**Name of Organization**

**QuickBooks Online Bookkeeping Procedures**

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# A Brief Letter of Introduction

The purpose of this guide is twofold: 1) to explain how to use the QuickBooks for Nonprofits Online company file and 2) to help you with documenting your organization’s own bookkeeping procedures. We do not attempt to cover every aspect of QuickBooks Online. Much documentation by Intuit and others can be found for free online. What we do attempt to cover are the unique aspects of how to use QuickBooks in a nonprofit environment and how to use the QuickBooks Online company file template we provide. We also cover some of the more commonly used functions as a matter of convenience and in the interest of providing beginning-to-end steps for certain tasks.

We encourage you to customize these procedures for your organization. We suggest making a copy of this document so the original is preserved for future reference. In the copy of the document, be sure to change the “updated” date in the footer each time you make edits. You may also wish to indicate the updated date in the document name. Updating your bookkeeping procedures will be an ongoing task as software capabilities and technology change, as you find need to document or clarify procedures and as your organization evolves. Your bookkeeping system needs to provide information for tax preparation, financial statement preparation, the annual audit if you have one done and management. At the same time, the bookkeeping system needs to be manageable by the people who are tasked with maintaining it. We hope this documentation and related QuickBooks Online company file template give you a strong foundation from which to design and implement a bookkeeping system that works for your organization.

Please contact us if you need help with using or customizing the QuickBooks Online company file template, customizing this documentation or if you have suggestions for improvement.

We wish you the best.



Carrie Schulz, CPA, MBA Carol A. Wilson, CPA, MBA

Care Accounting Services

Main:    407-910-2556
Email:   info@careaccountingservices.com
careaccountingservices.com | nonprofitaccountingacademy.com

# Tips on Using This Documentation

Please remember we do not attempt to cover every aspect of QuickBooks Online in these procedures. Our main purpose is to cover the unique aspects of how to use QuickBooks Online in a nonprofit environment and how to use the QuickBooks Online company file template we provided.

Here are ways to find information on how do things in QuickBooks Online:

1. Refer to the table of contents at the beginning of this documentation.
2. Use the Find function in this Word document:
	1. Hold down the Ctrl key and press the F key.
	2. Enter a word or phrase associated with the topic you are searching for. Every place in the document that contains that word or phrase will be highlighted in a list below the search term.
	3. Click on any of the highlighted sections to navigate quickly to that section.
3. Search for information beyond these procedures:
	1. Watch QuickBooks tutorials at <https://quickbooks.intuit.com/tutorials/all-quickbooks-tutorials/> which walk you through many common transactions and procedures.
	2. Click **Help** in the top right corner of QuickBooks Online to search Intuit help.
	3. Use an Internet browser such as Firefox or Chrome to search the Internet.
	4. Purchase one of the many books on the market that serve as a reference for QuickBooks functions.

Remember this is *your* documentation. You can add to and edit these procedures to continue making them more useful and customized to your organization. Be sure to change the date updated in the footer. That way you’ll always know the last time you made changes.

# File Setup

As you begin using your file, you will need to do a few things to customize it for your organization.

## Company Information and Settings

Click the **Gear** icon in the top right corner, then **Account and Settings**. Edit the company name and contact information. Click **Done** when finished.

This file indicates the first month of your fiscal year is January. If you use a fiscal year other than the calendar year, please edit the first month of your fiscal year under the **Advanced** settings in the **Accounting** section. Additionally in this section we generally recommend selecting the **Accrual** accounting method.

After you edit your company information and fiscal year, explore the other setting preferences under Account and Settings.

## Chart of Accounts

Click the **Gear** icon in the top right corner, then **All Lists**, then **Chart of Accounts**. (You can also access the Chart of Accounts from the Accounting menu item on the left side of your screen.)

The QuickBooks Online template file comes with most if not all the accounts you will need.

You may find you want an account that is not included. For example, if you purchase a lot of program supplies, you may wish to create sub accounts for major types of program supplies under account **61500 Program Supplies**. In this case you would NOT use account **61500 Program Supplies** for data entry. This account would serve as the parent account and you would only enter transactions to the sub accounts you create under the parent account.

Under account **64000 Office Expenses** you will see account **64600 Furniture & Equipment < $500**. You can edit this account to change the $500 to a higher or lower dollar amount, depending on your organization’s capitalization threshold. See [Fixed Asset or Expense?](https://nonprofitaccountingacademy.com/fixed-asset-expense/) if you need more information on what a capitalization threshold is and why it’s important.

If you find you need to create a new account, at the top right of the Chart of Accounts click **New**.

Tip: Before you create a new account, find a similar account and click the down arrow at the far right side of the row for that account where it says “Run report” and click **Edit** to see how that account is set up.

Another Tip: Before you create a new account, consider carefully if you really need it. A common mistake is setting up too many accounts which leads to cluttered reports. Consider if there is another account you could use or if you could edit the name of an existing account to make it a broader category. For example, account **63530 Maintenance & Repair** can encompass pest control, mowing, janitorial services as well as minor repairs. You probably don’t need a separate account for each of these services.

Even One More Tip: If you don’t do a lot of travel, you may wish to delete (make inactive) the sub accounts under **67000 Travel** and just use the parent account as your one travel account. Likewise for **68000 Insurance**. Use as few accounts as possible to create meaningful reports.

Last Tip: The reason for parent accounts and sub accounts is so you can click **Collapse** at the top of the **Balance Sheet,** **Profit and Loss, Profit and Loss by Class** and budget reports to create a condensed report which gives you a better overview of your organization. Collapsed reports are great for your board.

## Classes

Please reference the section in these procedures called “Using Classes in QuickBooks to Track Functional Expenses.” Also see [our blog posts on overhead and functional expenses](https://nonprofitaccountingacademy.com/category/overhead/).

Click the **Gear** icon in the top right corner, then **All Lists**, then **Classes**. Classes help you track functional expenses which are required to be reported on Form 990 and in audited financial statements.If you only have one major program area, you can delete the sub programs under **1-Progs** and just use the **1-Progs** class for program expenses. Otherwise rename **Program A** and **Program B** for your organization’s major program areas and add additional program classes as necessary.

Also rename the special events (fundraising events) under **6-Special Events**. Again limit the number of classes. If you have many small events, you may wish to create a class called **Other Events**.

Tip: Try to limit the number of classes. More classes add greatly to the complexity of bookkeeping and make the Profit & Loss by Class report harder to read as you add more columns.

## Products and Services

Click the **Gear** icon in the top right corner, then Products and Services. (This list is called “Items” in QuickBooks Desktop.) Specific instructions on adding to the Products and Services list is included in the relevant sections of these procedures.

## Opening Balances and Year-to-Date Bookkeeping

If you are in your first year of business, you will need to enter your transactions year-to-date. If you are in your second or later year of business, you will need to enter your balance sheet balances as of the last day of your prior calendar or fiscal year and transactions year-to-date.

This QuickBooks company file is set to a year for accounting purposes that begins in January. If your accounting year begins in a month other than January, click the **Gear** icon in the upper right corner, then **Account and Settings**. Click the **Advanced** tab. Click the pencil icon to the right of the Accounting section and select the first month of your fiscal year. Save your selection.

Be sure to link your operating checking bank account online to the appropriate bank account in the chart of accounts. Click **Banking** in the left side menu to access the **Bank Feeds Center**. Once you find your bank, login and click to select the account in QuickBooks. Notice you can select the number of days of activity to import up to 90 days. The default if you do not select a time period is 90 days.

If you need help setting up your beginning balances and/or catching up your bookkeeping in QuickBooks Online, please contact us at info@careaccountingservices.com or 407-910-2556. (Additional fees apply based on the amount of work involved.)

# Cash Accounts

## Operating Checking Account

Account **10100 Checking-Operating** records transactions in the organization’s main operating bank account such as checks to vendors and employees and deposits of contributions and program income. You can rename this account to reflect your actual bank’s name.

