

Nonprofit Accounting

Steven M. Bragg

Table of Contents

Chapter 1 – Overview of the Nonprofit Entity	1
Learning Objectives	1
Introduction.....	1
Definition of a Nonprofit Entity.....	1
Nonprofit Organizational Structure.....	5
Summary	5
Review Questions	6
Review Answers	7
Chapter 2 – Basic Nonprofit Accounting Concepts	8
Learning Objectives	8
Introduction.....	8
Double Entry Bookkeeping.....	8
The Journal Entry.....	9
The Accounting Equation	9
The Chart of Accounts.....	11
The Accrual Basis of Accounting.....	13
The Cash Basis of Accounting.....	13
The Modified Cash Basis of Accounting	14
Converting Cash Basis to the Accrual Basis.....	14
Generally Accepted Accounting Principles (GAAP).....	15
Net Assets	16
Unrestricted Net Assets.....	16
Temporarily Restricted Net Assets.....	16
Permanently Restricted Net Assets.....	16
Net Assets Summary	16
The Release from Restriction Concept.....	17
Inter-Fund Receivables and Payables	17
Board-Designated Funds	18
Program Identification	18
The Management and Administration Classification.....	18
The Fundraising Classification.....	19
Bookkeeping Concerns	19
Case Study	20
Summary	24
Review Questions	25
Review Answers	26
Chapter 3 – Nonprofit Financial Statements	27
Learning Objectives	27
Introduction.....	27
The Statement of Financial Position	27
The Statement of Activities.....	30
The Statement of Cash Flows	34
The Direct Method	34
The Indirect Method.....	35
How to Prepare the Statement of Cash Flows.....	36
The Statement of Functional Expenses	38
Financial Statement Disclosures	40
Summary	41
Review Questions	42
Review Answers	43

Table of Contents

Chapter 4 – Revenue Accounting 44
Learning Objectives 44
Introduction 44
Types of Revenue 44
Promises to Give 45
Pass-Through Contributions 46
Exchange Value 48
Transfers of Assets 48
Discounts from Revenue 48
Sales Taxes 49
The Allowance for Uncollectible Pledges 49
Restricted Fund Releases 49
Revenue Journal Entries 50
Special Reporting Considerations 51
Revenue Recordkeeping 51
Revenue Disclosures 57
Summary 57
Review Questions 58
Review Answers 59

Chapter 5 – Government Grants 60
Learning Objectives 60
Introduction 60
Overview of Government Grants 60
Grant Accounting 60
Income from Government Grants 62
Credits on Expenditures 62
Grant Reporting 62
Summary 63
Review Questions 64
Review Answers 65

Chapter 6 – Investment Accounting 66
Learning Objectives 66
Introduction 66
Contributed Investments 66
Purchased Investments 66
Subsequent Measurement of Investments 66
Gains and Losses on Investment 67
The Equity Method of Accounting 67
Investment Disclosures 69
Summary 70
Review Questions 71
Review Answers 72

Chapter 7 – Inventory Accounting 73
Learning Objectives 73
Introduction 73
The Periodic Inventory System 73
The Perpetual Inventory System 74
Inventory Cost Layering Overview 75
The First in, First Out Method 76
The Last in, First Out Method 77
The Specific Identification Method 78
The Lower of Cost or Market Rule 78
Inventory Disclosures 80
Summary 80

