Guide to Non Profit Accounting

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While there arenâ€™t too many accounting laws specific to how non-profit organizations should be managing their finances and recording their transactions, there are a number of compliance and regulatory norms which have a direct or indirect impact on these institutes.

The reporting requirements by the governmental taxation body, as well as the accounting regulations for funding institutions have an indirect impact on the financial reporting processes followed by these non-profit organizations. Either which ways, to maintain complete transparency and ensure comprehensive compliance, not for profit institutes are expected to follow all relevant accounting norms whether or not they are paying taxes.

Tax â€“ Exempt Organizations

Not for profit institutes are typically exempt from tax, and yet they need to submit to the government a comprehensive information report along with all the relevant forms on an annual basis. Most of this information consists of financial reports;

1. A comprehensive revenue or income statement with elaboration of all categories specified.

2. All supporting documentation which further elaborates the sources of these incomes as per the categories mentioned. For example, donations, enrollment fees, income through investment etc.

3. A detailed statement of expenses, and the heads under which these expenses are allocated. For example, fundraising, operations, events etc.

4. An expense report that is further sorted out as per individual event or service. For Example, awareness mailers, seminars etc.

5. The instituteâ€™s balance sheet.

Most governmental taxation bodies will have designed specific classes and heads under which revenues and expenses need to be allocated. For example, Accounting Vancouver have been provided specific norms by the taxation body of Canada, which need to incorporated into the financial reporting practices of a not for profit business. Not complying with these norms would not only mean facing problems in your overall finance function, but also mean risking a problem with the tax department.

While most commercial business of sizes small are large are accustomed to these financial reporting practices, not for profit organizations need to start following these norms for more than one reasons. The most important reason is for governments to decide depending on their financial reporting and internal processes whether or not the institute can retain its position which awards them a tax exemption. It is extremely easy to understand the revenue and expense model of your institute through the financial papers that you submit, making is easier for decision making.

Today there are a number of tools and software which simplify the financial reporting processes for not for profit organizations. For smaller institutes which lack accounting expertise, you could make use of these tools to acquire reports as per the requirements of the board, managers and the taxation bodies, tracking systems which allow you to report grant expenses, and a number of other financial reporting tools which help in operational decision taking.

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