The book we are reading for this course is; McLaughlin, Thomas A. (2009). Streetsmart Financial Basics for Nonprofit Managers, 3rd ed. New York: John Wiley & Sons, Inc

Below is the class lecture to hopefully better help you in assisting me with the question.

In Week 3 we look at some of the issues we face in accounting, as we collect financial information about our nonprofit. This is the raw material entered into the system that produces the financial statements.

Course objectives for the week

Differentiate nonprofit accounting practices for effective financial management

Analyze financial statements to determine financial health of an organization

Deconstruct the uses of various financial reports and financial statements

Tracking Financial Activity

The content of this week’s learning is essentially the field of accounting. This course is not intended to make you an accountant. However, it is important for any manager to understand basic concepts of accounting. Accounting is defined as, “….a systematic process of measuring and reporting to various users relevant financial information for decision making regarding the economic activity of an organization or unit.” (Salmonson, Hermanson, & Edwards, 1977).

Trying for a little less formality and adapting the definition to a nonprofit corporation, we might say that accounting is a significant tool of both the nonprofit executive and the board to record the economic activities of the organization for the purpose of controlling its resources, planning for the future, and maximizing the organization’s impact on its charitable mission.

For this course, we have the dual obligation to consider the use of accounting on two different levels. First, it is used to help us further the mission of the organization. Just as we employ human resource management, marketing, or program management techniques, we also use accounting practices to help us fulfill our mission. Second, accounting is used in a much less grand way, to simply gather information that can be structured into various forms that will reveal critical information about what is being done by the organization.

The assigned reading in the McLaughlin book for this week provides an interesting discussion about the changes in the requirements for nonprofit organizations. We have long struggled with tracking the funds received which were specified for specific purposes. We are obligated to honor such requests and, in order to show that we had actually done what we said we were going to do; we had to be able to produce accurate reports that proved our claims. Consequently, a nonprofit organization easily could have 20 or 30 different accounts that had to be tracked individually. Add the fact that sometimes one person would split time between several different projects, and the single payroll amount would have to be allocated as an expense between multiple accounts. Nonprofits, usually with fewer financial resources and staffed with people who are not drawn to accounting careers, are saddled with much more complex accounting challenges than many larger for-profit businesses.

The point of this week’s topic is to introduce you to the various ways in which nonprofits account for their economic activity and to make certain you are aware of the government regulations, and the self-regulating obligations of the accounting profession, that affect the nonprofit organization’s attempts to keep track of its money.

Reference: Salmonson, R.F., Hermanson, R. H. & Edwards, J. D. (1977). A Survey of Basic Accounting. Homewood, IL: Irwin.