Link account **10100 Checking-Operating** in QuickBooks Online to your actual online bank account. Click on **Banking** in the left side menu and follow the steps to create the link. Thereafter transactions that clear your bank will continuously download into the Bank Feeds center. From there you can **Add** the downloaded transactions into your books or **Match** them with transactions that have already been created.

Because you want to be able to match deposits entered in QuickBooks to deposits per the bank, use account **12000 Undeposited Funds** as the *Deposit to* account on sales receipts and payments received on invoices. Then you can click on the **Plus (+)** menu > **Bank Deposit** and select which amounts to deposit so they are grouped the same way that they are physically deposited to your bank. In fact, you can buy deposit forms preprinted with your bank account information to facilitate printing a deposit ticket from QuickBooks. Or simply print the deposit ticket onto blank paper to use as a summary of the deposit. No need to add up the deposit manually – rely on the deposit amount calculated by QuickBooks.

As an alternative to matching each deposit amount with the underlying amounts making up the deposit, you can use a clearing account. This trick works especially well with credit card deposits. See our blog post [Credit Card Deposits in QuickBooks](http://nonprofitaccountingacademy.com/credit-card-deposits-quickbooks/).

Some organizations have additional cash accounts. See our blog post on [Nonprofit Cash](http://nonprofitaccountingacademy.com/nonprofit-cash/).

Also see the section in these procedures called “Reconciling Bank Accounts.”

## PayPal

PayPal is a bank account similar to any other bank account. Activity in your PayPal account is recorded in QuickBooks account **10400 PayPal**.

If you wish to batch record and/or batch deposit PayPal transactions, do NOT link to PayPal online in the Bank Feeds Center. If you wish to enter and deposit each PayPal payment received separately, then you should link to PayPal online in the Bank Feeds Center.

If you wish to link account **10400 PayPal** in QuickBooks Online to PayPal, click on **Banking** in the left side menu and follow the steps to create the link. Thereafter PayPal transactions will continuously download into the Bank Feeds center. From there you can **Add** expenditures made from PayPal directly into your books or **Match** deposits to sales receipts you created and deposited separately net of the PayPal fees.

Instructions to enter PayPal payments received:

1. Go to the **Plus (+)** menu and select **Sales Receipt**. See the following sections for detailed instructions:
	1. “Unrestricted Contributions” – record a cash contribution
	2. “Unrestricted Pledge” – record a payment on a pledge
	3. “Program Service Revenue” – record a payment received in exchange for services provided
	4. “Special Events” – for more information on recording income from special events, which is usually a mixture of contribution and exchange income
2. Options for creating PayPal sales receipts:
	1. Create a sales receipt for each PayPal payment received separately at the gross amount before fees.
	2. Create one sales receipt for all PayPal payments received during the month at the gross amount before fees if you do not wish to keep track of transactions by each donor or customer name.
3. Click the **Plus (+)** menu > **Bank Deposit.**
	1. Select **10400 PayPal** as the deposit *Account*.
	2. Date the deposit for either the day of the sales receipt or, if batching multiple sales receipts, use the last day of the month.
	3. Add a negative amount to the deposit for PayPal fees.
		1. Tip – if doing one deposit for all sales receipts received in a given month, you can find the total PayPal fees for the month on the PayPal Monthly Financial Summary Report.
		2. In the section under *Add funds to this deposit*, on the first line under *Account* select **69300 Bank & Merchant Fees.**
		3. On the same line as above under *Amount* enter a negative amount for PayPal fees.
		4. The vendor name in the *Received From* column is PayPal and the *Class* is **5-Mgt & Gen**.
4. Check to make sure the net deposit agrees to the net amount deposited by PayPal.
5. **Save and close**.

If you connected to PayPal in the Bank Feeds Center, create a deposit for each sales receipt and related PayPal fee separately. Then you will be able to Match the deposits to the downloaded PayPal amounts received.

Otherwise, you can do a batch deposit of the all the individual sales receipts for the month that includes a line for PayPal fees for the entire month. Doing one deposit for the month is more efficient than creating a separate deposit with fee netted for each individual transaction. However, a batch deposit will not Match to the individual downloaded transactions in the Bank Feeds Center so you may want to consider if it’s worthwhile setting up a PayPal bank feed.

Tip: Refer to the PayPal Monthly Financial Summary Report for total payments received at the gross amount and total fees charged for a particular month.

Enter transfers of cash from PayPal to the operating checking account as follows:

1. Click to open the **Plus (+)** menu.
2. Click **Transfer**.
3. Create a transfer from **10400 PayPal** to **10100 Checking-Operating** for the amount of the transfer.

No class is required for transfers between cash accounts.

You will be able to Match to the downloaded transfer amounts in the Bank Feeds Center for both the checking account and for PayPal, if it is linked as a bank feed. You can also add the transfer directly from the Bank Feeds Center from either checking or PayPal. Be sure to click the radio button for Transfer in the downloaded transaction detail. Be careful you don’t enter the transfer twice by adding instead of matching if you have already created or added the transfer transaction in QuickBooks.

## Petty Cash

The office maintains a petty cash fund of $\_\_\_ (for example, $100). This dollar amount is called the imprest balance. As petty cash is used, replace the cash taken with a physical receipt and/or note to document the amount spent.

Enter each expense paid from petty cash using the **Expense** form in QuickBooks Online.

1. Click to open the **Plus (+)** menu.
2. Under **Vendors** click **Expense**.
3. Enter the payee name by selecting a name from the drop down list or add a new vendor name on the fly.
4. Choose **10800 Petty Cash** from the *Bank/Credit account* drop down list.
5. Enter the amount of the expense.
6. Enter the *Class*.
7. Click **Save and close**.

After entering each expense paid with petty cash using the steps above, the balance in petty cash per QuickBooks should agree to the actual amount of petty cash on hand.

Each month reconcile petty cash. Make sure the sum of cash on hand and receipts for cash spent total the imprest amount as per above. Record any discrepancy to miscellaneous expense.

Replenish petty cash up to the imprest amount by adding actual cash to your physical petty cash fund and also recording the addition to petty cash.

1. Click to open the **Plus (+)** menu.
2. Click **Transfer**.
3. Create a transfer from account **10100 Checking-Operating** to account **10800 Petty Cash** for the amount of cash taken from the operating bank account and put into the petty cash fund.

No class is required for transfers between cash accounts.

Short term petty cash needs for special events can be handled the same way. Using the **Transfer** form on the **Plus (+)** menu, create a transfer from account **10100 Checking-Operating** to account **10820 Petty Cash Special Event**. Manage the account as per the above instructions. When the event is done and all petty cash expenditures are recorded, redeposit the remaining balance into the operating bank account and again record the transfer of cash in QuickBooks.

## Reconciling Bank Accounts

Reconcile account **10100 Checking-Operating** in QuickBooks to the bank statement monthly. Reconcile other bank accounts (except **10900 Clearing**) monthly or less frequently if they have low activity, but no less frequent than annually. To reconcile a bank account:

1. Go to the **Gear** settings icon, **Reconcile**.
2. Select the account you wish to reconcile from the drop down menu.
3. Enter the *Ending balance* per the bank statement.
4. Enter the *Ending date* per the bank statement.
5. Click **Start reconciling**.
6. Compare the information displayed in QuickBooks to the bank statement. Click to place a check mark next to each transaction that has cleared the bank. Note if you added a transaction from the Bank Feeds center it is already matched to a downloaded bank transaction and marked as cleared.
7. After all cleared transactions have been checked off, the *Difference* showing in the lower left corner should be zero.
8. If you find you made an error in entering the ending balance, click *Edit Information* in the lower left corner and edit the statement ending balance or date.
9. After the difference is zero, click **Finish Now**.
10. You can always leave this screen by clicking **Finish Later**.

Tip: Look carefully at uncleared checks and deposits. Investigate any transaction in QuickBooks that did not clear the bank if it looks like it might be an error. Follow up with payees on uncleared checks if they are outstanding for more than one bank statement cycle.

