

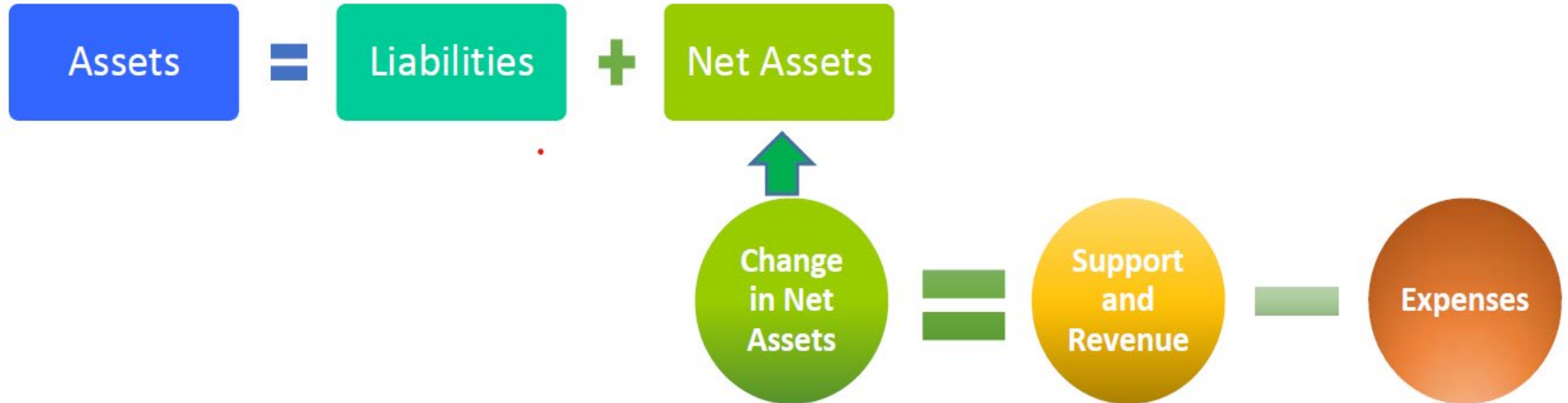


Nonprofit Accounting Fundamentals

Presented by Melodi Bunting, CPA, CMA, CGMA, MBA

Foundations of Accounting

Accounting Equation



Foundations of Accounting

Uses the Five Account Types

Account Type	Debit (Left)	Credit (Right)
Assets	+	-
Liabilities	-	+
Net Assets	-	+
Support and Revenue		+
Expenses	+	

Debit

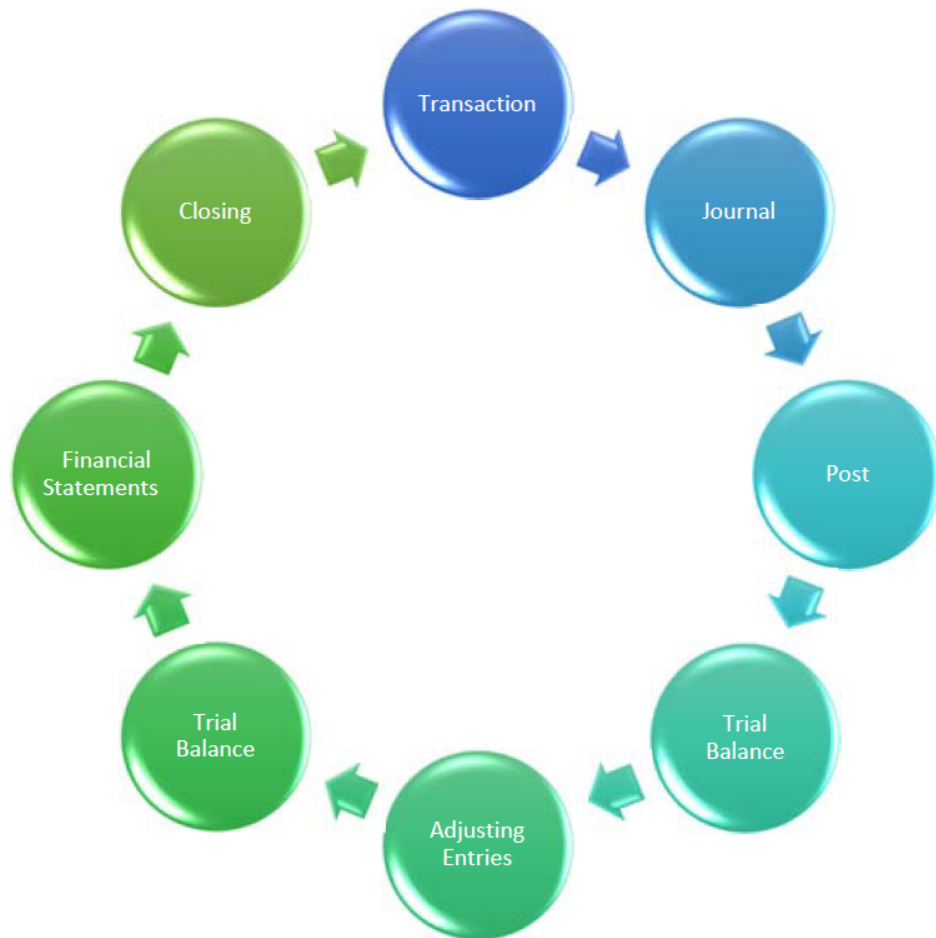
- Assets increase
- Expenses increase
- Liabilities decrease
- Net assets decreases
- Support and revenue decrease

