
Introduction to Bookkeeping in Nonprofit Organizations

CompassPoint Nonprofit Services

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Welcome

- 9:30am – 4:30pm. 1 hour lunch around noon. A break in the morning and afternoon.
- Sign in
- Silence mobile phones
- Return from breaks on time
- Questions

Introductions

- Name, organization, and role
- One thing that you want to learn

Learning Objectives

By the end of this workshop, you will be able to:

- Understand the basic terminology of bookkeeping.
- Identify the primary components of a bookkeeping system.
- Begin to apply standard accounting concepts in a nonprofit organization.
- Understand how key financial statements are produced.

Agenda

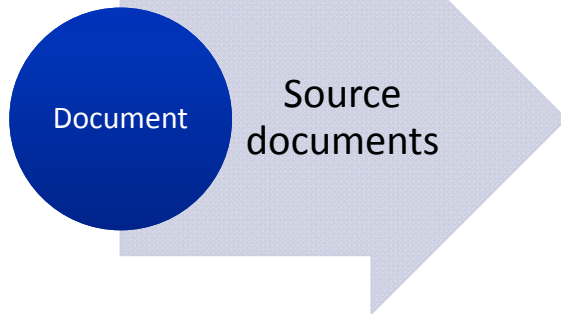
- Overview of Bookkeeping Process
- Chart of Accounts
- Cash vs. Accrual Accounting
- Overview of Key Financial Statements
 - Statement of Activities
 - Statement of Financial Position
- Double-Entry Bookkeeping
 - The Accounting Equation
 - Debits and Credits
- Posting Journal Entries
 - Capitalization and Depreciation
 - Prepaid Expenses
- Closing the Books
- Preparing Financial Statements



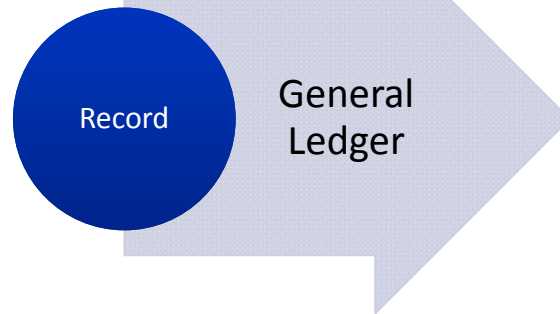
Note

- Software neutral; covering basic concepts that underlie all accounting software
- Introductory level; accountant-level support encouraged for new bookkeepers
- Books are yours to keep for future reference

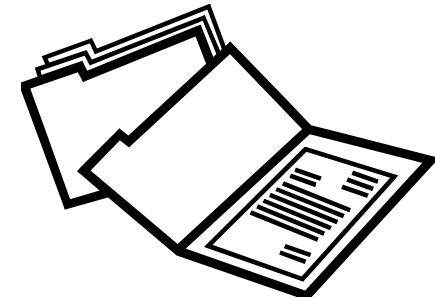
What is Bookkeeping?



- Invoices
- Bank statements
- Payroll registers



- Posting transactions
- Journal entries



- Balance sheet
- Profit & Loss
- Funders

What is Bookkeeping?

Financial Management

Analysis &
Strategy

Communicate
& Engage

Accounting

GAAP
Knowledge

Manage
Systems

Bookkeeping

Document

Record

Summarize

Why is Bookkeeping Important?

