



NOTE ON FINANCIAL STATEMENTS FOR SOCIAL ENTERPRISES

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The term of Social Enterprises (SE) is a complex concept at various level (ICSEM Project, 2012). As part of the development of the questionnaire for data collection on social enterprises (ICSEM Project, 2013), the objective of this note is to provide some context explaining the diversity of financial statements and terminology for social enterprises, to present a ‘simplified’ version of financial statements for not-for-profit organizations (NPO) and profit oriented organizations (FPO) and to propose a ‘universal’ list of financial information distinguishing both types of organizations (NPO / FPO). A ‘universal’ financial statements is very difficult with the diversity of organizations and accounting standards. Some French terminology is added to help understanding the concepts.

Generally accepted accounting principles (GAAP) and Accounting Standards

Generally accepted accounting principles (GAAP) encompass broad principles and conventions of general application as well as rules and procedures that determine accepted accounting practices at a particular time. GAAP could be defined as: “those accounting principles that have been established in a particular jurisdiction by formal recognition by a standard-setting body, or by authoritative support or precedent.” (CICA, 1992, p.102)

Due to the comparative nature of the ICSEM Project (2012), GAAP will fall under different jurisdictions with their own set of accounting standards. For example in Canada, establishing standards of accounting and reporting by Canadian corporations and not-for-profit organizations is under the responsibility of the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB). The Canadian accounting standards are included in the CPA Canada Handbook (previously the CICA Handbook) and the CPA Canada Public Sector Accounting Handbook. In Canada, different types of entities are defined, such as publicly accountable enterprises, non-publicly accountable / private enterprises, not-for-profit organizations and public sector. Those entities and their sub-categories within those groups will be able to choose or will be forced to adopt a set of accounting standards, among the International Financial Reporting Standards (IFRS) (CPA Canada Handbook Part I), the Made in Canada standards for Private entities (CPA Canada Handbook Part II), the Made in Canada standards for not-for-profit organizations (CPA Canada Handbook Part III) and the Made in Canada public sector standards (CPA Canada Public Sector Accounting Handbook).

For social enterprises, the accounting standards to be adopted will depend on the types of entities and the legal structure (ex: cooperatives). For the present purpose, we could distinguish them by their profit orientation (not-for-profit organizations (NPO) and profit oriented organizations (FPO)). Some non-profit social enterprises may even include some for-profit components as part of their activities, for example, a for-profit store within the larger NPO.

The various accounting standards may have some similarities and differences in terms of recognition, measurement, disclosure and presentation. For example, current assets and current liabilities represent amounts falling within one year; the order of the accounts could be from more to less liquid assets/liabilities or the opposite; inclusion or not of certain elements to obtain the comprehensive income in addition to net income.

Components of the Financial Statements

The financial information reported could be prepared on an accrual or cash basis. Financial statements of not-for-profit organizations / profit oriented organizations normally include five components which are similar or identical.

Not-for-profit organizations (NPO)

- a statement of financial position,
- a statement of operations,
- a statement of changes in net assets,
- a cash flow statements and
- notes to the financial statements.

Profit oriented organizations (FPO)

- a balance sheet,
- an income statement,
- a statement of retained earnings,
- a cash flow statements and
- notes to the financial statements.

Elements of Financial Statements

Financial statements of not-for-profit organizations / profit oriented organizations normally include five elements which are similar or identical. Elements of financial statements are the basic categories of items portrayed therein in order to meet the objective of financial statements. There are two types of elements: those that describe the economic resources, obligations and equity / net assets of an entity at a point in time, and those that describe changes in economic resources, obligations and equity / net assets over a period of time.

ASSETS

“Assets are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained.” (CICA Handbook, 1001.24)

LIABILITIES

“Liabilities are obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.” (CICA Handbook, 1001.28)

EQUITY / NET ASSETS

“Equity is the ownership interest in the assets of a profit-oriented enterprise after deducting its liabilities. While equity of a profit-oriented enterprise in total is a residual, it includes specific categories or items (for example, types of share capital, contributed surplus and retained earnings).” (CICA Handbook, 1000.31)

“Net assets, sometimes referred to as equity or fund balances, is residual interest in a not-for-profit organization’s assets after deducting its liabilities. Net assets may include specific categories of items whose use may be either restricted or unrestricted.” (CICA Handbook, 1001.31)

REVENUES

“Revenues are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an entity. Revenues of entities normally arise from the sale of goods, the rendering of services or the use by others of entity resources yielding rent, interest, royalties or dividends. In addition, many not-for-profit organizations receive a significant proportion of their revenues from donations, government grants and other contributions.” (CICA Handbook, 1000.37)

