PRINCIPLES OF ACCOUNTING AND FINANCIAL REPORTING FOR NONPROFIT ORGANIZATIONS pdf

1: Understanding Nonprofit Financial Statements

On August 18, , the Financial Accounting Standards Board (FASB) issued new rules for nonprofits: "Accounting Standards Update " Not-for-Profit Entities (Topic), Presentation of Financial Statements of Not-for-Profit Entities." This is the first major set of changes to nonprofit financial statement presentation standards.

The new rules take effect for fiscal years starting after December What are the goals of the new rules? The new rules will improve how a nonprofit organization can tell its story through its financial statements. What organizations are affected by the new guidance? The new rules affect substantially all nonprofit organizations, including charities, foundations, private colleges and universities, health care providers, cultural institutions, religious organizations, and trade associations, among others. What do the new rules do? The new rules address the following issues: Simplify and clarify The new rules simplify the treatment of net assets in financial statements by focusing on the existence or absence of donor imposed restrictions, as opposed to the types of restrictions i. The classification of temporarily restricted versus unrestricted assets has long been an area of confusion. The footnotes will also be changed to explain these classifications. The new rules also replace the current three required classes of net assets unrestricted, temporarily restricted, and permanently restricted with two new classes those with donor restrictions and those without donor restrictions. The goal of this change is to simplify keeping track of donor imposed restrictions. Other advantages of this change are that the financial statements will now also provide more useful information about the nature, amounts, and types of donor restrictions. Nonprofits will still have to track net assets and follow any restrictions imposed by donors; however, there is no longer a requirement to distinguish between temporarily and permanently restricted net assets. Instead, new disclosure requirements will allow nonprofits to provide more useful information about limits placed on net assets by both boards and donors. Time will tell whether the guidelines actually accomplish the goal of simplification and clarity. The idea here is to inform the reader of the financial statements about any limitations on the use of liquid assets typically cash and investments by the nonprofit. Nonprofit managers should be ready to discuss these restrictions with their CPA performing the audit or review engagement. Ensure consistency in the reporting of investment expenses and investment returns The new rules require investment income to be reported net of related internal and external investment expenses this is currently optional , but also eliminate the related requirement to disclose the amount of those netted investment expenses. The result of this change is not only a consistent presentation across nonprofit entities, but also it gets rid of the difficulty and costs associated with identifying embedded investment fees in the investment returns used by some nonprofits, such as mutual funds and hedge funds. Despite this change, nonprofit leaders should continue to make sure they are aware of the amount paid by the nonprofit for investment management fees. However, the new rules eliminate the requirement to present or disclose the indirect method in the notes if the direct method is presented on the statement of cash flows. The result is anticipated to be a more useful statement of cash flows and a reduction in costs to prepare the financial statements. Many organizations have avoided the use of the direct method because it essentially increased the cost of preparing and auditing the financial statements. Why do these changes matter? These changes will not materially affect how nonprofit finance teams handle underlying transactions; but staff will need to be ready to explain the difference in the look of the financial statements they present to the board and grantmakers. When are the new FASB standards effective? There is still plenty of time before the new rules go into effect. Talk to your auditor about the potential impact on audited financial statements. The new standards apply to annual financial statements issued for fiscal years beginning after December 15, Early application is permitted. His firm provides outsourced accounting and CFO consulting to hundreds of nonprofit organizations nationwide, including to the National Council of Nonprofits.

2: Generally Accepted Accounting Principles (United States) - Wikipedia

Financial Accounting Standards Board (FASB) American Institute of Certified Public Accounts (AICPA) The main FASB pronouncements are known as SFAS's and the AICPA pronouncements are know as SOP's.

