

## **Chart of Accounts**

The Chart of Accounts is the collection of general classifications or line items to appear on your Statement of Financial Position (Balance Sheet) and Statement of Activities (Profit & Loss).

The National Center for Charitable Statistics has teamed up with several other organizations in the United States to create a Unified Chart of Accounts (UCOA) to ensure that nonprofit organizations have all the necessary accounts to efficiently track nonprofit financials as required by the IRS. The UCOA is thorough yet generic enough for most nonprofit organizations. Downloading their UCOA template from their website is a good place to start building an organization's chart of accounts. QuickBooks Premier Nonprofit Edition will also include a default chart of accounts for nonprofit organizations. No single template will be perfect for a nonprofit organization. Fortunately, QuickBooks makes customizing the chart of accounts easy. As your organization grows, it's also easy to change and manipulate the chart of accounts over time.

Although the chart of accounts can be designed to reflect activities and programs to a certain extent, the class tracking system and customer tracking features of QuickBooks can better be used collectively for activity-based costing.

### Bank Accounts

Set up each bank account separately. Bank accounts can be tied to online banking to make downloading transactions easier for the individual doing the bookkeeping. This can be accessed through the chart of accounts by right-clicking on the bank account and clicking on "Set Up Online Services." Certain banks offer free direct connections; other banks charge monthly service fees.

### Accounts Receivable

Accounts Receivable is automatically generated in a QuickBooks file and will be tied to your invoices. Depending on your funding sources, it may also be advisable to set up a Pledges Receivable, Grants Receivable, and Allowance for Doubtful Accounts as separate accounts receivable accounts.

### Pre-paid Expenses

When using accrual basis accounting, an organization must track any expenses paid “in advance” using an asset account called “pre-paid expenses.” The most common prepaid expense is for insurance policies. For example, if a 12-month insurance policy is paid in full at one time, the cost of the policy should go to pre-paid expense asset account and then expensed over the course of the 12 months of the policy.

### Fixed Assets

Fixed Assets include long-term assets such as land, buildings, leasehold improvements, furniture, vehicles, equipment, and accumulated depreciation. These fixed assets should be set up in conjunction with the organization’s treasurer and tax preparer.

### Liability Accounts

Accounts Payable is automatically generated within a QuickBooks file and is tied to the Enter Bills/Pay Bills features. Current and long-term liability accounts allow you to track data such as loans, lines of credit, mortgages, deferred revenues, and other accrued liabilities.

QuickBooks has a special type of liability account for credit cards. Set up each of the organization’s credit cards separately. Each credit card can be tied to online banking to make downloading transactions easier. This can be accessed through the chart of accounts by right-clicking on the credit card account and selecting “Set Up Online Services.” Certain credit card companies offer free direct connections within QuickBooks; other companies may charge a monthly fee for the service.

### “Equity” Accounts

Nonprofit organizations typically have three types of “equity” accounts: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. QuickBooks does not automatically generate these special nonprofit accounts, even in the QuickBooks Premier Nonprofit Edition, so the accounting professional will need to set up these accounts to meet the organization’s needs. Special attention needs to be paid to the temporarily and permanently restricted net assets and how transactions and entries post to those accounts.

### Income Accounts

QuickBooks calls revenue and funding sources “income accounts.” Organizations will need to track their different funding sources through these income accounts, such as direct contributions, revenue from government grants, revenue from non-government grants, program revenues, membership revenues, and special event revenue. Make sure to set up income accounts for donated goods and services as well.

### Cost of Goods Sold and Expense Accounts

The UCOA suggests separating expenses based on personnel expenses and non-personnel expenses and then categorizing the organization’s expenses therein. See Attachment A for the UCOA suggestion. Depending on the organization, the number of programs, and the internal and external reporting requirements, the organization can decide to set up a cost of goods sold or expense account or account group for each program with sub-accounts for the costs associated with each program. Making program expenses as costs of goods sold accounts and making managerial and fundraising costs as expense accounts will assist in setting up activity-based costing. See Attachment B for an example of this type of chart of accounts.

Excerpt taken from: <https://mypaperpusher.files.wordpress.com/2014/08/quickbooks-for-nonprofits-reference-booklet-rev-15-05-11.pdf>