EXPENSES

“Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an entity’s ordinary revenue generating or service delivery activities.” (CICA Handbook, 1001.33)

Financial Statements

Social Enterprise (NPO)
Statement of Operations / État des résultats
Year ended December 31, 20X2 / Exercice clos le 31 décembre 20X2

		20X2	20X1
REVENUES	PRODUITS		
Grants	Subventions	x	x
Fundraising and gifts	Collecte de fonds et apports	x	x
Membership income	Droits d'adhésion	x	x
Earned income	Revenu gagné	x	x
Investment income	Revenus de placement	x	x
Other income	Autres revenus	x	x
		xx	xx
OPERATING EXPENSES	CHARGES D'EXPLOITATION		
Advertising and promotion	Publicité et promotion	x	x
Amortization / Depreciation	Amortissement	x	x
Bad debts	Mauvaises créances	x	x
Insurance	Assurances	x	x
Interest and bank charges	Intérêt et frais bancaires	x	x
Office expenses	Frais de bureau	x	x
Professional fees	Honoraires professionnels	x	x
Salaries and benefits	Salaires et avantages sociaux	x	x
Telecommunications	Télécommunications	x	x
		xx	xx
INCOME BEFORE INCOME TAXES	BÉNÉFICE AVANT LES IMPOTS	xx	xx
Income Tax Expense	Impôts sur les bénéfices	(x)	(x)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	EXCÉDENT (INSUFFISANCE) DES PRODUITS SUR LES CHARGES	xx	(xx)

Social Enterprise (FPO)
Income Statement / État des résultats
Year ended December 31, 20X2 / Exercice clos le 31 décembre 20X2

		20X2	20X1
REVENUES / SALES	PRODUITS / CHIFFRES D'AFFAIRES	x	x
COST OF GOODS SOLD	COÛT DES MARCHANDISES VENDUES		
Inventories, Beginning of period	Stocks, au début de la période	x	x
Purchases	Achats	x	x
		xx	xx
Inventories, End of period	Stocks, à la fin de la période	(x)	(x)
Cost of goods sold	Coût des marchandises vendues	xx	xx
GROSS PROFIT	BÉNÉFICE BRUT	xx	xx
OPERATING EXPENSES	CHARGES D'EXPLOITATION		
Advertising and promotion	Publicité et promotion	x	x
Amortization / Depreciation	Amortissement	x	x
Bad debts	Mauvaises créances	x	x
Insurance	Assurances	x	x
Interest and bank charges	Intérêt et frais bancaires	x	x
Office expenses	Frais de bureau	x	x
Professional fees	Honoraires professionnels	x	x
Salaries and benefits	Salaires et avantages sociaux	x	x
Telecommunications	Télécommunications	x	x
		xx	xx
INCOME (LOSS) BEFORE INCOME TAXES	BÉNÉFICE (PERTE) AVANT IMPÔTS	xx	xx
Income Tax Expense	Impôts sur les bénéfices	(x)	(x)
NET INCOME (NET LOSS)	BÉNÉFICE NET (PERTE NETTE)	xx	xx

Social Enterprise (NPO)
Statement of Changes in Net Assets / État de l'évolution de l'actif net
Year ended December 31, 20X2 / Exercice clos le 31 décembre 20X2

		20X2				
		Unrestricted	Restricted temporarily	Restricted permanently	Invested in capital assets	total
		Non affectés	Affectations internes	Affectations permanentes	Investis en immobilisations	
BALANCE, BEGINNING OF YEAR	Solde au début de l'exercice	x	x	x	x	xx
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	Excédent (insuffisance) des produits sur les charges	x			(x)	xx
ENDOWMENT CONTRIBUTIONS	Apports reçus à titre de dotations			x		x
INVESTMENT IN CAPITAL ASSETS	Investissement en immobilisations	(x)			x	0
INTERNALLY IMPOSED RESTRICTIONS	Affectation d'origine interne	(x)	x			
BALANCE, END OF YEAR	Solde à la fin de l'exercice	xx	xx	xx	xx	xx

Social Enterprise (FPO)
Statement of Retained Earnings / État des bénéfices non répartis
Year ended December 31, 20X2 / Exercice clos le 31 décembre 20X2

		20X2	20X1
BALANCE, BEGINNING OF YEAR	SOLDE AU DÉBUT DE L'EXERCICE	x	x
NET INCOME	BÉNÉFICE NET	x	x
		xx	xx
DIVIDENDS	DIVIDENDES	(x)	(x)
(NET LOSS)	(PERTE NETTE)	(x)	(x)
BALANCE, END OF YEAR	SOLDE À LA FIN DE L'EXERCICE	xx	xx

