

Bookkeeping Financial Statements: Nonprofit vs. SMB

3 min read



Key Takeaways

- Since non-profit organizations don't have "owners," its balance sheet is referred to as a **statement of financial position** (SOP). Like a balance sheet, the SOP shows the organization's assets and liabilities.
- In a nonprofit organization, the **statement of activities** is used in lieu of an income statement.
- Even though nonprofits and small and medium-sized businesses utilize different financial reports, both types of organizations are similar in that they need cash to stay afloat.

Nonprofits and **small to medium-sized businesses** have many similarities, but they also differ in specific areas. For-profit businesses report to shareholders and investors, whereas nonprofits report to a Board of Directors or other governing authority.

When it comes to bookkeeping for nonprofits, many of the processes remain the same as in the for-profit world; however, differences in terminology will apply when managing a charitable organization's books.

For example, when comparing the major financial statements of a SMB to a nonprofit organization, you'll notice that even though both are reports of financial value, they differ in title and motivation.

Differences Between For-Profit and Nonprofit Financial Statements

For-Profit	Nonprofit
<ul style="list-style-type: none"> • Balance Sheet • Income Statement • Cash Flow Statement 	<ul style="list-style-type: none"> • Statement of Financial Position • Statement of Activities • Cash Flow Statement

Balance Sheet vs. Statement of Financial Position

A for-profit company's **balance sheet** takes a snapshot of the company's assets (what the company owns) and liabilities (money owed to others). Additionally, a balance sheet will show what is called **owner's equity** (also known as stockholder's or shareholder's equity). When you subtract the company's liabilities from its assets, you are left with owner's equity. The owner's equity represents a company's net worth and is a very important variable for shareholders, current investors, and potential investors.

Since non-profit organizations don't have "owners," its balance sheet is referred to as a **statement of financial position** (SOP). Like a balance sheet, the SOP shows the organization's assets and liabilities. The main difference is that in an SOP, what is left after you subtract the liabilities from the assets is called the **net assets**. Net assets represent the nonprofit's net worth and are divided into three categories – unrestricted, temporarily restricted, and permanently restricted.

Income Statement vs. Statement of Activities

The **income statement** of a for-profit business reports the amount of revenue the company has earned over a specific time period (i.e. a quarter or a year). Within the income

statement are the costs and expenses associated with earning said revenue. [The income statement](#) is where you will see the company's bottom line – what the company earned or lost over the specific time period. The bottom line is used as a measure of a business's profitability.

In a nonprofit organization, the **statement of activities** is used in lieu of an income statement. Since nonprofits aren't driven by a bottom line, but rather a specific service or mission, the statement of activities reports changes to an organization's net assets (unrestricted, temporarily restricted, and permanently restricted) in relation to the organization's income and expenses for the current fiscal year.

[Cash Flow Statements](#)

Even though nonprofits and small and medium-sized businesses utilize different financial reports, both types of organizations are similar in that they need cash to stay afloat. [Cash flow statements](#) for nonprofits are nearly identical to cash flow statements in the for-profit world. A cash flow statement for a nonprofit organization reports the amount of cash a company has on hand by factoring its operation costs, assets, and financing.

Whether nonprofit or for-profit SMB, the impact of inaccurate or late financial information can have a devastating effect on the organization's long-term financial health. At GrowthForce, we specialize in helping both types of organizations keep their finger on their financial pulse, so they can focus on what really matters - achieving their greatest potential.