

GELMAN, ROSENBERG & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



Intermediate QuickBooks for Nonprofits

Center for Nonprofit Advancement

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- Director of Client Services
- **20 years** of experience in auditing, consulting and accounting
- Specializes in nonprofit outsourced accounting services
 - Flexible CFO & controllership engagements, guide clients through external audit, help with board reporting, training of client accounting personnel and set up of accounting systems
- **Nonprofit Involvement:**
 - Treasurer of the Bach Sinfonia
 - Former Treasurer of the Sitar Arts Center





Agenda

1. Reference material
2. Budgeting
3. Using Classes and Jobs
4. Functional classification of expenses
5. Expense allocations
6. Recording restricted P&L activity
7. Presentation of net assets
8. Eighteen common QuickBooks errors



1. Reference Material



QuickBooks File Extensions

- QBW - Normal “Working” file
- QBB - Full backup file
- QBM - A “Portable File” meant for emailing (missing some preferences, log and indexing)
- QBX - Accountant’s copy you create and send to an external accountant (to work concurrently)
- QBA - The accountant’s copy that the external accountant is working in
- QBY - File that the external account sends back to you to import their changes (small file)
- QBMB - Backup for Macintosh



QuickBooks Features by Year

- Be aware of Intuit's three-year "Sunset" policy for tech support
- 2006: **Always-on audit trail, Centers**
- 2007: Minor improvements
- 2008: Big improvements to accountant's copy
- 2009: Some multi-currency, **prompt to close**, sorting in bank reconciliations
- 2010: Bolds uncleared items on bank reconciliations screen, **added "Save" to most forms**
- 2011: **Added a history pane on forms**, limited B/S by class, batch invoicing
- 2012: Inventory center, document attachment, calendar view, **simpler creation of credit memos (A/R)**

QuickBooks Features By Year (cont.)

- 2013: **Collapse report line items**, visual layout changes throughout (bigger font, wider rows, icon bar left or top, changes to layout of centers), **improved transaction toolbar**, maximize transactions, Journal entry import (from Acct version only but no need for Acct's Copy)
- 2014: Added the Income Tracker dashboard, bounced customer checks, more reports in transaction toolbar, can resize or sort the time/cost window, can "fit report to # pages high" (instead of just width)



QuickBooks Versions

- Pro - Most common
- Premier - **Saves reconciliations as PDF**, allows reversing entries, **subtotals journal entry debits/credits**, about 2x price
- Nonprofit version is same as Premier with very little added
- Enterprise - Much stronger database
- Online - Different interface (one window at a time); limitations on manual imports but fantastic at automatic imports/synchs; new layout is much better but I still prefer the desktop version
- **Sideways compatible** (except online edition) but not between years



Technical Specs/Requirements

- 2.4 GHz processor (2 GHz minimum)
- 2 GB RAM (1 GB minimum)
- 2.5 GB disk space
- Windows Vista, 7 or 8 (note that they no longer list XP as officially supported)
- Windows 8 is supported on only the 2013 or 2014 version of QuickBooks



2. Budgeting



Creating Budgets

- Go to Company/Planning and Budgeting/Set Up Budgets - then select year
- You can create up to three distinct and completely separate budgets for the same year
 - Budget by account (company as a whole)
 - Budget by account and job
 - Budget by account and class
- Budgets for multiple classes or multiple jobs are cumulative within the “budget by account and job or class”



Creating Budgets (cont.)