See also this Intuit tutorial on reconciling your bank account: https://quickbooks.intuit.com/tutorials/lessons/reconcile-accounts/.

# Accounts Receivable

QuickBooks Online can only use one accounts receivable account. Unlike QuickBooks Desktop where you can set up more than account to distinguish trade receivables from pledges receivable and grants receivable, all of your receivables in QuickBooks Online need to be maintained in one account, which in this template is **11000 Accounts & Pledges Receivable**.

# Miscellaneous Receivables

This template comes with account **11900 Miscellaneous Receivables**. If you are owed money for any reason, such as a refund from a vendor or a reimbursement from an employee who inadvertently used the organization’s credit card for a personal purchase, you can record the amount owed to this account pending receipt of the cash.

For example you discover a vendor accidentally charges you sales tax even though you have provided your exemption certificate. You can record the amount of the sales tax refund due to **11900 Miscellaneous Receivables** instead of recording it to an expense account. That way the amount to be refunded does not overstate expenses and it is flagged as an amount owed on the balance sheet.

When you receive the refund, do not use a sales receipt. Simply record the deposit directly to **11900 Miscellaneous Receivables**. See also the section in these procedures called “Refunds from Vendors.”

# Prepaid Insurance

Because insurance payments are weighted toward the beginning of the time period covered, you may wish to follow accrual accounting procedures and record only one month of expense each month (1/12 of an annual premium). Code insurance payments to account **13100 Prepaid Insurance** when initially paid then do a monthly journal entry to record the expense and allocate by class. Once the journal entry is created, it can be memorized to automatically be entered monthly for a set number of times.

1. Go to the **Plus (+)** menu and select **Journal Entry**.
2. Date the entry for the end of the month of the expense.
3. On the first line select account **13100 Prepaid Insurance**. In the Credit column put an amount equal to 1/12 of the annual expense.
4. On the second line select the appropriate sub account for the type of insurance under parent account **68000 Insurance**. In the Debit column put the same number as on line one.
5. In the *Description* field for both lines put a description such as “Expense one month of insurance for policy period (start date) to (end date).”

# Fixed Assets

Fixed assets are major purchases, such as for equipment, vehicles or buildings, with a useful life of more than one year. Fixed assets are capitalized (recorded as an asset on the balance sheet) instead of expensed when purchased if they cost more than the capitalization threshold of $\_\_\_\_\_\_ (we suggest $500 - $1,000).

Record fixed asset purchases in one of the sub accounts under parent account **15000 Property & Equipment**. Put a clear description of what was purchased, such as “Dell Inspiron 15 laptop” instead of simply “computer.” If the purchase was made in more than one payment, note “payment 1 of 3” or something to that effect so all the transactions that make up the cost of one asset can be determined.

# Liabilities

Liability accounts represent amounts you owe to others.

## Credit Card Payable

Account **23000 Credit Card Payable** is for purchases you make on a credit card. Rename this account for your actual credit card name.

If you use a credit card, even if you pay it off monthly, you should use this account and record credit card purchases to this account.

Link your credit card account in the Bank Feeds Center so credit card activity imports into QBO. That way you do not need to enter each transaction manually. See the section “Operating Checking Account” for information on linking to an online account.

Also just like your operating checking account, reconcile account **23000 Credit Card Payable** each month.

# Recording Revenue, Cash Received and Bad Debt

## Using the Customer Center

The Customer Center is used to store information about each person or other entity that gives money to the organization, including donors and customers who pay for services.

To set up a new customer, click **Sales** in the left side menu, then the **Customers** tab. Click **New Customer** and set up the name and contact information for that customer.

If the customer is a minor, you can set up a customer record in QuickBooks as follows:

|  |  |  |
| --- | --- | --- |
| **Field(s)** | **Description** | **Example(s)** |
| First name, Last name | Name(s) of responsible party | John & Pam Smith or Ed Green |
| Display name as | Name of student, with responsible party name in parentheses | Smith, Jimmie (John & Pam) |
| Print on check as | Name of responsible party | John & Pam Smith |
| Billing address | Address of responsible party | 123 Oak St., Orlando, FL 32801 |
| Shipping address | Address of student, if different | 43 Shady Way, Orlando, FL 32803 |
| Email | Email address | john@yahoo.com |
| Phone, Mobile | Home phone and mobile phone | 407-123-4567 |
| Notes | Student rate or other notes | Student rate $25/hr |

## Program Service Revenue

To record fees charged for program services, use a sales receipt (if the money has been received) or invoice (if you need to invoice your customer or the money will be received in the future or if you need to apply payments made to a specific invoice for services).

To create a sales receipt:

1. Go to the **Plus (+)** menu and select **Sales Receipt**.
2. Pick the customers name from the drop down list where it says *Choose a customer*.
3. Enter the date of the sale in the **Sales Receipt date** field.
4. Pick the *Payment method* from the drop down box. If a check, enter the check number in the *Reference no*. field.
5. In the *Deposit to* drop down box, pick **12000 Undeposited Funds**.
6. On the first line under *Product/Service*, pick an item under *Program Services*. If you need to create a new program service, see instructions in next section.
7. Enter the *Amount*, or *Qty* and *Rate* so it calculates an amount.
8. Select the program class in the *Class* field.
9. Click the desired *Save* option.

To create an invoice:

1. Go to the **Plus (+)** menu and select **Invoice**.
2. Pick the customer’s name from the drop down list where it says *Choose a customer*.
3. Enter the date of the invoice (based on the date the services were provided) in the *Invoice date* field.
4. Enter a *Due date* for the invoice to be paid.
5. On the first line under *Product/Service*, pick an item under *Program Services*. If you need to create a new service item, see instructions in next section.
6. Enter the *Amount*.
7. Select the appropriate prgram *Class*.
8. Click the desired *Save* option.

When you receive a payment on the invoice, DO NOT enter the payment as a new sale. Be sure to enter a payment against the open invoice.

1. Go to the **Plus (+)** menu and select **Receive Payment**.
2. Pick the customer’s name from the drop down list where it says *Choose a customer*.
3. Enter the date the payment was received.
4. Select a *Payment method*; enter the check number in the *Reference no*. field.
5. Select **12000 Undeposited Funds** as the *Deposit to* account.
6. Enter the amount of the payment under *Amount received*.

## Create a New Program Service

To create a new program service item if needed:

1. Click the **Gear** icon at the top right, then click **Products and Services**.
2. Click **New**; pick **Service**.
3. Enter a name for the service that will appear on the customer’s sales receipt.
4. Check the box for “**is sub-product/service**” and pick **Program Services** from the drop down menu.
5. In the *Income account* field, pick **43200 Program Service Fees**.
6. Uncheck the box for **Is taxable**.
7. **Save and close**.

## Discounts or Scholarships on Program Service Income

If you offer discounts or scholarships, add the fee reduction to the sales receipt or invoice. After entering the items for services at the normal prices, add a line using the **Scholarship** item.

See also *Discounted Fees or Scholarships Associated with a Grant* below.

## Bad Debt (Writing Off Customer Invoices)

If it becomes clear a customer will never pay an invoice, you can write it off:

1. Click on **Sales** then **Customers** and enter the customer name in the *Find a customer or company* field to bring up the customer’s account.
2. Note the amount listed as “OPEN” in the top right corner.
3. Click **New transaction** and select **Credit Memo**.
4. In the *Product/Service* field select **Bad Debt**. This item will debit account **69200-Bad Debts**.
5. Enter the amount being written off. The amount can be the sum of more than one invoice.
6. Select class **5-Mgt & Gen.** (Bad debt is always considered to be management and general expense.)
7. The *Credit Memo Date* can be today’s date unless you are making this entry after fiscal year end and you want to date the write-off for the prior year, in which case you would make the entry for the last day of your organization’s fiscal year.
8. **Save and close**. The credit will automatically be applied to close any open invoices (Check preference setting to *Automatically apply credits* under the **Gear icon > Account and Settings > Advanced > Automation section** .)
9. If you need to change which invoice is written off you can open the credit memo then click on the number of “payments” received in the top right corner to open a window showing a list of invoices “paid.” Adjust which invoices are checked as needed.

