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Chart of Accounts Considerations for Nonprofits Using QuickBooks Online

December 6, 2023

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Meet the Presenters

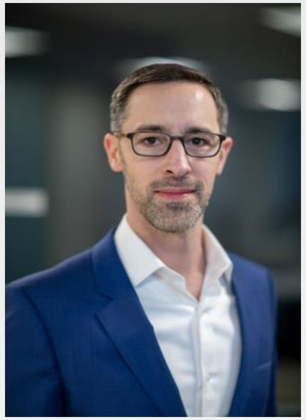

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Chart of Accounts Considerations for Nonprofits Using QuickBooks Online

December 6, 2023

Agenda

- What Is a Chart of Accounts?
- How Should I Organize My Transaction Data?
- Practical Considerations
- Can I Change the Status Quo?

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What Is a Chart of Accounts?

Per Investopedia

an organizational tool that provides a digestible breakdown of all the financial transactions that a company conducted during a specific accounting period, broken down into subcategories.

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Common Terminology

- DIMENSIONS – data elements that make up an account string
- MEMBERS – the listed elements of dimensions that make up the chart of accounts
- ACCOUNT STRING – a unique set of dimensions necessary to properly categorize a transaction
- HIERARCHY – the grouping of dimensions at certain levels useful for reporting
- GROUPING – A group of accounts or other dimension members that may or may not be in a hierarchy

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QBO Dimensions

- Category (Account)
- Class
- Project
- Location
- Tag

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Other Items You Can Track …

- Customer
- Vendor
- 1099 eligibility
- Billable transactions ⚠

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Available Use

Dimension	Cash	AR/AP	Journal Entry	Budget
Account	☑	☑	☑	☑
Class	☑	☑	☑	☑
Project	☑	☑	☑	☑
Location	☑	☑		
Tag	☑	☑		

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How Should I Organize My Transaction Data?

That depends …

what questions do you need to answer?

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Reporting Needs

- GAAP Financials
- Management/Board Financials
- Segment Performance
- Project Costing
- Functional Expenses
- Grant Compliance
- Grant Applications
- Strategic Planning & Monitoring
- Debt Issuance/Covenants
- Accreditors/Program Regulators

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Basic Questions

- Who?
- What?
- Why?
- How?
- Where?
- Net Asset Category

- Class or Project
- Account
- Class or Project
- Customer or Project
- Location
- *Class or Project or Spreadsheet*

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Account/Category

- What did you buy? What did you earn?
- Natural Classification
  - Rent
  - Supplies
  - Professional Fees
  - Transportation
  - Personnel
  - Promotional Items

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Statement of Functional Expenses

Department/Class

Natural Classification

	Program	Administration	Fundraising	TOTAL
Personnel				
Supplies				
Contract Services				
Occupancy				
Special Events				
Transportation				
TOTAL				

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Class

- CAN be used for
  - Department
  - Functional Expense Category
  - Funding Source
  - Net Asset Category
- BEST PRACTICE
  - Functional Category
  - Hierarchy of Programs/Activities/Departments per Function

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Class Hierarchy Example

- Program/Department 1
  - Activity/Subdepartment A
  - Activity/Subdepartment B
- Program/Department 2
  - Activity/Subdepartment C
  - Activity/Subdepartment D
- Administration
- Fundraising

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Project

- Projects Nest Under Customers
- Time Tracking/Payroll Charging Available
- Ideal for Tracking Restricted Funds
  - Grantor
  - Name of Grant
  - Start & End Date

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Project Example

- Customer A
  - 2022 Grant
  - 2023 Grant
- Customer B
  - Program 1 Grant Apr–Dec 2023
  - Program 2 Grant Mar 2023–Feb 2024
- Customer "Pooled Restricted Funds"
  - Pooled Restricted Fund A
  - Pooled Restricted Fund B

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Location

- Segment operations by location
- Analyze various programs or departments that exist at multiple locations
- Can not be used for budgeting or journal entries

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What About Net Asset Category?