Social Enterprise
Statement of Financial Position (NPO) / État de la situation financière
As at December 31, 20X2 / Au 31 décembre 20X2

		20X2	20X1
ASSETS	ACTIF		
Current assets	Actif à court terme		
Cash and cash equivalents	Trésorerie et équivalents de trésorerie	x	x
Accounts receivable	Débiteurs	x	x
Inventories	Stocks	x	x
Prepaid expenses	Frais payés d'avance	x	x
		<u>xx</u>	<u>xx</u>
Investments	Placements	x	x
Capital assets	Immobilisations	x	x
Deferred charges	Autres éléments d'actif	x	x
		<u>xx</u>	<u>xx</u>
LIABILITIES	PASSIF		
Current liabilities	Passif à court terme		
Bank loan	Dette bancaire	x	x
Accounts payable and accrued liabilities	Créditeurs et frais courus à payer	x	x
Current portion of long-term debt	Dette à long terme échéant au cours du prochain exercice	x	x
		<u>xx</u>	<u>xx</u>
Long-term debt	Dette à long terme	x	x
		<u>xx</u>	<u>xx</u>
NET ASSETS	ACTIF NET		
Unrestricted	Actif net non affecté	x	x
Restricted	Actif net affecté	x	x
		<u>xx</u>	<u>xx</u>
		<u>xx</u>	<u>xx</u>

Social Enterprise (FPO)
Balance Sheet / Bilan
As at December 31, 20X2 / Au 31 décembre 20X2

		20X2	20X1
ASSETS	ACTIFS		
Current assets	Actif à court terme		
Cash and cash equivalents	Trésorerie et équivalents de trésorerie	x	x
Accounts receivable	Débiteurs	x	x
Inventories	Stocks	x	x
Prepaid expenses	Frais payés d'avance	x	x
		<u>xx</u>	<u>xx</u>
Investments	Placements	x	x
Capital assets	Immobilisations	x	x
Deferred charges	Autres éléments d'actif	x	x
		<u>xx</u>	<u>xx</u>
LIABILITIES	PASSIFS		
Current liabilities	Passif à court terme		
Bank loan	Dette bancaire	x	x
Accounts payable and accrued liabilities	Créditeurs et frais courus à payer	x	x
Current portion of long-term debt	Dette à long terme échéant au cours du prochain exercice	x	x
		<u>xx</u>	<u>xx</u>
Long-term debt	Dette à long terme	x	x
		<u>xx</u>	<u>xx</u>
SHAREHOLDERS' EQUITY	CAPITAUX PROPRES		
Share capital	Capital-actions	x	x
Contributed surplus	Surplus d'apport	x	x
Retained earnings	Bénéfices non répartis	x	x
		<u>xx</u>	<u>xx</u>
		<u>xx</u>	<u>xx</u>

Social Enterprise
Statement of Cash Flows / État des flux de trésorerie
Year ended December 31, 20X2 / Exercice clos le 31 décembre 20X2

		20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES	ACTIVITÉS D'EXPLOITATION		
Net income (Net loss) / Excess (Deficiency) of Revenue over expenses	Bénéfice net / Excédent (insuffisance) des produits sur les charges	x	x
Items not requiring an outlay of funds	Éléments sans incidence sur la trésorerie		
Amortization / Depreciation	Amortissement	x	x
Changes in non-cash working capital	Variation des éléments hors trésorerie		
Accounts receivable	Débiteurs	x	x
Inventories	Stocks	x	x
Prepaid expenses	Frais payés d'avance	x	x
Accounts payable and accrued liabilities	Créditeurs et frais courus à payer	x	x
		xx	xx
CASH FLOWS FROM INVESTING ACTIVITIES	ACTIVITÉS D'INVESTISSEMENT		
Acquisition of capital assets	Acquisition d'immobilisations	(x)	(x)
Payments for investments	Acquisition de placements	(x)	(x)
		(xx)	(xx)
CASH FLOWS FROM FINANCING ACTIVITIES	ACTIVITÉS DE FINANCEMENT		
Dividends paid	Dividendes versés	(x)	–
Proceeds from long-term debt	Produit d'emprunts à long terme	x	x
Repayments of long-term debt	Remboursement de la dette à long terme	(x)	(x)
		xx	xx
INCREASE (DECREASE) IN CASH	AUGMENTATION (DIMINUTION) NETTE DE LA TRÉSORERIE	xx	(xx)
CASH, BEGINNING OF YEAR	TRÉSORERIE À L'OUVERTURE DE L'EXERCICE	x	x
CASH, END OF YEAR	TRÉSORERIE À LA CLÔTURE DE L'EXERCICE	x	x

Social Enterprise
Notes to the Financial Statements / Notes aux états financiers
Year ended December 31, 20X2 / Exercice clos le 31 décembre 20X2

Notes are an important component to the Financial Statements. Here are some examples of notes that could be found in the Financial reports of an organization. Obviously, not all notes will appear for all organizations.