Bookkeeping provides a critical foundation for effective financial management

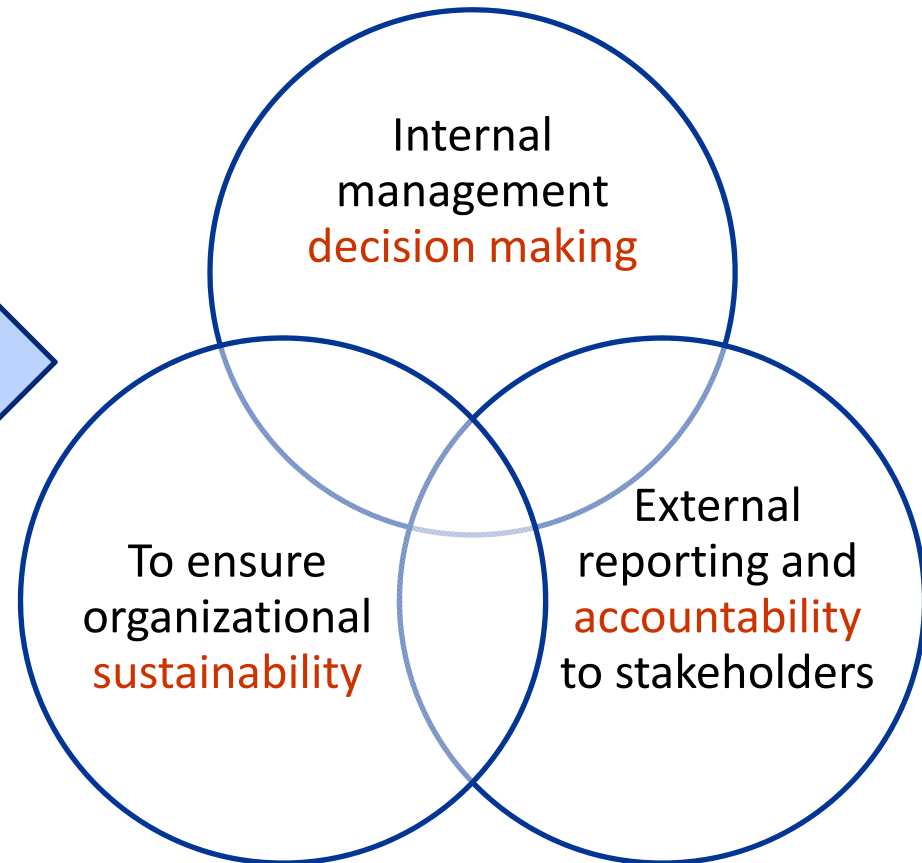


Chart of Accounts

- Determines how the organization's financial information is organized (internal & external)
- Will be the basis for coding all transactions and designing budgeting templates
- Fiscal year turnover is good time for review
- Unified Chart of Accounts can be a starting point for discussion



Chart of Accounts: Account Types

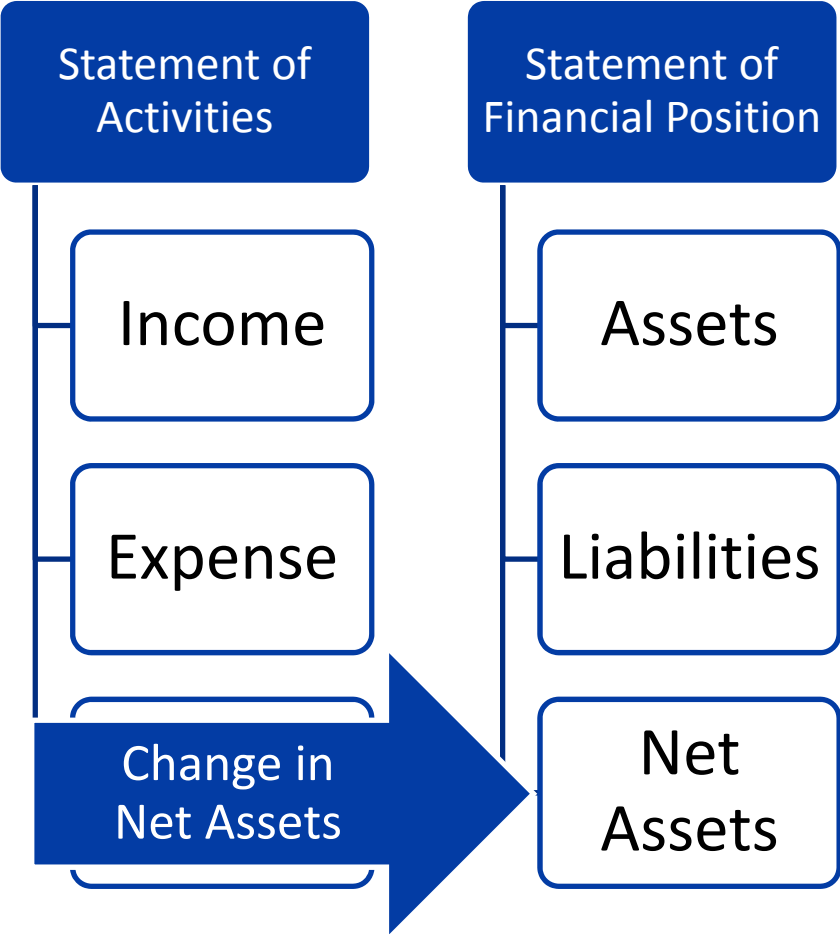


Chart of Accounts: Functional Activity

Nonprofit organizations are required to track our expenses in at least three functional areas, based on the activities in these areas:

Program	Costs resulting in distributing goods and services to clients and fulfilling the mission of the organization.
Admin	Costs such as governance, finance and accounting, legal, and executive management.
Fundraising	Costs associated with soliciting contributions.

Chart of Accounts: Considerations

Best designed via a collaborative process
(roles beyond finance staff should be involved)

- ✓ What reports do you need to prepare?
- ✓ What financial decisions or assessments do you need to make on a regular basis?
- ✓ What level of detail do you require?
- ✓ What is your organizational capacity for classifying and tracking financial information?

Chart of Accounts: Steps to Designing

1. Define your programs/cost centers
2. Identify specific line items
3. Consider detail needed by funding sources
4. Segregate unrestricted, temporarily restricted, and permanently restricted funds
5. Number your accounts

Assets = 1000

Revenue = 4000, 5000, etc.

Liabilities = 2000

Expense = 6000, 7000, etc.

Net Assets = 3000



Time for Terms: General Ledger (GL)

The **General Ledger (GL)** is a single volume that contains the year-to-date record of all of the accounts of the system, organized according to the Chart of Accounts.