This value, however, is further divided on the Statement of Financial Position into restrictions â€" either temporarily restricted, permanently restricted, and unrestricted net assets. These classifications are used to segregate funding based on any restriction s imposed by each donor as to how the funds can be spent. For example, if an individual donates money to a nonprofit organization and limits how the organization can use the funds, that money is considered restricted solely for that purpose. Depending on the nature of the donor-imposed restriction, these funds may be permanently restricted such as endowments that cannot be spent or temporarily restricted such as funds that are to be spent, not held, on a specific project. It is interesting to note that occasionally funds are restricted internally i. The next financial statement that you will see presented after the Statement of Financial Position is the Statement of Activities. This statement is in lieu of the Income Statement that is used by for-profit companies, and it reports the change in permanently restricted, temporarily restricted, and unrestricted net assets. As shown below, this is accomplished by listing each net asset fund in a separate column. As opposed to an Income Statement which shows a profit or loss, the Statement of Activities instead shows a positive or negative change in each net asset fund. In the example above, you will see that the amount of temporarily restricted revenue collected during the reporting period was less than the expenses incurred using temporarily restricted funding the sum of the temporarily restricted revenues is less than the amount of temporarily restricted revenue released from restrictions. Thus, there is a drop in the ending balance of the temporarily restricted net assets. Instead, the financial statement is showing that the organization expended some of the net assets that were obtained in a prior financial period s. This is not a loss but utilizing funds for their intended purpose thus meeting the donor-imposed restrictions. As noted earlier, net assets denote the value of the organization. Thus, if the organization had to close its doors, those unspent funds held that were restricted for use would have to be returned to the donors since the organization did not earn them. Lastly, to show the correlation between the two financial statements that we covered, you will notice that the ending value of each net asset fund listed on the Statement of Activities matches the same amount listed on the Statement of Financial Position. Another financial statement produced by nonprofit organizations is the Statement of Cash Flows, which is produced following the same procedures used by for-profit companies. This statement shows the inflow and outflow of cash within the organization. As shown in the sample statement below, the cash flow starts with the change in net assets â€" which equals the amount listed on the Statement of Activities. The changes in the balance sheet accounts are then added to this amount to derive at the total increase or decrease in cash. When this total amount is added to the cash balance at the beginning of the reporting period, you will end up with the current cash balance, which will match the amount listed on the Statement of Financial Position. Finally, nonprofits will also produce a Statement of Functional Expenses. This statement will detail the expenses incurred during the reporting period and allocate it by program services and support services. Again, all of the financial statements are connected. For the Statement of Functional Expenses as shown in the example above , the total expenses will equal the same amount reported on the Statement of Activities. And, from this standpoint, users can more easily begin to interpret the statements through such techniques as common-sizing and performing ratio analyses to get a better understanding of how the organization is performing financially â€" a key skillset for anyone working or doing business with a nonprofit.

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3: Financial Accounting for NPOs

Description A completely revised and expanded edition of the nonprofit industry finance and accounting standard. Filled with authoritative advice on the financial reporting, accounting, and control situations unique to not-for-profit organizations, Financial and Accounting Guide for Not-for-Profit Organizations, Eighth Edition is recognized by professionals as the industry standard reference.

Accrual Methods for Nonprofits The Internal Revenue Service classification for charitable organizations is c 3 , meaning they are tax exempt. Their earnings may not benefit any private shareholder or individual. For these reasons, c 3 businesses have to account to their donors and other stakeholders for how they spend their earnings. The Financial Accounting Standards Board developed generally accepted accounting principles that they must adhere to when reporting financial information. It states that c 3 organizations must account for contributions made and received. Contributions must be accounted for on financial statements in the period that the revenue is earned. If it is a non-cash donation, the business must record it at its market value. Contributions made to other organizations are considered expenses and also must be recorded in the period that they are incurred. Financial statements must distinguish between contributions that permanently and temporarily increase net assets. They must also disclose any donor-imposed restrictions and conditions. Operating and Investing The c 3 organizations oversee and protect the contributions of their donors. Due to this and their tax exempt status, they are subject to higher standards for operating and investing. Many organizations choose to invest their earnings as well as support charitable missions. Financial statements must show how money is invested and the missions it supports. Not for profit agencies can only support charitable missions that society approves of and places a high value on. Financial Statements GAAP requires that all c 3 organizations provide specific financial statements disclosing their operating activities. Businesses must provide a balance sheet, statement of activities, statement of cash flows and an income statement. The balance sheet shows total assets, liabilities and net assets. The statement of cash flows reports cash and cash equivalents. The income statement lists net income, revenues and expenses. FASB Another accounting principle for c 3 organizations, known as FASB , requires them to classify their assets, revenues, expenses, gains and losses. Many times donors will place stipulations on how and when money is spent. The classifications or stipulations can be permanent, restricted or temporarily restricted. The classifications are listed in a statement of financial position. The statement must show the amount and type of restriction. Changes in amounts are displayed in a statement of activities.