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Manage Your Expectations

- QBO is not optimized for nonprofits
- “Equity” category on statement
- SOFP & SOA not classified by Net Asset Category
- No capability to close accounts into separate Net Asset accounts
- Journal Entries are necessary
- Report Manipulation in Excel is necessary for GAAP presentation

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Spreadsheet Tracking

- Supported by Project Reports

Use pivot table for disclosures

Project/Grant	Beginning Balance	Contributions	Restrictions Satisfied	Ending Balance	Purpose
Project A	10,000	50,000	-60,000	0	Program 1
Project B	0	60,000	-5,000	55,000	Program 1
Project C	2,000	0	-1,000	1,000	Program 2
Project D	30,000	5,000	-30,000	5,000	Program 2
TOTAL	45,000	115,000	-96,000	61,000	

Ties to PY ending

Contributions With Donor Restrictions for SOA

Release of Restrictions for SOA

Ending Net Assets With Donor Restrictions for SOA

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Reporting Solutions

- Create accounts for Net Asset Categories (equity type)
- Use Journal Entry to adjust balances as of the end of the reporting period
- Report Section will still be named “Equity”

OR

- Export Report to Excel
- Change the Equity Section to Net Assets
- Add lines & enter Net Asset categories as needed

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What Are Some of the Most Common Mistakes?

Let me tell you some stories …

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Most Common Mistakes

- Using Classes for more than one dimension
  - Net Asset class
  - Grant
  - Functional/Program Expense
  - Department
- Misunderstanding the “Billable” Checkbox
- Inconsistent Data Governance

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Most Common Mistakes

Misunderstanding the “Billable” Checkbox

Chart of accounts	Enable account numbers	On
	Tips account	
	Billable expenditure revenue account	4300 Government Grants

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Most Common Mistakes

Inconsistent Data Governance

aka

Garbage In = Garbage Out

Data Governance Tips

- Set defaults & use rules
- Use “Required Dimensions”
- Be aware of NULL values in reporting
- Number your accounts
- Leave room in numbering for growth
- Restrict access to changes
- Regularly maintain hierarchies
- Use Allocation Accounts

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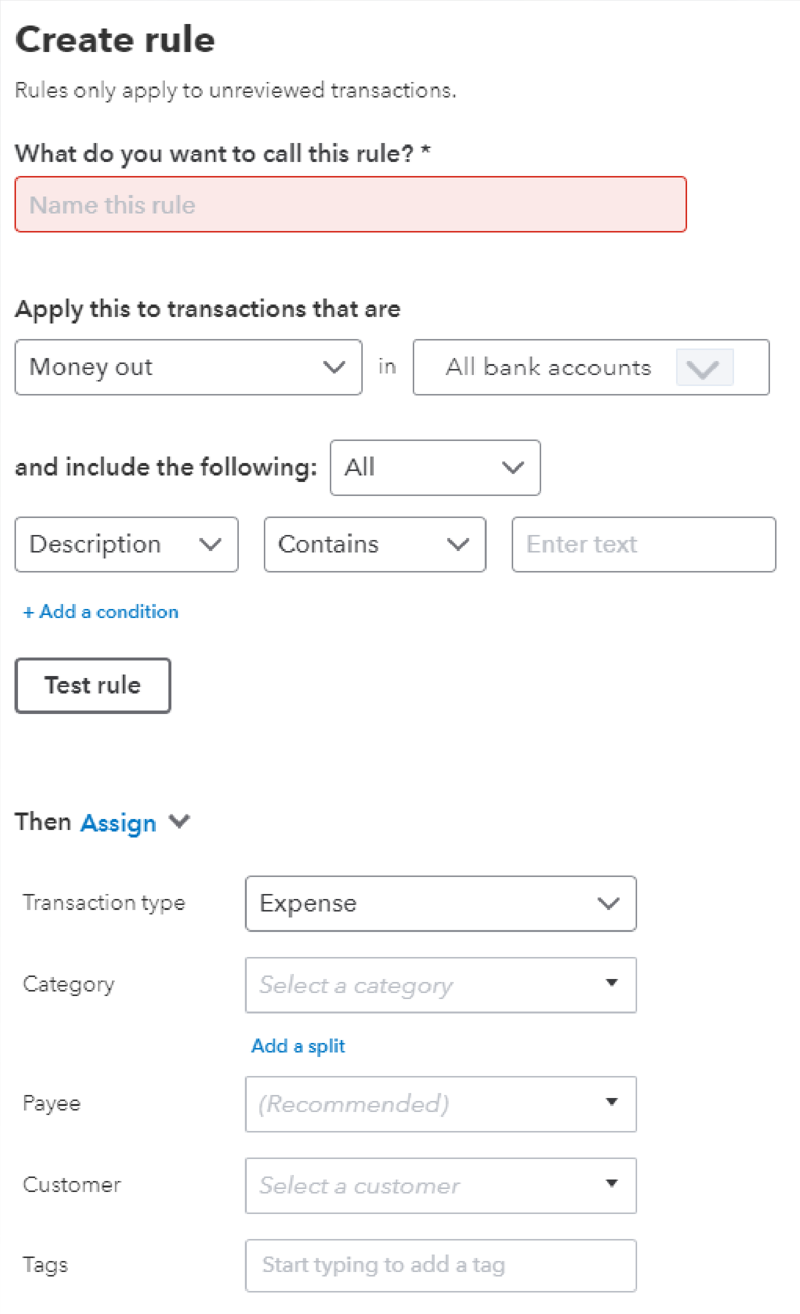
Set Defaults & Use Rules



