equity during a period of time
- Statement of financial position
 - Shows the assets, liabilities and equity at a specific point in time

Financial Statements (2 of 2)

- Statement of cash flows
 - Shows, for a specific period of time, how organization obtained cash and how that cash was used
- Order of preparation of statements



Statement Frequency

- The Income Statement is the most frequent. Typically an organization will produce something monthly
- The Statement of Financial Position is next and often as not depends on the frequency of board meetings
- The Statement of Cash Flows and Statement of Equity are done as required and a least annually depending on the requirements of the board

Statement Overview

- We will look briefly at the Income Statement, the Statement of Financial Position and the Statement of Cash Flows
- In terms of preparation you actually start with the Income Statement but I will leave that until last

Statement of Financial Position - Example (1 of 2)

<i>XYZ Organization</i>			
<i>Statement of Financial Position</i>			
For the Twelve Months Ending December 31, 2020			
	Current	Previous	Last
	Month	Month	Year
ASSETS			
Cash	\$21,799	\$18,851	\$28,927
Money Market Accounts	111,809	156,922	36,947
Accounts Receivable (net)	61,644	58,812	73,651
Accrued Interest Receivable	913	913	901
GST/HST Receivable	4,225	3,978	4,122
Inventories	11,345	19,877	11,197
Prepaid Expenses	52,355	47,335	57,198
Bond Investments	136,075	136,075	134,393
Other Investments	9,825	9,825	9,825
Furniture & Fixtures	22,041	20,267	24,351
Vehicles	45,574	47,105	49,786
Buildings	463,605	463,883	466,953
Land	84,812	84,812	84,812
Total Assets	\$1,026,022	\$1,068,655	\$983,063

Statement of
Financial
Position -
Example (1 of
2 Cont.)

<i>LIABILITIES AND EQUITY</i>			
Acc'ts Payable/Accr'd Charges	\$218,976	\$254,273	\$175,290
Deferred Revenue	10,104	10,118	10,145
GST/HST Payable	8,362	3,114	3,790
Other Liabilities	5,644	2,455	4,359
Mortgages Payable	125,556	125,556	138,889
Retained Earnings	653,593	667,976	644,731
Year to Date Income (Loss)	3,787	5,163	5,859
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Total Liabilities and Equity	\$1,026,022	\$1,068,655	\$983,063

Classified Statement of Financial Position

- A classified statement of financial position generally contains the following standard classifications:

Assets	Liabilities and Shareholder's Equity
Currents assets	Currents liabilities
Cash	Bank indebtedness
Held for trading investments	Accounts payable
Accounting receivable	Unearned revenue
Inventory	Notes payable
Supplies	Current maturities of long-term debt
Prepaid expenses	Non-current liabilities
Non-current assets	Bank loan payable
Long-term investments	Shareholder's equity
Property, plant, and equipment	Share capital
Intangible assets	Retained earnings
Goodwill	

Statement of Financial Position - Example (2 of 2)

<i>XYZ Organization</i>			
<i>Statement of Financial Position</i>			
For the Twelve Months Ending December 31, 2020			
	Current Month	Previous Month	Last Year
ASSETS			
Cash	\$21,799	\$18,851	\$28,927
Money Market Accounts	111,809	156,922	36,947
Total Cash	133,608	175,773	65,874
Accounts Receivable (net)	61,644	58,812	73,651
Accrued Interest Receivable	913	913	901
GST/HST Receivable	4,225	3,978	4,122
Inventories	11,345	19,877	11,197
Prepaid Expenses	52,355	47,335	57,198
Total Other Assets	130,482	130,915	147,069
Total Current Assets	264,090	306,688	212,943
Bond Investments	136,075	136,075	134,393
Other Investments	9,825	9,825	9,825
Total Investments	145,900	145,900	144,218
Furniture & Fixtures	22,041	20,267	24,351
Vehicles	45,574	47,105	49,786
Buildings	463,605	463,883	466,953
Land	84,812	84,812	84,812
Net Fixed Assets	616,032	616,067	625,902
Total Assets	\$1,026,022	\$1,068,655	\$983,063

Statement of
Financial
Position -
Example (2 of
2 Cont.)