Credit

- Liabilities increase
- Net assets increases
- Support and revenue increase
- Assets decrease
- expenses decrease

Foundations of Accounting

In the Steps of the Accounting Cycle



Transaction – an economic event such as cash receipt or disbursement

Journal – used to record transaction as journal entry (organized in chronological order)

Post – information from the journal entry is posted to individual accounts within the general ledger (organized in account order)

Trial balance – report of all accounts and their current balance

Adjusting entries – used to adjust accounts to accrual basis

Trial balance – report of all accounts and their current balance, including adjusting entries

Financial statements – prepared from adjusted trial balance

Closing – at the end of the year closes temporary accounts (support and revenue and

Major players

- Chart of accounts
- General ledger
- Statement of Financial Position
- Statement of Activities
- Statement of Functional Expenses
- Statement of Cash Flows



Financial Statements

Statement of Financial Position

(Balance sheet in QB)

- Reports the assets, liabilities, and net assets of a nonprofit on a ***given date***
- The statement is used to estimate the liquidity, funding, and debt position of a nonprofit, and is the basis for a number of liquidity ratios

Statement of Activities

(Profit & Loss in QB)

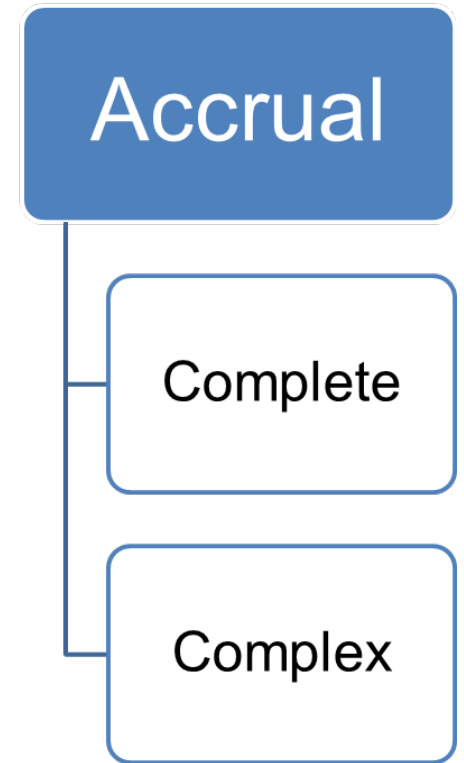
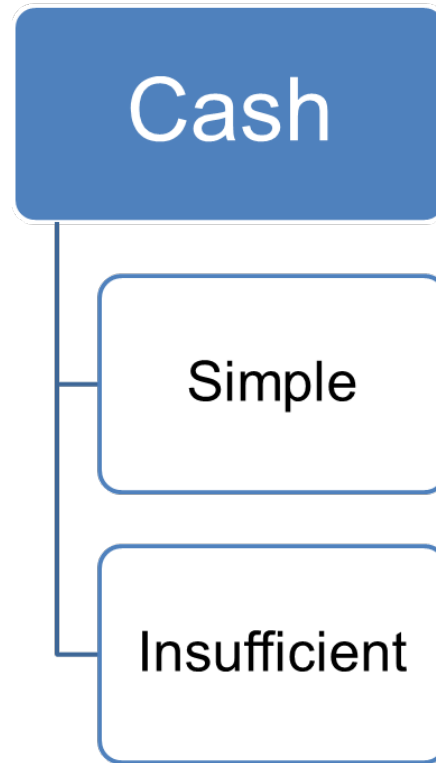
- Shows the nonprofit's income and expenses for a ***specific period of time***
- Reflects the changes to a nonprofit's net assets
- Statement is used to understand how the nonprofit did financially during the year