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4: Accounting Standards for Nonprofits | www.enganchecubano.com

Government and nonprofit accounting are often lumped together as they both use fund accounting principles. However, the way in which they operate, organize financial information, and report on their data differ greatly.

Basic Principles of Fund Accounting by Brian Bass - Updated September 26, In any institution, accounting rules exist for the purpose of documenting revenues and expenses. These accounting rules, known as the generally accepted accounting principles, guide institutions in their accounting practices. Accounting rules apply to all types of institutions, including businesses, nonprofit organizations, investments and governments. However, the specific standards used by any institution vary according to the specific purpose of the entity. Variations in Fund Accounting Fund accounting is a system of accounting that emphasizes accountability, not profitability. In other words, fund accounting has to do with reporting standards and disclosures rather than profits. When dealing with nonprofit organizations, fund accounting is a way of measuring and recording donations made to the nonprofit organization. On the other hand, in investment accounting, fund accounting considers profitability by utilizing the terms profit and loss to describe the flow of capital through the organization. Accountability Over Profitability Fund accounting in the nonprofit and government sectors emphasizes accountability. In fund accounting for government entities, accountants use the terms surplus and deficit rather than profit and loss because making money is not the purpose of government. Similarly, in the case of nonprofit organizations, many nonprofits receive funding from multiple sources. Fund accounting recognizes the incoming and outgoing monies for the nonprofit by reporting funds individually by fund or source and keeping a separate general account that sums the incoming and outgoing monies from all the separate funds or sources. Video of the Day Brought to you by Techwalla Brought to you by Techwalla Reporting and Oversight Investment fund accounting employs a different set of standards from government or nonprofit fund accounting. This differing set of standards results from the entities to which institutions have to report their accounting information. In general, for-profit companies prepare accounting reports for various arms of the government, including the Internal Revenue Service and other regulator agencies. Nonprofit organizations also prepare accounting reports for various government agencies. Investment accounting principles, however, dictate that the account reporting go to the individual investor. Fund Categories There are a few ways to categorize the different funds involved in fund accounting. The government employs proprietary funds, fiduciary funds and government funds. Government fund accounting involves trustee responsibilities, expendable resources and current liabilities. In private nonprofit fund accounting, fund accounting considers unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. These assets determine where the money from the nonprofit goes and the timing for the distribution of the funds. Norvelle; "Principles of Accounting"; Belverd E. Needles, Marian Powers and Susan V. Crosson; About the Author Brian Bass has written about accountancy-related topics and accounting trends for "Account Today. Cite this Article A tool to create a citation to reference this article Cite this Article.

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5: Glossary | Nonprofit Audit Guide | National Council of Nonprofits

Last week, the Financial Accounting Standards Board (FASB), the body authorized to promulgate generally accepted accounting principles (GAAP) in the U.S., issued an Exposure Draft that, if adopted, would make significant changes to GAAP reporting in financial statements for nonprofit organizations.

