



## **Selecting Accounting Software**

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**We thank the Daniels Fund for providing funding for the development of these toolkits.**



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## Selecting Accounting Software

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Accounting software is a critical part of the operation of a nonprofit. Software that is well suited for the nonprofit:

- Will allow management to provide timely and accurate financial information, which is imperative to sustain operations in the future.
- Can provide a tool for good internal controls over the nonprofit's assets and financial reporting.
- Provide management reports that can enhance the decision making process.
- Allows the nonprofit to maintain historical financial information, which can be used to prepare budgets and to measure current operations against historical information.

### Accounting Software Basic Structure:

- General Ledger Features:
  - Captures all accounting transactions and summarizes those transactions in various ways.
  - Most general ledger software packages include a bank reconciliation function, which simplifies cash management.
  - Most general ledger software packages have the capacity to record budgets and use them for actual to budget comparison reports.
  - Report function of accounting software produces not only basic financial statements but many various management reports.
- Accounts Receivable Module:
  - Most basic software programs do not have the capacity to keep detail accounts receivable information. An accounts receivable module would be necessary for organizations that have products they sale on credit.
  - An accounts receivable module tracks customer's charges and payments individually.

- Reports you can get from this module include invoices, statements and an aged listing of all receivables.
- Donor Module:
  - Accounting software programs that are designed for nonprofits often have a donor module.
  - A donor module tracks donations by individual donors. The software program also can classify donations by type of donation.
  - An important feature of a good donor module is the ability to record information about the donors in order to be prepared for meetings with donors.
- Accounts Payable Module:
  - The accounts payable module is generally needed by all nonprofits. It records payable and payment transactions. It generally has purchase order and check writing capability. Some software programs separate out the purchase order function into another module.
  - The purchase order and payable functions are critical internal control processes.
  - The accounts payable module generally includes a function to track and print IRS Forms 1099.
  - Reports you can get from this module include, purchase orders, lists of open invoices, lists of payments and an aged listing of all payables. Vendor history reports are also very helpful to ensure duplicate payments are not made. A good software program will have a function to prohibit duplicate invoice numbers for the same vendor.
- Payroll Module:
  - The payroll module is usually purchased by nonprofits that have more than ten employees or do not use a payroll service.
  - The payroll module varies substantially between software programs. Some programs are designed to allow a small nonprofit with limited accounting skills to process payroll checks and the required payroll reports for IRS and the state. Other programs are designed for more sophisticated users. These programs have extensive reporting functions.
  - It is important for a nonprofit to make sure they have the skills they need to process payroll in-house. Payroll services may outweigh the risk of noncompliance with payroll laws and regulations.
- Other Modules to Consider:
  - Fixed Assets
  - Inventory
  - Point of Sale
  - Purchase Order (if not part of the accounts payable module)

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### **Using Consultants to Select and/or Install Accounting Software:**

- Installing new accounting software or even updating your current software is a time consuming process that often affects operations.
- At a minimum, a nonprofit should consult with their CPA to review the accounting software being selected.
- The benefits realized from using a competent consultant to assist in selecting and installing the software can more than outweigh the cost charged by the consultant.

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### **Nonprofit's Assessment:**

- Size of the organization and number of transactions - Accounting software programs are designed for different types and sizes of organizations. Usually the software programs designed for small organizations are less expensive than those for large organizations. Many small to medium size nonprofits do not need to invest in software programs designed for large organizations.
- Complexity of organization's activities – A nonprofit with a number of service activities need to have software that has an extensive reporting function. The ability to design reports that address the different activities within the nonprofit is important in managing the various activities.
- Type and number of funding sources – If the nonprofit's funding sources has specific requirements for billing and/or financial reporting the software selected must have the ability to easily import or export data.
- Volume and type of contributions – If the nonprofit has a large volume of contributions, pledges and/or restricted contributions, nonprofit software with a donor module should be considered.
- Number and type of grants – If the nonprofit has a large volume of grants or even a few large grants with various reporting periods the software selected must have an account number system that allows for assigning grant numbers and grant periods.
- Number and type of accounts needed – It is critical before selecting accounting software to first develop a chart of accounts. Make sure each account number includes, at a minimum, fund number, service division/department number, functional expense number and natural expense general ledger number. A sample chart of accounts is listed in Appendix A.