Journal Entries

- In-kind donations
- Investment gains/losses
- Restrictions
- Expense allocation
- Depreciation*
- Prepaid expenses*
- Deferred revenues*
- Promises to give*
- Accrued PTO*

* Adjusting entries

Basis of Accounting



Considerations for Selection

What do the users of the financials understand?

Is a particular method required?

How complex are your financials?

What is the cost of each method?

Transaction	Cash JE		Accrual JE	
1-Jun Invested personal money to start the business	Cash	1,000	Cash	1,000
	Owner's equity	1,000	Owner's equity	1,000
1-Jun Purchased a mower and trimmer for \$825	Expense	825	Equipment	825
	Cash	825	Cash	825
1-Jun Purchased gas and other supplies for \$110	Expense	110	Supplies (asset)	110
	Cash	110	Cash	110
1-Jun Pays \$310 for quarterly liability and property insurance	Expense	310	Prepaid insurance	310
	Cash	310	Cash	310
3-Jun Mowed 10 yards at \$25 per yard. 8 homeowners were home and paid, left a bill for the two homeowners who were not home	Cash	200	Cash	200
	Service revenue	200	Accounts receivable	50
			Service revenue	250
6-Jun Received \$400 from homeowner who has requested their yard to be mowed every four days	Cash	400	Cash	400
	Service revenue	400	Deferred revenue	400
11-Jun Mowed 15 yards at \$25 per yard. 11 homeowners were home and paid, left a bill for the four homeowners who were not home	Cash	275	Cash	275
	Service revenue	275	Accounts receivable	100
			Service revenue	375
15-Jun Received payment from the two homeowners not home on 6/3	Cash	50	Cash	50
	Service revenue	50	Accounts receivable	50
16-Jun Purchased gas and additional supplies for \$150 (all previous supplies have been used)	Expense	150	Supplies (asset)	150
	Cash	150	Cash	150
21-Jun Mowed 16 yards at \$25 per yard. 12 homeowners were home and paid, left a bill for the four homeowners who were not home	Cash	300	Cash	300
	Service revenue	300	Accounts receivable	100
			Service revenue	400
26-Jun Received payment from the four homeowners not home on 6/11	Cash	100	Cash	100
	Service revenue	100	Accounts receivable	100
28-Jun Purchased gas and supplies of \$145 for use in July (all previous supplies have been used)	Expense	145	Supplies (asset)	145
	Cash	145	Cash	145

