DEFINITIONS OF TERMS FOR NON-PROFIT FINANCES

Time Frame:

A Point in Time = as of a particular reporting date.

Ex.) amount of cash in the organization's bank account at the specified reporting date.

Cumulative Sums Over Time = total financial value of an activity during a fixed period of time, such as a full year or a quarter of a year, ending at the reporting date.

Ex.) salaries and benefits paid in the period.

Assets, Liabilities and Net Assets:

Assets = things owned by the NPO or owed to the NPO.

Ex.) includes cash-, short- or long-term investments, buildings, furniture and vehicles.

Accounts Receivable = money is to be received in the future.

Ex.) program fees that have been committed, but not yet received.

Prepaid Expenses = where the NPO will receive services/products in the future for amounts already paid.

Liabilities = amounts that the NPO owes to others, commonly called accounts payable, where money will be paid out in the future.

Ex.) amount owing for office supplies; the amount withheld from employees' pay cheques to be remitted to the government, but not yet paid.

Net Assets = the difference between what is owned by the organization and what is owed by it.

In equation form: Net Assets = Assets – Liabilities.

Net Assets can be thought of as the amount that is available for the organization to use in the future to continue to operate and achieve its goals.

If the Net Asset is in the negatives, it is reflecting a that liabilities exceed assets.

Current & Long-term:

Current Assets = assets that are in the form of cash or expected to become cash (or be used in operations) within the coming year.

Ex.) bank balances, short-term guaranteed investments, accounts receivable and prepaid expenses.

Long-term Assets (perhaps described as "capital assets" or "other assets") are not expected to be converted to cash within a year.

Ex.) buildings, furniture, equipment and vehicles, long-term financial assets that are being held to generate a return on investment over time.

Current Liabilities = are items that needs to be paid within the coming year.

Ex) payables due to suppliers, mandated amounts withheld from employees' salaries, vacation time owed to employees.

Long-term Liabilities = obligations to make payments in the future, beyond one year.

Ex) loans outstanding and mortgage balances.

Working Capital = difference between current assets and current liabilities.

In equation form: Working Capital = Current Assets – Current Liabilities.

Working capital is usually a positive number.

Can be thought of as the excess of current assets over what is required to meet current liabilities.

A positive working capital balance is evidence of the organization's ability to pay its bills as they come due.

A negative working capital balance is evidence that the organization's current liabilities exceed current asset.

Working Capital Ratio = describes how many dollars of current assets are on hand for each dollar of current liabilities.

In equation form: Working Capital Ratio = Current Assets / Current Liabilities.

A ratio value greater than 1, signals the capacity in the short run to pay all current liabilities from current asset sources.

Revenues and Expenditure:

Revenues = amounts recorded by the organization associated with increases in economic resources related to its operating activities.

Ex) grants from governments (or foundations) and contributions (donations).

Expenditures (or expenses) = amounts spent by the NPO in its operating activities.

Ex) are salaries, rent and office supplies. Also included in expenditures is "depreciation" of capital assets (usually called "amortization of capital assets") as the cost of capital assets is usually spread over a number of periods, based on the useful life of each asset.

Net Revenues (or "Excess of Revenues over Expenditures") = difference between total revenues and total expenditures.

In equation form: Net Revenues = Total Revenues – Total Expenditures.

A positive number reflects an operating surplus, whereas a negative number means an operating deficit, described as a "Deficiency of Revenues over Expenditures"

Accrual Accounting vs. Cash Accounting

Accrual Accounting = records transactions when they occur, regardless of when money actually changed hands between the organization and third parties.

Provides a more accurate record of financial activities because it records the economic substance of transactions, whether or not cash has been received or paid.

Ex) fee-for-service delivered and invoiced but payment has not yet been received by the NPO (this would be included in revenues and accounts receivable) or a purchase of office supplies using a credit card where payment has not yet been made (this would appear as an expenditure and account payable).

Cash Accounting = records transactions only when there is an exchange of cash.

Contributions:

Contributions = accounting term for donations

Contributions is a special type of revenue

The main characteristic of a contribution that sets it apart from other types of revenue is that it is a non-reciprocal transfer. In other words, the contributor does not receive anything in exchange for the contribution. Government funding to an NPO would be considered as a contribution. Some NPOs choose to show government funding separately from other contributions.

Accordingly, there are three types of contributions:

1. A *Restricted Contribution* is a contribution subject to externally imposed stipulations as specified by the donor.
2. An *Endowment Contribution* is a type of restricted contribution specifying that the resources contributed be maintained permanently.
3. An *Unrestricted Contribution* has no externally imposed conditions and the NPO is free to use the funds in any manner it chooses. (It is neither a restricted contribution nor an endowment contribution.)

Two Key Financial Statements:

There are two key types of financial statements that directors will encounter most frequently, these are:

Statement of Operations = statement of operations summarizes an revenues and expenses over the entire reporting period.

Statement of Financial Position = often called the *balance sheet*, is a financial statement that reports the assets, liabilities, and equity of an organization on a given date.

Adapted from: CPA: A Guide to Financial Statements for Non-Profit Organizations, myaccountingcourse.com, investignanswers.com, divestopia.com