

Making Everything Easier!™

Nonprofit **Bookkeeping & Accounting** FOR **DUMMIES®**

Learn to:

- Read and understand nonprofit financial statements
- Keep accurate books
- Follow nonprofit accounting laws and regulations
- Comprehend the latest tax changes

Sharon Farris

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Training Services (FACTS)*



Nonprofit Bookkeeping and Accounting For Dummies®

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by Sharon Farris



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To discuss this book or understand how Sharon can work with you to establish, develop, and expand your organization, please contact her at FACT\$, P.O. Box 242143, Montgomery, AL 36124, phone (334) 224-6541, e-mail thatsfacts@gmail.com, or Web site www.thatsfacts.org.

Dedication

To my beautiful daughter, Keisha, and my mother, Beatrice Rembert. May we continue to share laughter together.

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Introduction

Counting the money in your wallet or purse is an act of accounting. If you ever make a note of how much you have, you're even performing a bookkeeping function. You count things all the time in everyday life without thinking twice about accounting. For example, you count the plates before setting the table at home. You count the number of e-mails you receive while you're out of the office. Even a gesture such as looking at your watch and thinking about how much time you have before your next appointment is a form of accounting.

Bookkeeping and accounting are service activities that involve auditing, tax services, management advisory services, general accounting, cost accounting, budgeting, and internal auditing. Even though your organization is a nonprofit, these services are essential parts of your daily activities. Without them, your nonprofit can't survive the long haul.

In the wake of increased accountability, understanding how to track and account for the everyday activities of your nonprofit is important. Keeping the books for a nonprofit is exciting. Getting federal grant money to fund your programs relieves financial stress. Getting a clean bill of health from your financial audit adds credibility. I devote this book to all nonprofits that add credibility to the sector by keeping their books in order.

About This Book

Bookkeeping and accounting for an organization involve several fundamental steps. Beginning with a simple transaction such as a donation and ending with financial statements, you go through an accounting cycle of 12 months. The cycle repeats as long as your nonprofit continues to operate. To help you with the normal day-to-day transactions — as well as any sticky situations you may find along the way — I wrote this book for the nonprofit director and manager (as well as the nonprofit bookkeeper and accountant).

Feel free to use this book as a quick reference. It's designed to help you with everything you need to know to operate your nonprofit according to generally accepted accounting principles (GAAP). It covers information about the steps to file your own payroll taxes and tax information Form 990. It also explains how to account for almost every situation that may come up in your nonprofit.

This book serves as a tool that you can pick up from time to time during your accounting cycle to brush up on the following steps:

1. Your nonprofit enters into a transaction with a second party.

2. You or your employee prepares a business document, such as a sales invoice, that leaves a paper trail.

3. You or your employee records the transaction in the book of first entry, your journal.

4. You post the transaction to the general ledger.

5. You balance the general ledger and prepare a trial balance. Your trial balance tests the accuracy of account (debit and credit) balances.

6. You prepare your financial statements.

This book serves as a reference tool, no matter where you are in the accounting process, by helping you reach your ultimate goal of well-prepared and accurate financial statements.

Conventions Used in This Book

Throughout this book, I use the following conventions to help you find your way:

Every time I introduce a new word, I *italicize* it and then define it.

Boldface text is used to indicate keywords in bulleted lists or to highlight action parts of numbered steps.

Monofont is used for Web site addresses.

What You're Not to Read

I understand that you're a very busy person working in a small- to medium-sized nonprofit. Every day throws different and unique challenges at you. You won't hurt my feelings if you don't read every word I've written. So if you're strapped for time, feel free to skip the sidebars (the gray boxes). In sidebars, I include some real-world examples that you can skip — don't worry, you won't miss anything essential to understanding my point.

Foolish Assumptions

While writing this book, I made the following assumptions about you, my dear reader. Some may be more relevant than others.

You're the executive director of a newly formed, small nonprofit, and you want to know how to manage your own books.

You direct or manage a midsize nonprofit and want to understand a little more about how to manage day-to-day operations and take care of your own books.

You're interested in keeping the books of a nonprofit organization.

You're interested in bookkeeping and accounting as a profession.

You've been performing the functions in this book, but you're not sure if you've been doing them right.

You're thinking about starting your own nonprofit and want to know how an effective nonprofit keeps track of its bookkeeping and accounting needs.

Finally, I assume you know that you can read this book over and over again and discover something new every time. You can refer to this book as a quick reference whenever you need to know the how-to of managing your financial records for your organization. I assume this book takes the guesswork out of bookkeeping and accounting and provides some peace of mind about how the system is designed and how you can work it to benefit your organization.

After reading this book, I hope you're confident that you can take care of most of your bookkeeping and accounting needs yourself. At least, you can get a better handle on how your accounting cycle functions.

How This Book Is Organized

This book is organized into five parts. You don't have to read it from cover to cover; you can dip in for reference at any point that interests you and jump from part to part if you like. I won't tell anyone.

Part I: Accounting and Bookkeeping Nonprofit Style

This part talks about basic bookkeeping and accounting terminology. You can also find a chapter that helps you understand financial statements. And when you're ready to get your hands dirty, you can read about record keeping and then decide whether to design your own computer system or use store-bought software.

Part II: Balancing Your Nonprofit Books

This part covers the nuts and bolts of setting up and balancing your nonprofit books. I cover how to set up a chart of accounts, how to record transactions in the

bookkeeping journal, and how to make entries in and balance your nonprofit's checkbook. Balancing your cash flows and planning your budget are two important aspects discussed in this part. If you're not sure how to stay in compliance with federal nonprofit guidelines, follow the tips suggested here for help.

Part III: Accounting for Nonprofit Situations

I should have named this part "Documentation 101" because that's what the chapters here seem to boil down to. Part III focuses on grants, payroll, and accounting for Form 990, all of which are extremely important for keeping your nonprofit up and running. This part covers information about federal grants management and the grant audit. Everything you need to know about payroll taxes and filing Form 990 also is summarized here to keep you in good standing with the IRS and Uncle Sam. All of these tasks come back to staying organized and keeping a good paper trail.

Part IV: Wrapping Up the Books

Part IV shows you how to create your own financial statements. It also describes the steps you have to take to close one accounting period and prepare the books for the next cycle. Finally, in this part, I cover what you need to do to prepare your books for an audit of your financial statements.

Part V: The Part of Tens

This is the famous *For Dummies* Part of Tens. You can find out how to keep your books in good standing and how to stay out of hot water with the federal government using the helpful tips in this part. After reading these chapters, you can feel confident that you're indeed going about your books in the right way.

Icons Used in This Book

For Dummies books use little pictures, called icons, to get your attention in the margins. Here's what they mean:



This icon highlights techniques or draws your attention to something noteworthy.



This icon highlights important information to keep in mind and points out things you shouldn't forget.



This icon points out pitfalls and signals red flags of caution.



This icon points out real-life anecdotes from my years of experience and mistakes.

Where to Go from Here

Like every *For Dummies* book, each chapter stands alone, so you can jump from chapter to chapter and read whichever ones pique your interest. Glance at the table of contents and go to the topic that interests you. You can read this book in many ways, depending on your needs. If you're new to the nonprofit arena, start with Part I. If you're a veteran, I suggest you brush up on some info about filing your tax information in Part IV. Make plans to read the information more than once. You don't have to remember this stuff; just pull your book out and use it as a reference as you need it.

This book is organized in an order logical to the accounting process, but you don't need to read it from front to back to gain important insight and wisdom about the tricks of the trade. Feel free to read it cover to cover if you're just biting at the bit to uncover everything you can about nonprofit bookkeeping and accounting.