<u>End of the month adjusting entries:</u>							
Total supplies purchased \$405 of which \$145 are still on hand at 6/30	<table> <tr> <td>Expense</td> <td>260</td> <td></td> </tr> <tr> <td>Supplies (asset)</td> <td></td> <td>260</td> </tr> </table>	Expense	260		Supplies (asset)		260
Expense	260						
Supplies (asset)		260					
24 days of earned revenue for customer who paid in advance ($24/4 = 6$ mows * \$25)	<table> <tr> <td>Deferred revenue</td> <td>150</td> <td></td> </tr> <tr> <td>Service revenue</td> <td></td> <td>150</td> </tr> </table>	Deferred revenue	150		Service revenue		150
Deferred revenue	150						
Service revenue		150					
1 month of quarterly insurance ($\$310 / 4 = \77.50 , rounded)	<table> <tr> <td>Insurance expense</td> <td>78</td> <td></td> </tr> <tr> <td>Prepaid insurance</td> <td></td> <td>78</td> </tr> </table>	Insurance expense	78		Prepaid insurance		78
Insurance expense	78						
Prepaid insurance		78					
Equipment of \$825 assumed to be useful for 48 months using straight line ($\$825 / 48 = \17 , rounded)	<table> <tr> <td>Depreciation expense</td> <td>17</td> <td></td> </tr> <tr> <td>Accumulated depr.</td> <td></td> <td>17</td> </tr> </table>	Depreciation expense	17		Accumulated depr.		17
Depreciation expense	17						
Accumulated depr.		17					

Cash basis:

Service revenue		1,325
Equipment expense	825	
Insurance expense	310	
Gas and supplies expense	405	
Total expenses		<u>1,540</u>
Net loss		<u>-215</u>
Cash on hand		<u>785</u>
Owners' equity		<u>785</u>

Accrual basis:

Service revenue		1,175
Gas and supplies expense	260	
Insurance expense	78	
Depreciation expense	17	
Total expenses		<u>355</u>
Net income		<u>820</u>

Assets

Cash on hand	785
Accounts receivable	100
Supplies	145
Prepaid insurance	232
Equipment, net	808
	<u>2,070</u>

