



September 2012 Newsletter

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Coming Up

4 September: Financial Governance Workshop—1-3pm.

Register through Community Law Centre 0508 CANLAW, susan@canlaw.org.nz

10 October or 17 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).

Accounting Basics for Non-Profits course: To Be Advised.

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Earthquake-struck?



The Christchurch earthquakes have not been kind to some community groups. Some, of course, have lost their office and all their paperwork with it after February, but I find that what really hit some community groups hard was that they were suddenly short of a particular kind of volunteer work – the organising and paperwork kind. People left town or were forced to refocus their lives, and some organisations were put 'on hold' because no-one picked up the reins or had the necessary skills to look after the money.

These issues still continue. I'm not living in my own South Brighton home at the moment, because of Earthquake repairs, for example, and extra organisational work as well as longer travel times on poor roads are all a drain on spare time and energy. Committing to picking up the paperwork someone else has left behind is probably not at the forefront of people's minds.

Of course, for some groups the opposite has happened. Some residents associations of particularly hard-hit areas, for example, have been revitalised by a community pulling together, and sometimes this is matched by a

much increased budget as grants and donations are now available that weren't before. Some social services have seen large increases in funding, but their administrative systems sometimes haven't quite kept up.

The Todd Foundation has been so kind to make some funding available for us to specifically help organisations affected by the earthquakes and needing extra administrative and accounting help. We have started helping some and the kind of things we can do for you is helping with the recovery of financial information, training up your treasurers or administrators, and re-starting your financial systems. If you know of a group that needs help, make sure they are aware of us.

Harald

Accrual Accounting – what's the point?



The short answer to this question probably is: to keep accountants in employment.

A lot of things that accountants do are a result of the 'matching' principle: that income and expenditure are 'matched' to the period they relate to. If you pre-pay your rent for the month of April in March, then this should show up in your April accounts, not the March ones. If you pay your phone bill in October for calls made in September, then this amount should show in the September accounts. The matching principle ensures that you cannot manipulate your financial statements by timing your payments or the banking of your income and is the basis of accrual accounting.

Almost all organisations use the principle at least for some of their accounting. If you have an asset register and depreciate your assets, you are using accrual accounting: instead of putting in the whole expense when buying the asset you only expense the loss in value of your asset each year.

What generally keeps your accountant busy at the end of the financial year is that most groups use cash accounting on a day-to-day basis, which means they need to be converted to accrual when financial statements are being written.

At the moment accounting standards do not require non-profits to produce accrual-based statements (in fact there is no legal requirement to produce any statements at all!), unless they meet the definition of 'large' in New Zealand's accounting framework. CCA has argued that accountability for non-profits comes from accounting laypeople (not professionals) understanding the financial information, and that accountability is increased by the readability of the information more than by the accuracy of using accruals.

Proposed changes to the accounting framework mean that producing financial statements will become mandatory for **all** non-profits, and accrual accounting for those with expenses of more than \$40,000 per year. However, these changes are not yet law, and they will not come into effect before next year, probably later. We will keep you posted on this.

Accrual accounting (and the related journal entries) are being covered in our upcoming Aspire seminar, and will be covered in more detail in the course we are developing at the moment.

Buying and Selling Stuff

A number of groups engage in a bit of trading to make a bit of money for their charity. For example they buy T-Shirts, have them printed with an appropriate message or logo, and sell them during fundraisers or to members/users. The question is: is this actually making you any money?

In accounting terms, the T-Shirts you buy are treated as assets ('inventory') until they are sold. The cost of printing them would also have to be added as well as any shipping costs.

Let's say you buy 100 T-Shirts at a cost of \$1,200 and have them printed for a further \$300. The value of your inventory is then $\$1,200 + \$300 = \$1,500$, and the unit price for each T-Shirt is $\$1,500/100 \text{ units} = \15 .

Let's say further that you sell them for \$30 apiece. Realistically you'd also give some away, to reward volunteers maybe, or for promotional purposes, and you might discount some on the spot for whatever reasons.

The way to work out the money you've made is to do a stocktake at the end of the financial year. Let's say for this example that you find you have 40 T-Shirts left and your sales income for the year from T-Shirts was \$1,600.

60 T-Shirts have gone, therefore your expenses on T-Shirts was $60 * \$15 = \900 . This is called your 'Cost of Sales' (COS) or 'Cost of Goods Sold' (COGS) account, and it is an expense. Your inventory account went down from \$1,500 when you first bought the T-Shirts to now \$600

Deducting the \$900 from the \$1,600 you made in sales gives you \$700, called your 'Gross Profit'. This is the money you made on the T-Shirts for the year, but remember there's still other costs that are not included in your COS account: stall fees, staff time selling them, possible storage fees...

When you create your financial statements, it is best to group your sales and your cost of sales accounts together in the 'Income' section, like this:

T-Shirt Sales	\$ 1,600
Less COS	<u>(\$ 900)</u>
Gross Profit from T-Shirts	\$ 700

Linked In?

LinkedIn (www.linkedin.com) is a social media site facilitating connections and discussions amongst people with similar occupations.

We thought it might be a good idea to start a group specifically for New Zealand non-profit managers and Board members to exchange ideas and views on issues affecting the sector as a whole, and also to help each other out. The government, for example, has in recent years moved towards regulating the non-profit sector more and more, especially in terms of what they see as financial accountability. These are issues that affect every single non-profit, even those that are essentially private clubs.

The group is called 'New Zealand non-profit network'. Nothing's been posted yet, but sign up if you're interested.