

## **Selected Accounting Terms Glossary**

### **Cash Basis Accounting**

Cash Basis accounting means that transactions are accounted for at the time the cash actually moves. Expenses are accounted for when paid and income is accounted for when received. This basis of accounting is helpful for tracking cash, but it doesn't account for many other factors of an organization's financials that are important to monitor and track

### **Accrual Basis Accounting**

Accrual Basis accounting means that transactions are accounted for at the time the activity occurs. This is referred to as the "matching principle." Expenses are accounted for in the period they were incurred or related to. Income is accounted for when earned. This basis of accounting allows for a broader picture of your financial activity because it takes into account more factors, like your future amounts payable and receivable.

### **Cash**

The term "cash" can be confusing without an understanding of the difference between bank balance and register balance which are two different things.

#### Bank Balance

Bank balance is the amount of cash you have at a moment in time, in your bank account. It only takes into account income and expenses that have cleared your bank account

#### Register Balance

Register balance is the amount of cash you have according to your accounting records. This balance takes into account income received, but not yet deposited, and expenses incurred but that have not cleared your bank account yet.

Register balance is a more accurate picture of your cash because it accounts for additional activity that hasn't cleared the bank yet. This number can be used to monitor your *current* available funds. It does not account for income or expenses that you are expecting, but haven't received, or expenses you are expecting to incur, but haven't yet.

## **Net Assets**

Net Assets is your organization's equity or overall fund balance. Net Assets includes your register balance cash, but it also takes into account *future* income and expenses you know will happen. For example, Net Assets factors in accounts receivable, accounts payable, and other assets and liabilities. Net Assets takes all activity into account in order to arrive at the most accurate view of an organization's overall financial position.

Net Assets is broken down in several sub categories. The main two categories are Net Assets with Donor Restrictions, and Net Assets without Donor Restrictions.

### **Net Assets with Donor Restrictions**

Net Assets with donor restrictions is used to isolate organization funds that a donor has given with restriction on use. Restrictions can be purpose restricted (you must use these funds on x) or they can be time restricted (the funds may be awarded in full in one year, but restricted for use in smaller chunks over a period of years).

- **Purpose Restricted**

These funds are restricted for a particular use. For example, a fiscal sponsor's funds are purpose restricted.

- **Time Restricted**

These funds are restricted for future periods. For example, if you pay or receive multi-year funding in year 1, future year amounts are restricted to future period use.

### Net Assets without Donor Restrictions

Net Assets without Donor Restrictions are all funds that have not been restricted by a donor. It includes funds that the organization has *designated* internally for certain uses. Since only a donor can restrict funds, when the board sets aside money for specific purposes, they are called “designated funds.”

### **Undesignated**

This the overall balance of funds available for any purpose

### **Designated**

This the balance of funds that the organization has *designated* for a particular purpose. For example, an organization’s Reserves is a designated fund.

### **Operating vs Total Net Assets**

The way that financial data needs to be presented for accounting & taxes doesn’t always match the way that data needs to be presented for operational and management purposes. “Operating” reflects balances that are being used to line up with budget structures and other decision making tools.

The distinction is common and mostly comes into play when an organization’s budget is looking at activity in ways that don’t align with Generally Accepted Accounting Principles (accrual accounting).

### Operating Net Assets (internal)

Operating net assets is the organization's overall fund balance, modified for management purposes.

### Total Net Assets (external)

Total Net Assets is your operating net assets plus adjustments needed to arrive at final numbers for external reporting that is aligned with accrual accounting rules.

The most common example of the differences between these two numbers is that Operating Net Assets accounts for the current year's portion of grant income received or paid while Total Net Assets accounts for many multi-year grants in a single year.

### **Net Income and Retained Earnings**

If you look at an unmodified balance sheet report in QBO you will see a net income line included in the net asset / equity section of your balance sheet. Net assets is essentially your accumulated net income or loss over all time. Any net income or loss on your balance sheet should be combined with undesignated assets to arrive at total undesignated.

If you look at a balance sheet report in QBO you *may* see a balance in a Retained Earnings account, though that account should generally be zero. If there is a balance in Retained Earnings that hasn't been adjusted for yet, this amount should be combined with undesignated net assets to arrive at total undesignated net assets.