



Accounting Basics and Financial Reports Combined Study Guides/Reading

Accounting 101 Study Guide – Simplified for Beginners

Your Name: _____

Date Started: _____

Goal: Master basic accounting concepts for school, competitions, or personal understanding

What is Accounting?

Simple Definition: Accounting is the system of recording, organizing, and reporting money coming in and going out of a business or organization.

Three Main Jobs of Accounting:

1. **Record** - Write down every money transaction
 2. **Organize** - Group transactions by type
 3. **Report** - Show the financial health of the organization
-

The Accounting Equation (The Foundation)

This is THE most important rule in accounting:

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

What Each Means:

| Term | Meaning | Examples |
|--------------------|---|--|
| ASSETS | Things the organization OWNS that have value | Cash, equipment, buildings, vehicles, supplies |
| LIABILITIES | Money the organization OWES to others | Loans, unpaid bills, credit card debt |
| EQUITY | The organization's NET WORTH (what's left after paying debts) | Owner's investment, accumulated profits, board reserve funds |

Simple Example:

- You have: \$1,000 in cash (asset)
 - You owe: \$300 on a credit card (liability)
 - Your net worth: $\$1,000 - \$300 = \$700$ (equity)
 - Equation: $\$1,000 = \$300 + \$700$
-

The Five Account Types

Accounts are like filing folders where you track similar transactions.

1. ASSETS (What You Own)

- Cash in bank
- Equipment
- Inventory
- Buildings

2. LIABILITIES (What You Owe)

- Loans to pay back
- Credit card debt
- Unpaid bills

3. EQUITY (What's Left)

- Owner's investment
- Retained earnings
- Reserves

4. REVENUE (Money Coming In)

- Sales
- Donations
- Grants
- Service fees

5. EXPENSES (Money Going Out)

- Salaries
- Rent
- Supplies
- Utilities

Debits and Credits (The Confusing Part Made Simple!)

In accounting, we use “Debit” (DR) and “Credit” (CR) to record transactions. This is NOT “good” or “bad”—it’s just direction.

The Rule:

| Account Type | DEBIT | CREDIT |
|------------------|-----------|-----------|
| Asset | Increases | Decreases |
| Liability | Decreases | Increases |
| Equity | Decreases | Increases |

| Account Type | DEBIT | CREDIT |
|----------------|-----------|-----------|
| Revenue | Decreases | Increases |
| Expense | Increases | Decreases |

Memory Trick: Assets go up on the LEFT (Debit), liabilities and equity go up on the RIGHT (Credit).

Example Transaction:

“Your organization receives a \$500 donation.”

- Cash (Asset) increases by \$500 → DEBIT Cash \$500
- Revenue increases by \$500 → CREDIT Revenue \$500
- Journal Entry: DR Cash \$500 / CR Revenue \$500
- Equation check: Assets = Liabilities (same) + Equity

The Journal Entry (Recording a Transaction)

A **journal entry** is how you record a transaction.

Format:

Date: [Date]
 Account Name (Debit) \$Amount
 Account Name (Credit) \$Amount
 Description: [What happened]

Real Example:

Date: January 5, 2025
 Cash (Asset) \$500
 Donations Revenue (Revenue) \$500
 Description: Received donation from donor ABC

Rules:

- Debits ALWAYS equal Credits
- At least 2 accounts per entry
- Describe what happened
- Include the date

The Income Statement (Profit/Loss)

What It Shows: Did the organization make money or lose money?

Formula:

$$\text{REVENUE} - \text{EXPENSES} = \text{NET INCOME (or NET LOSS)}$$

Simple Template:

| Item | Amount |
|--------------------------|----------------------------------|
| REVENUE | |
| Donations | \$ _____ |
| Sales | \$ _____ |
| Grants | _____ **TOTALREVENUE* |
| | * ** _____ ** |
| EXPENSES | |
| Salaries | \$ _____ |
| Rent | \$ _____ |
| Supplies | _____ **TOTALEXPENSES* |
| | * ** (_____) ** |
| NET INCOME (LOSS) | \$ _____ |

The Balance Sheet (Financial Position)

What It Shows: What do we own? What do we owe? What's our net worth?

Formula:

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

Simple Template:

| | Amount |
|--------------------|-------------------------------|
| ASSETS | |
| Cash | \$ _____ |
| Equipment | _____ * |
| | *TOTALASSETS * * |
| | * _____ ** |
| LIABILITIES | |
| Loans Payable | \$ _____ |
| Accounts Payable | _____ * |
| | *TOTALLIABILITIES * * |
| | * (_____) ** |
| EQUITY | |

| | Amount |
|----------------------------|-----------------------------|
| Owner's Capital | \$ _____ |
| Retained Earnings | _____ * |
| | * <i>TOTALEQUITY</i> ** * |
| | * _____ ** |
| TOTAL LIAB + EQUITY | \$ _____ |

Check: Does TOTAL ASSETS = TOTAL LIABILITIES + EQUITY?

T-Accounts (Visual Tool for Tracking)

A **T-Account** shows all increases and decreases for one account.

Format:

Account Name

Left (Debit) | Right (Credit)

Example - Cash Account:

| CASH | |
|------------------|-----------------|
| Debit | Credit |
| \$500 (donation) | \$100 (rent) |
| \$200 (sales) | \$50 (supplies) |
| ----- | ----- |
| \$700 (balance) | |

The Trial Balance

What It Shows: Proof that debits equal credits

How to Make One:

1. List all account names in order
2. Write the debit balance or credit balance for each
3. Add up all debits
4. Add up all credits
5. They **MUST** be equal

Template:

| Account | Debit | Credit |
|-----------|----------|--------|
| Cash | \$ _____ | |
| Equipment | \$ _____ | |

| Account | Debit | Credit |
|---------------|-----------------|----------|
| Loans Payable | | \$ _____ |
| Revenue | | \$ _____ |
| Expense | _____ * | \$ _____ |
| | *TOTALS * * * | |
| | * _____ ** | |

Common Mistakes to Avoid

Forgetting to record both sides of a transaction

Remember: Every transaction affects at least 2 accounts

Confusing debit and credit

Remember: Left side = Debit, Right side = Credit

Mixing up revenue and assets

Remember: Revenue is money EARNED, assets are things OWNED

Not keeping the equation balanced

Remember: Always check that Assets = Liabilities + Equity

Practice Problem

Scenario: Your school club starts with \$0. Here's what happens:

1. Principal gives you \$1,000 seed money
2. You spend \$300 on supplies
3. You host an event and collect \$500 in donations
4. You pay \$200 for venue rental

Your Tasks:

Record these as journal entries:

Entry 1: _____

Entry 2: _____

Entry 3: _____

Entry 4: _____

Create a Trial Balance:

| Account | Debit | Credit |
|---------|----------|----------|
| | \$ _____ | \$ _____ |
| | \$ _____ | \$ _____ |
| | \$ _____ | \$ _____ |

| Account | Debit | Credit |
|---------|----------|---------------------------|
| | \$ _____ | _____ **TOTALS* |
| | | * ** _____** |

Create an Income Statement:

| Item | Amount |
|-------------------|------------------------------------|
| Revenue | _____ <i>Expenses</i> (*****) |
| Net Income | **\$***** |

Create a Balance Sheet:

| Item | Amount |
|-----------------------------|--------------------------------|
| ASSETS | |
| Cash | _____ **TOTALASSETS* |
| | * ** _____** |
| LIABILITIES + EQUITY | |
| | _____ **TOTAL** * |
| | * _____** |

Key Vocabulary

- **Account:** A record for a specific type of transaction
- **Debit:** Left side of an account (increases assets/expenses, decreases liabilities/equity)
- **Credit:** Right side of an account (increases liabilities/equity/revenue, decreases assets)
- **Journal:** The book where you record transactions in order
- **Ledger:** Collection of all accounts
- **Trial Balance:** Proof that debits equal credits
- **Income Statement:** Shows profit/loss
- **Balance Sheet:** Shows financial position
- **Net Income:** Revenue minus expenses

Next Steps

After you master this guide:

1. Practice 20 journal entries
2. Create 5 trial balances
3. Prepare an income statement and balance sheet
4. Study nonprofit accounting (restrictions, funds)

5. Learn about internal controls

You've got this!

