

Accounting for Government and Non-profit Organisations

Unit - I

COURSE CODE – Acct 327

Eighth Semester

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Unit - I

Introduction to Government and Not-for-Profit Environment:

Introduction and definitions,

Meaning and differences of government and not-for-profit organizations.

Uses of financial reporting.

Purposes of financial reporting.

Meaning of not-for-profit organizations

- The terms "not-for-profit," "non-profit," and even "non-business" have been used to describe organizations that have one basic characteristic in common: Their primary purpose is related to social objectives, not to profit. These organizations may also have other common characteristics, such as non-profit tax status, an appointed board, and for some, oversight of their operations by a governmental agency. Examples of such not-for-profits (NFPs) include libraries, museums, performing arts organizations, zoological and botanical societies, trade associations, unions, professional associations, fraternal organizations, private and community foundations, voluntary health and welfare organizations, social and country clubs, religious organizations, and public broadcasting stations.

Definition

A non-profit organization is formed for the purpose of serving a public or mutual benefit other than the pursuit or accumulation of profits for owners or investors. "The non-profit sector is a collection of entities that are organizations; private as opposed to governmental; non-profit distributing; self-governing; voluntary; and of public benefit". The non-profit sector is often referred to as the third sector, independent sector, voluntary sector, philanthropic sector, social sector, tax-exempt sector, or the charitable sector.

Historic Roots Non Profit Organizations

- Approximately 1.2 million organizations are registered with the Internal Revenue Services (IRS) as non-profit organizations. It is estimated that millions more small formal and informal associations exist that do not register with the IRS because they have revenues of less than \$5,000 per year. Non-profit organizations in America have combined revenues of approximately \$621.4 billion, which represents 6.2% of the nation's economy. An estimated 10.2 million people are employed in the sector.
- Non-profit organizations are usually classified as either member serving (addressing the needs of only a select number of individuals) or public. They take many forms:

How Do Governmental and Not-For-Profit Organizations Differ From Business Organizations?

- No direct and proportional relationship between resources provided and the benefits received
- Absence or Lack of a profit motive
- Absence of transferable ownership rights
- Collective ownership by constituents
- Policy-setting process

How Do Governmental and Not-For-Profit Organizations Differ From Business Organizations?

- For businesses, annual report is the most significant financial document. For governments and non-profits, budget is very important.
 - Budget is the culmination of the political process.
- Need to ensure inter-period equity for most governments and non-profits.
- Revenues may not be linked to constituent demand or satisfaction.
- No direct link between revenues and expenses.
- Many of the assets of government and non-profits are restricted to particular activities and purposes.
- No distinguished ownership interests.
- Less distinction between internal and external accounting and reporting.

How Do Governmental and Not-For-Profit Organizations Differ From Business Organizations?

- Power ultimately rests in the hands of the people
- People vote and delegate that power to public officials
- Created by and accountable to a higher level government – ex. State Governments are accountable to Federal Governments while City Governments are accountable to State Governments, etc.
- Power to tax citizens for revenue

Objectives of Financial Reporting—State and Local Governments (SLG)

Financial reports are used primarily to:

- Compare actual financial results with legally adopted budget
- Assess financial condition and results of operations
- Assist in determining compliance with finance-related laws, rules, and regulations of the government
- Assist in evaluating efficiency and effectiveness of management, its resources and programs

DISCUSSION: A large majority of citizens never have the time to evaluate the financial reports of SLGs, but candidates seeking an elected position (those running for election) in government, use these reports to attack the incumbent.

Objectives of Financial Reporting

- “**ACCOUNTABILITY** is the cornerstone of all financial reporting in government,”
 - What do we mean by accountability?
 - How does “interperiod equity” relate to accountability?

These questions are very important!

Objectives of Financial Reporting (cont'd)

What do we mean by accountability?

Accountability arises from the citizens' "right to know." It imposes a duty on public officials to be accountable to citizens for raising public monies and how they are spent.

Objectives of Financial Reporting: (cont'd)

How does “interperiod equity” relate to accountability?

Interperiod equity is a government’s obligation to disclose whether current-year revenues were sufficient to pay for current-year benefits—or did current citizens defer payments to future taxpayers?

(In other words, the expenses have been incurred now and will be paid later from taxes collected in future years.)

It is important to understand this concept of “interperiod equity”!