Requirements for grant recipients IRS Reporting The IRS requires most tax-exempt organizations to submit an annual information report, the Form and its relations, which includes a significant amount of financial reporting. Because the IRS provides specific categories and classes into which revenue and expenses must be allocated, any organization that does not build its accounting system around these categories and classes would face serious hurdles preparing its annual IRS report. This provides in part a de facto basic standard for NPO financial reporting. Other aspects of the reporting requirements are more complex than would be required in small commercial businesses, but are not foreign to larger commercial operations. Also, while the categories of income the IRS requires to be delineated are specific to nonprofit organizations i. As in that case, the various classifications of income are necessary because the IRS requires different treatment of the income classes for determining taxes. Unlike in commercial reporting, the IRS also uses these revenue classifications to help determine if an NPO will retain its tax-exempt status recognition. Some important classifications of revenue for NPOs are discussed further below under " Revenue. In other words, every expense will have at least two and possibly three labels. First it will have an object expense label, e. Second, it will have a functional expense label, e. Finally, all program services expenses will be labeled with the particular program service project for which it was incurred, e. The term "fund accounting" is commonly used to refer to the complete segregation of revenue and expenses into "funds," each of which typically corresponds to an individual program service area. Such fund accounting is commonly required by granting agencies. Inferior accounting software is sometimes able to provide for two but not three labels, and therefore may be unsuitable for nonprofit organizations. However, there are sometimes methods for stretching weaker software into NPO usability. The specific meanings of "program services," "fundraising," and "operations" are further discussed below under " Expenses ," since these are critical for IRS and other public reporting requirements. Fortunately, a wide variety of popular accounting software systems are available that have been designed to satisfy these needs. If the nonprofit organization uses an adequate accounting system, sets up its categories and classifications in line with the IRS reporting requirements, and assiduously labels all revenue and expenses appropriately, then completing the IRS annual report is a relatively painless matter. Links to online IRS resources are given below. State Reporting To ensure that all organizations report similar transactions uniformly, many states require that contributions, gifts, grants, etc. However, it is useful for NPO staff and advisors who have financial responsibilities to be familiar with these guidelines. Requirements for Grant Recipients Organizations that receive federal grants have an additional set of financial accounting regulations to follow, which are established by the Office of Management and Budget OMB in a set of published circulars. These provide detailed instructions for determining how to categories specific costs, as well as indicating which types of costs may be funded by federal grants and which the organization must pay for through other means. Additional references addressing nonprofit organization audits are listed below. Published Guidelines There are three major bodies that issue standards for nonprofit organization financial accounting, and some supplementary guidelines that are commonly referenced, which regulators typically relay on for determining if an NPO is conducting its finances responsibly. Therefore, some familiarity with the OMB guidelines can be useful. Unfortunately, they are rather arcane and picayune, and not something most people would choose to read if they had a choice. The potential size of many federal grants is typically the primary motivation for doing so. In addition to the standards and guidelines developed by official bodies, several works by other organizations have become valuable tools for administering financial accounting operations. These essentially combine the various standards and guidelines issued by official standards bodies into a more unified form. As such, they are very useful for obtaining a complete picture of the commonly accepted accounting practices, and make good desk references for accountants. They are not especially written for people other than accounting specialists. Fortunately, there are also various books targeted to nonspecialist NPO managers, which provide a suitably detailed introduction to accounting principles both general and unique to NPO operations.

6: 3 Major Differences Between Government & Nonprofit Accounting

Most nonprofit organizations (NPOs) adopt the accounting and reporting requirements of U.S. generally accepted accounting principles (GAAP). When financial statement users permit, some NPOs are utilizing other comprehensive bases of accounting (special purpose reporting frameworks) such as modified cash or the income tax basis.