Table of Contents

Review Questions	81
Review Answers	82
Chapter 8 – Fixed Asset Accounting	83
Learning Objectives	83
Introduction	83
Initial Recognition of Fixed Assets	83
The Capitalization Limit	84
Restrictions on Contributed Assets	85
Valuation of Contributed Assets	85
Valuation of Contributed Services	85
Valuation of Art and Similar Items	86
Depreciation of Fixed Assets	86
Depreciation Accounting Entries	88
Accumulated Depreciation	88
Asset Impairment	89
Recordation of Fixed Assets	90
Fixed Asset Disclosures	90
Summary	91
Review Questions	92
Review Answers	93
Chapter 9 – Lease Accounting	94
Learning Objectives	94
Introduction	94
Overview of Leases	94
Capital Lease Criteria	94
Lease Reassessment	96
Accounting for Leasehold Improvements	96
Special Lease Terms	97
Operating Leases	97
Operating Lease Treatment by Lessee	97
Capital Leases	97
Capital Lease Treatment by Lessee	98
Sale-Leaseback Transactions	98
Sale-Leaseback Treatment by Lessee	98
Lease Disclosures	99
Summary	101
Review Questions	102
Review Answers	103
Chapter 10 – Pension Plan Accounting	104
Learning Objectives	104
Introduction	104
Overview of Retirement Benefits	104
Defined Benefit Plans	104
Expense Attribution for Delayed Vesting	107
Discount Rates	107
Settlements and Curtailments	108
Termination Benefits	109
Combined Pension Plans	109
Defined Contribution Plans	109
Presentation of Retirement Benefit Information	109
Retirement Benefit Disclosures	110
Defined Benefit Plan Disclosures	110
Defined Contribution Plan Disclosures	112
Summary	112

Table of Contents

Review Questions	113
Review Answers	114
Chapter 11 – Joint Costs and Allocations	115
Learning Objectives	115
Introduction	115
Costs of Activities that Include Fundraising	115
Allocations	118
Disclosures	121
Summary	121
Review Questions	123
Review Answers	124
Chapter 12 – Accounting Changes and Error Corrections	125
Learning Objectives	125
Introduction	125
Changes in Accounting Principle	125
Changes in Accounting Estimate	126
Changes in Reporting Entity	126
Correction of an Error in Previously Issued Financial Statements	126
Corrections Related to Prior Interim Periods	126
Summary	127
Review Questions	128
Review Answers	129
Chapter 13 – Fair Value	130
Learning Objectives	130
Introduction	130
The Fair Value Concept	130
Fair Value Differences from Actual Prices Paid	131
Fair Value Measurement Approaches	131
Fair Value Option	133
Summary	134
Review Questions	135
Review Answers	136
Chapter 14 – Other Accounting Topics	137
Learning Objectives	137
Introduction	137
Petty Cash	137
Receivables	139
Contingent Liabilities	139
Line of Credit	140
Disclosures	140
Summary	141
Review Questions	142
Review Answers	143
Chapter 15 – Split-Interest Agreements	144
Learning Objectives	144
Introduction	144
Split-Interest Agreements	144
Types of Split-Interest Agreements	144
Accounting for Split-Interest Agreements	145
Initial Measurement	146
Ongoing Measurement	147
Termination	147

Table of Contents

Classification of Net Assets	147
Disclosures	148
Summary	148
Review Questions	149
Review Answers	150
Chapter 16 – Affiliated Organizations.....	151
Learning Objectives	151
Introduction	151
Affiliated Organizations	151
Special Purpose Entities	152
Noncontrolling Interests.....	153
Related Parties	153
Disclosures	154
Revenue Sharing.....	154
Consolidated Financial Statements.....	154
Noncontrolling Interests	154
Related Party Transactions.....	155
Summary	155
Review Questions	156
Review Answers	157
Chapter 17 – Mergers & Acquisitions	158
Learning Objectives	158
Introduction.....	158
The Nonprofit Merger	158
The Nonprofit Acquisition	158
Identifiable Assets and Liabilities, and Noncontrolling Interests	160
Goodwill Calculation	162
Contribution Received	162
Presentation Issues	163
Goodwill Testing	163
Disclosures	166
Merger Disclosures.....	166
Acquisition Disclosures.....	167
Summary	169
Review Questions	170
Review Answers	171
Chapter 18 – Nonprofit Tax Reporting.....	172
Learning Objectives	172
Introduction.....	172
Overview of the Form 990	172
The Form 990	175
The Form 990-EZ.....	177
The Form 990-N.....	178
The Form 990-T	179
The Form 1099	180
The Form 1099-MISC	180
The Form W-2.....	182
Form W-3.....	185
Payroll Taxes	186
Social Security Tax.....	186
Medicare Tax.....	187
Types of Tax Deposit Schedules.....	188
The Form 941.....	189
Summary	193