Objectives of Financial Reporting

- Accountability is also the foundation of *federal* government financial reporting
- Federal Accounting Standards Advisory Board (FASAB)'s standards are targeted at both:
 - internal users (management), and
 - external users

Sources of GAAP And Financial Reporting Standards

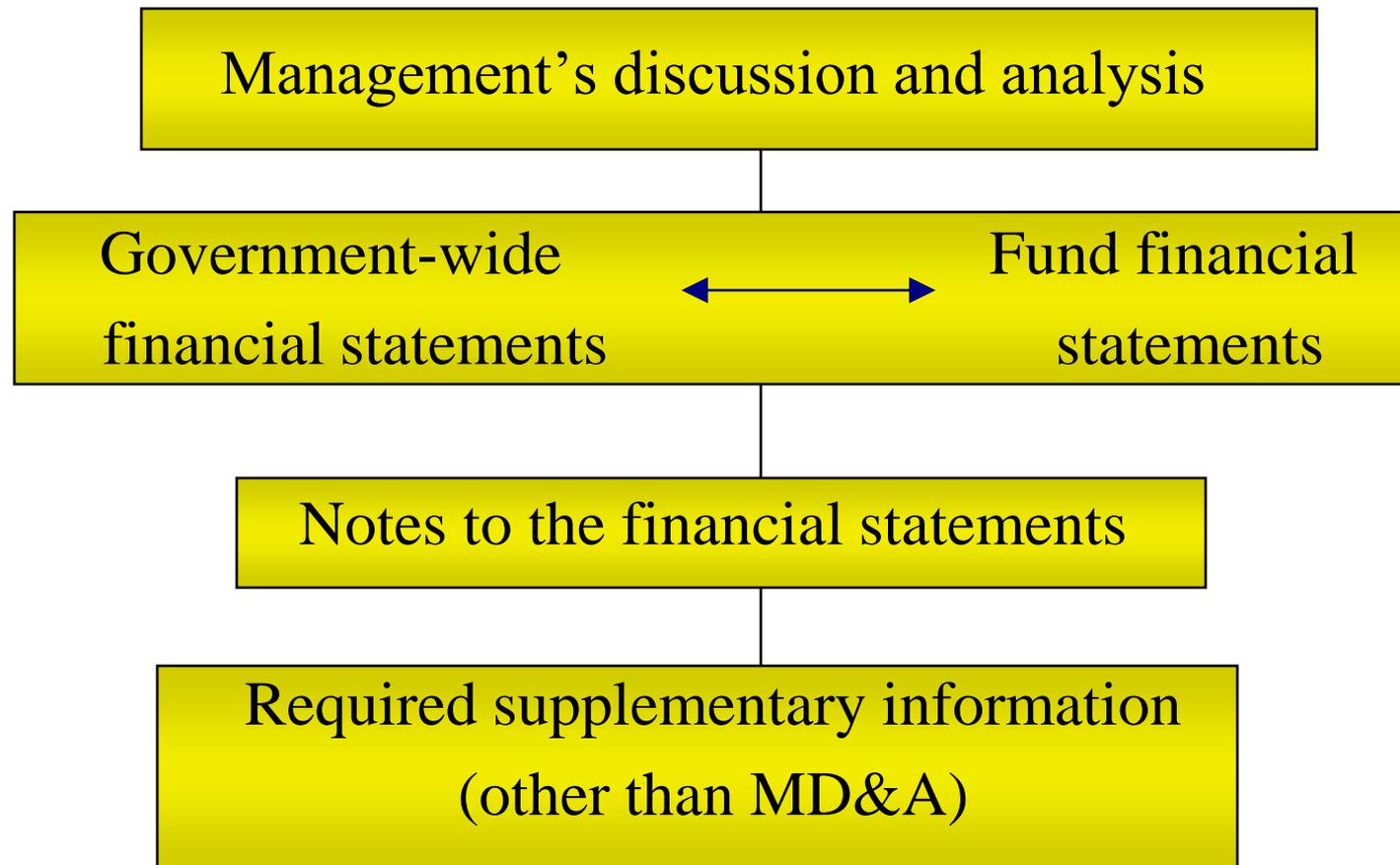
- **FASB – Financial Accounting Standards Board**
 - Business organizations: ex. Wal-Mart
 - Nongovernmental not-for-profits: ex. Rice University, American Cancer Society
- **GASB – Governmental Accounting Standards Board**
 - Governmental organizations
 - Governmental not-for-profits: ex. University of Houston
- **FASAB – Federal Accounting Standards Advisory Board**
 - Federal Government and its agencies
 - Ex. Department of Agriculture, Department of Transportation, Department of Energy, Department of Education, Department of Defense and others.

GASB and FASB

The objectives of both GASB and FASB:

- Endorse the notion that financial reporting encompasses information on service efforts and accomplishments.
- Emphasize that the ability to measure accomplishments is still undeveloped.
- View this aspect of performance reporting as a long-term goal rather than an immediate imperative.

General Purpose External Financial Reports



Comprehensive Annual Financial Report (CAFR) -- recommended, but not mandatory --

- Introductory section
- Financial section
- Statistical section

CAFR—Financial Section (GASB Statement)

- Auditor's report
- MD&A
- Basic Financial Statements
- Required Supplementary Information
RSI (Other than MD&A)
- Combining the individual fund
statements and schedules

Management's Discussion and Analysis (MD&A)

- Brief objective narrative providing management's analysis of the government's financial performance
- This is basically “Tell It Like It is.”

