

# Finance for the Arts in Canada

The Glossary in *Finance for the Arts in Canada* provides 200+ definitions of accounting and financial terms that cultural managers need to know. Terms used in the text for which glossary definitions are provided appear in **boldface** for ease of reference. Technical terms that are clearly defined in context and those that are in common usage may not be included. In addition, **boldfaced** terms in the glossary have their own definition.

Following is the “A” section from the Glossary.

- A -

**Account** – The basic unit of accounting records; a category for recording financial information. Accounts record, in date order, additions to and deductions from **assets, liabilities, equity, revenues** and **expenses**. An account can contain information on something tangible, such as computer equipment or money in the bank, or something descriptive, such as how much of the money came from admissions versus fundraising. It can also record a state of obligation between two parties such as **accounts receivable, accounts payable, deferred revenue** and **prepaid expenses**. From a paperwork point of view, an account is a page divided into columns, with one column for adding to the account, a second for subtracting from it, and a third for the **balance**.

**Account analysis** – A list of the items that make up the **closing balance** of an account. An account may have numerous transactions, both debit and credit, some of which may reverse each other. The account analysis lists items that have not cleared. The list should be totaled, and the total must equal the closing balance.

**Account balance** – The amount recorded in an account, calculated by totaling the additions and deductions; technically, the sum of the debit entries minus the sum of the credit entries. If the debit entries are greater, the account is said to have a debit balance. If credits exceed, the account has a credit balance. See also **opening balance, closing balance**.

**Account payable (A/P)** – An amount owed to a supplier for goods or services bought on credit (bills to be paid). A/P is recorded in the **Liabilities** section of the **Balance Sheet** with other debts.

**Account receivable (A/R)** – An amount owed to you by a customer for goods or services that you have sold on credit. A/R is recorded in the **Assets** section of the **Balance Sheet**. What you “own” is the right to receive payment for the goods or services you have provided.

**Accountant** – Someone skilled in the practice of recording and reporting financial information. Professionally, someone who holds an **accounting designation**. Colloquially, many cultural organizations use this term as the job title for the employee who handles their finances.

**Accounting** – The practice of recording, classifying, reporting and interpreting an organization’s financial information.

**Accounting designation** – A qualification that confers the right to call oneself a public accountant. Accounting in Canada is a regulated profession. People earn an accounting designation by completing a program of study set out by one of Canada's three professional accountancy organizations: **Canadian Institute of Chartered Accountants** (which confers the designation CA), Society of Management Accountants (CMA), and Certified General Accountant Association (CGA). Only CAs are licensed to perform **audits**.

**Accounting equation** –  $\text{Assets} = \text{Liabilities} + \text{Equity}$ . This equation describes the relationship among the three account classes reported on the **Balance Sheet**. What we own **balances** to the amount we owe plus the amount that remains in the company.

**Accrual accounting** – A method where revenues are recorded when they are earned, even if money has not yet been received, and expenses when they are incurred, even if payment has not yet been made. In almost all circumstances, the **Canadian Institute of Chartered Accountants** requires that this method be used so as to yield statements that accurately measure the company's operations and state of obligation with others. For contrast, see **cash accounting, modified cash accounting**.

**Accumulated Surplus or Deficit** – The total amount a company has made (**surplus**) or lost (**deficit**) from its first day of operation up to the present moment. Technically, an accumulated surplus is an excess of assets over liabilities, resulting in positive equity. An accumulated deficit is an excess of liabilities over assets, resulting in negative equity. This information typically appears on the Balance Sheet of not-for-profits as **Net Assets**.

**Actuals** – The real, to-the-penny financial outcomes for projects and for overall operations as recorded in your **accounts**. For contrast, see **budget, variance**.

**Advance** – See grant advance.

**Allocate** – To apply to a particular category. For instance, a cheque for \$8,025 covering \$6,500 for theatre rent, \$1,000 for technicians and \$525 for federal **Goods and Services Tax** should be allocated to the **general ledger** accounts for Theatre Rent Expense, Technician Expense and GST Paid on Purchases.

**Annual General Meeting (AGM)** – A formal meeting of the **members** of a corporation held after the end of a **fiscal year** to receive the **financial statements**, appoint an auditor (if the company is **audited**), and hold elections to the **Board of Directors**. General reports on the organization's activities may also be presented.

**Annual Meeting of Shareholders** – The commercial corporation's equivalent of an AGM.

**Annual report** – A printed report on the past fiscal year, typically including the **financial statements** as well as a description of the organization's programs, services and activities. The annual report can serve as a public relations tool, incorporating photographs and illustrations of the company's work, and going to members, government funders, **donors** and **sponsors**.

**Articles of incorporation** – The legal document for incorporating a business. Covers the basic characteristics of the company, including its name, number of directors and share structure.

Contrast **letters patent**.

**Arts council** – An arm's length agency of government, which distributes **grants** to individual artists and arts organizations. "Arm's length" means that the council's decisions are not subject to political approval. It has its own independent **Board of Directors** responsible for granting decisions (who may nonetheless be appointees of the government of the day). Arts council budgets are established by government through the ministry or department to which the council reports (usually the ministry responsible for culture).

**Arts service organization** – Each artistic discipline has one or more associations that exist to serve the needs of individual artists and/or arts organizations working in that field. ASOs may provide a broad range of services, including professional development, publications, joint marketing initiatives, labour relations and advocacy.

**Arts stabilization programs** – In Canada, the US and other countries, groups of arts managers, private donors and other interested parties have come together to generate new funding and other types of support to help arts organizations improve their capacity to sustain themselves in the face of the erosion of traditional funding.

**Assets** – What an organization owns; its property; technically described as "economic resources." Common examples: money, **accounts receivable**, **prepaid expenses**, equipment, furniture and fixtures, building. Assets are reported on the **Balance Sheet**.

**Current assets** – Assets that will be consumed or converted into cash within a year. For instance, money in the bank by definition is a current asset. **Accounts receivable** are typically collected (converted into cash) in 30 days, and therefore are current assets.

**Fixed assets (capital assets)** – Assets which retain their value for longer than a year, which are generally used to produce the goods and services the company sells, and which typically represent a significant investment for the company. Common examples are equipment, major furniture items, a building.

**Association** – see **Unincorporated association or club**.

**Audit** – Most commonly, a review of an organization's accounting records and overall administrative practices undertaken by a Chartered Accountant. The result is a set of formal, annotated financial statements, covered by a letter giving the CA's opinion as to whether the **financial statements** fairly reflect the organization's financial position and operating results. Most government funders require audits from recipients of substantial **grants and contributions**. See also **qualified opinion**. Audits can also be performed by government authorities to determine whether an individual or a company is in compliance with regulations. In these cases, government auditors scrutinize records for possible irregularities, and may impose penalties and

interest on any unremitted amount. All branches of the **Canada Revenue Agency** conduct random audits, as well as targeted audits where some wrongdoing is suspected.

**Audit trail** – A series of annotations in the bookkeeping records linking the steps in the accounting cycle. For instance, the bookkeeper should record on a paid bill the number of the cheque used to pay it. The cheque number is also recorded in the journal. Thus, the paid bill, the cheque and the journal entry are all linked, facilitating the auditor's review.

**Auditor's letter** – The cover letter, addressed to the **members** or to the **Board of Directors**, and stating the methods followed, auditor's and management's responsibilities, and the auditor's opinion on the financial statements. See also **qualified opinion**.

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