- Rows are always the Chart of Accounts (COA) and columns are always the months
- If you don't break down your budget by month, then consider putting the entire amount in January
- Notice that you can do math inside a cell and you can use the "Copy Across" button

Creating Budgets- data input screen

Set Up Budgets

Budget
FY2013-14 Profit & Loss by Account Create New Budget

ACCOUNT	ANNUAL ...	JAN13	FEB13	MAR13	APR13	MAY13	JUN13	JUL13	AUG13	SEP13	OCT13	NOV13	DEC13
8170 · Printing & copying													
8180 · Books, subscrip...													
8200 · Occupancy expenses													
8210 · Rent, parking, oth...													
8260 · Equip rental & mai...													
8280 · Donated facilities													
8300 · Travel & meetings e...													
8310 · Travel	450.00	75.00	75.00	75.00	75.00	75.00	75.00						
8320 · Conference, conve...													
8400 · Depreciation & amo...													
8450 · Deprec & amort - ...													
8460 · Deprec & amort - ...													
8500 · Misc expenses													

Copy Across Adjust Row Amounts Clear Save OK Cancel Help



Three Report Options

- **Budget Overview** - Shows just the budget data
- **Budget vs Actual** - Shows actual and budget for any given time period
 - You choose what fiscal year and which budget
 - You choose account/month, account/class or class/month (rows/columns)
 - Can do columns by time periods within the fiscal year just like normal P&L reports
 - Optionally, you can add the variance in \$ and %



Three Report Options (cont.)

- **Profit & Loss (P&L) Budget Performance** – Same as above but also shows the same information for year to date and also includes the full annual budget. You have the same options as above.

Note: This report is unique within QuickBooks in that it contains data outside of the defined time period.



Budget Overview Report

Budget Overview**Budgets & Forecasts**

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	TOTAL Jan-Dec
Ordinary Income/Expense					
Income					
Construction Income	<u>14,300.00</u>	<u>14,300.00</u>	<u>14,300.00</u>	<u>54,600.00</u>	<u>97,500.00</u>
Total Income	<u>14,300.00</u>	<u>14,300.00</u>	<u>14,300.00</u>	<u>54,600.00</u>	<u>97,500.00</u>
Cost of Goods Sold					
Cost of Goods Sold	<u>900.00</u>	<u>900.00</u>	<u>900.00</u>	<u>6,000.00</u>	<u>8,700.00</u>
Job Expenses	<u>7,050.00</u>	<u>7,050.00</u>	<u>7,050.00</u>	<u>28,300.00</u>	<u>49,450.00</u>
Total COGS	<u>7,950.00</u>	<u>7,950.00</u>	<u>7,950.00</u>	<u>34,300.00</u>	<u>58,150.00</u>
Gross Profit	<u>6,350.00</u>	<u>6,350.00</u>	<u>6,350.00</u>	<u>20,300.00</u>	<u>39,350.00</u>
Expense					
Automobile	<u>550.00</u>	<u>550.00</u>	<u>550.00</u>	<u>200.00</u>	<u>1,850.00</u>
Insurance	<u>2,100.00</u>	<u>2,100.00</u>	<u>2,100.00</u>	<u>1,400.00</u>	<u>7,700.00</u>
Rent	<u>600.00</u>	<u>600.00</u>	<u>600.00</u>	<u>2,400.00</u>	<u>4,200.00</u>
Repairs	<u>50.00</u>	<u>50.00</u>	<u>50.00</u>		<u>150.00</u>
Taxes	<u>500.00</u>	<u>500.00</u>	<u>500.00</u>		<u>1,500.00</u>
Utilities	<u>525.00</u>	<u>525.00</u>	<u>525.00</u>	<u>350.00</u>	<u>1,925.00</u>
Total Expense	<u>4,325.00</u>	<u>4,325.00</u>	<u>4,325.00</u>	<u>4,350.00</u>	<u>17,325.00</u>
Net Ordinary Income	<u>2,025.00</u>	<u>2,025.00</u>	<u>2,025.00</u>	<u>15,950.00</u>	<u>22,025.00</u>
Net Income	<u>2,025.00</u>	<u>2,025.00</u>	<u>2,025.00</u>	<u>15,950.00</u>	<u>22,025.00</u>



