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SUBJECT- FINANCIAL ACCOUNTING

NON-PROFIT ACCOUNTING: DEFINITION AND FINANCIAL PRACTICES OF NON-PROFITS

A non-profit is an organization whose primary objective is to fill a need of society (as opposed to a regular business, the priority of which is to maximize revenue for its owners and shareholders). Non-profits do generate profit, but that revenue is put back into the non-profit's mission.

Non-profits are tax exempt and have different accounting priorities and financial statements.

* What is a Non-Profit?

The most common types of non-profits are:

- Charities

Charities rely mainly on contributions to survive, although they can also generate revenue from other sources, such as membership dues, fund-raising events and grants.

Charity organizations can be:

- Religious
- Educational
- Environmental
- Research related
- Health oriented
- Literary
- Social services organizations
- Sports Clubs
- Arts clubs

- Disaster relief organizations
- International development initiatives
- Child sponsorship programs
- Animal welfare programs.
- Human rights' initiatives

* Private Fondations

Foundations exist to support charities or individuals through grants. They donot fund their own programs or activities. A foundation also does not solicit money, the income comes from the individual or business that started the foundation, and that money is invested. The returns on that investment become donations.

* Private Operating Fondations

This is a hybrid between a public charity and a foundation. This type of fondation does fund their own programs or activities.

There is some confusion around the definition of "Fondation", as often the word is used in a charity's official name. For instance, the Clinton Fondation, started by former United States president Bill Clinton, is actually a charity that anyone can donate to. However, the Clinton Family Fondation is a foundation that accepts no donations. It is funded by the Clintons themselves, and the return from that money is donated to organizations that the foundation determines to be in need. As such, the Clinton Family Fondation is considered a private foundation.

money can go into the programs and/or services they offer.

A non-profit organization can choose a cash accounting method for recording its expenses and income. A cash accounting method records transaction amounts when the money trades hands. An accrual accounting method records the amounts when a transaction occurs. Many believe an accrual method of accounting gives a more accurate picture of a company's finances.

Some of the financial statements that a non-profit must generate are also different than that of a regular business:

* Statement of Activities

A "Statement of Activities" is a financial statement a non-profit organization would generate, instead of an "Income Statement."

An income statement shows a company's profitability during a specific time period, while a statement of activities shows the changes in value in the organization's "assets" instead.

For instance, an income statement for a company would show revenue from the sale of goods, and its expenses would show the cost of goods sold. A statement of activities for a non-profit would show revenue from contributions, and expenses from fundraising.
At the bottom of the document, a statement of activities would show a "Net Assets" total, while an income statement would list a "Net Income" total instead.

* what is the Purpose of Fund accounting?

↳ Fund Accounting is used by non-profits to measure accountability as opposed to profitability (in other words, to show that the non-profit's money is being spent appropriately).

Fund accounting is a process by which all of a Non-profit's accounts must be assigned to one of two Categories: Unrestricted or Restricted. This allows a non-profit to know not only how much money it has to work with, but where it Can be spent.

* Unrestricted Funds

This is money that can be used for any purpose, such as renting or buying a piece of land.

* Restricted Funds.

This is money that can only be used for a specific purpose, as specified by the donor. This is an important distinction because by law, the restricted fund money must be used as intended. Restricted funds can be temporary or permanent.

Endowments are a good example of a permanently restricted fund. The principle is never spent, but the interest generated is. How that interest is spent is determined by the donor.

* How is Non-Profit Accounting Different?

→ The Process of accounting is different for non-profits, as these types of organizations are tax-exempt. As a result, non-profits typically focus their efforts on keeping overhead low so that more

* Statment of Financial Position

Instead of a 'Balance-Sheet,' a non-profit would issue a "Statment of Financial Position" instead.

On a Balance Sheet:

Assets = Liabilities + Shareholder's Equity

On a Statment of Financial Position:

Assets = Liabilities + Net Assets.

The reason for the difference is that non-profit organizations donot have owners, meaning there can't be shareholders' equity.

* Are Non-Profit Financial Statments Public?

Non-profit organizations are required to submit their financial Statements to the IRS. The IRS, or the non-profit organization, must disclose these reports to anyone who asks. In this way, the information is made "Public".

Non-profits face heavy scrutiny because of their tax-exempt status. Often, there is an interest by both the public and media on how money is spent by a non-profit, how much, and if it is spent wisely.