Table of Contents

Review Questions	194
Review Answers	195
Chapter 19 – Closing the Books	196
Learning Objectives	196
Introduction.....	196
Journal Entries.....	196
The Accruals Concept	196
Adjusting Entries.....	197
Reversing Entries	197
Common Adjusting Entries.....	198
Closing Entries	200
Prior Closing Steps: Update Reserves.....	201
Core Closing Steps: Issue Customer and Donor Invoices	202
Core Closing Steps: Reconcile the Bank Statement.....	202
Core Closing Steps: Calculate Depreciation	204
Core Closing Steps: Accounts Payable	204
Core Closing Steps: Review Journal Entries.....	205
Core Closing Steps: Reconcile Accounts.....	205
Core Closing Steps: Close Subsidiary Ledgers.....	207
Core Closing Steps: Create Financial Statements	207
Core Closing Steps: Review Financial Statements	207
Core Closing Steps: Accrue Tax Liabilities	207
Core Closing Steps: Close the Month.....	208
Core Closing Steps: Add Disclosures	208
Core Steps: Issue Financial Statements.....	208
Delayed Closing Steps: Issue Invoices.....	209
Delayed Closing Steps: Closing Metrics	209
Delayed Closing Steps: Document Future Closing Changes.....	209
Delayed Closing Steps: Update Closing Procedures.....	210
Summary	210
Review Questions	211
Review Answers	212
Chapter 20 – Nonprofit Budgeting	213
Learning Objectives	213
Introduction.....	213
The Revenue Budget	213
The Management and Administration Budget.....	214
The Fundraising Budget.....	215
Program and Grant Budgets.....	216
The Compensation Budget.....	216
The Compensation Budget	217
Treatment of Hourly Pay and Overtime	218
The Benefits Budget	219
Budget Recasting.....	220
Budget Linkages	221
Cash Forecasting.....	221
The Short-Term Cash Forecast.....	222
The Medium-Term Cash Forecast.....	224
Summary	225
Review Questions	226
Review Answers	227
Chapter 21 – Accounting Controls	228
Learning Objectives	228
Introduction.....	228

Table of Contents

The Proper Balance of Control Systems	228
Control Principles	230
Constructing a System of Controls	231
Cash Controls	232
Fixed Asset Controls	234
Payables Controls	236
Payroll Controls	240
Summary	243
Review Questions	244
Review Answers	245
Chapter 22 – Nonprofit Policies	246
Learning Objectives	246
Introduction	246
General Accounting Policies	246
Cash	246
Fixed Assets	246
Payables	247
Payroll	248
Nonprofit-Specific Policies	249
Donor Receipts	249
Donated Assets	249
Investments	249
Operations	250
Joint Ventures	251
Lobbying and Political Campaigns	251
Tax Filings	252
Summary	252
Review Questions	253
Review Answers	254
Chapter 23 – Analysis of a Nonprofit's Financial Health	255
Learning Objectives	255
Introduction	255
The Auditor's Report	255
Horizontal Analysis	256
Vertical Analysis	257
Expense Proportions Analysis	258
Fundraising Effectiveness Ratio	259
Revenue Concentration Analysis	259
Traffic Light Revenue Analysis	260
Traditional Ratio Analysis	260
Current Ratio	261
Quick Ratio	261
Days Sales in Accounts Receivable	262
Days Sales in Inventory	263
Days Payables Outstanding	263
Free Cash Flow	264
The Profitability Conundrum	265
Summary	265
Review Questions	266
Review Answers	267
Glossary	269
Index	275