- Reporting requirements – It is important to list all the reports needed and the format required for these reports. This should include internal reports for the board of directors and management and external reports for banks, grantors and other external stakeholders.

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### **Finding Accounting Software to Evaluate**

- Other nonprofits – Networking with other nonprofits is the best way to evaluate their satisfaction with the software they use.
- Product literature – Product literature is readily available from the Internet. Often the software is available for trial usage.
- Online information service – The Internet has many user sites which provide extensive information on most accounting software.
- Magazine reviews – A good magazine review will give you comparative information which allows the nonprofit to narrow the number of software programs they research.

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### **Accounting Software Evaluation**

- Exporting data – The ability to export data is important because of the movement towards a paperless environment. Auditors are now requiring electronic data from the accounting software. Also, electronic data from the software makes it easier to monitor the effectiveness of internal controls.
- Drill-down functions – Drill-down function is the ability to click on a data item and be able to track the item back to the initial entry into the system. This feature makes it easy to research transactions.
- Use of the Internet – A good software program will allow the user to utilize the Internet to get online help and update services. Good software companies provide online demonstrations that can be used to train users. Some software companies have the ability to remotely access your system and provide quick solutions to problems. When considering the cost of software being evaluated, a nonprofit should keep in mind the cost savings of online help.
- Customization – Several software companies provide customization service. Since these services can become costly a nonprofit should evaluate their needs to determine if they have unique needs requiring customization. Many times the cost of customization will increase staff efficiency, which may outweigh the cost.
- Controls – Controls are critical for nonprofits. Accounting software must have good security features, which would include:

- Access features that only allow staff to access the software functions necessary to perform their jobs. For example, the staff that processes accounts payable would not have access to the accounts receivable, payroll or general ledger functions.
  - Data protection features that protects the data from being deleted or destroyed. A critical control is the software not allowing deletion of data. Because users must make correcting entries instead of just deleting data they leave an audit trail of all activity performed in the system. Also an important feature is a software's data repair features which helps to protect accounting data from being permanently lost.
  - Integration of software modules is another important control feature included in most good software. To ensure a nonprofit produces accurate financial statements and to decrease fraud risk, data should only be allowed to be entered at lowest level, which often is into the various modules of the system (accounts payable, accounts receives, etc.)
  - User identification on all entries is a must for any software being considered. A nonprofit and their auditor should be able to trace any entry to the user that made that entry and to the date and time the entry was made.
- User Friendly – A software program could have all of the above features, but be useless to a nonprofit if it is not easy to learn, easy to set up, easy to use and easy to correct errors.
  - Support – Support for the implementation, training, updates to the software program and ongoing help is a critical component to the purchase of any software program. Evaluate what kind of support is available (online, call-in, onsite, user groups, workshops, newsletters etc.).
  - Can be tested before purchasing – A nonprofit should not considered software if they cannot do live tests on the software first. Make sure you engage an information technician expert to evaluate the software's hardware requirements to determine if you have the equipment needed. Without the ability to perform hands-on tests of the software is like buying a pair of shoes without trying them on.
  - Expandable – A good accounting software system will have the ability to expand when the nonprofit experiences growth or changes in operations. Often nonprofits find themselves investing a lot of time and money into an accounting system that becomes unusable after a few years. When evaluating an accounting software program examine all of the different features and add-on modules to make sure they are a good fit for you if you were to need them in the future.
  - Total Cost – Evaluation of software cost should not only include the “sticker price” but installation costs, customization costs and annual support costs.