Net results in unrestricted UR , temporarily restricted TR , and permanently restricted PR financial activity for each year are accumulated on the SOP and show as changes--increases or decreases--in those net assets categories. To be strategically useful, SOA reports should show numbers in context so a board member could answer the following questions about the SOA report: What was the total last year? What is the annual budget for this year and what percentage of the budget is represented by the year-to-date amounts? How do we expect to end the year and how does that compare to the approved budget? What are the reasons for the significant variances? What is the status of restricted revenue, if any, as distinct from unrestricted? Below is a general format for a Statement of Financial Activities recommended for internal reporting purposes. The report for your organization would include more detailed line items in each category, but the objective would be to keep the report at one page in length, although narrative explanations may flow to a second page. In this report design, income is shown by source and subtotaled separately as earned and contributed. Restricted contributions and releases from restriction are shown separately from unrestricted operating activity. Expenses are shown by major program activity, management, and fundraising. Showing expenses by activity function clearly demonstrates how your organization spends its resources toward accomplishing mission activities. The prior-year total provides context for comparison. The year-to-date total from the accounting software is provided as well as a calculation of the percent of the budget represented by the year-to-date totals. The annual budget as approved by the board is shown as well as a year-end forecast in lieu of frequent budget revisions. The forecast column is equal to the budget column at the beginning of the year and it is updated monthly to reflect anticipated changes from the original budget. Variances between the approved budget and the year-end forecast are shown both in dollar amounts and in percentages, and significant variances are noted and explained. On this report, the notes may extend to a second page, but it is desirable to keep the numbers and columns on a single page. Therefore this report is formatted in a spreadsheet and raw data are taken from the accounting software and inserted or linked into the preformatted report. The preformatted report takes some time to set up at the beginning of each fiscal year, but afterwards the majority of management time is spent in updating the year-end forecast. Custom Excel Reports from QuickBooks Data You will note that this report does not include the activity for the current month alone or a current month budget. This level of detail would be more appropriate for management and finance committee members to examine, but it encourages unproductive discussion at full board meetings. This report format is designed to promote maximum understanding by the board by showing the year-to-date but focusing on the expected year-end results: Particularly for income and expenses, it is important to have the accounting line items in your accounting software match the line items in your budget template. Misalignment between budget and accounting line items necessitates tedious regrouping of numbers for budget comparison reports and can lead to over-spending of accounting line items not represented in the budgeting process.

7: The (c)(3) Rules and the Generally Accepted Accounting Principles | www.enganchecubano.com

As funding sources diminish, an increasing number of nonprofit organizations are collaborating, merging or being acquired by other www.enganchecubano.comg resources cuts costs and often increases efficiency, but it also means complicated accounting work and uncharted reporting obligations.

About GAAP Overview Financial reporting is the language that communicates information about the financial condition and operational results of a company public or private , not-for-profit organization, or state or local government. Specifically, financial reporting includes the following information: Financial position balance sheet, statement of net position Results of operations statement of revenues, expenses and changes in net position, statement of comprehensive income, etc. For all organizations, GAAP is based on established concepts, objectives, standards and conventions that have evolved over time to guide how financial statements are prepared and presented. For companies or not-for-profits, GAAP is set with the objective of providing information that is useful to investors, lenders, or others that provide or may potentially provide resources. An additional objective applies to financial reporting for state and local governments: GAAP includes principles on: Recognitionâ€”what items should be recognized in the financial statements for example as assets, liabilities, revenues, and expenses Measurementâ€”what amounts should be reported for each of the elements included in financial statements, Presentationâ€—what line items, subtotals and totals should be displayed in the financial statements and how might items be aggregated within the financial statements Disclosureâ€—what specific information is most important to the users of the financial statements. Disclosures both supplement and explain amounts in the statements. The FASB establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations. The FASB and the GASB are responsible for ensuring that GAAP remains the high-quality benchmark of financial reporting so that investors, lenders, capital providers, and other users have access to the information they need to make sound decisions. Investors, lenders, and other users of financial information rely on financial reporting based on GAAP to make decisions about how and where to provide financing, and to help financial markets operate as efficiently as possible. More information on the FASB can be found here. Today, taxpayers, holders of municipal bonds, members of citizen groups, legislators, and oversight bodies rely on this financial information to shape public policy and make investments. These standards also help government officials demonstrate to their stakeholders their accountability and stewardship over public resources. For state and local governments, it is important to note that GAAP is applicable to external financial reporting, and not to budgeting. More information on the GASB can be found here. The Board drafts and issues a proposal in the form of an Exposure Draft for public comment. Depending on the complexity of the issue, the Board may issue a preliminary Discussion Paper, Invitation to Comment, or Preliminary Views document before the Exposure Draft to seek initial stakeholder input on various solutions and approaches. The Board seeks stakeholder input on the proposal via comment letters, roundtables, meetings, public hearings, etc. The Board subsequently redeliberates based on the stakeholder input received. The Board issues a final standard and provides implementation guidance to preparers, auditors, and users of financial statements on the new standard. The Qualities of GAAP Companies, not-for-profits, and governments use accounting standards as the foundation upon which to provide users of financial statements with the information they need to provide financing, lend or donate money, or determine how public officials are spending tax dollars. Investors and citizens trust financial statements that follow GAAP and use this information to assess the financial condition and determine how well an organization or government manages its resources. When financial statements are prepared under GAAP, they are based on standards developed by a robust, open due process that results in information that is: Relevant, representationally faithful, and reflective of economics Comparable with other organizations or governments Verifiable and auditable by a third party Understood by lenders, investors, donors, taxpayers, and others. The high-quality financial reporting standards within GAAP are essential to the efficient functioning of our capital markets. For example, GAAP leads to better financial information and is helpful an organization or government in the following ways: To attract the financing they need to hire workers, build plants, and invest in research and development, companies and others organizations must report financial information in a way that investors, lenders, donors, and others find credible and useful. Greater comparability in accounting and financial reporting also results in better financing decisionsâ€"investors, lenders, and donors make wiser decisions about where to put their money. High quality financial accounting and reporting standards promote better information in the marketplace. Better information fosters greater transparency. Transparent, relevant information helps investors and lenders make better decisions about where to put their money with confidence. Investors, recognizing the value of high quality financial information, support an objective and inclusive standard-setting process.