<u>Examples of</u> <u>Notes to the Financial Statements</u>		<u>Exemples de</u> <u>Notes aux états financiers</u>	
<u>English</u>		<u>Français</u>	
1	Statutes of incorporation and nature of activities		Statuts constitutifs et nature des activités
2	Change of name		Changement de dénomination sociale
3	Going concern		Continuité de l'exploitation
4	Significant accounting policies		Principales conventions comptables
4a	- Consolidation policies		- Principes de consolidation
4b	- Non-consolidation policies		- Principes de non consolidation
4c	- Differential reporting		- Information différentielle
4d	- Basis of presentation		- Mode de présentation
4e	- Revenue recognition		- Comptabilisation des produits
4f	- Foreign currency transactions		- Conversion des comptes exprimés en monnaies étrangères
4g	- Temporary investments		- Placements temporaires
4h	- Inventories		- Stocks
4i	- Investments		- Placements
4j	- Capital assets		- Immobilisations
4k	- Goodwill		- Écart d'acquisition
4l	- Long-term debt issue expenses		- Frais d'émission de la dette à long terme
4m	- Capitalized development costs		- Frais de développement capitalisés
4n	- Government assistance		- Subventions
4o	- Pension plan		- Régime de retraite
4p	- Segmented information		- Informations sectorielles
4q	- Fund accounting		- Comptabilité par fonds

Examples of
Notes to the Financial Statements

Exemples de
Notes aux états financiers

5	Change in accounting policies	Modification des conventions comptables
6	Business acquisition	Acquisition d'entreprise
7	Discontinued operation	Activités abandonnées
8	Financial reorganization	Réorganisation financière
9	Extraordinary items	Élément extraordinaire
10	Prior period adjustments	Redressement sur exercices antérieurs
11	Income taxes	Impôts sur les bénéfices
12	Loss carry forward	Report de pertes
13	Refundable dividend tax	Impôt remboursable au titre de dividendes
14	Accounts receivable	Débiteurs
15	Inventories	Stocks
16	Investments	Placements
17	Interests in joint venture	Participation dans des coentreprises
18	Capital assets	Immobilisations corporelles
19	Equipment for rental	Matériel destiné à la location
20	Assets under capital leases	Biens loués en vertu de contrats de location-acquisition
21	Intangible properties	Immobilisations incorporelles
22	Other assets	Autres éléments d'actif
23	Deferred charges	Frais reportés
24	Bank overdraft and bank loans	Découvert et emprunt bancaires
25	Accounts payable	Créditeurs
26	Deferred revenue	Produit reporté
27	Obligations under capital leases	Obligations découlant de contrats de location-acquisition
28	Long-term debt	Dette à long terme
29	Stock options	Options d'achat d'actions
30	Pension accrual	Charges de retraite à payer

Examples of
Notes to the Financial Statements

Exemples de
Notes aux états financiers

31	Pension plan Employee future benefits	Régime de retraite Avantages sociaux futurs
32	Share capital	Capital-actions
33	Statement of cash flows	État des flux de trésorerie
34	Government assistance	Aide gouvernementale
35	Research and development costs	Frais de recherche et développement
36	Contingencies	Éventualités
37	Commitments	Engagements contractuels
38	Financial instruments	Instruments financiers
39	Endowment fund	Fonds de dotation
40	Capital fund	Fonds de capital et d'emprunt
41	Restricted funds (externally/internally)	Fonds affecté (externe/interne)
42	Segmented information	Informations sectorielles
43	Related party transactions	Opérations entre apparentés
44	Economic dependence	Dépendance économique
45	Subsequent event	Événement postérieur à la date du bilan
46	Non-monetary transactions	Opérations non monétaires
47	Comparative figures	Chiffres comparatifs
48	Unaudited comparative figures	Chiffres comparatifs non vérifiés

