

**ACCOUNTING FOR LAWYERS:  
Animal Rights League Assignment**

The Animal Rights League (ARL) is a small Boston-based, non-profit organization dedicated to the protection of animals. Tim Smith, ARL's treasurer, deals with the association's financial matters, which have always been relatively straight-forward. To date, Tim has maintained ARL's financial statements on a cash basis. For the past few years, cash receipts from pledges – the association's sole source of revenue – have totaled approximately \$300,000 and cash expenditures (mostly for staff salaries and office rent) have come to about \$250,000. Over time, ARL has accumulated an endowment of half a million dollars, which is currently invested in a bank account.

Tim has decided to move the association to an accrual system of accounting. He has a general idea how accrual accounting works, but he wants your advice with respect to two specific situations.

- First, Tim wants to know how to account for ARL's pledges. Most of these pledges are made during an annual year-end phonathon. The vast majority of pledges (more than 95 percent) are paid in cash within one or two months of the date of the original pledge. If a pledge is not paid within three months, Tim has discovered, the pledge is almost never paid. How should ARL account for these pledges and their payment on an accrual basis?
- Second, the organization recently hired Jane Chang as its new executive director. To persuade Jane to leave her previous job in California, ARL agreed to pay Jane's moving expenses including various costs associated with selling her home in San Francisco and buying a new one in Boston. These moving expenses totaled \$150,000. Once she joins ARL, Jane will earn an annual salary of \$75,000. In discussions with ARL, Jane informally committed to remain as ARL's executive director for at least five years, but her employment contract is, technically speaking, terminable by either party on 30 days' notice. Tim wants to know, how should ARL account for both Jane's moving expenses and her annual salary?

Please write a short memo explaining, with appropriate T- account entries, how you would suggest ARL account for these transactions and also noting any accounting issues the transactions present.