Cash vs. Accrual Accounting

- CASH BASIS:
 - Income is recorded when cash is **received**
 - Expenses are recorded when they are **paid**

- ACCRUAL BASIS:
 - Income is recorded when cash is **earned**
 - Expenses are recorded when they are **owed**

Cash vs. Accrual Accounting

JANUARY 2012	<u>Cash</u>	<u>Accrual</u>
Income:		
1. Invoiced the city for 100 education sessions held in December, charging \$500 for each session.	_____	_____
2. Received a donation from an individual supporter for \$5,000 in January 2012.	_____	_____
3. Received \$3,000 in pledges during January 2012 that will be paid in March.	_____	_____
4. Received a payment of \$25,000 on a \$50,000 foundation grant that was awarded in October 2011.	_____	_____
Total income	_____	_____

Cash vs. Accrual Accounting

JANUARY 2012	<u>Cash</u>	<u>Accrual</u>
Expenses:		
1. Paid December salaries for a total of \$35,000 on January 5, 2012.	_____	_____
2. Incurred \$35,000 in salary expense in January to be paid on February 5, 2012.	_____	_____
3. Received office supply bill for \$500 on for orders placed in January.	_____	_____
4. Paid \$2,000 to a local hotel to cover the remaining balance due on a fundraising event held in December.	_____	_____
Total expenses	_____	_____

Cash vs. Accrual Accounting

	ADVANTAGES	DISADVANTAGES
CASH BASIS	Easy to understand Fewer transactions	Not GAAP compliant Incomplete picture
ACCRUAL BASIS	GAAP compliant More meaningful record	Harder to understand More transactions
MODIFIED BASIS	Use easier basis for internal interim reporting	Audit looks different from internal statements; may lead to surprises

GAAP = Generally Accepted Accounting Principles



Which is right for your organization?