Completed Date: _____

Ready for Next Level? Yes Needs more practice

Understanding Assets & Liabilities Guide

A Beginner's Guide to What Your Organization Owns and Owes

Target Audience: High school students, nonprofit board members, accounting students

Time to Read: 20-30 minutes

Skill Level: Beginner (no prior accounting knowledge needed)

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PART 1: THE FUNDAMENTAL EQUATION

The Accounting Equation

The most important formula in accounting:

ASSETS = LIABILITIES + EQUITY

What does this mean?

Everything your organization owns (assets) equals what you owe others (liabilities) plus what belongs to the organization (equity).

Think of it like a pizza: - **Whole Pizza** = Your Assets (what you have)
- **Pizza You Owe Your Friend** = Your Liabilities (what you owe) - **Pizza You Get to Keep** = Your Equity (what's yours)

Example: A Simple Organization

Youth Soccer League has: - \$10,000 cash in bank (asset) - Owes \$3,000 to equipment supplier (liability) - So the organization itself is worth: \$10,000 - \$3,000 = \$7,000 (equity)

Check: \$10,000 (assets) = \$3,000 (liabilities) + \$7,000 (equity)

PART 2: WHAT ARE ASSETS?

Definition

Assets are things of value that your organization owns. They help you provide services and run operations.

Key Principle

Assets don't have to be paid for yet—if you own it, it's an asset. You might still owe money on it, but that's tracked separately as a liability.

Example

- Buy a computer for \$2,000 (financed, pay over 24 months)
- Asset: Computer worth \$2,000
- Liability: Owing \$2,000 to the store
- Both are tracked separately

Types of Assets

A. Cash & Cash Equivalents **Definition:** Money available immediately

Examples: - Money in checking account: \$5,000 - Money in savings account: \$8,000 - Cash on hand (petty cash): \$200 - Money market account: \$10,000

Why it matters: Most liquid asset; can be used immediately

Q: Why not just say “money”?

A: Because some money isn't immediately available (like money owed to you that hasn't been collected yet)

B. Accounts Receivable **Definition:** Money people/organizations owe you

Real Example: - Youth program billed school district \$5,000 for services - Haven't been paid yet - But you expect to get paid - Asset: \$5,000 Accounts Receivable

Another Example: - Individual donor promised \$1,000 (but hasn't given it) - NOT an asset yet (not promised in writing) - Once they pledge in writing, THEN it's an asset

Key Insight: Money you're CONFIDENT you'll get counts as an asset, even if you don't have it yet

C. Inventory Definition: Items you have on hand to use or sell

Nonprofit Example: - Food bank has 500 cans of food: asset - Thrift store has donated clothing: asset - Supply of office paper and pens: asset

Value: Usually calculated at cost or market value (whichever is lower)

D. Equipment & Vehicles Definition: Physical items used in operations

Examples: - Computer: \$2,000 - Printer: \$400 - Vehicle: \$25,000 - Office furniture: \$5,000

Key Point: These lose value over time (depreciation)

E. Buildings & Real Estate Definition: Property your organization owns

Example: - Office building: \$500,000 - Land: \$100,000 - Total property: \$600,000 asset

Note: Usually the most valuable asset nonprofits have

F. Investments Definition: Money invested to grow

Examples: - Endowment fund: \$100,000 invested in stocks - Certificate of Deposit (CD): \$25,000 - Bonds: \$50,000

Key Point: These can increase or decrease in value

G. Other Assets Examples: - Prepaid insurance: \$1,200 (paid in advance; not used yet) - Prepaid rent: \$3,000 (paid in advance for next month) - Intellectual property: Logo, curriculum, procedures

Asset Summary Table

| Asset Type | Example | Amount | Liquidity |
|---------------------|--------------|-----------|--------------|
| Cash | Bank account | \$10,000 | Immediate |
| Accounts Receivable | Money owed | \$5,000 | 1-3 months |
| Inventory | Supplies | \$2,000 | Days-weeks |
| Equipment | Computer | \$1,500 | Months-years |
| Vehicle | Van | \$30,000 | Months-years |
| Building | Office | \$300,000 | Years |

| Asset Type | Example | Amount | Liquidity |
|-------------|--------------|----------|-----------|
| Investments | Stocks/bonds | \$50,000 | Variable |

Liquidity = How quickly you can convert to cash

PART 3: WHAT ARE LIABILITIES?

Definition

Liabilities are obligations—money or services you owe to others.

Key Principle

If you borrowed it, promised it, or someone gave you money expecting something back—it's a liability.

The Liability Mindset

Question to ask: “Does someone else have a claim on our resources?” - Yes?
 → It's a liability - No? → Not a liability

Types of Liabilities

A. Accounts Payable **Definition:** Money you owe to suppliers/vendors

Example: - Ordered office supplies on credit: \$500 - Invoice says “pay within 30 days” - Liability: \$500 Accounts Payable

Another Example: - Rented equipment for event: \$2,000 - Haven't paid yet - Liability: \$2,000

Key Insight: You receive the item/service first, pay later = liability

B. Salaries Payable **Definition:** Wages owed to employees

Example: - Pay period ended: Employees earned \$15,000 - Pay day is next Friday (not today) - Liability: \$15,000 Salaries Payable

Why it matters: Employees have a legal claim to that money

C. Loans Payable Definition: Money borrowed that must be repaid

Examples: - Bank loan: \$50,000 (must repay over 5 years) - Line of credit: \$10,000 - Equipment financing: \$8,000

Breakdown: - Amount due within 12 months = Current liability - Amount due after 12 months = Long-term liability

Example: - 5-year loan of \$60,000 - Year 1 payment: \$12,000 (current liability)
- Remaining 4 years: \$48,000 (long-term liability)

D. Deferred Revenue / Grant Liability Definition: Money received for something you haven't done yet

Example: - Client paid \$5,000 for services in 2025 (we haven't provided them yet) - Liability: \$5,000 Deferred Revenue - Why? Because we owe them the service

Grant Example: - Received \$20,000 grant for program in 2025 - Haven't started program yet - Liability: \$20,000 Grant Liability - Will become revenue when program runs

Key Insight: Money you're responsible for = liability, even if you already have the cash

E. Taxes Payable Definition: Taxes owed (usually employment taxes)

Examples: - FICA (Social Security + Medicare) withheld from paychecks but not sent to government: \$3,000 - Sales tax collected but not remitted: \$500 - Property tax owed: \$2,000

F. Interest Payable Definition: Interest on loans you haven't paid yet

Example: - Loan requires \$500/month interest - Month ended, but payment due next week - Liability: \$500 Interest Payable

G. Lease Obligations Definition: Future payments on leases

Example: - 3-year lease on office space - \$2,000/month \times 36 months = \$72,000 total - This year's portion (\$24,000) = current liability - Next 2 years (\$48,000) = long-term liability

Liability Summary Table

| Liability Type | Example | Amount | When Due |
|------------------|------------------|----------|----------------|
| Accounts Payable | Invoice to pay | \$2,000 | 30-60 days |
| Salaries Payable | Employee wages | \$8,000 | Next payday |
| Loans Payable | Bank loan | \$50,000 | Monthly/yearly |
| Grant Liability | Restricted funds | \$15,000 | When earned |
| Taxes Payable | FICA taxes | \$3,000 | Quarterly |
| Interest Payable | Loan interest | \$500 | Monthly |