Budget vs. Actual Report

Budget vs. Actual

Budgets & Forecasts

	Jan 12	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
Construction Income				
Labor Income	17,229.00	8,500.00	8,729.00	202.69%
Materials Income	4,118.84	12,000.00	-7,881.16	34.32%
Subcontracted Labor	600.00	17,500.00	-16,900.00	3.43%
Less Discounts given	0.00	100.00	-100.00	0.0%
Total Construction Income	<u>21,947.84</u>	<u>38,100.00</u>	<u>-16,152.16</u>	<u>57.61%</u>
Total Income	21,947.84	38,100.00	-16,152.16	57.61%
Cost of Goods Sold				
Cost of Goods Sold	0.00	3,000.00	-3,000.00	0.0%
Job Expenses				
Equipment Rental	0.00	150.00	-150.00	0.0%
Job Materials	8,270.14	10,000.00	-1,729.86	82.7%
Permits and Licenses	0.00	150.00	-150.00	0.0%
Freight & Delivery	<u>0.00</u>	<u>50.00</u>	<u>-50.00</u>	<u>0.0%</u>
Total Job Expenses	<u>8,270.14</u>	<u>10,350.00</u>	<u>-2,079.86</u>	<u>79.91%</u>
Total COGS	<u>8,270.14</u>	<u>13,350.00</u>	<u>-5,079.86</u>	<u>61.95%</u>
Gross Profit	13,677.70	24,750.00	-11,072.30	55.26%



Profit & Loss Budget Performance

Profit & Loss Budget Performance

Budgets & Forecasts

	<u>Dec 12</u>	<u>YTD Budget</u>	<u>Annual Budget</u>
Ordinary Income/Expense			
Income			
Construction Income			
Design Income	2,500.00	30,000.00	30,000.00
Labor Income		93,500.00	93,500.00
Materials Income		110,400.00	110,400.00
Construction - Other	0.00	0.00	0.00
Total Construction Income	2,500.00	233,900.00	233,900.00
Reimbursement Income	5,500.00	66,000.00	66,000.00
Total Income	8,000.00	299,900.00	299,900.00
Cost of Goods Sold			
Cost of Goods Sold		33,000.00	33,000.00
Job Expenses			
Equipment Rental		1,650.00	1,650.00
Job Materials		114,000.00	114,000.00
Permits and Licenses		1,650.00	1,650.00
Freight & Delivery		550.00	550.00
Total Job Expenses	0.00	117,850.00	117,850.00



Budget Variances...

- Are always shown as actual minus budget (positive variances are good for revenue and bad for expenses)
- ... that's backwards if you think in terms of "Budget Remaining"

Suggestion: Consider adding a zero for every account without a budget. Reports will not calculate a budget variance for a row that has no budget even if there is an actual figure! Total variance will still be correct.



3. Classes and Jobs



What They Both Are

- Think of them as two other ways besides the chart of accounts that can categorize revenue and expense activity into categories
- These are then available to become separate columns in a Profit & Loss report
- Adds a field to every transaction - Each one is a separate dropdown list with user-defined content

What They Both Are (cont.)

- List is in outline form and can be modified at any time (be aware of retroactive changes)
- Replaces the use of “Department Codes” or “Project Codes” (ex: 6300-25)
- Note that you can do journal entries within the same account of the chart of accounts but coded to different classes (or jobs)



Why Classes are Better

- No column or report for “Not Assigned to a Customer” if you do P&L by job
- On transaction reports, jobs share the “Name” field with vendor and/or customer



Why Jobs are Better

- Expenses coded to a customer can be pulled directly onto an invoice
- Some 3rd party time/billing applications require jobs and won't work with classes



How to Use Them

- They are both completely optional; you can use either, neither or both
- Think about how you need to divide costs - Can you do it in one outline list?
- Using the chart of accounts, classes and jobs can become complicated so it's easier if you don't need all three



Common Examples

- To divide costs by functional classification, by program or by funder
- To create cost pools for allocations
- Often used for tracking restrictions
- I almost always use classes for these issues and then add jobs if necessary



4. Functional Classification of Expenses



Background (example)

Carwash for Good
Statement of Functional Expenses
For the Year Ended December 31, 2013