8: Not-for-Profits

For many nonprofit organizations, planning and financial management are activities that divide rather than unite the organization. Program planning is often viewed as the domain of.

GAAP pronouncements into roughly 90 accounting topics. Basic objectives[edit] Financial reporting should provide information that is: Useful to present to potential investors and creditors and other users in making rational investment, credit, and other financial decisions Helpful to present to potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts about economic resources, the claims to those resources, and the changes in them Helpful for making financial decisions Helpful in making long-term decisions Helpful in improving the performance of the business Useful in maintaining records Basic concepts[edit] To achieve basic objectives and implement fundamental qualities GAAP has three basic assumptions, four basic principles, and five basic constraints. Assumptions[edit] Business Entity: The business is separate from its owners and other businesses. Revenue and expense should be kept separate from personal Expense Monetary Unit: A stable currency is the unit of record. The economic activities of an enterprise can be divided into artificial time periods. Continuation of an entity as a going concern is presumed. Principles[edit] Historical cost principle: Companies must account for and report the acquisition costs of assets and liabilities rather than their fair market value. This principle provides information that is reliable removing the opportunity to provide subjective and potentially biased market values , but not very relevant. Thus there is a trend toward the use of fair values. Most debts and securities are now reported at market values. Companies should record revenue when earned but not when received. The flow of cash does not have any bearing on the recognition of revenue. This is the essence of accrual basis accounting. Conversely, however, losses must be recognized when their occurrence becomes probable, whether or not it has actually occurred. Expenses have to be matched with revenues as long as it is reasonable to do so. Expenses are recognized not when the work is performed, or when a product is produced, but when the work or the product actually makes its contribution to revenue. Only if no connection with revenue can be established, cost may be charged as expenses to the current period e. This principle allows greater evaluation of actual profitability and performance shows how much was spent to earn revenue. Depreciation and Cost of Goods Sold are good examples of application of this principle. The amount and kinds of information disclosed should be decided based on trade-off analysis as a larger amount of information costs more to prepare and use. Information disclosed should be enough to make a judgment while keeping costs reasonable. Information is presented in the main body of financial statements, in the notes or as supplementary information Constraints[edit] Objectivity principle: An item is considered significant when it would affect the decision of a reasonable individual. It means that the company uses the same accounting principles and methods from period to period. The benefits of reporting financial information should justify and be greater than the costs imposed on supplying it. In the departure, the member must disclose, if practical, the reasons why compliance with the accounting principle would result in a misleading financial statement. Under Rule Departures from Established Accounting Principles, the departures are rare, and usually take place when there is new legislation, the evolution of new forms of business transactions, an unusual degree of materiality, or the existence of conflicting industry practices. At that time there was no structure setting accounting standards. During the years to CAP issued 51 Accounting Research Bulletins that dealt with a variety of timely accounting problems. However, this problem-by-problem approach failed to develop the much needed structured body of accounting principles. It issued 31 opinions and was dissolved in for lack of productivity and failure to act promptly. Audit and Accounting Guidelines, which summarizes the accounting practices of specific industries e. This group determined that the APB must be dissolved and a new standard-setting structure is created. This structure is composed of three organizations: FASB previously had 4 major types of publications: Statements of Financial Accounting Concepts â€” first issued in However, they are not a part of