- Number of transactions
- Expertise of staff
- Size of budget

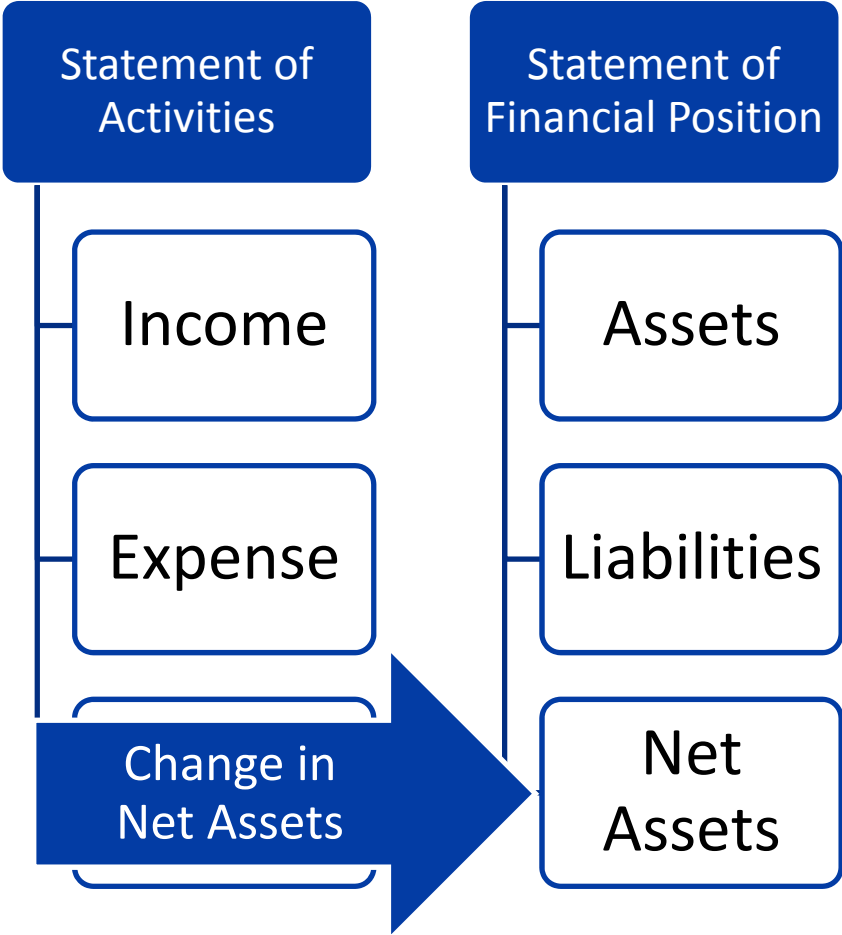
Statement of Activities

INCOME -

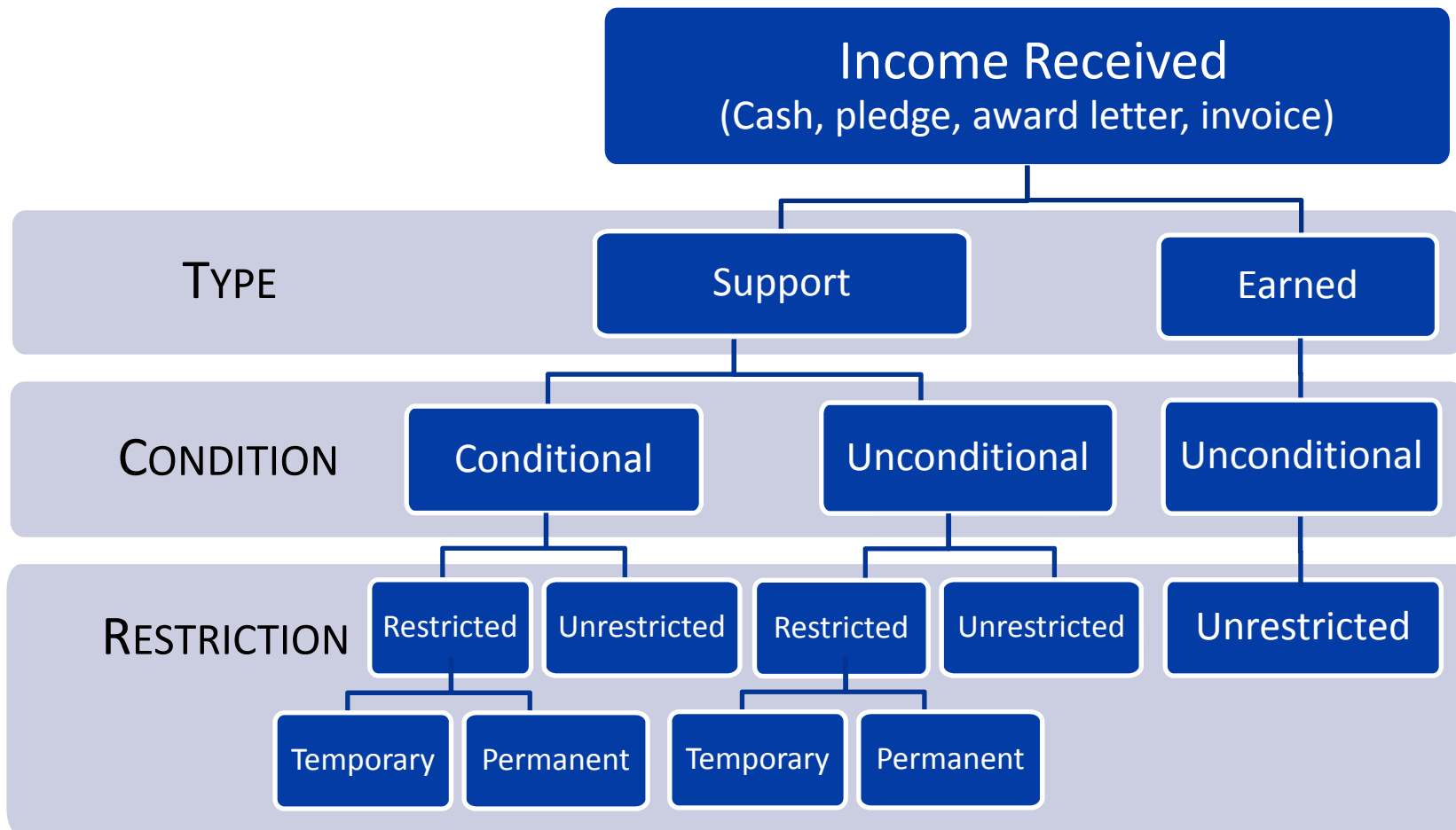
EXPENSE =

SURPLUS/DEFICIT

Financial Statements



Recording Income



Statement of Financial Position

ASSETS

What you OWN

Bank Accounts