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## **Appendix A – Sample Chart of Accounts**

The account number is made up of five components: Fund, Service/Program, Functional Expense, Grant/Event and General Ledger. An example of the full account number is the recording of salary expense coded to the United Way grant:

**02.120.30.1000.5100**

**02** = Temp-Restricted Fund

**120** = Grants Program

**30** = Fundraising & Contributions

**1000** = United Way 1/1/06-12/31/06

**5100** = Salaries

#### **Fund Code**

01 Unrestricted  
02 Permanent Restricted  
03 Temp-Restricted

#### **Service/Program Code**

000 N/A  
100 Administration Cost Pool  
105 Respite Program  
110 Adoption Program  
120 Grants Program

#### **Functional Expense Code**

00 N/A  
10 Program  
20 Management & General  
30 Fundraising & Contributions  
40 Events

#### **Grant/Event Code**

0000 N/A  
1000 United Way 1/1/06-12/31/06  
1001 ABC Foundation 4/1/06-3/31/07  
1002 Fun Run Event 10/18/06

#### **General Ledger Code**

1010 Cash – Operating  
1020 Cash - Money Market  
1035 Cash - Petty Cash  
1110 Certificates of Deposits  
1210 Accounts Receivable  
1260 Receivables allowance bad debt  
1310 Prepaid Expenses  
1410 Land  
1420 Buildings & Building Improvements  
1440 Equipment & Furnishings

1460	Accumulated Depreciation
1740	Note Receivable
1803	Investments
1910	Related Party Receivables
1920	Due From/Inter-Fund
2010	Account Payable
2020	Mortgage Interest-Accrued
2030	Mortgages
2910	Related Party Payables
1920	Due To/Inter-Fund
3010	Net Assets – Unrestricted
3020	Net Assets - Temp Restricted
3030	Net Assets - Perm Restricted
4110	Contributions-Restricted
4120	Contributions-Temp. Restricted
4130	Contributions Unrestricted
4140	Contributions In-Kind
4210	Fees and Rents
4220	Grant Revenue
4310	Interest Income
4320	Unrealized gain/loss investments
4330	Realized gain/loss investments
4410	Contracts and Sales
4420	Memberships
4430	Event Income
5100	Salaries
5102	Taxes/Benefits
5103	Employee Dues and Subscription
5104	Employee Incentive
5105	Employee Prof Development
5106	Mileage
5107	Interest on Mortgages
5108	Rent
5109	Services for Buildings
5110	Telephone/Cell phone
5111	Utilities-code at home level
5112	Insurance
5113	Depreciation
5114	Contractual Services
5115	Audit and Legal
5116	Computer Supplies
5117	Office Supplies
5118	Postage
5119	Awards
5120	Direct Mail
5121	Marketing and Promo

5122 Public Relations

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**Resources:**

Hartfield, Cheryl A. and Paschall, Winford L., PPC's Nonprofit Financial and Accounting Manual, Practitioners Publishing Company, Fort Worth, Texas, October 2006.

Jones, Roberta, NPO Software Measures Up, Journal of Accountancy, American Institute of Certified Public Accountants, July 2007.

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**Consultant Websites:**

Executive Service Corps: [www.escus.org](http://www.escus.org)

Management Assistance Program for Nonprofits' Technology Circuit Rider Program: [www.mapfornonprofits.org](http://www.mapfornonprofits.org)

Service Corps of Retired Executives: [www.score.org](http://www.score.org)

The TechSoup Global: [www.techsoupglobal.org](http://www.techsoupglobal.org)

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**About the Author:**

Janice Moen has over 25 years of accounting experience, twelve years of which were as Chief Financial Officer or Chief Executive Officer of nonprofit agencies. Janice is currently the CFO of ARCA, a nonprofit providing service to individuals with developmental disabilities. Janice also has five years experience as an external auditor of governmental and nonprofit agencies. Janice received her BBA and Master in Accounting from the Anderson School of Management at the University of New Mexico. Janice was awarded the 2007 Outstanding Member in Corporate Practice Award by the New Mexico Society of CPA's in 2007. She was also recognized as one of the Business Weekly's Top CFO's in 2007. Janice is a member of the American Institute of CPA's and currently serves on the New Mexico Society of CPA's Course Selection Committee and the Anderson School of Management's Accounting Department Advisory Committee.



ARCA, working together to open doors for people with developmental disabilities to be valued members of the community. [www.arc-a.org](http://www.arc-a.org)

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