



Using QuickBooks for Fund Accounting: A Practical Guide

Affordable and easy, QuickBooks may be your best accounting tool. But first you must adapt it for nonprofit use.

BY HUONG NGO

If yours is a small to medium-sized nonprofit organization grappling with multiple records for your different funds, this article may be your solution. This is a guide to adapt QuickBooks, an inexpensive software package, to your organization's fund accounting needs: (1) to account for and report on multiple "funds" (funding sources) separately, and (2) to report on all funds together.

Before the Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards (SFAS) Number 117 in 1993, nonprofits were allowed to report on their funds individually. Consequently, many nonprofits kept a separate accounting "book" for each of their funds. To meet the new rules, however, nonprofit organizations must now report their aggregate financial statements rather than individual funds. Thus, most nonprofits face a pressing need: to convert their accounting systems to meet the new accounting rules.

QuickBooks is a strong candidate for your new accounting software. You can find it in any computer store. It's affordable, easy, and can handle large volumes of activities.

The problem is that QuickBooks' programs and manuals are geared

toward commercial rather than nonprofit applications. This article will, therefore, discuss some adaptations necessary to use QuickBooks in a nonprofit setting.

If you set it up properly, you can use QuickBooks to keep track of income and expenditures on both an accrual and cash basis. You can keep track of cash balances of different funds without having to maintain separate bank accounts for each fund. You can create required financial reports for individual funds as well as the organization as a whole. Here's how to do it:

SET UP YOUR NEW SYSTEM

Follow these steps to establish QuickBooks as your new accounting software:

- **Set up company file:** Choose "New Company" from the File Menu.
- **Set up classes:** Pull down the Lists Menu and select "Classes." Choose "New" to specify class names, which represent your organization's funds. "Fund Names" will be the columns presented in a consolidated report, while the accounts will be your line items.

••• **Set up the chart of accounts:**

You now have two options: (1) let QuickBooks create a full chart of accounts for you, or (2) create accounts unique to the way you operate. To create a new account, select "Chart of Accounts" from the Lists Menu. Select "New," and specify the new account to be added to the chart of accounts. You may want to create a separate cash subaccount for each fund to keep track of your funds' cash balances without having separate physical bank accounts for these funds.

- **Set up customers:** If your organization makes sales, you need to set up your customer base. If you receive grants, you also need to set up your funding agencies as customers. To set up customers, pull

Huong Ngo holds a master's in professional accountancy and is a doctoral candidate in the School of Accountancy, Georgia State University, PO Box 4050, Atlanta, Georgia 30302 (404-651-2611). This article is based on her project for the Sullivan Center, Inc., a nonprofit organization in Atlanta.

Nonprofit World • Volume 15, Number 2 March/April 1997
Published by the Society for Nonprofit Organizations
6314 Odana Road, Suite 1, Madison, WI 53719 • (800) 424-7367



down the Lists Menu and choose “Customers: Jobs.”

- **** **Set up items:** Next, go to “List of Items” to set up the “Sale Item” to be indicated on your invoice to the



Nonprofits face a pressing need: to convert their accounting systems to meet the new accounting rules.



customer. For instance, “Contract Reimbursement” would be an invoiced item to a funding agency. The aim of the invoice module is not to produce an actual invoice, but to work through how accrual income is recognized by QuickBooks. For each new item, specify an income account to be credited each time the item is “invoiced” or claimed for reimbursement.

- **** **Set up vendors:** Pull down the Lists Menu and select “Vendors.”
- **** **Set up budgets:** Pull down the Activities Menu and choose “Set Up Budgets.” You can load a budgeted amount for a particular account of a particular fund.

WRITE CHECKS

To write a check, click on the “Check” button. At the check writing screen, fill in information as you would on a hand-written check. It’s important to specify the cash account to be credited and an expenditure (or another account) to be debited. For a check to be reimbursed by a funding agency, des-

ignate the funder as “customer.” Doing so will help you keep track of contract costs for each fund. Give the funding agency a class name for fund reporting.

You can also trace payroll expenditures to funds. You will find QuickPay handy to use in conjunction with QuickBooks. First, specify a class for each employee. Then, all expenditures and liabilities related to that employee will be traced to the specified class. This process is helpful if you handle payroll for employees working under different funding programs.

RECOGNIZE INCOME

When you receive money, choose “Make Deposits” from the Activities Menu. Then post the receipt to a cash account and an income account. Specify a class to trace this income to its particular fund.

Sometimes you may spend money on something before your funder sends you the amount earmarked for that activity. When this situation occurs, you need to recognize revenue by sending a simulated invoice to the funding agency. To do so, go to “Activities” and select “Create an Invoice.” You won’t be creating a real business document but, rather, posting the claimed amount to income and accounts receivable.

To mark checks to be reimbursed, click on “Expenses.” This step will decrease the expenditures balance without increasing the income balance. Therefore, this activity won’t be reflected in the statement of activities.

When the funder reimburses you, select “Receive Payments” from the Activities Menu. Then choose “Make Deposits” to post the receivable to cash. At each of these steps, specify a class to trace this income, receivable, and cash received to a particular fund.

You can perform other transactions, such as interfund transfers and receipt of in-kind donations, by choosing “Activities,” then “Enter Special

Transactions.” Again, you must specify a class to tag this entry to a particular fund.

WRITE REPORTS

To produce your organization’s total statement of activities (also called statement of revenues and expenditures), go to the Reports Menu. Click on “Profit and Loss.”

You can also present individual funds, one column after another, before the “total” column. To do so, go to the menu bar. Click on the columns across the top, and select “By Class” from the drop-down menu. Or, to report only a few selected classes, click on “Filters” from the menu bar. Then click on “Class,” then “Selected Classes.”

You may choose to report on an accrual or cash basis. Make this selection before you pull the report. To do so, choose “Preference/Reporting.” Then choose “Filter.”

To create budget variance reports, choose from the Reports Menu “Budget Reports” and then “P&L Comparison.” For financial planning, you can create this report for the total organization, or for all individual funds, or for a few selected funds.



The problem is that QuickBooks is geared toward commercial rather than nonprofit applications.



To produce a consolidated statement of financial position of the organization, click on “Balance Sheet.” If you have set up separate cash subaccounts, you can see the balance for each fund.