Property & Equipment

Accounts Receivable
Investments

Minus

LIABILITIES

What you OWE

Accounts/Loans Payable
Accrued Salaries/Vacation

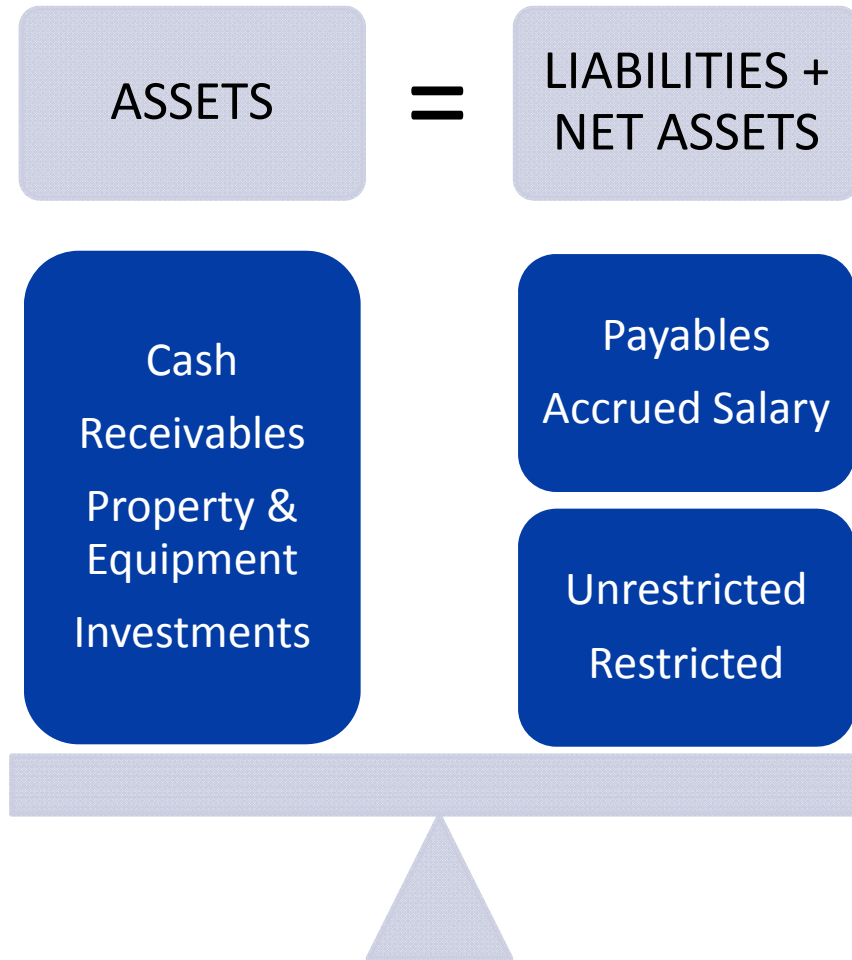
Equals

NET ASSETS

What you are WORTH

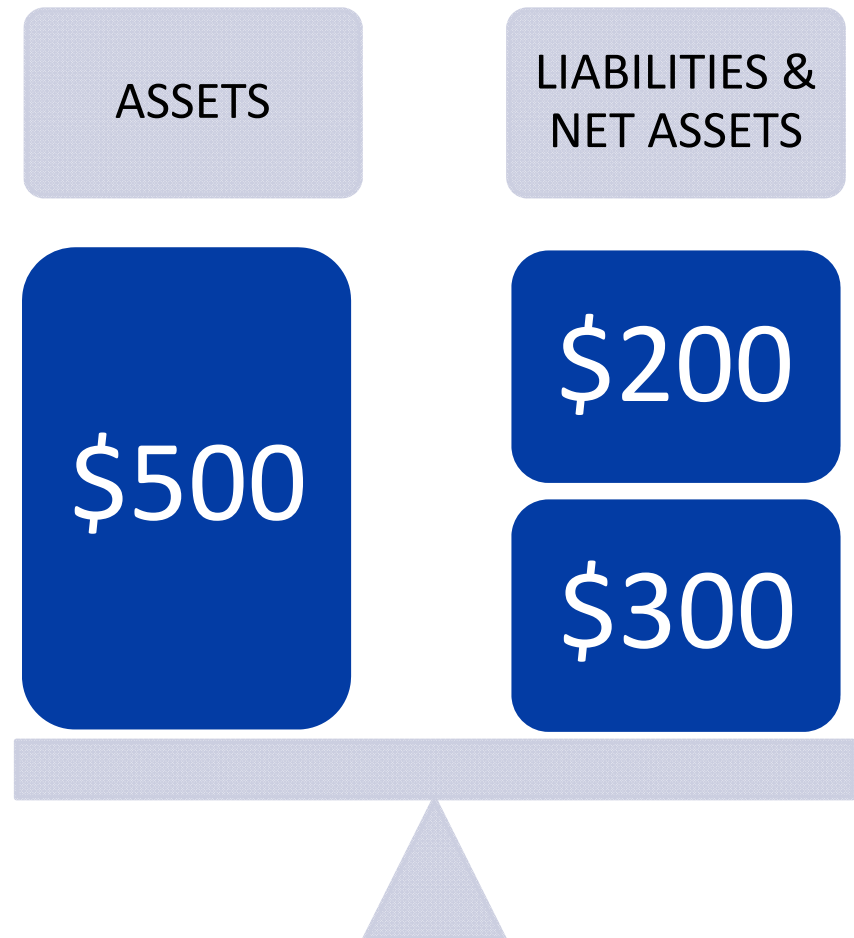
Unrestricted
Restricted (Temporarily or Permanently)