Expenses	<u>Program Services</u>			<u>Total</u>
	<u>Treatment</u>	<u>Advocacy</u>	<u>Admin.</u>	
Salary	\$ 5,050	\$ 1,500	\$ 450	\$ 7,000
Consultants	1,600	300	100	2,000
Travel	500	200	-	700
Program Materials	300	-	-	300
Rent	-	-	500	500
Total Expenses	\$ 7,450	\$ 2,000	\$ 1,050	\$ 10,500



Using the Chart of Accounts

- One long list of accounts with separate sections for program, administrative and fundraising
- Can still use jobs or classes for tracking of individual projects
- This is good because:
 - Reports are very visual and easy to follow

Using the Chart of Accounts

- Keeps actual information in one column
- Easiest way to produce a statement of activities (but can't break out by program without making chart of account quite long)
- Auditors like it
- This is bad because:
 - Data entry errors become more likely (because there are multiple accounts for similar types of expenses)



Using the Chart of Accounts (cont.)

- Harder to get subtotals by natural accounts (ex: there may be three different “Printing” accounts)
- Makes the chart of accounts longer
- You may not always want this as rows of a report (ex: “Expand”/”Collapse” becomes less useful)
- You may be using jobs/classes anyway to track individual programs



Using Either Jobs or Classes

- Expense accounts are rows and the functional classification is in different columns
- Job or class list would be an outline with three main categories
- Sound familiar? Filter out the revenue accounts and that's a statement of functional expenses



Using Either Jobs or Classes

- A bit of a challenge visually but keeps the chart of accounts very simple and minimizes data entry errors

Tip: Either way you can always use filters to select only a single program to get a project-specific P&L report.



5. Expense Allocations



Background

- Nonprofits often need to gather costs (sometimes into a “Pool”) and then allocate those costs to other areas. Examples are labor, fringe and OH.
- One option is to code every transaction using a certain split (ex: 40% program 1 and 60% program 2)- but that’s time consuming and prone to errors



Background (cont.)

- Another option is to do a separate journal entry to spread costs for each expense account (each row)
- Or you can define a particular class or job as a cost pool and then allocate the whole column at once

Example: Fringe Benefit Allocations

	Class 1	Class 2	Fringe	TOTAL
Expense				
Personnel Costs				
Wages	4,200	3,000	320	7,520
Health Insurance	0	0	400	400
Allocated Fringe Costs	420	300	-720	0
Total Personnel Costs	4,620	3,300	0	7,920
Total Expense	4,620	3,300	0	7,920

- A journal entry can move costs out of the fringe class and into others within the same expense account- here called “allocated fringe costs”.

Ex: Fringe Benefit Allocations (cont.)

- What's the fringe rate? In this example, fringe costs total \$720 and will be allocated using a base of wages (other than fringe). The base totals \$7,200. The "Fringe Rate" then is $\text{pool/base} = 720/7200 = 10\%$.
- The total costs in the class "Fringe" become your check figure - if the class totals zero then you've probably done the journal entries correctly.

Ex: Fringe Benefit Allocations (cont.)

- You can also check that the rate is the same in each class
- Functionally, fringe costs could be part of admin or (better yet) outside of the functional areas completely because you've moved those costs to all the other areas.



Example: Overhead Allocations

	<u>Class 1</u>	<u>Class 2</u>	<u>Overhead</u>	<u>TOTAL</u>
Ordinary Income/Expense				
Expense				
Contract Services	0	0	500	500
Operations	1,500	1,500	0	3,000
Travel and Meetings	2,000	0	0	2,000
Total Expense	<u>3,500</u>	<u>1,500</u>	<u>500</u>	<u>5,500</u>
Net Ordinary Income	-3,500	-1,500	-500	-5,500
Other Income/Expense				
Other Expense				
Allocated Overhead	350	150	-500	0
Total Other Expense	<u>350</u>	<u>150</u>	<u>-500</u>	<u>0</u>
Net Other Income	<u>-350</u>	<u>-150</u>	<u>500</u>	<u>0</u>
Net Income	<u><u>-3,850</u></u>	<u><u>-1,650</u></u>	<u><u>0</u></u>	<u><u>-5,500</u></u>

- Same methodology- Costs are gathered in a pool and spread to other areas

Ex: Overhead Allocations (cont.)