PART 4: REAL-WORLD EXAMPLES

Example 1: Small Community Center

Assets: - Cash in bank: \$15,000 - Equipment (tables, chairs): \$8,000 - Building they own: \$200,000 - **Total Assets: \$223,000**

Liabilities: - Owe vendor \$2,000 - Owe employees \$4,000 (payroll) - Mortgage on building: \$150,000 (paid monthly, \$80,000 due this year) - **Total Liabilities: \$156,000**

Equity (Net Assets): - \$223,000 - \$156,000 = **\$67,000**

What this means: - Community Center owns \$223,000 in resources - Owes \$156,000 to others - Net worth is \$67,000

Example 2: Youth Mentoring Organization

Assets: - Cash: \$45,000 - Accounts Receivable (pending grant): \$10,000 - Office furniture/computers: \$12,000 - **Total Assets: \$67,000**

Liabilities: - Owe office supply company: \$1,500 - Salaries payable to staff: \$6,000 - Deferred revenue (client prepaid): \$3,000 - **Total Liabilities: \$10,500**

Equity: - \$67,000 - \$10,500 = **\$56,500**

Check the equation: - \$67,000 (assets) = \$10,500 (liabilities) + \$56,500 (equity)

Example 3: Nonprofit with Debt

Assets: - Cash: \$30,000 - Accounts Receivable: \$8,000 - Building: \$400,000 - **Total Assets: \$438,000**

Liabilities: - Building mortgage: \$300,000 - Vehicle loan: \$15,000 - Accounts Payable: \$3,000 - **Total Liabilities: \$318,000**

Equity: - \$438,000 - \$318,000 = **\$120,000**

Analysis: - Large assets (building worth \$400,000) - Large debt (mortgage of \$300,000) - But equity of \$120,000 is healthy

PART 5: HOW THEY WORK TOGETHER

The Balance Sheet

A **Balance Sheet** is a financial snapshot showing assets, liabilities, and equity at one moment in time.

Why “Balance”? Because Assets ALWAYS equal Liabilities + Equity (it always balances)

Example Balance Sheet - December 31, 2024

| | Amount |
|-----------------------------------|------------------|
| ASSETS | |
| Cash | \$50,000 |
| Accounts Receivable | \$15,000 |
| Equipment | \$20,000 |
| Building | \$200,000 |
| TOTAL ASSETS | \$285,000 |
| LIABILITIES | |
| Accounts Payable | \$5,000 |
| Salaries Payable | \$8,000 |
| Loan Payable | \$100,000 |
| TOTAL LIABILITIES | \$113,000 |
| EQUITY/NET ASSETS | |
| Beginning Balance | \$165,000 |
| Net Income (this year) | \$7,000 |
| TOTAL EQUITY | \$172,000 |
| TOTAL LIABILITIES + EQUITY | \$285,000 |

Does it balance? - Assets: \$285,000 - Liabilities + Equity: \$113,000 + \$172,000 = \$285,000

How Transactions Change Assets & Liabilities

Transaction 1: Donate \$10,000 cash - Asset (Cash) increases: \$50,000 → \$60,000 - Equity increases: \$172,000 → \$182,000 - Still balances: \$295,000 = \$113,000 + \$182,000

Transaction 2: Borrow \$20,000 from bank - Asset (Cash) increases: \$60,000 → \$80,000 - Liability (Loan) increases: \$113,000 → \$133,000 - Still balances: \$315,000 = \$133,000 + \$182,000

Transaction 3: Pay \$5,000 bill - Asset (Cash) decreases: \$80,000 → \$75,000 - Liability (Accounts Payable) decreases: \$133,000 → \$128,000 - Still balances: \$310,000 = \$128,000 + \$182,000

PART 6: PRACTICE SCENARIOS

Scenario 1: New Nonprofit Formation

Community Arts Center is founded. Initial setup: - Receives donation: \$30,000 cash - Buys equipment: \$8,000 (using the cash) - Borrows from bank: \$15,000 for renovations

Calculate: 1. Total Assets? 2. Total Liabilities? 3. Total Equity?

Solution: - Cash: \$30,000 - \$8,000 + \$15,000 = \$37,000 - Equipment: \$8,000 - **Total Assets: \$45,000**

- Bank Loan: \$15,000
- **Total Liabilities: \$15,000**
- **Total Equity: \$45,000 - \$15,000 = \$30,000**
- **Check: \$45,000 = \$15,000 + \$30,000**

Scenario 2: Transaction Analysis

Food Bank current position: - Cash: \$20,000 - Inventory: \$5,000 - Building: \$150,000 - Owes supplier: \$2,000 - Owes employees: \$3,000 - Loan: \$80,000

Four transactions occur:

1. Receive grant: +\$10,000 cash
2. Buy supplies: -\$3,000 cash
3. Pay employees: -\$3,000 cash
4. Pay \$5,000 on loan

Calculate before and after:

Before: - Assets: $\$20,000 + \$5,000 + \$150,000 = \$175,000$ - Liabilities: $\$2,000 + \$3,000 + \$80,000 = \$85,000$ - Equity: $\$175,000 - \$85,000 = \$90,000$

After transaction 1 (grant): - Cash: $\$20,000 + \$10,000 = \$30,000$ - Assets: $\$190,000$ | Liabilities: $\$85,000$ | Equity: $\$105,000$

After transaction 2 (buy supplies): - Cash: $\$30,000 - \$3,000 = \$27,000$ - Inventory: $\$5,000 + \$3,000 = \$8,000$ - Assets: $\$190,000$ | Liabilities: $\$85,000$ | Equity: $\$105,000$ - (No change in total; just shifted within assets)

After transaction 3 (pay employees): - Cash: $\$27,000 - \$3,000 = \$24,000$ - Salaries Payable: $\$3,000 - \$3,000 = \$0$ - Assets: $\$187,000$ | Liabilities: $\$82,000$ | Equity: $\$105,000$

After transaction 4 (pay on loan): - Cash: $\$24,000 - \$5,000 = \$19,000$ - Loan: $\$80,000 - \$5,000 = \$75,000$ - Assets: $\$182,000$ | Liabilities: $\$77,000$ | Equity: $\$105,000$

Final check: $\$182,000 = \$77,000 + \$105,000$

Scenario 3: Identify the Problem

Organization reports: - Assets: $\$100,000$ - Liabilities: $\$75,000$ - Equity: $\$30,000$

Does this balance?

Solution: - $\$100,000$ should equal $\$75,000 + \$30,000 = \$105,000$ - **Problem found!** Numbers don't add up

Possible causes: - Math error in calculating assets - Liability not recorded - Equity calculated incorrectly

Correct it: Equity should be $\$25,000$ (not $\$30,000$) - Check: $\$100,000 = \$75,000 + \$25,000$

KEY TAKEAWAYS

Remember These 3 Things:

- 1. The Equation Always Balances**
 - Assets = Liabilities + Equity
 - If it doesn't balance, there's an error
- 2. Assets = What You Own**
 - Cash, equipment, buildings, money owed to you
 - Things of value
- 3. Liabilities = What You Owe**
 - Money owed to suppliers, employees, banks

- Obligations to repay

Quick Test:

Q: Is a computer the organization owns an asset?

A: Yes (you own it, it has value)

Q: Is a loan from the bank an asset or liability?

A: Liability (you owe money)

Q: Is money owed to you by a client an asset or liability?

A: Asset (someone owes you)

Q: Is a donation received in advance for next year a liability?