Statement of Financial Position



Statement of Financial Position

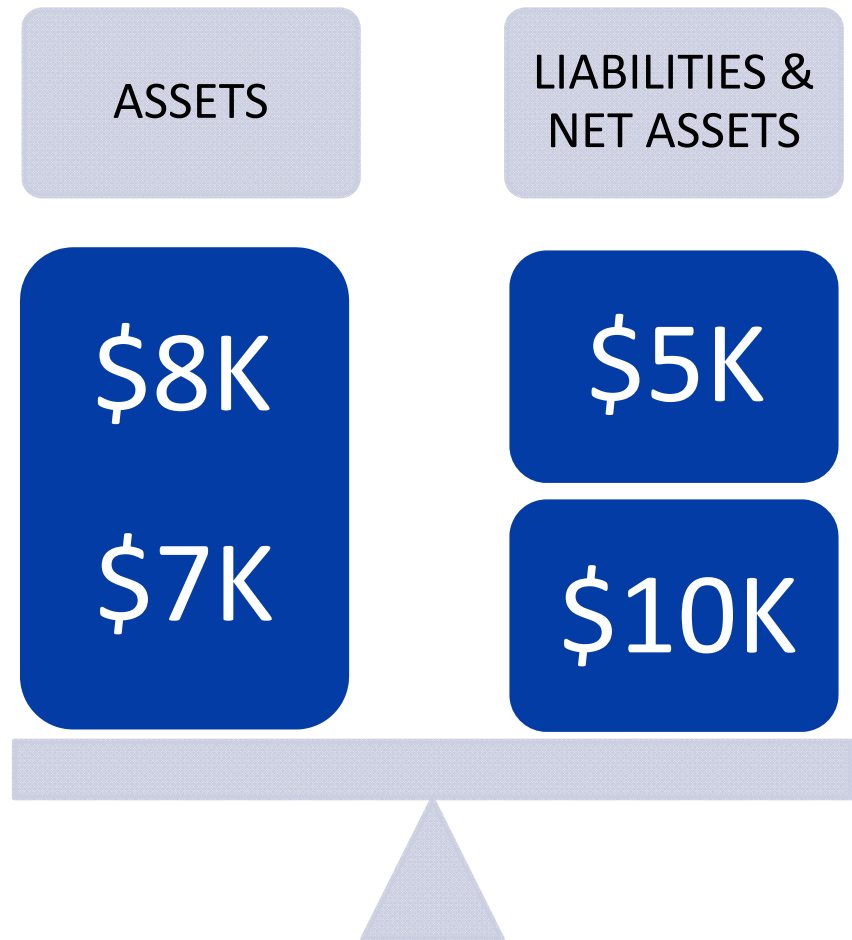
We borrowed \$200 from a friend and now have \$500 in our bank account. Our financial picture would be as follows:



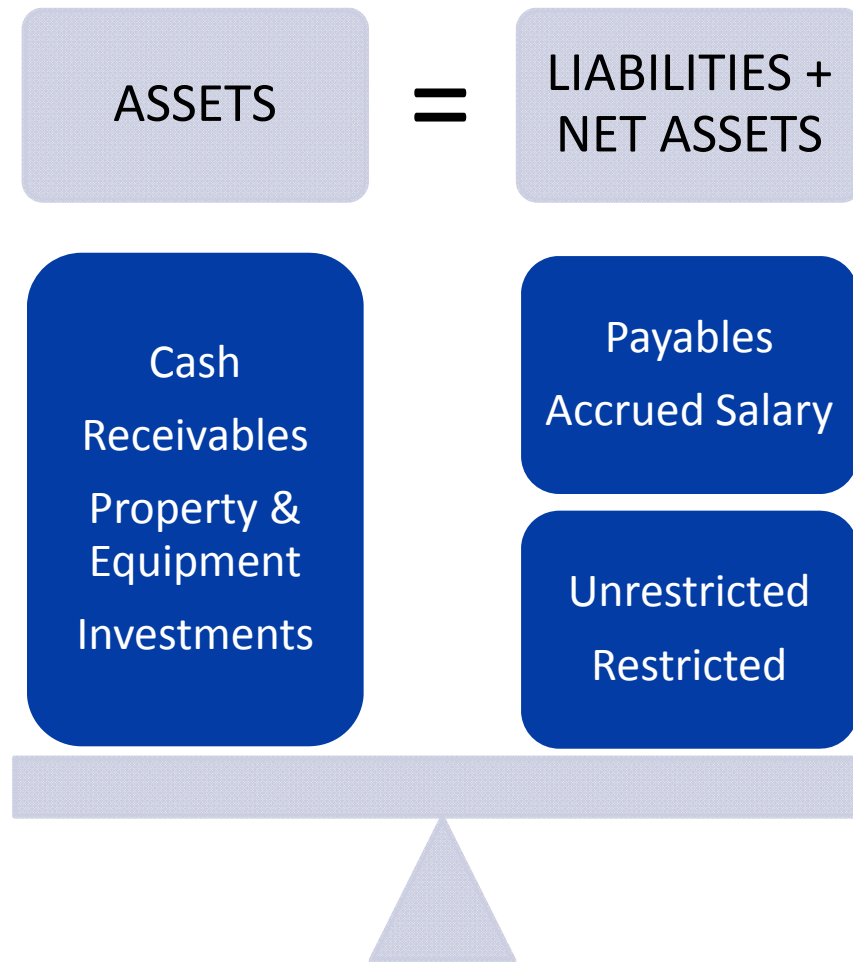
Statement of Financial Position

We had \$10K in our bank account and bought a car for \$7K. We paid a \$2K down payment and got a \$5K loan.