List of Financial Information

Information from the Statement of Financial Position / Balance Sheet	<u>Nonprofit</u>	<u>For-profit</u>
ASSETS		
Current assets		
Cash	x	x
Cash equivalents (liquid assets very easy to convert in cash)	x	x
Accounts receivable	x	x
Inventories	x	x
Prepaid expenses	x	x
Other current assets	x	x
	<hr/>	<hr/>
Total current assets	xx	xx
Investments (shares, bonds)	x	x
Capital assets (land, building, equipment, automobile, collections)	y	y
Accumulated Depreciation on capital assets	(y)	(y)
	<hr/>	<hr/>
Net book value of capital assets	yy	yy
Intangible assets (copyright, patent, trademark, goodwill)	z	z
Accumulated Depreciation on intangible assets	(z)	(z)
	<hr/>	<hr/>
Net book value of intangible assets	zz	zz
Deferred charges	x	x
Other non-current assets	x	x
	<hr/>	<hr/>
Total assets	<u>xxx</u>	<u>xxx</u>
LIABILITIES		
Current liabilities		
Bank loan	x	x
Accounts payable and accrued liabilities	x	x
Unearned revenue	x	x
Current portion of long-term debt	x	x
Other current liabilities	x	x
	<hr/>	<hr/>
Total current liabilities	xx	xx

Information from the Statement of Financial Position / Balance Sheet	<u>Nonprofit</u>	<u>For-profit</u>
Non-current liabilities	x	x
Long-term debt (mortgage)	x	x
Pensions obligations	x	x
Lease obligations	x	x
Deferred revenue	x	x
Other non-current liabilities	x	x
	<hr/>	<hr/>
Total non-current liabilities	xx	xx
	<hr/>	<hr/>
Total liabilities	xx	xx
	<hr/>	<hr/>
NET ASSETS		
Net assets Unrestricted	x	
Net assets Restricted - temporarily (ex: internally for special projects)	x	
Net assets Restricted - permanently (ex: endowments)	x	
Net assets Invested in Capital assets	x	
	<hr/>	
Total net assets	xx	
SHAREHOLDERS' EQUITY		
Share capital		
Share capital - common shares		x
Share capital - preferred shares		x
		<hr/>
Total share capital		xx
Retained earnings		x
Contributed surplus		x
Non-controlling interest		x
Dividends		(x)
Accumulated other comprehensive income		x
		<hr/>
Total equity		xx
	<hr/>	
Total liabilities and net assets	xxx	
	<hr/>	
Total liabilities and equity		xxx
		<hr/>

Information from the Statement of Operations / Income Statement	<u>Nonprofit</u>	<u>For-profit</u>
REVENUES		
Grants		
Grants - Governments (International / National)	x	x
Grants - Governments (Provincial / Territorial)	x	x
Grants - Governments (Regional / Local / Municipalities)	x	x
Grants - Charitable organizations (Foundations)	x	x
Total grants	<u>xx</u>	<u>xx</u>
Fundraising and gifts		
Gifts in cash (Individuals, Corporations)	x	x
Gifts in-kind (Individuals, Corporations)	x	x
Total gifts	<u>xx</u>	<u>xx</u>
Membership dues income	x	x
Earned income (revenue)		
Sales of goods	x	x
Sales of services	x	x
Total earned income revenue	<u>xx</u>	<u>xx</u>
Membership income (dues and association fees)	x	x
Investment income		
Interest income	x	x
Dividends income	x	x
Rental income (gross revenue)	x	x
Capital gains (loss)		
Proceeds of disposition	y	y
Capital costs of capital assets	(y)	(y)
Total net capital gains (loss)	<u>y</u>	<u>y</u>
Total investment income	xx	xx
Other income (ex: amortization of deferred contributions)	x	x
Total revenues	<u>xx</u>	<u>xx</u>

Information from the Statement of Operations / Income Statement	<u>Nonprofit</u>	<u>For-profit</u>
EXPENSES		
Salaries and benefits	x	x
Education and training (for employees and volunteers)	x	x
Rent and occupancy costs	x	x
Office expenses (ex: office supplies)	x	x
Insurance	x	x
Telecommunications	x	x
Marketing and communications (ex: advertising and promotion)	x	x
Program expenses	x	
Fundraising expenses (ex: events)	x	
Travel expenses	x	x
Association dues and subscriptions	x	x
Professional and consulting fees	x	x
Interest and bank charges	x	x
Amortization / Depreciation	x	x
Licences and permits	x	x
Property taxes	x	x
Income taxes	x	x
Rental income (expenses)	x	x
Earned income (expenses)		
Cost of goods sold	y	y
Cost of services rendered	y	y
	<hr/>	<hr/>
Total earned income expenses	yy	yy
Other expenses	x	x
	<hr/>	<hr/>
Total expenses	<u>xx</u>	<u>xx</u>
Excess (Deficiency) of revenues over expenses	<u>xxx/(xxx)</u>	
Net income (Net loss)		<u>xxx/(xxx)</u>

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