A: Yes, Deferred Revenue (you owe them the service)

GLOSSARY

| Term | Definition |
|----------------------------|---|
| Asset | Something of value that the organization owns |
| Liability | An obligation or debt the organization owes |
| Equity | What's left after liabilities are subtracted from assets |
| Balance Sheet | Financial statement showing assets, liabilities, and equity |
| Accounts Receivable | Money customers/clients owe the organization |
| Accounts Payable | Money the organization owes to vendors |
| Deferred Revenue | Money received for services not yet provided |
| Depreciation | Decrease in asset value over time |

NEXT STEPS

Now that you understand assets and liabilities, you're ready to learn: - How to record transactions (journal entries) - How to prepare financial statements - How to analyze financial health - Grant accounting (restricted funds)

Practice: Look at your organization's (or a nonprofit's) balance sheet and identify each asset and liability!

Step-by-Step Journal Entry Guide

Learning to Record Transactions Correctly

Target Audience: Accounting students, nonprofit staff, board members

Time to Read: 20-25 minutes

Skill Level: Beginner-Intermediate

What is a Journal Entry?

Journal Entry = The formal record of a financial transaction

Why it matters: Every transaction must be recorded in the accounting system. Journal entries are the first step.

THE FUNDAMENTAL PRINCIPLE: DEBIT & CREDIT

Rule 1: Every Entry Has Two Sides

DEBIT one account

CREDIT another account

(Always equal)

Rule 2: Debits and Credits Increase Different Accounts

| Account Type | Debit | Credit |
|--------------------|----------|----------|
| Assets | Increase | Decrease |
| Liabilities | Decrease | Increase |
| Equity | Decrease | Increase |
| Revenue | Decrease | Increase |
| Expenses | Increase | Decrease |

Memory Aid: “ALED” - **A**ssets: Debit increases - **L**iabilities: Credit increases
- **E**quity: Credit increases - **D**ebits & **E**xpenses: Debit increases

THE ACCOUNTING EQUATION REVIEW

ASSETS = LIABILITIES + EQUITY + REVENUE - EXPENSES

Revenue increases equity (good for organization)

Expenses decrease equity (cost to organization)

PART 1: BASIC JOURNAL ENTRY FORMAT

Standard Format

Date: [Date of transaction]

Description: [Brief description of what happened]

| Account Name | Debit | Credit |
|--------------|---------|---------|
| Account 1 | \$X,XXX | |
| Account 2 | | \$X,XXX |

Rules:

1. Date first
 2. Brief description of transaction
 3. Account being debited (left side)
 4. Amount debited
 5. Account being credited (indented right side)
 6. Amount credited
 7. Debits = Credits (always balance)
-

PART 2: THE FOUR BASIC TRANSACTIONS

Transaction 1: Receive Cash Donation

Event: Organization receives \$5,000 cash donation

Analysis: - Asset (Cash) increases → Debit - Equity (Donation) increases → Credit

Journal Entry:

Date: January 15, 2024

| Account Name | Debit | Credit |
|-----------------|---------|---------|
| Cash | \$5,000 | |
| Donation Income | | \$5,000 |

(To record donation received)

Result: - Cash: +\$5,000 (asset increased) - Income: +\$5,000 (equity increased)

- Check: Entry balances

Transaction 2: Pay an Invoice

Event: Organization pays \$2,000 to supplier for office equipment purchased on credit

Analysis: - Liability (Accounts Payable) decreases → Debit - Asset (Cash) decreases → Credit

Journal Entry:

Date: January 20, 2024

| Account Name | Debit | Credit |
|------------------|---------|---------|
| Accounts Payable | \$2,000 | |
| Cash | | \$2,000 |

(To record payment to office supply company)

Result: - Cash: -\$2,000 (asset decreased) - A/P: -\$2,000 (liability decreased) - Check: Entry balances

Transaction 3: Record Salary Expense

Event: Payroll for staff (\$8,000) - employees to be paid Friday

Analysis: - Expense (Salaries) increases → Debit - Liability (Salaries Payable) increases → Credit

Journal Entry:

Date: January 31, 2024

| Account Name | Debit | Credit |
|------------------|---------|---------|
| Salary Expense | \$8,000 | |
| Salaries Payable | | \$8,000 |

(To record payroll expense for January)

Result: - Salary Expense: +\$8,000 (decreases equity) - Salaries Payable: +\$8,000 (liability increases) - Check: Entry balances

Transaction 4: Receive Income

Event: Program fees collected: \$3,500 cash

Analysis: - Asset (Cash) increases → Debit - Revenue (Program Fees) increases → Credit

Journal Entry:

Date: February 5, 2024

| Account Name | Debit | Credit |
|-----------------|---------|---------|
| Cash | \$3,500 | |
| Program Revenue | | \$3,500 |

(To record program fees collected)

Result: - Cash: +\$3,500 (asset increased) - Revenue: +\$3,500 (increases equity) - Check: Entry balances

PART 3: COMPLEX TRANSACTIONS (2+ Accounts)

Transaction 5: Multiple Accounts

Event: Buy equipment (\$10,000) using: \$6,000 cash + \$4,000 loan

Analysis: - Asset (Equipment) increases: \$10,000 → Debit - Asset (Cash) decreases: \$6,000 → Credit - Liability (Loan) increases: \$4,000 → Credit

Journal Entry:

Date: March 1, 2024

| Account Name | Debit | Credit |
|--------------|----------|---------|
| Equipment | \$10,000 | |
| Cash | | \$6,000 |
| Loan Payable | | \$4,000 |

(To record equipment purchase: \$6,000 cash, \$4,000 financed)

Result: - Equipment: +\$10,000 - Cash: -\$6,000 - Loan: +\$4,000 - Check: Total debits (\$10,000) = Total credits (\$6,000 + \$4,000)

Transaction 6: Record Expense with Multiple Components

Event: Grant-funded program expense: \$5,000 - Program supplies: \$2,000 - Instructor fees: \$2,500 - Facility rental: \$500

Analysis: - Need separate expense accounts for each type - All paid from cash

Journal Entry:

Date: March 15, 2024

| Account Name | Debit | Credit |
|------------------|---------|---------|
| Program Supplies | \$2,000 | |
| Instructor Fees | \$2,500 | |
| Facility Rental | \$500 | |
| Cash | | \$5,000 |

(To record March program expenses)

Result: - Program Supplies: +\$2,000 - Instructor Fees: +\$2,500 - Facility Rental: +\$500 - Cash: -\$5,000 - Check: Total debits (\$5,000) = Total credits (\$5,000)

PART 4: RECORDING DEPRECIATION

Transaction 7: Monthly Depreciation

Event: Equipment purchased for \$12,000; useful life 5 years (straight-line)

Monthly depreciation: $\$12,000 \div 60 \text{ months} = \$200/\text{month}$

Analysis: - Depreciation Expense increases → Debit - Accumulated Depreciation increases → Credit (reduces asset value)

Journal Entry:

Date: March 31, 2024

| Account Name | Debit | Credit |
|--------------------------|-------|--------|
| Depreciation Expense | \$200 | |
| Accumulated Depreciation | | \$200 |

(To record March depreciation: Equipment)

Balance Sheet Impact: - Equipment: \$12,000 (original cost) - Less: Accumulated Depreciation: (\$200) - Net Equipment Value: \$11,800

Result: - Records monthly depreciation - Reduces net equipment value over time - Check: Entry balances

PART 5: REAL-WORLD NONPROFIT SCENARIOS

Scenario 1: Grant Receipt

Event: Receive \$20,000 grant for summer youth program

Analysis: - Asset (Cash) increases: \$20,000 → Debit - Revenue (Grant) increases: \$20,000 → Credit - NOTE: If restricted, track in restricted fund