Our financial picture would be as follows:



The Accounting Equation



The Accounting Equation

Assets =	Liabilities + Net Assets
	Income - Expense

- In **double-entry bookkeeping**, every transaction is recorded in two accounts
- Accounting equation **always remains balanced**
- Provides **built-in checks and balances** and helps to safeguard the organization's assets

The Accounting Equation

Assets =	Liabilities + Net Assets	
		Income - Expense
↑ \$3,000 Checking		↑ \$3,000 Foundation Grant

Debits and Credits: What are they?

- A way to record the increases and decreases in accounts associated with each transaction
- By debiting one account and crediting another, we ensure that the accounting equation remains in balance
- They are NOT synonymous with the words increase and decrease; it depends on the TYPE of account to which they are applied

Debits and Credits: What do they do?

Account Type	Debit (DR)	Credit (CR)	Normal Balance
Asset	↑ Increase	↓ Decrease	Debit
Liability	↓ Decrease	↑ Increase	Credit
Net Asset	↓ Decrease	↑ Increase	Credit
Income	↓ Decrease	↑ Increase	Credit
Expense	↑ Increase	↓ Decrease	Debit

The Accounting Equation

Assets =	Liabilities + Net Assets	
		Income - Expense
DR \$3,000 Checking		CR \$3,000 Foundation Grant
CR \$100 Checking		DR \$100 Telephone
DR \$50 Checking		CR \$50 Contributions
	CR \$200 Credit Card	DR \$200 Supplies
	CR \$500 A/P	DR \$500 Computers
\$2,950 =	\$200 + \$2,750	



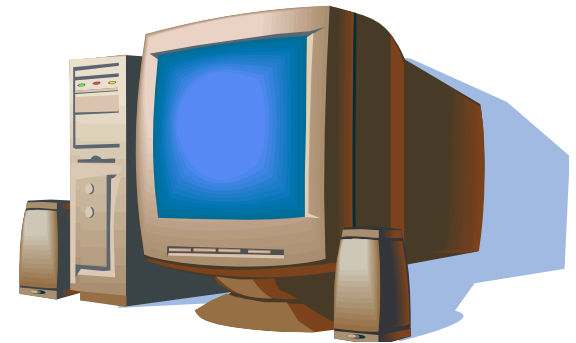
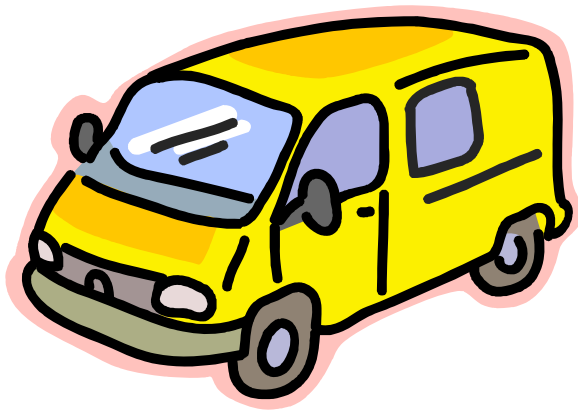
Time for Terms: Journal Entry (JE)

A **Journal Entry (JE)** is an entry that directly changes the account balances on the general ledger. They are often used to post non-cash transactions such as depreciation and cost allocations.



Time for Terms: Capitalization

Capitalization means an item has a “useful” life of more than a year and is recorded as an asset when purchased rather than expense.





Time for Terms: Depreciation

Depreciation is the process by which an organization:

- **records the cost** of a capitalized item over the period that the organization receives benefit from the item
- **reduces the value of the asset** due to wear and tear, age, or obsolescence

Depreciation Schedule

Item Description	Date Acquired	Cost	Expected Years	2009			2010		
				Dep. Expense	Accum. Dep.	Ending Value	Dep. Expense	Accum. Dep.	Ending Value
Computer #1	2009	2,400	3	800	800	1,600	800	1,600	800
Laser Printer	2009	2,100	3	700	700	1,400	700	1,400	700
Copier (Capital Lease)	2009	3,000	5	600	600	2,400	600	1,200	1,800
Van #1	2009	17,500	5	3,500	3,500	14,000	3,500	7,000	10,500
Office Furniture	2010	5,500	5	-	-	-	1,100	1,100	4,400
Computer #2	2010	1,500	3	-	-	-	500	500	1,000
Computer #3	2011	1,800	3	-	-	-	-	-	-
Computer #4	2011	2,100	3	-	-	-	-	-	-
File Server	2012	7,200	3	-	-	-	-	-	-
Computer #5	2012	1,800	3	-	-	-	-	-	-
Total		44,900		5,600	5,600	19,400	7,200	12,800	19,200

2011			2012		
Dep. Expense	Accum. Dep.	Ending Value	Dep. Expense	Accum. Dep.	Ending Value
800	2,400	-	-	2,400	-
700	2,100	-	-	2,100	-
600	1,800	1,200	600	2,400	600
3,500	10,500	7,000	3,500	14,000	3,500
1,100	2,200	3,300	1,100	3,300	2,200
500	1,000	500	500	1,500	-
600	600	1,200	600	1,200	600
700	700	1,400	700	1,400	700
2,400	2,400	4,800	2,400	4,800	2,400
-	-	-	600	600	1,200
10,900	23,700	19,400	10,000	33,700	11,200

Posting Depreciation

An organization purchases a piece of equipment for \$2,400 and plans to depreciate it over 3 years, per the organizations capitalization policy.