GAAP. There have been 7 concepts published to date. Interpretations â€" modify or extend existing standards. There have been around 50 interpretations published to date. Technical Bulletins or Staff Positions â€" guidelines on applying standards, interpretations, and opinions. Usually solves some very specific accounting issue that will not have a significant, lasting effect. The Concepts statements still exist outside of the ASC but are not authoritative. All other accounting literature not included in the Codification is nonauthoritative. The Codification reorganizes the thousands of U. GAAP pronouncements into roughly 90 accounting topics and displays all topics using a consistent structure. It also includes relevant Securities and Exchange Commission SEC , guidance that follows the same topical structure in separate sections in the Codification. To prepare users for the change, the AICPA [13] has provided a number of tools and training resources. While the Codification does not change GAAP, it introduces a new structureâ€"one that is organized in an easily accessible, user-friendly online research system. The FASB expects that the new system will reduce the amount of time and effort required to research an accounting issue, mitigate the risk of noncompliance with standards through improved usability of the literature, provide accurate information with real-time updates as new standards are released, and assist the FASB with the research efforts required during the standard-setting process.

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9: Basic Principles of Fund Accounting | Bizfluent

Not-for-Profit Financial Accounting and Reporting Resources Nongovernmental not-for-profit entities (NFPs) exist for many purposes and in many forms, including charities, museums, performing arts organizations, civic leagues, colleges and universities, religious groups, social clubs, fraternal societies, foundations, and professional associations.

Nonprofit organizations are entities that perform charitable services by accepting funds from the general public. To help regulate activities and encourage the proper use of funds, accounting standards are in place to assist management and auditors when preparing financial statements and performing engagements. Although the accounting standards are complex, the standards are necessary to promote comparability between organizations and protect the general public. Purpose Because nonprofit organizations exist to accomplish a goal and not to return a profit, standards are structured to illustrate the success of a program or activity, rather than emphasize net income. For donors to understand how an entity is accomplishing its goal, the standards require financial information to be presented in a prescribed format. According to the codification of accounting standards, the primary purpose of financial statements of nonprofit entities is to provide relevant information to meet the common interest of donors, members, creditors and others who provide resources to nonprofit organizations. Significance Accounting standards affect readers of financial statements by changing the presentation of statements for nonprofit organizations. As a result, the financial statements of nonprofit organizations differ from a for-profit entity, such as a corporation. For instance, the basic financial statements of an entity formed to produce income are the balance sheet, income statement and the statement of cash flows. While a nonprofit entity also has a statement of cash flows, the balance sheet is replaced with a statement of changes in net assets and the income statement is replaced with the statement of activities. Function The accounting standards are used by management of nonprofit organizations as a guide to record transactions and comply with program requirements should the entity receive government funding. The standards are applied continually and become more complex as the entity receives different types and levels of funding. Regardless of the complexity, management and the board of directors a nonprofit organization are responsible for knowing and implementing the contents of accounting standards. Standards Nonprofit entities are required to adhere to accounting principles generally accepted in the United States. Specifically, industry standards for nonprofits are located in Section of the accounting code. In addition, nonprofit organizations that receive government funding and undergo a financial statement audit are subject to governmental auditing standards issued by the Comptroller General of the United States. Considerations The complexity of accounting standards for nonprofit organizations increases the cost of maintaining books. A nonprofit organization must acquire management with a certain level of expertise and educate staff of the applicable standards. In addition, the cost of a financial statement audit increases depending of the level of government funding. Her work has appeared in eHow and the "Montgomery Advertiser," as well as being utilized by regional accounting firms in Florida and Alabama. James is a certified public accountant. Photo Credits Financial report image by janaka Dharmasena from Fotolia.

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