Journal Entry:

Date: April 1, 2024

| Account Name | Debit | Credit |
|---------------|----------|----------|
| Cash | \$20,000 | |
| Grant Revenue | | \$20,000 |

(To record State Education grant received for summer program)

Scenario 2: Donation of Equipment

Event: Donor gives used computers valued at \$8,000

Analysis: - Asset (Equipment) increases → Debit - Revenue (Donated Equipment) increases → Credit

Journal Entry:

Date: April 15, 2024

| Account Name | Debit | Credit |
|------------------|---------|---------|
| Equipment | \$8,000 | |
| Donation Revenue | | \$8,000 |

(To record donated computers from ABC Corporation)

Scenario 3: Record Accrued Expenses

Event: Invoice received for \$3,000 consulting work (not paid yet)

Analysis: - Expense (Consulting) increases → Debit - Liability (Accounts Payable) increases → Credit

Journal Entry:

Date: April 20, 2024

| Account Name | Debit | Credit |
|--------------------|---------|---------|
| Consulting Expense | \$3,000 | |
| Accounts Payable | | \$3,000 |

(To record consulting invoice from ABC Consulting)

Key Point: Record expense when incurred, even if not paid yet

Scenario 4: Transfer Between Funds

Event: Transfer \$5,000 from restricted fund to unrestricted (restriction satisfied)

Analysis: - Restricted fund decreases: Debit (reduces restricted assets) - Unrestricted fund increases: Credit (increases unrestricted assets)

Journal Entry - Restricted Fund:

Date: May 1, 2024

| Account Name | Debit | Credit |
|--------------|---------|---------|
| Transfer Out | \$5,000 | |
| Cash | | \$5,000 |

(To record transfer of restricted funds)

Journal Entry - Unrestricted Fund:

Date: May 1, 2024

| Account Name | Debit | Credit |
|--------------|---------|---------|
| Cash | \$5,000 | |
| Transfer In | | \$5,000 |

(To record receipt of transferred funds)

PART 6: COMMON JOURNAL ENTRY MISTAKES

Mistake 1: Out of Balance

Wrong:

| | | | |
|------------------|---------|---------|----------|
| Cash | \$5,000 | | |
| Donation Revenue | | \$3,000 | (WRONG!) |

Why: Debits (\$5,000) Credits (\$3,000)

Fix: Make sure debits always equal credits

Mistake 2: Wrong Direction (Reversed)

Wrong:

| | | |
|------------------|---------|---------|
| Donation Revenue | \$5,000 | |
| Cash | | \$5,000 |

Why: Revenue should increase (credit), not decrease (debit)

Right:

| | | |
|------------------|---------|---------|
| Cash | \$5,000 | |
| Donation Revenue | | \$5,000 |

Mistake 3: Missing Description

Wrong:

| | | |
|---------|---------|---------|
| Cash | \$2,000 | |
| Revenue | | \$2,000 |

Better:

| | | |
|-----------------|---------|---------|
| Cash | \$2,000 | |
| Program Revenue | | \$2,000 |

(To record youth mentoring fees collected)

Mistake 4: Over-Complicating

Wrong: Using 5 accounts when 2 would work

Better: Keep entries as simple as possible; use separate entries if clearer

PART 7: THE ACCOUNT TYPES QUICK GUIDE

Assets (Debit Increases)

| Account | Example | Normal Balance |
|---------|------------------|------------------|
| Cash | Bank account | Debit (positive) |
| A/R | Money owed to us | Debit (positive) |

| Account | Example | Normal Balance |
|--------------------------|--------------------------|------------------------|
| Equipment | Computers, vehicles | Debit (positive) |
| Accumulated Depreciation | Depreciation accumulated | Credit (reduces asset) |

Liabilities (Credit Increases)

| Account | Example | Normal Balance |
|------------------|--------------|-------------------|
| A/P | Bills to pay | Credit (positive) |
| Loan Payable | Bank loan | Credit (positive) |
| Salaries Payable | Wages owed | Credit (positive) |

Equity/Revenue (Credit Increases)

| Account | Example | Normal Balance |
|-------------------------|---------------------|-------------------|
| Unrestricted Net Assets | Cumulative surplus | Credit (positive) |
| Donations | Donor contributions | Credit (positive) |
| Program Revenue | Fee income | Credit (positive) |

Expenses (Debit Increases)

| Account | Example | Normal Balance |
|------------------|-------------|------------------|
| Salary Expense | Staff wages | Debit (positive) |
| Rent Expense | Office rent | Debit (positive) |
| Program Supplies | Materials | Debit (positive) |

STEP-BY-STEP PROCESS

To write any journal entry:

1. **Identify the event:** What happened?
2. **Identify accounts:** Which accounts are affected?
3. **Determine direction:** Does each increase or decrease?
4. **Apply rules:** Use ALED (Assets=Debit/Liabilities=Credit/etc.)
5. **Write entry:** Debit line, then indented Credit line
6. **Balance check:** Do debits equal credits?
7. **Add description:** Brief explanation of transaction

PRACTICE ENTRIES

Practice 1: Receive Donation

Event: Nonprofit receives \$10,000 donation

Answer:

| | | |
|-------------------------------|----------|----------|
| Cash | \$10,000 | |
| Donation Revenue | | \$10,000 |
| (To record donation received) | | |

Practice 2: Pay Rent

Event: Pay \$2,000 rent (from cash)

Answer:

| | | |
|----------------------------------|---------|---------|
| Rent Expense | \$2,000 | |
| Cash | | \$2,000 |
| (To record monthly rent payment) | | |

Practice 3: Buy Computer

Event: Buy computer for \$1,500 (cash)

Answer:

| | | |
|-------------------------------|---------|---------|
| Equipment | \$1,500 | |
| Cash | | \$1,500 |
| (To record computer purchase) | | |

Practice 4: Record Salary

Event: Employees earned \$6,000 (to be paid Friday)

Answer:

| | | |
|----------------------------|---------|---------|
| Salary Expense | \$6,000 | |
| Salaries Payable | | \$6,000 |
| (To record weekly payroll) | | |

SUMMARY

Key Rules: Every entry has two sides (Debit & Credit)

Debits must equal Credits

Assets: Debit ↑

Liabilities/Equity: Credit ↑

Expenses: Debit ↑

Revenue: Credit ↑

Five Steps: 1. Identify accounts affected 2. Determine if increasing or decreasing 3. Determine Debit or Credit 4. Write entry (Debit first, then indented Credit) 5. Verify balance

How to Read Financial Statements Guide – For Complete Beginners

Your Name: _____

Organization/Company: _____

Date: _____

What Are Financial Statements?

Financial Statements are reports that show how much money came in, went out, and what's owned/owed.

Why Learn to Read Them? Understand if a company is healthy

- Make investment decisions
 - Understand nonprofit accountability
 - Spot problems early
 - Pass AP Accounting tests!
-

The Three Main Financial Statements

1. INCOME STATEMENT (Profit/Loss)

- Shows: Did we make money?
- Time period: Usually 1 year
- Formula: Revenue - Expenses = Profit

2. BALANCE SHEET (Financial Position)

- Shows: What do we own? What do we owe?
- Time: Snapshot at specific date
- Formula: Assets = Liabilities + Equity

3. CASH FLOW STATEMENT (Money Movement)

- Shows: Where did money come from? Where did it go?
 - Time period: Usually 1 year
 - Formula: Beginning Cash + Inflows - Outflows = Ending Cash
-

STATEMENT 1: THE INCOME STATEMENT

What It Answers:

- Is the company profitable?