How do you record this transaction at the time of purchase?

Account Name	DR	CR

Posting Depreciation

An organization purchases a piece of equipment for \$2,400 and plans to depreciate it over 3 years, per the organizations capitalization policy.

What transaction will you record for the next 3 years (assuming you only post annually)?

Account Name	DR	CR

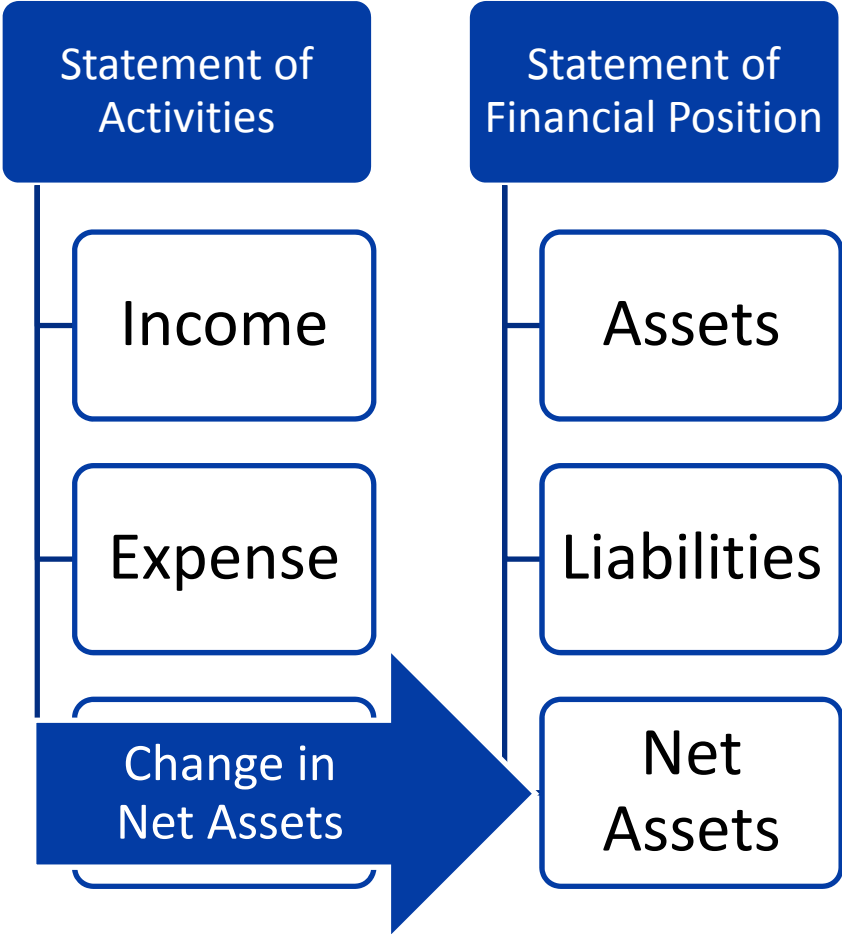
Closing the Books

- Make sure all transactions are recorded and review coding as needed
- Reconcile bank accounts – confirm bank balance matches general ledger
- Record any non-cash transactions (depreciation, prepaids, allocations etc.)
- Analyze and confirm balance sheet accounts
- Print/export financial reports

The Trial Balance

Assets =	Liabilities + Net Assets	
		Income - Expense
DR \$3,000 Checking		CR \$3,000 Foundation Grant
CR \$100 Checking		DR \$100 Telephone
DR \$50 Checking		CR \$50 Contributions
	CR \$200 Credit Card	DR \$200 Supplies
	CR \$500 A/P	DR \$500 Computers
CR \$1,000 Checking DR \$2,400 Capital Purch	CR \$1,400 Line of Credit	
CR \$800 Acc Deprec		DR \$800 Depreciation

Financial Statements



Food.org Statement of Activities

For the period ended December 31, 2012

Income

_____	_____
_____	_____

Total income

Expenses

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Total expenses

Change in net assets

Net assets – beginning

Net assets – ending

=====

Food.org Statement of Financial Position

As of December 31, 2012

Assets

_____	_____
_____	_____

Total assets

=====

Liabilities and net assets

_____	_____
_____	_____

Total liabilities

Net assets

Total liabilities and net assets

=====

Action Plan

Three things I will do differently, practice, focus on additional learning, try, or share with my coworkers:

- 1.
- 2.
- 3.

Wrap up & Evaluation

- Resources will be emailed after workshop
- Email me with questions –
shannone@compasspoint.org
- Evaluation
- Thank you!



Learning Objectives

By the end of this workshop, you will be able to:

- Understand the basic terminology of bookkeeping.
- Identify the primary components of a bookkeeping system.
- Begin to apply standard accounting concepts in a nonprofit organization.
- Understand how key financial statements are produced.