Liabilities and owners' equity

Deferred revenue	250
Owners' equity	<u>1,820</u>
	<u>2,070</u>

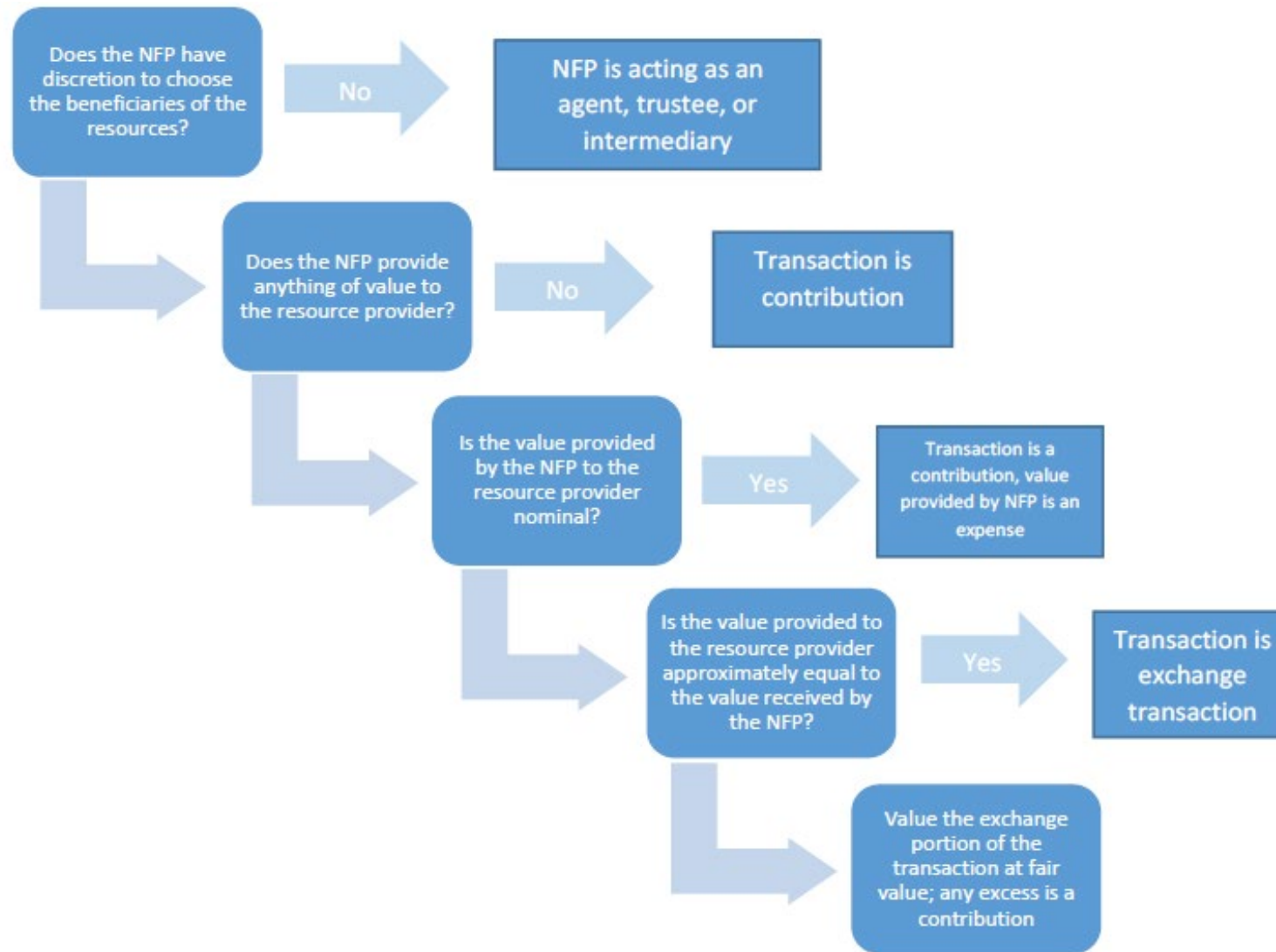
Reporting Impact

- Differs in timing of recognizing revenues and expenses
- Statement of Financial Position difference
 - Receivables
 - Prepaids
 - Inventory / supplies
 - Equipment
 - Payables and accrued expenses
 - Deferred revenue or refundable advance
 - Loans

Revenue and Support

- Agent/intermediary
- Contribution
- Exchange transaction





Source: AICPA NFP Entities Audit & Accounting Guide

Revenue and Support

Agent/intermediary

Dr Cash

Cr Liability such as funds held for others

Contribution

Dr Cash

Cr Contribution (revenue)

Exchange transaction

Dr Cash

Cr Revenue such as program fees

Support and Revenue

Contributions

Membership dues

Program fees

Fundraising events

Grants

Investment income

Contributions & PTG

Intention or promise?

Conditional or unconditional?

Unrestricted or restricted?

Collectability?



Contributions

If without donor restrictions:

Dr Cash

Cr Contributions income (class = program)

If with donor restrictions:

Dr Cash

CR Contributions income (class = program,
job/customer = restriction)

Revenue and Support

Statement of Activities presentation must report the contribution change in each category of net assets.

All expenses are reported as without donor restriction.

A separate line “amounts released from restriction” is included in the statement of activities to report amounts where the time or purpose restrictions has been met.

In-Kind

Services must:

- create or enhance a financial or non-financial asset
- provide specialized skills that the organization would have had to pay for if not donated



Materials
Space
Services



In-Kind Examples

- Attorney has agreed to provide \$2,600 of legal services on a pro bono basis.
- Monthly a group of local accountants works in the shelter's kitchen preparing, serving and cleaning up the evening meal.
- Landlord agrees to offer two months free rent to the NFP.

Restrictions vs. Designations

Restrictions = donor imposed

- Program A
- Scholarships
- Equipment purchase
- Building construction

Designations = board discretion

- Liquidity reserve
- Property and equipment
- Maintenance and replacement
- New program development

Year-end adjustments

- All accounts reconciled
- Journal entries
 - Depreciation
 - Vacation
 - Payroll Accruals
 - Promises to Give
 - Accounts Receivable
 - Deferred Revenue
 - Refundable advance
 - Leases
 - Loans





Melodi Bunting

SENIOR MANAGER, ADVISORY SERVICES



Melodi returned to public accounting when she joined Wegner CPAs' in 2014 after teaching in higher education, consulting with not-for-profits, and preparing consolidations and international reporting for a retailer. While at Wegner she has been developing and teaching a variety of internal and external training opportunities as well as working with the audit team performing audits, reviews and advisory services.



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