Making the Accounting Software Decision

Use this checklist to choose the best accounting software for your needs.

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Q: We are a small nonprofit organization getting ready to buy an accounting software system. It's a big decision for us, and there seem to be innumerable choices. How can we choose the best accounting software to meet not only our present needs but our needs as we grow in the next few years?

A: Accounting systems fall into two basic categories: commercial (or for-profit) and fund (or nonprofit). Despite having many aspects in common, there are significant differences in the accounting procedures, management objectives, and reporting requirements between the two.

Here's the generally accepted definition of fund accounting: "A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations." More simply stated, a nonprofit organization is required to track its funds based on regulations, restrictions, and limitations. Each fund must be treated as a separate entity with its own general ledger, and individual revenue, expense, income, and balance sheet reports. Some organizations must also report on their funds in aggregate.

Attempting to use a commercial system for fund accounting is akin to using a wrench rather than a hammer to drive nails. The wrench will work, but it will be a slow, painful process.

Choosing a Fund Accounting Software Package

Choosing the right fund accounting system requires careful matching of your organization's financial operations with the appropriate set of software capabilities at a price that makes sense. For example, multi-user packages typically cost more than single-user systems. If only one person needs access at a time, get the single user version.

To simplify the process, we've created the following list of questions to help you evaluate key product features before you make your purchase decision.

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1. **Is it a true fund accounting system** or is it a modified commercial application? A good fund accounting system needs to have been developed from the ground up. If you're considering a commercial system with fund accounting "overlays," be leery of its capabilities. It may never quite accomplish what you need it to.

2. **Are you searching for graphical-based software** such as Microsoft's Windows? If yes, be sure to verify that the product is a true Windows design. Some products are offered as Windows-based, but merely have a few graphical features. These packages defeat the consistency goals of the Windows design.

3. **Is it a batch system or real time?** Real-time processing is necessary to check budgets, spending limits, etc. Nonprofits benefit from real-time processing, because it is generally much faster, saving time and money by eliminating processing steps.

4. **Do you need a relational database** to store the information? Be sure the need is real. Many products are sold based on hype rather than need. Databases add considerable cost and processing overhead. Today, you can get many of the advantages of database connectivity by using ODBC (Open Data Base Connectivity) compliant software. It is much less expensive and usually faster.

5. **Does it have a large free-form account number?** Most fund accounting applications require additional groupings and breakdowns. It is not unusual for nonprofit account codes to exceed 20 positions. They often have a mixture of numbers, letters, and special characters. Examine your account code needs carefully and make the account structure part of your specifications.

6. **Can it handle both cash and accrual basis funds concurrently?** Many operations require this ability. For example, a museum gift shop needs to be on an accrual basis, but the general fund may need to be on a cash or modified accrual basis.

7. **How large can the amounts be?** Some low-end products cannot handle the large figures required for fund accounting. The system should be able to handle numbers up to $1,000,000,000.

8. **Can the system handle the number of funds required?** A good fund accounting system should not have a limit on the number of funds.

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9. **Does the software offer security?** Application access should be regulated by program and user.

10. **Can invoices be paid from multiple funds using a single check?** Many commercial and low-end fund accounting systems fail this test. It is a very important feature, and can drastically reduce the number of checks being written and subsequent balancing time.

11. **Can multiple checking accounts be used, if necessary?** Some organizations need to be able to maintain multiple checking accounts.

12. **Is grant and project tracking available?** Grants and projects often have different reporting requirements, and they must be reported for different periods. They also require reporting on a to-date basis for the life of the grant.

13. **Does the system process encumbrances?** This is an absolute must for many government operations. And, if you encumber, the system should definitely have real-time processing.

14. **Does the budget planning allow for global changes?** Fund accounting operations tend to have a very large number of accounts. Global change capabilities allow the user to quickly create and change budgets with a minimum of input.

15. **Do the available reports meet the needs of a fund accounting operation?** Fund operations need revenue and expense reports in addition to the standard reports offered by commercial systems. They depict comparisons between actual revenues and expenses versus budgets.

16. **What is the pricing model?** Products are generally priced in one of three ways: one price, regardless of the number of users; a price based on the number of users concurrently accessing the system; or a price based on the number of users that will access the system. Large software systems may be broken down into modules so that you can purchase only the required modules.

Choosing the Fund Accounting Software Provider

Now that you've got some sense of whether the software meets your accounting needs, take a moment to check out the vendor:

1. **How long has the vendor been providing fund accounting solutions?** Is fund accounting their primary product or is it a secondary application?

2. **How often do they update the product?** Are the upgrades offered as part of the service agreement or is there an additional charge?

3. **Does their support meet your needs?** What about response time, 800 numbers, qualified technicians?

4. **Is the documentation high quality?** Is it available on-line?

5. **Can the vendor provide you** with a list of customer references to check?

Is This Software Right For You?

Before you make your selection, you'll need to see a product demonstration and, of course, check references. Product demonstrations come in many forms. Many are nothing more than slide presentations or pared-down versions of the software. These demos may convey a list of features, but they won't demonstrate how the product actually works.

A better alternative is to visit the software firm. You'll get a highly interactive demo and meet directly with sales, support, technical, and administrative personnel.

Then, double-check your impression of the firm with reference calls to organizations similar to yours. Are customers happy with both the product and service?

Finally, consider whether you feel comfortable doing business with the software provider. Does the company seem competent, sincere, and have a real desire to meet your needs? Are they in this business for the long run?

Take a Close Look

To make the right decision on a fund accounting software system for your organization, you need to look closely at both the products and the vendors in this market. Understand what's available, and what meets the needs of your organization. Good luck!

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