## Unrestricted Contribution

To record an unrestricted contribution paid in full (as opposed to a pledge which is a promise to make a gift in the future) create a sales receipt:

1. Go to the **Plus (+)** menu and select **Sales Receipt**.
2. Pick the customer’s name from the drop down list where it says *Choose a customer*.
3. Enter the date of the sale in the **Sales Receipt date** field.
4. Pick the *Payment method* from the drop down box. If a check, enter the check number in the *Reference no*. field.
5. In the *Deposit to* drop down box, pick **12000 Undeposited Funds**.
6. On the first line under *Product/Service*, pick an item under *Contributions & Grants*.
7. Enter the *Amount*.
8. Select **7-Fundraising** in the *Class* field.
9. Click the desired *Save* option.

## Unrestricted Pledge

To record an unrestricted pledge use an invoice in QuickBooks. Before recording a pledge, you should have a written and signed pledge agreement in hand that specifies the pledge amount and payment terms.

To create an invoice:

1. Go to the **Plus (+)** menu and select **Invoice**.
2. Pick the donor’s name from the drop down list where it says *Choose a customer*.
3. Enter the date of the pledge in the *Invoice date* field.
4. Enter a *Due date* for the pledge to be paid. If the pledge is to be paid in multiple installments, you may wish to set up a separate invoice for each pledge payment with the appropriate due date. This method facilitates sending a separate “invoice” as a pledge payment reminder to your donor. Alternatively you could set up a separate invoice for each year of pledge payments.
5. On the first line under *Product/Service*, pick an item under *Contributions & Grants*. If you need to create a new service item for a different donor category, see instructions in next section.
6. Enter the *Amount*.
7. Enter the *Class*. Select **7-Fundraising** if the gift is unrestricted. If the gift is restricted for a particular program, select the program class or **9-Temp Restricted**. An explanation of how to track all types of restricted funds is beyond the scope of these instructions.
8. Click the desired *Save* option.

When you receive a payment on the pledge, DO NOT enter the payment as a new contribution. Be sure to enter a payment against the open invoice.

1. Go to the **Plus (+)** menu and select **Receive Payment**.
2. Pick the donor’s name from the drop down list where it says *Choose a customer*.
3. Enter the date the payment was received.
4. Select a *Payment method*; enter the check number in the *Reference no*. field.
5. Select **12000 Undeposited Funds** as the *Deposit to* account.
6. Enter the amount of the payment under *Amount received*.

## Bad Debt (Writing Off Pledges)

If it becomes clear a donor will never pay a pledge, you can write off the unpaid invoice(s):

1. Click on **Sales** and click the **Customers** tab.
2. Enter the donor name in the “*Find a customer or company*” box to bring up the donor account.
3. If the unpaid pledge invoice was created in the current fiscal year and no payments have ever been applied, simply void it by clicking on **More** (at bottom center), then **Void**.
4. If the unpaid pledge invoice was created in the current year and partial payment has been made, add a line for the same gift item and enter a negative amount to zero out the invoice.
5. If the unpaid pledge invoice was created in a prior year:
	1. Note the amount listed as “OPEN” in the top right corner of the donor account window.
	2. Click **New transaction** and select **Credit Memo**.
	3. In the *Product/Service* field select **Bad Debt**. This item will debit account **69200 Bad Debts**.
	4. Enter the amount being written off. The amount can be the sum of more than one invoice.
	5. Select the *Class* **5-Mgt & Gen**.
6. The *Credit Memo Date* can be today’s date unless you are making this entry after fiscal year end and you want to date the write-off for the prior year, in which case you would make the entry for the last day of your organization’s fiscal year.
7. **Save and close**. The credit will automatically be applied to close any open invoices (Check preference setting to *Automatically apply credits* under the **Gear icon > Account and Settings > Advanced > Automation section** .)
8. If you need to change which invoice is written off you can open the credit memo then click on the number of “payments” received in the top right corner to open a window showing a list of invoices “paid.” Adjust which invoices are checked as needed.

## Restricted Grants

Grants and other gifts restricted by the donor are always considered to be spent first before unrestricted contributions as long as the restriction can be satisfied.

To record a restricted grant, first set up the donor name in the Customer Center as explained under “Using the Customer Center.” An example of the donor name is the name of a private foundation, such as ABC Foundation, which may award multiple grants over many years.

Next turn on project tracking.

1. Click the **Gear icon > Account and Settings > Advanced**
2. Edit the *Projects* section by checking the box to *Use project financial tracking*.
3. **Save** and click **Done**.

Now you will see a new menu option in the left side menu called *Projects*. Click on Projects and set up your grant:

1. Click to **Add** a project (or **New project** if you have previously used Projects.)
2. In the *Project* name field, enter a name for the grant awarded such as “ABC Fnd Grant 2018.” Putting the year in the job name is a good idea to differentiate this grant from grants you may receive in future years. Or the donor may assign a grant number you can use.
3. Select the *Customer* name you set up previously in the Customer Center (the foundation name or other donor name).
4. Add *Notes* about the restricted purpose of the grant, the start and end dates of the grant, or any other notes about how the grant should be spent.
5. **Save**.

Now you are ready to enter the grant income. The instructions vary based on how the grant is structured. Note in all cases use the specific project name for the Customer and select a class that corresponds to the restricted purpose of the grant (often a specific program), if any. If not restricted, the grant can be coded to the Fundraising class.

1. **Grant paid up front in full** – If you received the grant in full, follow the instructions under *Unrestricted Contribution* above to record the grant using a sales receipt.
2. **Grant paid in installments** – If the grant will be paid in future installments, follow the instructions under *Unrestricted Pledge* to record the grant using an invoice. You can use one invoice for the entire grant or you can set up a separate invoice for each payment.
3. **Reimbursement grant** – If your grant will only pay after you have incurred eligible expenses, do not record the grant up front. Follow the instructions under *Unrestricted Pledge* to create invoices for reimbursement which will record the grant income.

You can access reports about the income and expenses of this grant by clicking on the Project name within the *Project* area and clicking to open the **Project Profitability** report.

When the project is completed, you can click on the *Project* name to open it and click to change the status from *In progress* to *Completed* (next to the *Project* name).

See also the section “Tracking Expenditures from Restricted Grants.”

## Restricted Contributions Other Than Grants

To record a restricted contribution other than a grant, you can use the technique above for restricted grants if the gift is significant. In actuality, there is no difference between a gift, contribution or grant other than grants are usually larger than your average gift and come with reporting requirements. For small restricted contributions, especially those you know you will spend before the end of the current year, use the steps above for recording an unrestricted contribution except use the class that correlates to the restriction.

In the Profit & Loss by Class report if the class revenues are less than the class expenses then you know you have spent all of the restricted funds.

If the restricted contribution is for more than one class, contact Care Accounting Services for guidance on how to best record and track the use of the gift.

## United Way Grants and Workplace Giving

1. **Annual Funding** **Commitment**– Set up one invoice dated July 1 for the entire funding commitment per the letter received for the 7/1 – 6/30 funding cycle using the **United Way** customer. Receive payments against this invoice. Do NOT use a sales receipt for the regular funding commitment; always receive a payment against the invoice.
2. **Workplace Giving via United Way or Others** – Use the name of the company, such as Beneficent, as the Customer name. Use the Product/Service **Workplace Giving**. This item codes the donations to account **41300 Contributions**.

## Interest and Dividends

Enter interest and dividends directly at **Plus (+) > Bank Deposit** by adding a line to the deposit. Do not use a sales receipt. The account is **45100 Interest Income**.