LIABILITIES AND EQUITY			
Acc'ts Payable/Accr'd Charges	\$218,976	\$254,273	\$175,290
Deferred Revenue	10,104	10,118	10,145
GST/HST Payable	8,362	3,114	3,790
Other Liabilities	5,644	2,455	4,359
Total Current Liabilities	243,086	269,960	193,584
Mortgages Payable	125,556	125,556	138,889
Total Long Term Liabilities	125,556	125,556	138,889
Total Liabilities	368,642	395,516	332,473
Retained Earnings	653,593	667,976	644,731
Year to Date Income (Loss)	3,787	5,163	5,859
Total Equity	657,380	673,139	650,590
Total Liabilities and Equity	\$1,026,022	\$1,068,655	\$983,063

Current Assets

- Assets expected to be converted to cash, sold or used in the organization within one operating cycle which is usually one year
- Usually listed in order of liquidity:
 - Reverse order of liquidity also possible
- Examples include cash, held-for-trading investments, accounts receivable, inventory, and prepaid expenses

Long-Term Investments

- Multi-year investments in:
 - Debt securities: loans, notes, bonds, mortgages
 - Equity securities: shares of other companies
- These assets are normally not intended to be sold (and converted to cash) within one year

Property, Plant, and Equipment

- Tangible assets with relatively long useful lives
- Used in operating the business
- Examples:
 - Land
 - Buildings, Equipment
 - Furniture
 - Computers
 - Vehicles
- Usually listed in order of permanency

Current Liabilities

- Obligations that are to be paid or settled within one operating cycle (again usually one year)
- Examples:
 - Bank indebtedness
 - Accounts payable
 - Unearned revenue
 - Bank loan/notes payable
 - Current maturities of long-term debt

Non-Current Liabilities

- Debts expected to be paid or settled after one year
- Examples:
 - Bank loan/notes payable
 - Lease obligations
 - Pension and benefit obligations
 - Deferred income tax liabilities (if applicable)
- Usually accompanied by extensive notes to the financial statements

Equity

- Usually only Retained Earnings in a not-for-profit. It is the cumulative income kept for use in the organization
- Can have restricted earnings if something has been designated for a specific purpose but has not been spent

Statement of Cash Flows

- Reports the effect on cash of the organization's
 - Operating activities
 - Investing activities
 - Financing activities
- Shows net increase or decrease in cash for the period

Statement of Cash Flows - Example

XYZ Corporation			
Statement of Cash Flows			
For the Twelve Months Ending December 31, 2020			
Net Income from Operations		\$81,350	\$22,527
Add Back Non-Cash Expenses:			
Depreciation & Amortization		9,270	9,884
(Gain) Loss on sale of equipment		(3,110)	(6,099)
(Gain) Loss on investments		(13,973)	(4,308)
Pension Costs		(1,713)	(3,384)
Sources (Uses) of Cash WC Items (Note)		(10,453)	10,951
		-----	-----
Net Cash Flow from Operating Activities		61,371	29,571
		-----	-----

Note			
Accounts Receivable		(3,356)	2,649
Prepaid Expenses		(9,944)	2,939
Inventory		(1,281)	2,133
GST/HST Receivable		2,456	4,567
Accounts payable & accrued charges		4,259	(3,748)
Unearned revenue		(2,587)	2,411
		-----	-----
Sources (Uses) of Cash WC Items (Note)		(10,453)	10,951

Statement of Cash Flows - Example

CASH FLOW FROM INVESTING ACTIVITIES:						
Additions to Investments				(16,830)	(15,713)	
Proceeds on Disposal of Investments				16,553	3,621	
Purchase of Capital Assets				(11,177)	(6,571)	
Proceeds on Disposal of Capital Assets				1,401	376	
				(10,053)	(18,287)	
CASH FLOW FROM FINANCING ACTIVITIES:						
Loan payments				(4,253)	(4,253)	
				(4,253)	(4,253)	
Net Increase (Decrease) in Cash				47,065	7,031	
Cash at Beginning of Period				43,189	36,158	
Cash and Equivalents at End of Period				90,254	43,189	
				=====	=====	

Income Statement

- Revenues
 - Arise from sales of a products or services
 - Result in an inflow of assets
- Expenses
 - Costs of assets consumed or services used to generate revenues
- Net Income (loss) = Revenues – Expenses

Income Statement

- Two formats:
 1. Program based format
 2. Functional line item format
- Depending on the audience and their intended use, one will be favoured over the other.
- Order her is usually monetary size or alphabetical

Income Statement – Program Based Example

<i>XYZ Organization</i>					
<i>Income Statement</i>					
For the Twelve Months Ending December 31, 2020					
<i>Revenues</i>			<i>2020</i>	<i>Budget</i>	<i>Variance</i>
Donations			95,788	95,000	788
Government Grants			39,000	39,000	0
Other Revenue			349	1,100	(751)
<i>Total Revenues</i>			<i>135,137</i>	<i>135,100</i>	<i>37</i>
<i>Expenses</i>					
Program 1 *			55,889	60,000	4,111
Program 2 *			44,887	44,000	(887)
Program 3 *			26,399	25,000	(1,399)
Depreciation & Amortization			4,566	4,600	34
Interest & Financing			1,401	1,500	99
<i>Total Expenses</i>			<i>133,142</i>	<i>135,100</i>	<i>1,958</i>
<i>Net Income for the Period</i>			<i>1,995</i>	<i>0</i>	<i>1,995</i>
* Will have supporting schedules					