- How much revenue did it earn?
- What were the expenses?
- What's the net income (profit or loss)?

Real Example: Coffee Shop Year End

HAPPY COFFEE SHOP
 Income Statement
 For Year Ended December 31, 2024

| | |
|----------------------------|-------------|
| REVENUE (Money Coming In) | |
| Coffee Sales | \$120,000 |
| Food Sales | \$30,000 |
| Merchandise Sales | \$10,000 |
| | |
| TOTAL REVENUE | \$160,000 |
| EXPENSES (Money Going Out) | |
| Coffee/Supplies | \$40,000 |
| Food Supplies | \$8,000 |
| Employee Salaries | \$60,000 |
| Rent | \$24,000 |
| Utilities | \$4,000 |
| Advertising | \$3,000 |
| | |
| TOTAL EXPENSES | (\$139,000) |
| | |
| NET INCOME (Profit) | \$21,000 |

How to Read It:

Line by Line: - Revenue (\$160,000): Total money earned from customers
 - **Expenses (\$139,000):** Total money spent to operate - **Net Income (\$21,000):** Profit left over

What It Tells Us:

| Finding | Good? | Why |
|---------------------|-------|------------------------|
| Revenue increasing | | More customers |
| Expenses stable | | Good cost control |
| Net income positive | | Making money |
| Profit margin: 13% | | Normal for coffee shop |

STATEMENT 2: THE BALANCE SHEET

What It Answers:

- What does the company own?
- What does the company owe?
- What's the company's net worth?

Real Example: Coffee Shop December 31, 2024

HAPPY COFFEE SHOP

Balance Sheet

As of December 31, 2024

ASSETS (What We Own)

| | |
|--------------|----------|
| Cash in Bank | \$50,000 |
| Equipment | \$40,000 |
| Furniture | \$10,000 |

TOTAL ASSETS \$100,000

LIABILITIES (What We Owe)

| | |
|------------------|----------|
| Loan from Bank | \$30,000 |
| Accounts Payable | \$5,000 |

TOTAL LIABILITIES (\$35,000)

EQUITY (Our Net Worth)

| | |
|--------------------|----------|
| Owner's Investment | \$60,000 |
| Retained Earnings | \$5,000 |

TOTAL EQUITY \$65,000

TOTAL LIABILITIES + EQUITY \$100,000

How to Read It:

Top Section (Assets = What We Own): - Cash: \$50,000 (money in bank) - Equipment: \$40,000 (coffee machines, grinder, etc.) - Furniture: \$10,000 (tables, chairs, counter) - Total: \$100,000

Middle Section (Liabilities = What We Owe): - Bank loan: \$30,000 (must pay back) - Unpaid bills: \$5,000 (to suppliers) - Total: \$35,000

Bottom Section (Equity = Our Worth): - Owner put in: \$60,000 - Profit kept in business: \$5,000 - Total: \$65,000

The Check:

$$\text{ASSETS } (\$100,000) = \text{LIABILITIES } (\$35,000) + \text{EQUITY } (\$65,000)$$

What It Tells Us:

| Item | Amount | Meaning |
|--------------|-----------|-------------------|
| Total Assets | \$100,000 | We own this much |
| Total Debt | \$35,000 | We owe this much |
| Net Worth | \$65,000 | Owner's wealth |
| Debt Ratio | 35% | Not too much debt |

STATEMENT 3: CASH FLOW STATEMENT

What It Answers:

- Where did cash come from?
- Where did cash go?
- Did we run out of money?

Real Example: Coffee Shop Year 2024

HAPPY COFFEE SHOP

Cash Flow Statement

For Year Ended December 31, 2024

| | |
|---------------------------------------|---------------|
| OPERATING ACTIVITIES (Daily Business) | |
| Net Income | \$21,000 |
| Depreciation (non-cash) | \$5,000 |
| Change in Accounts Receivable | (\$2,000) |
| CASH FROM OPERATIONS | \$24,000 |
| INVESTING ACTIVITIES (Buying/Selling) | |
| Purchased Equipment | (\$10,000) |
| Sold Old Equipment | \$3,000 |
| CASH FROM INVESTING | (\$7,000) |
| FINANCING ACTIVITIES (Loans/Owner) | |
| Paid down Loan | (\$5,000) |
| Owner contributed | \$0 |

| | |
|------------------------|-----------|
| CASH FROM FINANCING | (\$5,000) |
| NET CHANGE IN CASH | \$12,000 |
| Beginning Cash (Jan 1) | \$38,000 |
| Ending Cash (Dec 31) | \$50,000 |

How to Read It:

Section 1: Operating (Daily Business) - Money in: \$24,000 from business operations - Positive: Good sign business generates cash

Section 2: Investing (Equipment) - Money out: \$7,000 net spent on equipment - Normal: Companies must invest in equipment

Section 3: Financing (Loans) - Money out: \$5,000 paid on loan - Good: Paying down debt

Summary: - Started with: \$38,000 - Made in operations: \$24,000 - Spent on equipment: \$7,000 - Paid on loan: \$5,000 - Ended with: \$50,000

Reading Tips & Tricks

TIP 1: Compare Year to Year

Coffee Shop:

| | 2024 | 2023 | Change |
|------------|-----------|-----------|--------|
| Revenue | \$160,000 | \$140,000 | +14% |
| Net Income | \$21,000 | \$17,500 | +20% |

Analysis: Business growing faster than revenue!

TIP 2: Look for Red Flags

| Red Flag | Meaning | Problem |
|------------------|----------------------|---------|
| Revenue down 30% | Fewer customers | |
| Expenses up 50% | Loss of control | |
| Cash declining | Running out of money | |
| Debt increasing | Borrowing more | |
| Assets selling | In trouble? | |

TIP 3: Calculate Key Ratios

Profit Margin = Net Income ÷ Revenue - Coffee shop: \$21,000 ÷ \$160,000 = 13% - Meaning: Of every dollar earned, 13¢ is profit

Debt to Equity = Total Debt ÷ Total Equity - Coffee shop: \$35,000 ÷ \$65,000 = 0.54 - Meaning: For every \$1 owned, \$0.54 owed (good)

Current Ratio = Current Assets ÷ Current Liabilities - Coffee shop: \$50,000 ÷ \$5,000 = 10 - Meaning: Can pay short-term debt 10 times over (very good)

Reading a Real Corporate Example

Scenario: Tech Company Annual Report

Revenue Line:

2024: \$1,000,000

2023: \$800,000

Change: +25% (GOOD - growing)

Profit Line:

2024: \$100,000

2023: \$80,000

Change: +25% (GOOD - profit growing same rate as revenue)

Cash Balance:

2024: \$500,000

2023: \$300,000

Change: +67% (GOOD - strong cash)

Debt:

2024: \$200,000

2023: \$150,000

Change: +33% (- Watch this)

Assessment: - Company is growing - Profits keeping up with growth - Building cash reserves - Debt increasing but manageable - **Overall: HEALTHY COMPANY**

Reading a Struggling Company

Scenario: Retail Company Annual Report

Revenue Line:

2024: \$900,000

2023: \$1,000,000

Change: -10% (- shrinking)

Profit Line:

2024: \$20,000
2023: \$100,000
Change: -80% (- MAJOR decline)

Cash Balance:

2024: \$50,000
2023: \$200,000
Change: -75% (- running out of cash)

Debt:

2024: \$500,000
2023: \$300,000
Change: +67% (- borrowing heavily)

Assessment: - Revenue declining - Profits collapsing - Cash running out -
Taking on debt - **Overall: COMPANY IN TROUBLE**

Nonprofit Statement Example

Scenario: Youth Nonprofit

YOUTH EMPOWERMENT PROGRAM
Statement of Activities
For Year Ended June 30, 2024

| | |
|-------------------|-----------------|
| REVENUE | |
| Donations | \$150,000 |
| Government Grants | \$100,000 |
| Foundation Grants | \$75,000 |
| Program Revenue | \$25,000 |
| | |
| TOTAL REVENUE | \$350,000 |
| | |
| EXPENSES | |
| Program Services | \$280,000 (80%) |
| Administrative | \$42,000 (12%) |
| Fundraising | \$28,000 (8%) |
| | |
| TOTAL EXPENSES | (\$350,000) |
| | |
| NET INCOME | \$0 |

How to Read It:

Good Signs: - 80% goes to program (mission) - Only 12% administrative -
Only 8% fundraising - Breaks even (no deficit)

Analysis: - Donors' money going to help people - Well-managed organization

Checklist: Reading Any Financial Statement

Before Reading: - What company is this? - What year/period? - Who prepared it? - Is it audited?