## Refunds from Vendors

Enter refunds from vendors directly at **Plus (+) > Bank Deposit** by adding a line to the deposit. Do not use a sales receipt. Usually you can record the deposit to the account originally charged. For example a refund of office supplies would be coded back to the account for office supplies to offset the original expense.

An exception is if the refund is owed on a prior fiscal year expense. If the refund is significant, and if you have not already finalized your prior year accounting for 990 and audit purposes, you can use a journal entry to record the refund to last year’s expense and account **11900 Miscellaneous Receivables**. Record the deposit of the refund in the new fiscal year as of the date of the deposit to **11900 Miscellaneous Receivables**. See also the section in these procedures on “Miscellaneous Receivables.”

## Repayment from an Employee

If you make a loan to an employee, code the amount to account **12800 Employee Advances**. Then when you receive repayment from the employee enter the bank deposit at **Plus (+) > Bank Deposit** by adding a line to the deposit. The account is **12800 Employee Advances**. You do not need to enter a name in the *Received From* field.

# Special Events

This template file is set up with one set of generic special events accounts under parent account **44000 Special Events** and one set of generic special events product/service items under the parent item **Special Events**. If you have more than one major event, you can distinguish the events by setting up a Class for each event. The Class list in the template file shows **Event #1** and **Event #2** which you should rename for your events.

If you have more than two events, we recommend turning on Location codes and using a Location code to tag the event income and expenses to the event name while keeping all the transactions in the parent class **6-Special Events**. This is because the Profit & Loss by Class report cannot be collapsed horizontally – adding more classes makes this report wider and wider and hence more difficult to work with.

If you wish to consult with us, we can help you determine the optimal way to set up your special events so you can pull reports by each special event. Our standard consulting rates apply.

## Special Event Income

To record income from a special event, use items under the *Special Events* parent itemon a *Sales Receipt* or *Invoice* form as appropriate. See sections “Unrestricted Contribution” and “Unrestricted Pledge” for detailed steps on entering a sales receipt or invoice.

Income from fundraisers needs to be divided into two parts, the contribution portion and the exchange portion. The contribution portion is the amount received that is greater than the value of goods/services provided. Often the requested ticket price of a fundraising event includes an exchange portion, such as the value of the banquet, and a contribution portion, the amount the buyer is donating. Such mixed payments are called quid pro quo payments.

For event contributions or for the contribution portion of a quid pro quo payment received, record on a sales receipt using the product/service for **Contribution** under the parent Product/Service **Special Events.** For purchases of goods or services, or for the exchange value of a quid pro quo payment received,use the product/service for **Exchange** under the parent Product/Service **Special Events**

For special event sponsorships, use the item **Sponsorship**. Sponsorship income is treated like a contribution. It is statutorily excluded from Unrelated Business Income by [IRC Sec. 513(i)(1)](https://checkpoint.riag.com/app/main/docLinkNew?usid=255d8ep71dfb&DocID=ic3c1e26419d711dcb1a9c7f8ee2eaa77&SrcDocId=T0PPC990%3A201326582c909b5300d-1&feature=ttoc&lastCpReqId=3217859&pinpnt=TCODE%3A11841.1&d=d" \l "TCODE:11841.1" \t "_top). See also the regulations under IRS Reg. 1.513-4 for more details on distinguishing non-taxable sponsorship income from taxable advertising income.

## Low Cost Articles Exception

Goods or services provided in return for charitable contributions are ignored if they have insubstantial value. Each year, the IRS sets dollar values (indexed for inflation) to determine what is insubstantial. For 2018 items are considered to have an insubstantial value if (Rev. Proc 90-12 section 3 as updated by the latest Rev. Proc.):

1. The FMV of all the benefits received for the payment is 2% or less of the payment or $109 whichever is less; or

2. The payment is $54.50 or more and only token benefits are received (e.g., bookmarks, calendars, key chains, mugs, posters, T-shirts) bearing the organization's name or logo. The cost to the organization of all benefits received by the donor must be less than $10.90.

## Special Event Expenses

To record direct expenses of the special event, use account **44700 Cost of Special Events**. Use the *Check* window for a physical check or e-check. Use the *Expense* window for a credit card purchase.

## Auction Donations and Sales

For auction donations, create a donation receipt using the product/service item **In-Kind Donation-Auction** andclass **6-Special Events**. The amount is the organization’s estimate of the in-kind value. (Do not give the donor a receipt that includes the in-kind value. It is not your job to value in-kind donations for the donor.)

Deposit the amount of the donated item to account **10900 Clearing**. Then write a check on account **10900 Clearing** using the vendor name **Gifts-in-Kind** for the same amount and class using account **44820 Event In-kind Donations Expense**. If you keep a separate spreadsheet you may create these entries using aggregate numbers. If you use QuickBooks as your donor database, separate entries will capture the donor names.

 The above steps record the value of the donated auction items as in-kind income and simultaneously as in-kind expense. The assumption made is that all items donated will be sold or subsequently discarded. If any significant auction items remain to be used for next year, an entry can be made to reclassify the value of the donated item to inventory. (Check with Care Accounting Services.)

When auction items are sold, use a *Sales Receipt* form and the product/service item **Auction Sale**. Make a note on the sales receipt of amounts received in excess of the item’s value for Form 990 purposes. If you keep a separate spreadsheet you may create an aggregate sales receipt for all auction sales.

Unfortunately auction donations and sales are treated differently on Form 990 than for your audit per Generally Accepted Accounting Principles (GAAP). According to the 990 instructions, an auction sale is an exchange transaction up to the value of the item sold. Any amount received above the fair value is a contribution. According to Generally Accepted Accounting Principles, all proceeds from the auction are treated as contributions.

Below is the GAAP reference for the treatment of donated auction items:

ASC 958-605-25-20
NFPs may also receive items, such as tickets, gift certificates, works of art and merchandise that are to be used for fundraising purposes by transferring them to other resource providers (the ultimate resource provider or recipient) during fundraising events.  Those gifts-in-kind can be linked to asset transfers from the original resource providers to the ultimate resource provides (recipients) because they are, in substance part of the same transaction; those gifts-in-kind shall be reported as contributions and measured at fair value when originally received by an NFP.  The difference between the amount received for those items from the ultimate resource providers (recipients) and the fair value of the gifts when originally contributed to the NFP shall be recognized as adjustments to the original contribution when the items are transferred to the ultimate resource providers (recipients).

The bottom line for GAAP is the amount received from the sale of the donated items is the amount presented as contribution income in the financial statements. The value of the donated auction items is not reflected in the financial statements.

By tracking both the donated items and the subsequent sales per the steps above you have captured both the original donors of the items and the ultimate buyers of the items. Also you are capturing the information needed for both your audited financial statements and preparation of Form 990.

# Bad Checks

Record a bad check by re-invoicing the client or donor. (This technique assumes no sales tax is involved.)

1. Go to the **Plus (+)** menu and select **Invoice**.
2. Pick the client or donor’s name from the drop down list where it says *Choose a customer*.
3. Enter today’s date in the *Invoice date* field.
4. Select *Terms* **Due on receipt**, which will make the due date the same as the invoice date.
5. On the first invoice line under *Product/Service* select **Bad Check**. Edit the *Description* to provide details of the bad check and what it originally was supposed to pay. You do not need to enter a *Class* for this line because the credit will be to the operating checking account, not an income account.
6. On the second invoice line select the **Bad Check Charge** item and enter the *Amount* you are charging to recover bank fees and administrative expense to send another invoice. For this line you can select the *Mgt & Gen* class.
7. Click **Save and close**.

Note if you are using the sales tax function in QuickBooks, reinvoicing using nontaxable Bad Check and Bad Check Charge items will add to your nontaxable sales on the Sales Tax Liability report but will not increase sales tax due.

