

Governmental accounting (09 26)

Finance



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Governmental Accounting How organizations in the not-for-profit sector differ from organizations in the public sector.

The tax and regulatory designation is the first difference between the two entities. The nonprofit making organizations are exempted from federal income and the end year surplus taxes, in addition to being exempted from paying local and regional taxes. This exemption enables nonprofit organizations pursue activities not be suitable for profit making organizations. On the other hand, profit making organizations are required by the federal government to pay all the above stated taxes to the state and ensure that they file their year-end income timely, or else incur penalties. However, the law allows the profit making organizations to distribute profit net of taxes to shareholders; unlike it is the case for nonprofit making organizations, which are limited from carrying out any form of financial surplus distribution of those charged with the responsibility of running organizations (Newlands & Saeed, 2012).

Nonprofit making organizations have no shares as it is the case for profit making organizations. As such, these organizations are just owned and managed by individuals or groups of individual who have the overall power. Profit making entities are owned by shareholders whose membership is determined by the shares one has in the company.

Additionally, profit making organizations are always labor intensive since they are always after profit, thus, they employ a large number of professionals to carry out organization's operations. Nonprofits mostly rely on unpaid volunteers in their operation unless they are carrying out a duty

requiring the expert knowledge and skills¹.

Finally, nonprofit making organizations depend on the revenue from non-client persons or corporations to sustain their operations. Profit making entities depends on the shareholder's investment to finance their operations (Newlands & Saeed, 2012).

Example of nonprofit organization is a charitable organization involved in assisting the less fortunate in the society, while profit making organizations include multinational companies like Coca Cola Company, which trade in soft drink globally.

2. Standards-setting bodies assigned with the responsibility of establishing accounting and financial reporting standards for not-for-profit organizations FASB has the responsibility of establishing accounting standard for not-for-profit making organizations. FASB's commitment in the nonprofit sector is part of its standard setting process for GAAP. As such, FASB over the years has been addressing the reporting requirements of this sector, both for transactions that are specific to the sector and transactions that are commonly found in the nonprofit sector, private and public business entities (McKinney, 2004). The FASB's staff members advise the Board on issues pertinent to the nonprofit sector and also communicating with the members of the nonprofit sector. Besides, the Not-for-profit Advisory Committee (NAC) was approved by FASB to help in the creation of accounting and reporting standards for the nonprofit sector. FASB's NAC is supported by Not-for-Profit Resource Group, which is already established and has been overseeing the accounting and reporting of financial operation in the nonprofit sector. The remaining agenda which has not been dealt with by FASB on not-for profit making organizations' financial reporting is the standard-setting

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project, which can be used to improve the current net assets classification scheme and the information provided in nonprofit's financial statements and notes in regard to an organization's financial performance, liquidity and cash flows.

Reference

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