August 2012 Newsletter

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Accounting research – Not an oxymoron.
MYOB on the counter – Non-profits to benefit.
Living on the Fringe? - Some facts about Fringe Benefit Tax.

Coming Up

4 September: Financial Governance Workshop—1-3pm.
Register through Community Law Centre 0508 CANLAW, susan@canlaw.org.nz
10 October: Taking Control of Your Accounts Workshop (Aspire series)—9.30-12.30 am.
Register through Small Business Enterprise Centre , mail@justdollars.org.nz, 366 9978 (Carolynn)
See end of newsletter for details.
Accounting Basics for Non-Profits course: To Be Advised

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Researching non-profit accounting

Accounting is one of those fields where you can least imagine any useful 'research' to be done. What's to research? Isn't it all rules and tools?

Accounting research is partly about whether those rules and tools are working. Recent proposals by the new Ministry of Business, Innovation and Employment as well as the External Review Board have highlighted their belief, for example, that accounting standards are 'neutral' and therefore equally applicable to non-profits as for businesses.

There is no hard evidence for this, however, and indications are that non-profit accounting is sufficiently different to warrant a different approach.

Take operational grants, for example. The standard accounting practice is to only count that part of a grant as income that has been expended in that year. The rest is put towards a liability ('Unspent Grants' or some such). This means that you cannot have a surplus or deficit from operational grants, as income always equals expenditure. It also means your Income Statement does not reflect your success, or otherwise, in obtaining grants for your day-to-day operations and projects unless you spend them right away.

Arguably, Board members and other stakeholders want to know how successful an organisation has been in *obtaining* grants, not just in *spending* them. This is an important performance measure for many non-profits.

Our current intern, Simon Evans, is examining this very issue now in a small research project that is part of his accounting degree at CPIT. He will look at the financial statements of some non-profits over the years to see whether stating operational grants as income will give a better indicator of non-profits' financial performance and is, perhaps, better understood by stakeholders.

As we will continue to take CPIT interns there are more opportunities to look at non-profit accounting in this way and, with luck, lift its profile. That has to be a good thing.

Harald

MYOB on the Counter-Attack

New Zealand's dominant provider of accounting software for small and medium-sized organisations, MYOB, is feeling the competition through Xero, a purely online-based package. MYOB's own online solution, Live Accounts, offered much fewer features than MYOB's PC-based software and never took off . Xero also cleverly marketed itself specifically to non-profits, figuring that they are an excellent vehicle to increase word-of-mouth marketing.

Now, MYOB is trialling a full online equivalent of its popular Account Right package and also aims to regain market share with non-profits by offering them half price on the package (full price expected to be $35 per month). It is also trying to go one up on Xero by offering a Payroll function (which also calculates holiday pay, a major shortcoming of the Xero payroll module) included in their programmes. Online MYOB will also enable users to back up the files on their local computer to counter increasing fears about data safety in the 'cloud' (some innocent Xero users found their accounts switched off during the Kim Dotcom saga, for example).

MYOB is still accepting some organisations for free trials of the new online software via their agents. Contact us if you're looking for accounting software at the moment.

It's good to see some competition benefiting non-profits, but we are still unimpressed with the functionality of either software when it comes to managing funding.

Living on the Fringe?

Few things inspire such fear in administrators as the words 'Fringe Benefit Tax' (FBT). FBT is poorly understood and widely seen as an unreasonable tax grab by IRD. Sometimes it is being used as a reason to deny staff some benefits other than wages.

Non-profits rarely incur any costs that would be liable for FBT. The purpose of FBT is to make sure that employers don't offer extra benefits to staff with the sole purpose of avoiding income tax. The standard example is a staff member being provided with a company car for unrestricted use. IRD takes that view that since other employees will have to pay for their own cars out of income that has been taxed, the same tax should be applied if a company gives an employee free use of a car. It's essentially a non-cash part of a salary or wage, and FBT closes a loophole that would otherwise enable the generally more well-off to hide earnings to avoid tax.

Anything that staff members receive over and above a reimbursement for business expenses is considered a fringe benefit and therefore taxed. There's some thresholds, however, below which IRD does not bother. You can give your staff members free or discounted goods or services worth up to $1,200 per year per staff, for example, without being liable for FBT, so don't worry about that free organisational T-Shirt or the gym membership.

Many organisations also pay allowances, for example for incidentals on business travel or a flat rate for using their home as an office. This is okay as long as it can be credibly argued that the amount paid is a reasonable reflection of the cost. Once you start thinking of an allowance or a reimbursement as a 'reward' you most likely crossed into fringe benefit territory.

One thing to be careful about is providing loans to staff. This most commonly happens through private use of organisational funds, such as paying that bill with the organisation's credit card and then paying the organisation back. There are no thresholds or exemptions for this, so it's best to avoid the situation altogether.

If you do provide such loans you must calculate market interest on the repayment of these (the IRD prescribed rate is currently 5.90% p.a.) and charge it to the employee. Otherwise the interest amount is considered a fringe benefit.

For more info see the IRD web site. A reasonable overview can be found here:
http://www.ird.govt.nz/fbt/overview/fbt-fbtobligations.html

Taking control of your accounts (non-profits) workshop

This is a three hour workshop for managers and administrators at the accounting coalface of medium-sized non-profits with staff and an office.

The workshop explains the basic principles of accounting, and aims to give some practice in day-to-day accounting issues that often trip organisations up. Participants will learn about 'debits' and 'credits' and how to do those "Journal entries" at the end of the year. We will touch on fixed assets, some tax issues (such as employing contractors and what 'fringe benefit tax' is) and how to account for grants in a way that is best for you.

At the end of the workshop your organisation's Balance Sheet will no longer be a mystery and you should have a better idea of how to make your accounts work for you while keeping funders happy.

Wed, 10 October, 9-12. No charge.

Register through Canterbury Small Business Enterprise Centre via Carolynn, ph 366 9978, mail@justdollars.org.nz

Every participant is entitled to a one-on-one follow-up session of 1.5 hrs within a month or so of the talk.