# Gifts-in-Kind

## Donated Program Supplies

Donated supplies used in the organization’s programs can be recorded using one generic item or, if substantial, you may wish to create separate items for various types of donated supplies as illustrated below:

1. Go to the **Plus (+)** menu and select **Sales Receipt**.
2. Use the Product/Service **Donated Program Supplies**.
3. Enter a description of the donated supplies.
4. Enter the *Amount* based on your estimate of the value (not necessarily the same as the donor’s estimate)
5. Select class **7-Fundraising**.
6. The *Deposit to* account is **10900 Clearing**.
7. **Save and close**.
8. Next go to the **Plus (+)** menu and select **Expenditure**.
9. Select bank account **10900 Clearing** as the Bank Account.
10. The check date is the same date as the sales receipt.
11. The payee is vendor name **Gifts-in-kind**.
12. Select account **61500 Program Supplies**. Enter a description of the donated supplies. It is not necessary to create a separate account for in-kind program supplies vs. purchased program supplies. The in-kind income for donated program supplies tells you the amount of program supplies donated.
13. Select the same program *Class* as the sales receipt.
14. **Save and close**.

The above steps record the value of the donated supplies as income in account **42100 Donated Goods** and also record the value as an expense. If the donated supplies are substantial and will be used (expensed) over a long period of time or over more than one fiscal year, please consult with Care Accounting Services for how to best record the transaction.

## Donated Services

Note that while the value of donated services may be considered a contribution for financial statements based on Generally Accepted Accounting Principles, it is not includable as a contribution on Form 990. Recording the value of donated services can also be very useful management information.

According to Generally Accepted Accounting Principles (GAAP) Accounting Standards Codification ASC 958-605-25-16:

Contributions of services shall be recognized if the services received meet any of the following criteria:

a. They create or enhance nonfinancial assets.

b. They require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen.

Regarding valuation of donated services, ASC 958-605-30-10 states:

Contributions of services that create or enhance nonfinancial assets may be measured by referring to either the fair value of the services received or the fair value of the asset or asset enhancement resulting from the services.

Therefore, you should only record the value of services that meet the above criteria for financial statement purposes. If you wish to record the value of services that do not meet the above criteria, such as the value of a volunteer receptionist or volunteers who entertain children, you should use a separate account. That way the value will be reflected for management purposes in QuickBooks but easily pulled out for GAAP based financial statements.

To record donated services that meet GAAP criteria

1. Create a sales receipt. Use the item **Donated Services-Prof./GAAP** . Enter a description of the donated services and use class **7-Fundraising**. Deposit the sales receipt to account **10900 Clearing**.
2. Write a check using account **10900 Clearing** as the Bank Account. The payee is vendor name **Gifts-in-kind**. Using the Expenses tab of the check, select the appropriate account according to the nature of the services provided. If the service resulted in a capital asset you may need to use a fixed asset account.

## Donated Tickets or Other Merchandise that is Subsequently Sold

1. Create a sales receipt. Use the item **Donations for Resale-Value**. Enter a description of the donated merchandise and use class **7-Fundraising**. Deposit the sales receipt to account **10900 Clearing**.
2. Write a check using account **10900 Clearing** as the Bank Account. The payee is vendor name **Gifts-in-Kind**. Use account **42500 Donated Item Sale Proceeds**. Again enter a description of the donated merchandise.
3. Enter a receipt for the sale of the donated merchandise. Use the item **Donation for Resale-Proceeds**. Enter a description of the donated merchandise sold. Use class **7-Fundraising**.

The end result is the original donor’s in-kind contribution is recorded on a sales receipt. The value of the in-kind donation is recorded in account **42500 Donated Item Sale Proceeds** and then the same value is recorded as a negative amount in **42500 Donated Items Sale Proceeds**. The sale resulting in receipt of cash is recorded in account **42500 Donated Items Sale Proceeds**. The only amount remaining in account **42500 Donated Items Sale Proceeds** is the amount of cash received upon the sale, but the trail of the in-kind donation is also available in this account.

## Donated Use of Facilities

Record the value of free or reduced facilities rental based on the fair market value of the benefit received. Note that while the value of donated facilities is considered a contribution for financial statements based on Generally Accepted Accounting Principles, it is not includable as a contribution on Form 990. Recording the value of donated facilities can also be very useful management information.

To record the value of donated use of facilities:

1. Create a sales receipt. Use the item **Donated Use of Facilities**. Enter a description of free or reduced rents and use class **7-Fundraising**. Deposit the sales receipt to account **10900 Clearing**.
2. Write a check using account **10900 Clearing** as the Bank Account. The payee is vendor name **Gifts-in-Kind**. To account **63575 Rent & Storage-Donated**. Again enter a description of the free or reduced rents.

The above steps record the value of the donated facilities as income in account **42800 Donated Use of Facilities** and also record the value as an expense in **63575 Rent & Storage-Donated**.

## Donated Securities

These instructions are for donated securities that are to be sold in the near future.

1. Create a sales receipt for the value of the donated securities dated as of the date the securities are transferred into the name of the organization. Use the Product/Service item **Donation of Securities**.
2. The amount of the donation is based on the average of the opening and closing securities price as of the date of donation.
3. Deposit the donation receipt amount to account **14100 Securities Holding**.
4. Upon sale of the securities, create a sales receipt using the name of the brokerage firm as the customer.
	1. On the first line of the receipt select the Product/Service item **Securities Holding** and in the *Amount* field put the value of the donated securities. Leave the class blank.
	2. On the second line select the item **Cost of Securities Sales** and enter any transaction fees as a negative amount. On third line select the sub item **Realized Gain/Loss-Securities** and enter the gain (as a positive number) or loss (as a negative number) on the sale. Code lines 2 and 3 to the **5-Mgt & Gen** class.
	3. The net amount of the receipt should equal the net proceeds of the security sale.

# Expenses

## Functional Expenses

Reporting expenses by both natural and functional area is required in Form 990, the annual information return required of many nonprofits, as well as audited financial statements.

Natural classification of expenses is done when you code transactions using an account in the chart of accounts such as Program Supplies, Rent, Travel, Salaries & Wages, etc. Functional expense reporting is accomplished in QuickBooks using classes.

There are three main functional areas:

1. Program services
2. Management and general
3. Fundraising

Management and general expenses and fundraising expenses are referred to collectively as supporting services. Please see our [series of blog posts on overhead](https://nonprofitaccountingacademy.com/category/overhead/) for more detail on what expenses belong in each of these functional areas.

You are only required by Form 990 and General Accepted Accounting Principles to report expenses by function, not income. However, it is useful for management purposes to also code income to classes in QuickBooks based on the source of the income.

## Functional Expense Classes in QBO

In QuickBooks you use classes to assign expenses to functional areas. This QuickBooks company file template comes with the basic classes you need for functional expense reporting. Please also refer to the section in these procedures called “Classes” under the “File Setup” section at the beginning of these procedures.

Besides classes for the three main functional areas listed above, this QuickBooks company file also has a few specialized classes.

Special events are part of the fundraising function, but due to the way event income and expenses are presented on Form 990 and because they are generally a peripheral activity of the organization, we provide separate classes as well as accounts to help you with tracking them.

The class **4-UBI** refers to Unrelated Business Income. Nonprofits can produce taxable income. A discussion of unrelated business taxable income is beyond the scope of these procedures.

The class **9-Temp Restricted** is addressed in the “Grants” section below.

**9-Perm Restricted** is for gifts that are permanently restricted. This class is not used for expenses. It is used to accumulate the original amount of permanently restricted gifts.

## Allocating Common Costs to Classes

Expenses should be assigned to a functional expense class directly when feasible. For example, supplies purchased for a program can be coded to the program class when the check is entered. Other expenses are common to multiple areas and thus are coded to **Prog Com Costs** (Program Common Costs under **1-Progs**) or **8-Com Costs** (Common Costs) for later allocation using a journal entry.

For example, an organization that provides therapeutic horseback riding codes expenses related to horse upkeep such as feed and bedding to a program supplies account and the **Prog Com Costs** class. From there they do a journal entry to spread the accumulated common program supply costs to the specific therapeutic riding programs (autistic children, veterans, etc.) Other expenses, such as salaries and payroll taxes, are coded to the appropriate payroll account and **8-Common Costs,** then spread by journal entry to the appropriate classes.