While Reading: - What's the total revenue/assets? - What's the net income/net change? - What changed most since last year? - Are there any red flags? - Do the numbers make sense?

After Reading: - Would I invest in this? - Is the company healthy? - What questions do I have? - What could go wrong?

Key Takeaways

1. **Income Statement** shows profit/loss (Did we make money?)
 2. **Balance Sheet** shows position (What do we own/owe?)
 3. **Cash Flow** shows money movement (Where did cash go?)
 4. **Always compare** year to year for trends
 5. **Look for red flags** like declining revenue or cash
 6. **Calculate ratios** to understand financial health
 7. **Ask questions** if something seems odd
-

Practice Date: _____

Confidence Level: Just started Getting it Comfortable Expert

How to Prepare a Simple Financial Report Guide

Creating Financial Statements for Your Board and Stakeholders

Target Audience: Nonprofit finance staff, executive directors, board members

Time to Read: 20-25 minutes

Skill Level: Intermediate

What is a Financial Report?

Financial Report = Summary of organization's financial performance and position

Who uses it: - Board (make decisions) - Donors (trust the organization) - Grantors (verify proper spending) - Staff (understand finances) - Auditors (verify accuracy)

Why it matters: - Shows accountability - Demonstrates stewardship - Builds confidence - Required by law - Guides decision-making

THE FOUR BASIC FINANCIAL STATEMENTS

Statement 1: BALANCE SHEET (Position Statement)

What it shows: What the organization owns and owes at ONE moment in time

Format:

NONPROFIT NAME

BALANCE SHEET

As of December 31, 2024

ASSETS

Current Assets:

| | | |
|----------------------|----------|----------|
| Cash | \$45,000 | |
| Accounts Receivable | \$8,000 | |
| Prepaid Expenses | \$2,000 | |
| Total Current Assets | | \$55,000 |

Fixed Assets:

| | | |
|---|----------|----------|
| Equipment | \$50,000 | |
| Less: Accumulated Depreciation (\$10,000) | | |
| Net Equipment | | \$40,000 |

| | | |
|--------------------------------|----------|----------|
| TOTAL ASSETS | | \$95,000 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$5,000 | |
| Salaries Payable | \$8,000 | |
| Total Current Liabilities | | \$13,000 |
| Long-Term Liabilities: | | |
| Loan Payable (due 2026) | \$30,000 | |
| Total Long-Term Liabilities | | \$30,000 |
| TOTAL LIABILITIES | | \$43,000 |
| NET ASSETS (EQUITY) | | |
| Unrestricted Net Assets | \$35,000 | |
| Restricted Net Assets | \$17,000 | |
| TOTAL NET ASSETS | | \$52,000 |
| TOTAL LIABILITIES + NET ASSETS | | \$95,000 |

Key Points: - Balance check: Assets = Liabilities + Net Assets - Shows financial health (debt vs. assets) - Compares to prior year to show trends

Statement 2: INCOME STATEMENT (Operations Statement)

What it shows: How much money came in and went out during a PERIOD

Format:

NONPROFIT NAME
 INCOME STATEMENT
 For the Year Ended December 31, 2024

| | | |
|------------------------|-----------|-----------|
| REVENUES | | |
| Individual Donations | \$95,000 | |
| Foundation Grants | \$148,000 | |
| Corporate Sponsorships | \$35,400 | |
| Program Fees | \$118,500 | |
| Fundraising Events | \$36,100 | |
| Investment Income | \$25,800 | |
| Other Income | \$5,200 | |
| TOTAL REVENUES | | \$463,200 |
| EXPENSES | | |

| | |
|---------------------------------------|-----------|
| Program Expenses | |
| Salaries | \$78,000 |
| Program Supplies | \$32,000 |
| Participant Services | \$35,000 |
| Facilities (program) | \$18,000 |
| Total Program | \$163,000 |
| Program Expenses as % of Revenue: 35% | |

| | |
|-------------------------------------|-----------|
| Administrative Expenses | |
| Executive Staff | \$95,000 |
| Finance Staff | \$42,000 |
| Office Operations | \$35,000 |
| Depreciation | \$14,301 |
| Total Administrative | \$186,301 |
| Admin Expenses as % of Revenue: 40% | |

| | |
|---|-----------|
| Fundraising Expenses | |
| Fundraising Staff | \$65,000 |
| Event Costs | \$44,417 |
| Total Fundraising | \$109,417 |
| Fundraising Expenses as % of Revenue: 24% | |

| | |
|----------------|-----------|
| TOTAL EXPENSES | \$458,718 |
|----------------|-----------|

| | |
|-------------------------------|---------|
| NET REVENUE (SURPLUS/DEFICIT) | \$4,482 |
|-------------------------------|---------|

Key Points: - Programs: 35% of revenue (good; above 25%) - Admin: 40% (high but common for small org) - Fundraising: 24% (acceptable; below 35%) - Net income: Positive (breakeven is okay)

Statement 3: CASH FLOW STATEMENT

What it shows: Where cash came from and where it went

Format:

NONPROFIT NAME
 CASH FLOW STATEMENT
 For the Year Ended December 31, 2024

| | |
|----------------------|---------|
| OPERATING ACTIVITIES | |
| Net Income | \$4,482 |

| | |
|---------------------------|-----------|
| Adjustments: | |
| Add: Depreciation | \$14,301 |
| Subtract: Increase in A/R | (\$8,000) |

| | | |
|--------------------------|------------|------------|
| Add: Increase in A/P | \$5,000 | |
| Net Cash from Operations | | \$15,783 |
| INVESTING ACTIVITIES | | |
| Equipment Purchases | (\$20,000) | |
| Net Cash from Investing | | (\$20,000) |
| FINANCING ACTIVITIES | | |
| Loan Repayment | (\$10,000) | |
| Donations (restricted) | (\$5,000) | |
| Net Cash from Financing | | (\$15,000) |
| NET CHANGE IN CASH | (\$19,217) | |
| Beginning Cash (Jan 1) | \$64,217 | |
| ENDING CASH (Dec 31) | \$45,000 | |

Key Points: - Explains why cash decreased despite net income - Shows cash sources and uses - Important for planning cash needs

Statement 4: STATEMENT OF CHANGES IN NET ASSETS

What it shows: How restricted/unrestricted funds changed

Format:

NONPROFIT NAME
STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended December 31, 2024

| | Unrestricted | Restricted | Total |
|------------------------------------|--------------|------------|-------------|
| Beginning Balance (Jan 1, 2024) | \$28,000 | \$20,000 | \$48,000 |
| Revenue: | | | |
| Unrestricted | \$443,200 | - | \$443,200 |
| Restricted | - | \$20,000 | \$20,000 |
| Expenses: | | | |
| Unrestricted | (\$418,718) | - | (\$418,718) |
| Restricted | - | (\$2,000) | (\$2,000) |
| Transfers | (\$5,000) | \$5,000 | - |
| Ending Balance (Dec 31, 2024) | \$47,482 | \$43,000 | \$90,482 |