Supporting Schedule

XYZ Organization - Program 1					
Program Schedule					
For the Twelve Months Ending December 31, 2020					
Revenues			2020	Budget	Variance
Government Grants (Specific and optional)			29,000	29,000	0
Donations (Specific and optional)			9,788	10,000	(212)
Other Revenue (Specific and optional)			56	50	6
Total Revenues			38,844	39,050	(206)
Expenses					
Salaries & benefits			42,128	43,000	872
Program supplies			6,790	6,500	(290)
Travel expenses			4,482	4,500	18
Miscellaneous			2,489	2,000	(489)
Total Expenses			55,889	56,000	111
Net Income for the Program			(17,045)	(16,950)	(95)

Income Statement – Line Item Example

<i>XYZ Organization</i>					
<i>Income Statement</i>					
For the Twelve Months Ending December 31, 2020					
<i>Revenues</i>			<i>2020</i>	<i>Budget</i>	<i>Variance</i>
Donations			95,788	95,000	788
Government Grants			39,000	39,000	0
Other Revenue			349	1,100	(751)
<i>Total Revenues</i>			<i>135,137</i>	<i>135,100</i>	<i>37</i>
<i>Expenses</i>					
Salaries & benefits			85,889	87,000	1,111
Program supplies			22,345	23,700	1,355
Travel expenses			7,399	7,400	1
Rent			6,894	6,900	6
Depreciation & Amortization			4,566	4,600	34
Utilities			3,956	3,500	(456)
Interest & Financing			1,401	1,500	99
Miscellaneous			692	500	(192)
<i>Total Expenses</i>			<i>133,142</i>	<i>135,100</i>	<i>1,958</i>
<i>Net Income for the Period</i>			<i>1,995</i>	<i>0</i>	<i>1,995</i>

Income Statement – Hybrid Example

<i>XYZ Organization</i>					
<i>Income Statement</i>					
For the Twelve Months Ending December 31, 2020					
		2020	Budget	Variance	
Revenues					
Donations		95,788	95,000	788	
Government Grants		39,000	39,000	0	
Other Revenue		349	1,100	(751)	
Total Revenues		135,137	135,100	37	
Expenses					
Salaries & benefits		85,889	87,000	1,111	
Travel expenses		7,399	7,400	1	
Program 1 *		11,055	10,000	(1,055)	
Program 2 *		6,985	7,000	15	
Program 3 *		4,305	6,700	2,395	
Rent		6,894	6,900	6	
Depreciation & Amortization		4,566	4,600	34	
Utilities		3,956	3,500	(456)	
Interest & Financing		1,401	1,500	99	
Miscellaneous		692	500	(192)	
Total Expenses		133,142	135,100	1,958	
Net Income for the Period		1,995	0	1,995	
		=====	=====	=====	
* Will have supporting schedules					

Accounts

- An individual accounting record of increases and decreases in a specific asset, liability, or equity item
- All accounts in the organization known as the Chart of Accounts
- Account level information is the starting point for budgets and statements

Chart of Accounts

- Has to be designed to support the type of statements you want
- For the Statement of Financial Position there will be one (or more) account(s) for each line in the statement
- For the Income Statement it will be for each level of detail. For example, if you want to do a Program based Statement with Schedules it will be at the line-item level of the schedules.
- In all cases it has to be at the level of most detail

Accounting Transactions

- Accounting information system:
 - The system of collecting and processing transaction data and communicating financial information
- Can vary widely based on factors such as:
 - Type of business and its transactions
 - Size of company
 - Amount of data
 - Information requirements

Accounting Transactions

- Transactions are economic events that must be recorded in the financial statements
- Not all events are recorded and reported as accounting transactions:
 - Only those that change assets, liabilities, or shareholders' equity

The Accounting Equation

Assets = Liabilities + Equity

In an expanded form it is:

Assets = Liabilities + (Retained Earnings + Revenues – Expense)

Debits and Credits

- Describe where entries are made in the accounts:
Debiting: entering an amount that will increase an asset or expense and decrease a liability, retained earnings or revenue
Crediting: entering an amount that will increase a liability, retained earnings or revenue and decrease an asset or expense
- If debit amounts from transactions exceed credit amounts, account has **a debit balance**
- If credit amounts from transactions exceed debit amounts, account has a **credit balance**

Depreciation

- Allocation (expense) of the cost of property, plant, and equipment over their estimated useful lives:
 - Companies systematically assign a portion of the cost of an asset to expense each year
 - Under IFRS, this allocation is referred to as depreciation for property, plant, and equipment, and amortization for intangible assets
 - Under ASPE, amortization is often used instead of depreciation

Depreciation

- The cost of long-lived assets with indefinite lives is not depreciated (e.g. land)
- **Accumulated depreciation** account shows the total amount of depreciation taken to date
- The difference between the cost of the asset and its accumulated depreciation is referred to as the **carrying amount** of the asset
 - Accumulated depreciation is a contra asset account

Questions

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