

GAAP FOR NON-PROFITS

Presented by

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Comparison of Cash and Accrual Accounting

	Cash	Accrual
What is it?	A system which records income only when it is received and expenses only when they are paid out	A system which records income when it is earned, and expenses when incurred, regardless of when payment is made
Example: Payment to contractor	Debit - Contracted Services Credit - Cash	Debit - Contracted Services Credit - Accounts Payable
Advantages	<ul style="list-style-type: none"> * Simple to record * Easy to understand 	<ul style="list-style-type: none"> * Provides a more accurate picture of where the program really stands <ul style="list-style-type: none"> - What you are owed - What you owe others - What it really costs you to provide services * Standard System
Disadvantages	<ul style="list-style-type: none"> * Can be misleading * Doesn't provide a way to track what you owe or are owed 	<ul style="list-style-type: none"> * Need trained bookkeeper * Need training to understand statements * Take more time

Terms and conditions of OWEB grant

E. Records Maintenance and Access

3. Expenditure Records. Grantee will document the expenditure of all grant moneys disbursed by the Board under this Agreement. **Grantee will create and maintain all expenditure records in accordance with generally accepted accounting principles and in sufficient detail to permit the Board to verify how the grant moneys were expended, including without limitation accounting for all other funds expended, as well as in-kind services and donated materials.**



What is GAAP?



- ➔ **GAAP is an acronym for Generally Accepted Accounting Principles.**
- ➔ **These principles constitute preferred accounting treatment.**

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Who Sets GAAP?



➔ **GAAP policies are currently set primarily by two entities:**

- **Financial Accounting Standards Board (FASB)**
- **American Institute of Certified Public Accountants (AICPA)**

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What is the Purpose of GAAP?



→ **GAAP provides a common set of accounting principles, standards and procedures that companies use to compile their financial statements.**

continued →

Does GAAP apply to non-profits?



- ➔ **YES – non profits are often subject to more scrutiny by outside parties that for profit businesses are.**
- ➔ **Many boards feel GAAP is an important part of the organization.**
- ➔ **GAAP is important because some grants require the use of GAAP accounting.**

How to track financials according to GAAP:

Create a chart of accounts:

	10000	Cash
	10100	Accounts Receivable
	10200	Grants Receivable
Non-Current Assets (20000-29999)		
	20000	Leasehold Improvements
	20100	Furniture and Fixtures
	20101	Accumulated Depreciation – Furniture and Fixtures
	20200	Service Equipment
	20201	Accumulated Depreciation – Service Equipment
LIABILITIES (30000-39999)		
	30000	Accounts Payable
	30100	Notes Payable
	30200	Salaries Payable
	30300	Rent Payable
	30400	Interest Payable
	30500	Unearned Revenue
	30600	Loans Payable
INCOME (50000-59999)		
50000		Grant Income
	50100	Donations
	50200	Memberships
EXPENSE (60000-69999)		
	60000	Rent Expense
	60100	Salaries and Wages
	60200	Supplies and Materials
	60300	Contracted Services

How to track financials according to GAAP:



- ➔ **Record receivables in the period in which they were incurred.**
- ➔ **Record expenses in the period in which they were incurred.**

Accrued expenses include:

- **Payroll Payable**
- **Interest Payable**
- **Vacation Liability**
- **Taxes Payable**

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Three Classes of Net Assets:



- ➔ **Unrestricted Net Assets**
- ➔ **Temporarily Restricted Net Assets**
- ➔ **Permanently Restricted Net Assets**

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Financial Statements Recommended by GAAP

- ➔ Statement of Financial Position also call Balance Sheet
- ➔ Statement of Activities also call Income Statement