- What's the overhead rate? In this example, overhead costs total \$500 (the pool) and will be allocated using a base of total ordinary expenses. The base totals \$5,000. The "Overhead Rate" then is $\text{pool/base} = 500/5000 = 10\%$.
- I use "Other Expenses" simply because you often need a subtotal with and without allocated overhead.



Ex: Overhead Allocations (cont.)

- If you need to charge different rates to different projects you have two rows: “Billable” and “Difference”.

Tip: this should not reduce “Admin” to zero in functional expense reporting!



6. Recording Restricted Activity



Carwash for Good			
Statement of Activities			
For the Year Ended December 31, 2012			
	Temporarily		
	Unrestricted	Restricted	Total
Revenue			
Contributions	\$ 4,500	\$ 10,500	\$ 15,000
Interest income	100	-	100
Release from restriction	9,000	(9,000)	-
Total Revenue	13,600	1,500	15,100
Expenses			
Treatment	7,450	-	7,450
Advocacy	2,000	-	2,000
Total Program Expenses	9,450	-	9,450
Administration	1,050	-	1,050
Total Expenses	10,500	-	10,500
Change in Net Assets	\$ 3,100	\$ 1,500	\$ 4,600



Background

- Restricted = When a donor tells the recipient how or when they can use a contribution
- GAAP requires recognition of unconditional contributions, even when restricted or for multiple years
- The restricted activity is considered to be “Released” when a recipient fulfills the donor’s restrictions



Background (cont.)

- This is complicated to understand and often contradicts how nonprofits budget revenue
- So there is a need to track restricted activity segregated from unrestricted activity → but management and board still need to understand the reports!



Option One: Use Jobs/Classes

- Can leave restricted contributions in the same revenue accounts and just track it in jobs/classes.

	Restricted	Unrestricted	Total
Income			
Grant Income	2,500	5,000	7,500
Expense			
Total Expense	2,000	15,123	17,123
Net Income	500	-10,123	-9,623

- VERDICT: Total revenue is correct, might contradict budget, but doesn't show releases from restriction or track restricted balances

Option Two: Deferred Revenue

- Record restricted activity as a liability (like deferred revenue) and move to revenue when released. The \$500 is no longer in revenue.

	Restricted	Unrestricted	Total
Income			
Contributions	2,000	5,000	7,000
Expense			
Total Expense	2,000	15,123	17,123
Net Income	0	-10,123	-10,123

Note: \$500 would be on statement of financial position as a liability

- VERDICT: Tracks releases from restriction and balances, often aligns with budgeting but can be confusing and total revenue is incorrect

Option Three: Separate Revenue Accounts

- Separate revenue accounts within the same revenue section but otherwise similar to option #1 with activity tracked in jobs/classes

	Restricted	Unrestricted	Total
Income			
Restricted Contribution	2,500	0	2,500
Unrestricted Contributions	0	5,000	5,000
Total Income	2,500	5,000	7,500
Expense			
Total Expense	2,000	15,123	17,123
Net Income	500	-10,123	-9,623

- VERDICT: Slightly better but same verdict as #1, above



Option Four: Restricted as Other Income

	Restricted	Unrestricted	Total
Income			
Releases from Restriction	2,000	0	2,000
Unrestricted Contributions	0	5,000	5,000
Total Income	2,000	5,000	7,000
Expense			
Total Expense	2,000	15,123	17,123
Net Ordinary Income	0	-10,123	-10,123
Other Income			
Restricted Contributions	2,500	0	2,500
Releases from Restriction	-2,000	0	-2,000
Total Other Income	500	0	500
Net Income	500	-10,123	-9,623

Option Four: Restricted as Other Income

- Similar to option #3 but records restricted revenue in an “Other Income” account. Then record the amount released from restriction in both an “Other Expense” account (debit) and in a normal revenue account (credit)- essentially a transfer.
- VERDICT: Visually challenging but total revenue is correct, releases are shown and usually shows balance



Conclusions

- You need some way of identifying what triggers a release for each restriction since they are not guaranteed to line up with your chart of accounts and/or how you use jobs and classes. Do this early!
- All of the methods listed require some degree of tracking restricted activity outside of QuickBooks.