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Set Required Fields – Beware of NULL

- QBO doesn't help you do this
- Enter a value for every field you use
  - Project named "No Specific Funding Source"
  - Location named "No Specific Location"

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Number Your Accounts

- Accounts ordered in dropdowns
- Use Numbers to indicate Hierarchy & Grouping

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Restrict Access

- 16 available default roles
- Assign minimum access
- Add a New Role to customize access

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Maintain Hierarchies

5000 Personnel Expenses	Expenditures	Payroll Expenditures
5100 Wages	Expenditures	Payroll Expenditures
5101 Salaries & wages	Expenditures	Payroll Expenditures
5102 Contract Labor	Expenditures	Payroll Expenditures
5103 Bonuses	Expenditures	Payroll Expenditures
5200 Payroll Taxes	Expenditures	Payroll Expenditures
5201 FICA/Medicare	Expenditures	Payroll Expenditures
5202 TX Unemployment Insuranc	Expenditures	Payroll Expenditures

No Data Entry

No Data Entry

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Use Allocation Accounts

- Useful for
  - Nongovernmental grant-funded payroll
  - Shared Services
  - Overhead/Indirect Costs

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Nongovernmental Payroll Allocation

- DR. Payroll Grant Allocation Account, Grant A
    - CR. Payroll Grant Allocation Account, No Grantor

Account	Grant A	Grant B	Grant C	No Funder	Total
Wages				100,000.00	100,000.00
Fringe				20,000.00	20,000.00
Grant Allocation	20,000.00	32,000.00	80,000.00	(132,000.00)	-
Total	20,000.00	32,000.00	80,000.00	(12,000.00)	120,000.00

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Shared Service/Overhead Allocation

- DR. Allocation Account, Dept Utilizing Services
  - CR. Allocation Account, Dept Originating Services

SOA by Department

	Operations	Fundraising	Shared Service	Program A	Program B	Program C	Total
Total Controllable Expenses	100,000	30,000	24,000	800,000	500,000	300,000	1,754,000
Allocations							
Operations Allocation	(75,000)			40,000	30,000	5,000	-
Shared Service Allocation	4,000	1,000	(24,000)	10,000	6,000	3,000	-
Total Department Expenses	29,000	31,000	-	850,000	536,000	308,000	1,754,000

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What Are Signs We Need a Change?

General Frustration

- Exclusive use of Excel for reporting
- Frequent miscoding or reclassifications
- Inability to meet reporting needs

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Opportunities for Change

- New Accounting Software (Desktop to Online, QBO to something else)
- New Organizational Hierarchy
- New Location or Program
- New Restricted Funding Source

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Planning Considerations

- Start with budgeting (six to nine months early)
  - Train budgeters on new dimensions & structure
  - Demonstrate value through budget iteration reporting
  - Work out the kinks before you go live
- Start with a new fiscal year
  - Budget alignment paves the road
  - Be careful with cutoff issues
  - Update third-party integrations ASAP

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Questions?

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