# (ALMOST) ALL OF YOUR ACCOUNTING & AUDIT *questions answered*

CASEY • PETERSON

## A GUIDE FOR UNDERSTANDING THE BASICS OF YOUR BASIS

Understanding your organization's accounting and audit needs can get tricky to navigate. There are a lot of terms you might not be familiar with. And it can be challenging to decide which record-keeping method or financial review process is right for you.

To help simplify things, we created a quick guide that will walk you through the different terms and options that might apply to you and your organization. It's not a comprehensive overview, but it'll help you gain a baseline level of understanding.

If you have any questions along the way, we're always here to help.

### 01 CASH-BASIS ACCOUNTING VS. GAAP

Most organizations maintain their internal — and even their external — accounting records on a **cash basis**. The cash basis allows for more consistency between budgetary reporting and focuses on cash flow.

For a nonprofit organization that fundraises to cover operating expenses and capital purchases, cash basis allows you to match your cash inflows and outflows better.

**GAAP-based reporting includes reporting items such as:**

- Pledges
- Receivables
- Inventory
- Capital assets and depreciation
- Accounts payable
- Accrued expenses
- Other balances

Reporting on a GAAP basis for internal purposes at interim periods is usually cumbersome; you have to reverse prior period accruals and record new accruals. Also, preparing grant draw requests can be complicated if your organization relies on grant funding. That's because federal grant reporting requires an organization to expend funds before requesting reimbursements.

Reporting for the IRS allows for either cash or GAAP. The IRS has a much looser definition of cash-basis accounting and allows for different levels of reporting assets and liabilities. Also, you're not required to report non-cash assets and liabilities.

## 02 DO YOU NEED AN AUDIT?

**Generally, if a third party — like a federal grant or government contract, doesn't require your to have an audit, we don't suggest you do.** An audit can start at $20,000, depending on your organization's activities.

An **audit is designed to verify** that the financial statements your organization prepared are accurate.

An **audit is not designed to detect fraud or wrongdoing**, and as such, the process rarely identifies fraud.

The sole purpose of an audit is to generate a set of financial statements with notes. The process can take six to eight weeks to complete and is based on historical information. Your auditor is required to obtain an understanding of your organization's processes and procedures. However, they're not required to test those processes and procedures thoroughly.

Other services such as a **compilation** or a **review** can also provide a set of financial statements. However, these services don't take into account your organization's processes or procedures. Because of that, they provide less assurance that your financial statements are accurate.

Your organization can implement **internal review processes** that will help to prevent and detect fraud. These procedures include:

- Reviewing transactions and supporting documentation
- Reviewing reconciliations
- Reviewing changes to transactions
- Other reviews

**Implementing Internal review process are the best way to detect fraud.**

## 03 OTHER QUICKBOOKS REPORTING ITEMS

The cash flow statement QuickBooks generates approximates your organization's cash activity during the period selected. So, the variance between the cash flow report and the profit-and-loss report can be due to the timing of transactions.

**Timing differences between credit card charges and transactions may result in differences on your profit-and-loss report.**

For example, credit card charges can happen throughout a month and may get recorded as they occur. But they get paid the following month when the entire bill is due. This results in a timing difference between when the charges are reported in the profit-and-loss report and when the cash transacts. QuickBooks can't identify those timing differences to create an accurate report. Although there may be timing differences, they shouldn't be significant each month.

Your organization also doesn't have to report the cost of goods sold for donated items. Reporting is not required, but you can estimate it if you want. You only need to report the cost of goods sold for the minor supplies needed to refurbish furniture or outdoor equipment.

If you wanted to report the cost of goods sold for donated items, you'd have to estimate the margin on the sale of donated items to come up with the cost of sales, which would cover labor and the value of the donated item. You're not required to report the cost of goods sold, but doing so would mean you'd also have to record income and an expense. Instead of reporting the cost of goods sold, you could also report the volume of items sold, volunteer hours for refurbishment, or other measures.