Conclusions

- None are exactly like the audit presentation. WHY? (because only the chart of accounts can be rows and because audit never shows expenses in restricted category).
- Any of them can work- as would Excel. The key is to make sure that its tracked and that people understand the reports.



7. Presentation of Net Assets



Background and QuickBooks' Defaults

- Here we're talking about the equity accounts (net assets) and how they are broken out into their unrestricted, board designated, temporarily restricted and permanently restricted categories.
- QuickBooks will default to having an equity account called "Retained Earnings" and will automatically close each fiscal year's P&L activity to that account. There must be one equity account defined for this role.



Background and QuickBooks' Defaults

- The equity account balances are always shown at the beginning of the year number with the current year change shown as a separate line item called “Net Income”.
- If you want to show the equity section in a format similar to the audit then you have to do that in Excel.
- BTW, “opening balance equity” should always be zero.



Multiple Equity Accounts

- You can rename the “Retained Earnings” into “Unrestricted Net Assets”
- You can add accounts for the various categories of net assets (and match the numbers from last year’s audit):

Equity

39000 · Unrestricted Net Assets	1,453,078
39001 · Board Designated Net Assets	1,300,000
39005 · Temp Restricted Net Assets	1,845,265
Net Income	(606,021)
Total Equity	<u>3,992,322</u>



Multiple Equity Accounts

- In this example, QuickBooks will then close out the \$606,021 loss to the “retained earnings” account. If any of it goes to a different account then you have to do a journal entry to reclassify that. I usually do that entry on January 1 to maintain the equity accounts at the beginning of year balance that is carried over.
- You can also leave retained earnings as it is and then use it as a control account that should always be zero.

Multiple Equity Accounts (cont.)

- Internal reports often have a separate page (in Excel) summarizing net income by the restricted categories but this is much easier to do in Excel:

	<u>Board-</u> <u>designated</u>	<u>Unrestricted</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Total</u>
YTD Revenue	-	3,704,865	306,000	4,010,865
YTD Expenses	-	3,232,370	1,384,516	4,616,886
Change in net assets	-	472,495	(1,078,516)	(606,021)
Net assets, beginning of year ¹	1,300,000	1,453,078	1,845,265	4,598,343
Net assets, YTD ²	1,300,000	1,925,573	766,749	3,992,322



8. Eighteen Common QuickBooks Errors



1. Everyone uses the same log in (and it's the admin user's login)
2. Adding, deleting or changing transactions in prior years (tip: use the "closing date" feature)
3. Having WAY too many windows open and then wondering why the software is so slow
4. Dangling payable transactions
 - A. Entering a bill followed by write check
 - B. Deleting a paid bill but not the bill payment



5. Dangling receivable transactions
 - A. Entering a receivable and then recording revenue through “Make Deposits”
 - B. Using “Receive Payments” when there is no A/R recorded
6. Using the register to clear bank transactions
7. Having the same customer or vendor name multiple times using slightly different spellings
8. Entering payroll at net instead of gross



- 9. Not entering electronic payments, payroll or wires received at all
- 10. Changing or voiding cash activity after the transaction has been cleared in a bank reconciliation
- 11. In a bank reconciliation, clearing a transaction dated after the bank statement date
- 12. Posting memorized transactions by accident
- 13. Using the “Reconcile Now/Enter Adjustment” button



- 14. Posting similar transactions inconsistently
- 15. Not doing bank reconciliations at all
- 16. Not using classes for a P&L transaction (if your file uses them)
- 17. Putting all credit card payments to an expense account called “Credit Card Payments”
- 18. Working in the wrong file

GELMAN, ROSENBERG & FREEDMAN

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