

Nonprofit Accounting Academy

What is a pledge?

A pledge is a promise by a donor to give money to an organization in the future. The gift may be paid in one lump sum or a series of payments. Donors normally sign a pledge agreement detailing the amount of the pledge, the payment terms and indicating restrictions on the gift, if any.

Pledge example

Meredith Gray promised to give \$10,000 to Children's Learning Center. Her gift will be paid in increments of \$1,000 each December for 10 years. She signed a pledge agreement detailing the total pledge amount, the payment dates and amounts and stating the gift is not restricted.

Why record pledges?

A promise to give in the future is recorded as contribution income and as a pledge receivable. Once you record pledges in your books:

- You will show contributions (income on your profit & loss report) and pledges receivable (an asset on your balance sheet report).
- You will know how much in total pledges you have outstanding.
- You can determine how much you are projected to collect from pledges by each future year or other time period.
- You can manage pledges. For example you can send payment reminders to donors or write off pledges that become uncollectible.
- Your books will properly present accrual based income, as required for audited financial statements.
- You can toggle to cash basis reporting to remove the effect of recording pledges if you wish.

Overview of how to record pledges

Instructions are generally the same for QuickBooks Desktop and QuickBooks Online. Differences are noted where applicable.

1. Set up the accounts you will need in your chart of accounts.
 - a. Pledges Receivable
 - i. In QuickBooks Desktop create an account called Pledges Receivable, an Accounts Receivable type of account.
 - ii. In QuickBooks Online, do NOT create a separate Pledges Receivable account. Instead, use the Accounts Receivable account since the online software only supports use of one receivable account.
 - b. Contributions, an income type of account
2. Create an item called Individual Contribution linked to the Contributions account.
 - a. In QuickBooks Desktop create a service type item.
 - b. In QuickBooks Online create a service type product/service.
3. Add the donor name to the customer list.
4. Create an invoice in the customer name for the amount of the pledge.
 - a. Use the Individual Contribution item/service you created above.
 - b. You can create one invoice for the amount due each year of the pledge or create one lump sum invoice for the entire amount.
 - c. Whether one or multiple invoices, date each invoice for the date of the signed pledge document.
 - d. For invoices broken out by payment, make the due date the date each payment is due.
5. Receive a payment on the pledge by receiving a payment on the open invoice in the same manner as any other invoice.