

A Note On Accounting Terminology

One of the themes of this book is the differences and similarities between the commercial and not-for-profit worlds.

Not-for-profit accounting and finance has its own distinct language, which is woven throughout the text. However, in day-to-day life, arts managers employ commercial accounting packages designed for general use – read commercial use.

Thus, when most arts managers sit down to update their books, they are looking at accounting systems that use standard business terminology. At year-end, when the auditor prepares the formal financial statements, they “translate” into not-for-profit language.

It seems to me that the practical approach for this book is to use the terms that managers are most likely to encounter every day, so that the explanations provided here conform as closely as possible to what you’re likely to see on your computer screen. As long as you’re aware of the differences, your auditor’s translations will make sense, and you’ll be equipped to discuss the statements intelligently.

For the purposes of discussing financial statements and double-entry bookkeeping, I will, for the most part, stick to the language that I know to be standard on packages such as Simply Accounting and QuickBooks. For the record, here is a table of equivalent terms drawn from the *CICA Handbook*, 2003, Section 1100 (Financial Statement Concepts):

Commercial Term	Not-For-Profit Equivalent
Financial Statements	
Balance Sheet	Statement of Financial Position
Income Statement	Statement of Operations
Statement of Retained Earnings*	Statement of Changes in Net Assets*
Cash Flow Statement*	Statement of Cash Flows*
Elements of Financial Statements	
Retained Earnings	Net Assets / Fund Balance / Accumulated Surplus or Deficit

* These statements support and provide additional explanation for the Balance Sheet and Income Statement. Their preparation will not be discussed in this book.

The *CICA Handbook* Section 4400 (Not-For-Profit Organizations) states that it uses the terms above for descriptive purposes, and that organizations may use “whatever titles are appropriate in the circumstances as long as each financial statement provides the information necessary to ... [fairly present] in accordance with generally accepted accounting principles the organization’s financial position, results of operations and cash flows.”