Payroll expenses, office expenses and facilities expenses lend themselves well to aggregating in a common costs class then allocating to the functional expense classes by journal entry. The allocation journal entries use accounts such as **63590 Facilities Class Allocation** and **64800 Office Expense Allocation** to re-assign expenses that accumulated in the various sub accounts under a particular parent account out of the common costs class and to the functional expense classes.

As a shortcut, some organizations code common costs, such as for payroll or facilities, directly to a program class rather than common costs if substantially all of the expense is for program. While some portion of these expenses will need to be allocated to support services at year end for 990 and audit purposes, this shortcut is one possible way to cut down on accounting work during the year.

Other nonprofits do not attempt bookkeeping for functional expenses at all. They let their CPA deal with it after year end. We acknowledge this is one of the more challenging areas for small nonprofits, but we encourage you to at least begin addressing this area. Because of the tremendous amount of variation among nonprofits in terms of functional expense needs and staff capabilities, we can only provide a framework for you to use in developing your own procedures. If you need more help in this area, please contact Nonprofit Accounting Academy at info@nonprofitaccountingacademy.com.

## Functional Expense Methodology

Below is a table with general guidelines on assigning or allocating expenses to functional areas. For more information, see our [blog posts on overhead](https://nonprofitaccountingacademy.com/category/overhead/). Also you can find a free Excel tool to help with understanding and allocating expenses by functional area in our [Free Member Resource Library](https://nonprofitaccountingacademy.com/library/).

Be sure to document your organization’s bookkeeping for functional expenses in these procedures. If you have an audit, disclosure of your methodology for allocating functional expenses is now required. When customizing the chart of accounts, consider grouping expenses with similar allocation bases to facilitate journal entry allocations.

|  |  |  |
| --- | --- | --- |
| Type of Expense | Allocation Method | Class |
| Accounting & Audit | Direct | Management & General |
| Advertising | Direct based on purpose | All functional areas |
| Bank Fees | Direct | Management & General |
| Board Meeting Expenses | Direct | Management & General |
| Depreciation | Use of related fixed asset | Depends on use of asset |
| Facilities expenses such as rent, utilities, janitorial services, and repairs/maintenance | Square feet used by each area | All functional areas |
| Information technology expenses such as network maintenance, hardware and software | Combination of direct and allocated using any reasonable base | All functional areas |
| Insurance-General Liability | Direct | Management & General |
| Insurance-Liability for Programs | Direct | Program |
| Insurance-Officers & Directors | Direct | Management & General |
| Interest expense | Square feet used by each area | Depends on use of related funds |
| Merchant fees | Related revenue | Depends on nature of revenue |
| Office expenses such as postage, printing, supplies and phone | Combination of direct and allocated based on use studies, head count, time studies, or any reasonable allocation base | All functional areas |
| Payroll service fees | Direct | Management & General |
| Program Supplies | Direct | Program  |
| Payroll-Salaries & Wages | Time studies | Allocate “direct conduct or direct supervision” of programs to a program class, remainder to support services. |
| Payroll-Taxes | Follows salaries & wages | See Payroll-Salaries & Wages above |
| Payroll-Employee Benefits | Salary dollars | See Payroll-Salaries & Wages above |
| Travel | Direct | All functional areas |
| Web site | Web pages | All functional areas |

## Checks and Other Payments for Purchases

If a vendor bill was created in QBO for the expense, be sure to use the **Bill** window from the **Plus (+)** menu to enter a bill payment. Do not use the **Check** or **Expenditure** window. Bill payments may be made by any payment method such as physical check, credit card, debit card, etc.

If a vendor bill is not set up in QuickBooks and you simply want to enter or write a check, then use the **Check** window. The **Expense** window is for debit card purchases, electronic funds transfers and credit card purchases, and is covered after the check instructions below.

Record a check in QBO if paying by check and no vendor bill has been or will be set up:

1. Click on **Plus (+)** to open the menu.
2. Under Vendors, click **Check**.
3. **Choose a payee** from the drop down box. If it’s a new payee, type their name and click **Add**.
4. Enter a **Payment date**, which is the date the check is written (not the date of the expense.)
5. In the *Account details* section, fill in the check details in the first row for *Account*, *Description*, *Amount*, and *Class*.
6. If the check needs to be assigned to a restricted grant, select the grant name from the *Customer*/*Project* drop down list.
7. If the check needs to be split over more than one account or class, add more lines as necessary to properly allocate the check.
8. If you are going to print the check from QuickBooks, check the box for *Print Later*. If you are entering a check that has already been written, enter the check number at the top right in the *Check no*. field.

The **Expense** window is also found from the **Plus (+)** menu. Use the **Expense** window to enter purchases made other than by check such as debit card, electronic funds transfer (EFT) or credit card. Enter information in the same manner as described for entering a check, above.

## Credit Card Purchases

See “Credit Card Payable” under the Liabilities section.

## Vendor Bills

Setting up a vendor bill prior to paying the vendor enables you to date the bill in the month the services or expense occurred, thereby recording the expense in the proper month instead of simply entering a check which records the expense when the vendor is paid.

To enter a vendor bill:

1. Click **Plus (+)** > **Bill**.
2. Select the vendor from the drop down box.
3. The *Bill date* is the date the services were performed. For example you can use the last day of the month in which the services were performed or the date of the vendor bill. (Tip: Don’t necessarily use the date on the bill since it’s often the date the bill was created, not the date of the services or when the amount became payable.)
4. The *Bill no.* field is optional for the reference number on the vendor bill.
5. Enter the *Account*, *Description* (optional), *Amount* and *Class*. You may need to spread the bill amount to more than one *Account* and/or *Class* using two or more lines.
6. Click **Save and close**.

When it’s time to pay the bill, DO NOT ENTER A CHECK OR EXPENDITURE IN QUICKBOOKS. Instead, enter a bill payment or assign a downloaded bank expenditure to the open bill. The latter is especially helpful if you set up bill payments online at your bank or with an electronic payment service instead of creating checks in QuickBooks. Then you can **Match** the cleared payments to the open bills as they are downloaded into QuickBooks from the bank.

To pay one particular vendor bill using a check or to record the payment of a particular vendor bill electronically:

1. Click **Expenses** on the left side bar, then the **Vendors** tab.
2. Type the vendor's name in the *Find a vendor or company* search box.
3. Click **Make payment** in the column to the right of the unpaid bill.
4. The option to **Print check** is located at the bottom of the Bill Payment window.

To pay one or more vendor bills using checks or to record the payment of multiple bills electronically or by your bank’s bill pay service:

1. Click **Plus (+)** > **Pay Bills**.
2. Choose the **Payment account**. If you want to pay from different accounts (such as a credit card instead of a checking account), use the Pay Bills page separately for each account.
3. Set the **Payment date**, usually today’s date if the checks will be issued today.
4. To narrow the list of bills to pay, click the **Filter** button. Then:
	1. To filter by due date, select the **Date** button.
	2. To pay just one vendor, select the **Payee** button.
	3. If you use locations, select the **Location** button.
	4. You can even filter by bills that are past their due date by selecting **Overdue status only**.
	5. Click **Apply**.
5. In the left column, select the box for each bill you want to pay.
6. You can edit the **PAYMENT** amount or the **CREDIT APPLIED** amount for any bill you select.
7. Click **Save**, or if you're printing checks, click **Save and print**.

To pay vendor bills by applying downloaded bank transactions to open vendor bills:

1. On the left side bar click **Banking**.
2. Locate a downloaded amount in the *SPENT* column that was for payment of a vendor bill.
3. If the payment matches a vendor bill exactly, QuickBooks will suggest a match.
4. Click on the transaction line item to expand it. You can see the detail of the proposed match. If it is correct, you can accept the transaction into QuickBooks.
5. If the downloaded amount is a partial payment, you will need to click the radio button next to **Match,** then locate the vendor bill to pay.
6. From the list of available vendor bills, select the vendor bill to pay.
7. Click **Save**.