Key Points: - Shows restricted fund compliance - Explains changes in fund balances - Shows if restrictions are being honored

HOW TO BUILD FINANCIAL STATEMENTS: STEP BY STEP

Step 1: Gather Your General Ledger

What you need: - List of all accounts (assets, liabilities, revenue, expenses) - Balance in each account - Updated through December 31

How to get: - Run trial balance from accounting system - Print P&L report - Print balance sheet

Example trial balance:

| Account | Debit | Credit |
|--------------------------|------------------|------------------|
| Cash | \$45,000 | |
| Equipment | \$50,000 | |
| Accumulated Depreciation | | \$10,000 |
| Accounts Payable | | \$5,000 |
| Salaries Payable | | \$8,000 |
| Donations | | \$95,000 |
| Program Revenue | | \$118,500 |
| Salary Expense | \$120,000 | |
| Supplies Expense | \$32,000 | |
| TOTAL | \$287,000 | \$287,000 |

Step 2: Reconcile All Accounts

Verify each account balance is accurate:

Cash Reconciliation: - Bank statement balance: \$45,200 - Plus: Deposits in transit: \$500 - Minus: Outstanding checks: (\$700) - Reconciled balance: \$45,000

Accounts Receivable: - List all outstanding invoices - Total should equal account balance - Investigate any discrepancies

Fixed Assets: - Count physical equipment - Verify ownership - Check depreciation calculation

Accounts Payable: - List all unpaid invoices - Total should equal account balance

Step 3: Make Year-End Adjustments

Typical adjustments:

Accrued Expenses: - Salaries earned but not paid - Entry: Salary Expense \$8,000 / Salaries Payable \$8,000

Depreciation: - Equipment depreciation \$14,301 - Entry: Depreciation Expense \$14,301 / Accumulated Depreciation \$14,301

Deferred Revenue: - Grant received for 2025 program - Entry: Cash \$20,000 / Deferred Revenue \$20,000

Bad Debt: - Decided \$2,000 A/R uncollectible - Entry: Bad Debt Expense \$2,000 / A/R (\$2,000)

Step 4: Prepare Trial Balance (Post-Adjustments)

Updated trial balance after adjustments:

| Account | Debit | Credit |
|--------------------------|------------------|------------------|
| Cash | \$45,000 | |
| A/R | \$8,000 | |
| Equipment | \$50,000 | |
| Accumulated Depreciation | | \$10,000 |
| A/P | | \$5,000 |
| Salaries Payable | | \$8,000 |
| Grant Liability | | \$20,000 |
| Donations | | \$95,000 |
| Program Revenue | | \$118,500 |
| Salary Expense | \$128,000 | |
| Supplies Expense | \$32,000 | |
| Depreciation Expense | \$14,301 | |
| TOTAL | \$305,301 | \$305,301 |

Step 5: Create Balance Sheet

Using trial balance, organize into statement:

ASSETS

Current Assets:

| | |
|---------------|----------|
| Cash | \$45,000 |
| A/R | \$8,000 |
| Total Current | \$53,000 |

| | |
|---|--------------|
| Fixed Assets: | |
| Equipment | \$50,000 |
| Less: Accumulated Depreciation (\$10,000) | |
| Net Equipment | \$40,000 |
| TOTAL ASSETS | \$93,000 |
| LIABILITIES | |
| Current Liabilities: | |
| A/P | \$5,000 |
| Salaries Payable | \$8,000 |
| Total Current | \$13,000 |
| Deferred Revenue | \$20,000 |
| TOTAL LIABILITIES | \$33,000 |
| NET ASSETS | \$60,000 |
| TOTAL LIAB + EQUITY | \$93,000 |

Step 6: Create Income Statement

Using trial balance, calculate:

| | |
|-----------------------|-------------|
| REVENUES | |
| Program Revenue | \$118,500 |
| Donations | \$95,000 |
| (Other revenue items) | |
| TOTAL REVENUE | \$463,200 |
| EXPENSES | |
| Salary Expense | \$128,000 |
| Supplies Expense | \$32,000 |
| Depreciation Expense | \$14,301 |
| (Other expenses) | |
| TOTAL EXPENSES | \$458,718 |
| NET INCOME | \$4,482 |

MAKING STATEMENTS READABLE FOR YOUR AUDIENCE

For Board Members

Emphasize: - Year-to-year comparison - Key metrics (% of revenue by category) - Variance explanations - Budget vs. actual - Financial health indicators

Example presentation:

Financial Summary - 2024

Revenue Growth:

2023: \$420,000

2024: \$463,200

Growth: +10.3%

Expense Breakdown:

Program: 35% (target: >25%)

Admin: 40% (target: <40%)

Fundraising: 24% (target: <35%)

Cash Position:

Beginning: \$64,217

Ending: \$45,000

Change: -\$19,217 (funded expansion)

Net Position: \$4,482 surplus

Conclusion: Strong financial performance

For Donors

Emphasize: - Where their money goes (programs vs. overhead) - Program impact numbers - Year-to-year trends - Program outcomes

Example:

2024 Impact Report

Where Your Donations Go:

35¢ of every dollar: Direct programs

8¢ of every dollar: Fundraising

57¢ of every dollar: Operations (admin)

Programs Funded:

- Youth Mentoring: 50 students served

- Health Education: 82 participants

- Emergency Assistance: 28 families

Financial Health:
Growing year-over-year
Strong reserves
Efficient operations

For Grantors

Emphasize: - Budget vs. actual spending - Grant usage documentation - Compliance with restrictions - Outcomes achieved - Financial controls

COMMON FINANCIAL REPORT METRICS

Efficiency Ratios

Program Expense Ratio

Program Expenses ÷ Total Revenue = % of revenue to programs
 $\$163,000 \div \$463,200 = 35\%$
Target: >25% (better: >50% for large orgs)
Your status: Good

Admin Expense Ratio

Admin Expenses ÷ Total Revenue = % of revenue to admin
 $\$186,301 \div \$463,200 = 40\%$
Target: <25% (small orgs acceptable up to 40%)
Your status: Acceptable

Fundraising Efficiency

Revenue Raised ÷ Fundraising Expense = Return on fundraising
 $\$463,200 \div \$109,417 = 4.2$
Meaning: \$4.20 raised per \$1 spent
Target: 3:1 or better
Your status: Excellent

Liquidity Ratios

Current Ratio

Current Assets ÷ Current Liabilities = Ability to pay bills
 $\$53,000 \div \$13,000 = 4.1$
Target: 1.5-2.0 (higher = stronger)
Your status: Very strong (maybe excess cash?)

Days Cash on Hand

Cash ÷ (Daily Expenses) = Days organization can operate
 $\$45,000 \div (\$458,718 \div 365) = 36 \text{ days}$

Target: 30-90 days

Your status: Good

WHEN TO PRESENT FINANCIAL STATEMENTS

Minimum frequency: - Annual (end of year, full audit) - Quarterly (board reports) - Monthly (internal management)

Recommended schedule: - Monthly: Finance committee reviews - Quarterly: Board receives financial summary - Annually: Full audited statements

CHECKLIST FOR FINANCIAL STATEMENTS

- Trial balance is in balance
- All year-end adjustments recorded
- All accounts reconciled
- Prior year comparison included
- Statements clearly labeled with date
- Totals verify (BS balances, IS nets correctly)
- Narrative explains major changes
- Audit notes included (if audited)
- Format consistent with prior years
- Reviewed by finance person other than preparer