Basic Financial Statements

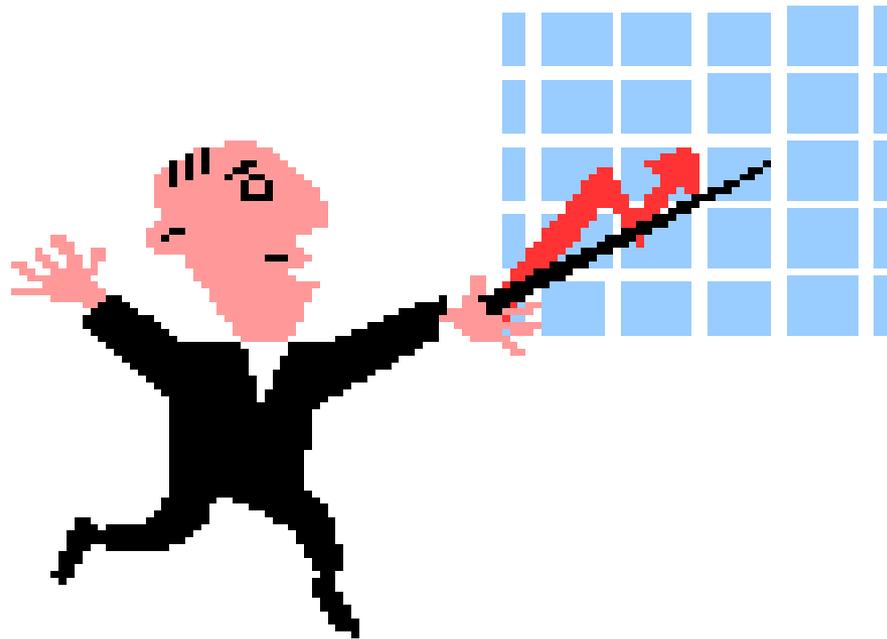
- Government-wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
 - Fund Financial Statements
- Notes to the Financial Statements
- The Government-wide Financial Statements are required under GASB

Fund Financial Statements

- Balance Sheet - Governmental Funds
- Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds with reconciliation
- Statement of Net Assets - Proprietary Funds
- Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
- Statement of Cash Flows - Proprietary Funds
- Statement of Fiduciary Net Assets
- Statement of Changes in Fiduciary Net Assets

CAFR - Statistical Section

- Tables showing multiple-year trends in financial and socioeconomic information



Fund Accounting

- Fund accounting reports financial information for separate self-balancing sets of accounts, segregated for separate purposes or to account for resources restricted as to use by donors or grantors
- Funds are separate accounting and fiscal entities

The Purpose of Financial Reporting

The Purpose of Financial Reporting

Financial reports are the documents and records you put together to track and review how much money your business is making (or not). The purpose of financial reporting is to deliver this information to the lenders and shareowners (the stakeholders) of your business. If someone else is supporting part of your business, financial reporting must be part of the essential contract between you and them. Your lenders and investors have the right to know if their money is being spent wisely and returning a profit.

What a financial report should accomplish

A financial report should answer certain basic financial questions:

Is the business making a profit or suffering a loss, and how much?

How do [assets](#) stack up against [liabilities](#)?

Where did the business get its [capital](#), and is it making good use of the money?

What's the [cash flow](#) from the profit or loss for the period?

Did the business reinvest all its profit?

Quiz No - 1

Multiple choice:

1. Financial reports are used primarily to:
 - (a) To know the liabilities
 - (b) To know the profitability only
 - (c) Assess financial condition and results of operations
 - (d) None of the above
2. The primary objective of a not for profit organization:
 - a) Maximize revenue, b) Maximize expenditure,
 - c) Provide services to constituent, d) All of the above
3. The term independent sector refers to: Opt only one;
 - a) States that have opted not to receive fund govt. funds
 - b) Not for profit Organization
 - c) University that are not affiliated with particular Govt. Unit

True and False:

4. Religious Trust is not a part of Not for Profit Organization.
 - (a) True (b) False
5. The absence of profit motive, is the nature of Not for Profit Organization?
 - (a) True (b) False
6. Do you think that the Not for Profit Organization helps to the poor people only.
 - (a) True (b) False

Fill in the blanks:

7. Their primary purpose of Not for Profit Organization is related to social
8. Complete the term (IRS) InternalServices
9. Financial reporting should accomplish by three thingsFind the one item which must be there.
10. Write full form of the abbreviations
 - a) GASB (Governmental Accounting Standards Board)
 - b) FASB (Financial Accounting Standard Board)

HOME ASSIGNMENT

Q-1.

What are the uses and purpose of financial reporting?

Q-2.

Prepare assignment on the differences of government and not for profit organization.

Questions

- What do you mean by non profit organization?
- Define the non profit organization
- What do we mean by accountability?
- How Do Governmental and Not-For-Profit Organizations Differ From Business Organizations?
- Explain the uses of financial reporting.
- What are the purposes of financial reporting?
- Accountability makes the system transparent:
- a) True, b) False

Fill in the blanks:

- Financial reporting should accomplish at least.....

Question continued

- Explain the meaning not for profit organisation
- What is the significance of financial reporting in non government organization.?
- The primary objective of a not for profit organization:
 - a) Maximize revenue,
 - b) Maximize expenditure,
 - c) Provide services to constituent,
 - d) All of the above