# Grant Expenses

Expenses can be assigned to specific Projects in QuickBooks. This feature is handy to account for how a particular grant is spent. (See also the section on “Restricted Grants.”) Generally, when entering an expense using a check, vendor bill, credit card purchase or a journal entry, simply select the grant name in the *Customer/Project* field on the line containing the expense.

## Class to Use for Grants

If the grant is not restricted as to purpose, code the grant to **7-Fundraising**.

If the grant is restricted as to how or when it can be spent, you have two options for coding the grant to a class:

1. Code the entire grant to the program class it is restricted for
2. Code the grant to the **9-Temp Restricted** class.

The benefit of coding to **9-Temp Restricted** is that you can then do a journal entry to move grant income out of the temporarily restricted class and into the program or management and general class as the funds are spent.This approach is especially helpful if the grant may be spent on more than one program area represented by difference classes or if the grant will not be completely spent by the organization’s year end. This QuickBooks company file template comes with an account **49500 Rev Released from Restrictions** that is for this purpose.

The risk if you code the entire grant to a program class is that the entry is misleading. A restricted grant is restricted until you spend the funds on the intended purpose, or the funds are released with the passage of time if the grant is time restricted.

For small restricted grants that are sure to be used up within the organization’s fiscal year, coding directly to the appropriate class is most expedient. For larger grants or grants that will carry over to the organization’s next fiscal year, it’s better to code the grant initially to the **9-Temp Restricted** class and “release” the funds to the appropriate class by journal entry using account **49500 Rev Released from Restrictions.**

## Discounted Fees or Scholarships Associated with a Grant

Because there is no provision on the sales receipt or invoice form in QuickBooks to assign a discount or scholarship to a grant project (see the section above on *Discounts or Scholarships on Program Service Income*), you must do this step in a separate transaction. You can assign the discounts to grants in a summary entry on a monthly basis or individually. If you wish to do a summary entry monthly, run a *Sales by Product/Service Detail* report for the discount item for the month to find out how much was awarded. Modify the report to include the *Class* field so you can see how much was awarded for each class.

1. Go to **Banking | Write Checks**.
2. Pay to the order of **Scholarship**.
3. For check number you can enter “**Scholarship**” or simply leave it blank.
4. Date the check for the last day of the prior month if a summary entry (to agree with the month of the *Sales by Item* report).
5. On the first line of the check on the Expenses tab select account **43900 Discounts/Scholarships**. Enter the amount of the scholarships awarded. In the Memo field you can say something like “**Scholarships awarded per Sales by Product/Service Detail report for Month YYYY**” so you know what report supports the total being entered. In the *Customer/Project* field select the grant project name. For the *Class* field select the appropriate class.
6. On the second line of the check, select account **43900 Discounts/Scholarships** again. This time enter the amount as a negative number so the check nets to zero. Repeat the same memo. Do not enter the grant project name on this line. Enter the same class again.
7. You may need to repeat these two lines if scholarships were awarded to two different classes, using the appropriate class for each set of two lines.

This check is essentially functioning as a journal entry to assign expenses in account **43900 Discounts/Scholarships** to the specific grant job.

## Fixed Assets Purchased with Grants

Record a fixed asset if the asset purchased cost more than the organization’s capitalization threshold of $\_\_\_\_\_\_\_\_\_\_ and has a useful life of more than one year. To tag the purchase to a specific grant funding source:

1. Click on **Plus (+)** to open the menu.
2. Under *Vendors*, click a menu item to correspond with the method of payment or click **Bill** if you are setting up a vendor bill to be paid later.
3. Choose the vendor name for the fixed asset purchase. If it’s a new payee, type the name and click **Add**.
4. The **date** of the transaction is thedate the asset was purchased.
5. In the *Account details* section, on the first line select a detail asset account under the parent account **15000 Property & Equipment**.
6. Enter a detailed description of the asset purchased, for example “2017 Kia Sedona,” not “van.”
7. Enter the amount paid for the asset. No *Class* is necessary.
8. On the second line under the *Account details,* record the same purchase amount to account **80100 Capital Purchases**. On this line select the grant project name under the *Customer* column and the class.
9. Repeat the fixed asset description from the first line.
10. On the third, enter account **80100 Capital Purchases** again, the same asset description and same class as line two, and enter the amount as a *negative* number. Do not enter the grant project name on this line.
11. **Save and close**.

The above entry will record the fixed asset on the balance sheet in a fixed asset account, will cause the fixed asset purchase to show up on the grant project report as an “other expense” and will also zero out the expense in the overall Profit & Loss report.

# Recording Payroll

This section needs to be custom written to reflect your organization’s payroll system.

# Closing the Books

## Closing Calendar

|  |  |  |
| --- | --- | --- |
| **Day of Month** | **Who** | **What** |
|  | Staff Accountant | Books are complete for prior month per Closing Checklist |
|  | In-charge Accountant | Looks over prior month, makes changes as needed and enters functional allocations |
|  | Executive Director | Sends financial statements for prior month to Treasurer |
|  | Executive Committee | Reviews financial statements that have been reviewed by Treasurer |
|  | Board of Directors | Review financial statements per above (e.g., March board meeting will review January financials) |

## Month End Checklist

1. Be sure all transactions are matched or added from the Bank Feeds Center for each linked bank and credit card account.
2. Enter all petty cash expenses.
3. Enter all PayPal activity and agree the balance in the account per the balance sheet to the PayPal monthly summary report (available in PayPal).
4. Run the A/R Aging Summary report dated for the last month end.
	1. Make sure all receivables look appropriate and have been recorded.
	2. Make sure payments on pledges or other receivables were applied to the open invoices and not added as new income.
5. Run the A/P Aging Summary dated for the last month end.
	1. Make sure all payables look appropriate and have been recorded.
	2. Make sure payments to vendors were entered as a bill payment against the vendor bill, if one was set up, and not entered as a regular check.
6. Reconcile each bank and credit card account for the prior month.
	1. Make sure each outstanding check and deposit is a valid outstanding item (i.e., not a duplicated transaction or other erroneous entry).
	2. Follow up on checks outstanding for more than one statement cycle.
	3. Mark void checks as cleared so they drop off the outstanding check list.
7. Run the Balance Sheet report as of month end with a column to compare to prior month.
	1. Look at each line item and consider if changes over the previous month appear reasonable in light of what you know about the organization’s financial transactions.
	2. Consider the evidence to support each balance sheet account, such as a bank reconciliation to support cash or a detail listing of accounts receivable to support total receivables. Each balance sheet account should have a detail report to support the ending balance.
8. Run the Profit & Loss report for the month with a column to compare to prior month.
	1. Scan to see that everything appears to be correct.
	2. Look for unusual changes from one month to the next that may signal a posting error or activity that warrants further investigation.
9. Run the Profit & Loss by Class report for the month and scan to see that all transactions have been assigned to a class and that all class coding appears to be appropriate.
10. Provide bank statements, bank reconciliations, and the comparative balance sheet and profit and loss reports to the executive director for review.

## Closing the Books for the Fiscal Year

**NEVER make any accounting entries to the prior fiscal year after the QuickBooks file has been provided to the firm doing the annual audit. Only the audit adjustments should be posted to the prior fiscal year.**

The QuickBooks administrator should set a closing date in QuickBooks for the prior fiscal period which will pop up a warning if anyone tries to post an entry to a closed period.

1. Click the **Gear Icon > Account and Settings**.
2. Under the *Advanced*, click to edit the *Accounting* section.
3. Click to check the box to **Close** the books.
	1. Enter a *Closing Date* (the last day of the accounting period to be closed).
	2. Select to allow changes after only a warning, or after a warning and a closing password. We recommend the latter option.
4. Click **Save***.*