Course 2: Start to Finish Guide for Using QuickBooks for Your Church

Lesson 19: Using QuickBooks at Your Church

We just finished up Part 1 of this book on the basics of accounting. Now I’ll be showing you how to do all this accounting within QuickBooks (the world’s most popular accounting software).

I’ve used quite a few different accounting software programs, but QuickBooks seems to be the weapon of choice among churches. QuickBooks isn’t perfect, but it’s easy to use and has a massive support network.

Why QuickBooks?

I’ve decided to use QuickBooks in this section of the book for a few reasons:

(1) QuickBooks software is relatively easy to use for those without a lot of accounting experience. Most churches don’t have CPAs lining up to be the church treasurer.

(2) The software is inexpensive compared to other software on the market. It’s $320 if you use this 20% off coupon and you can use the software for 2-3 years before needing to upgrade. This ends up meaning you pay around $9 per month ($320 / 36 months) for some world class software.

(3) Many people are familiar with this program already. If you do some digging within your congregation you might find someone who has used QuickBooks for business purposes in the past. Part 2 of this book will help a person like this quickly understand how to use QuickBooks for church purposes.

Get Moving

Perhaps the genius of part 2 of the book is that it gets you up and doing something. As you implement the recommended system I’m about to present to you, you’ll start to see how QuickBooks works and then you’ll start to see what adjustments you need to make for your specific church’s needs. This book provides you with the framework. It’s up to you to modify it to fit your church’s needs.

As you read this book and implement the QuickBooks system found herein, you’ll soon find that setting up your accounting isn’t a one-time, make-or-break event. QuickBooks allows you to constantly make adjustments until you find out the perfect fit for your church. The key is to get started, implement a system, and then tweak that system until you have an accounting system for the ages.

You’re likely going to run into a few bumps along the road, but you might as well get started!

This tutorial will be using the QuickBooks Nonprofit Premium version. I believe this is the best version for churches. It has a chart of accounts, forms, reports, and other features that are specifically designed
for churches. You can learn to jimmy-rig the original QuickBooks Pro version, but using the nonprofit version will make your life easier (you’ve got enough to learn so don’t make this harder on yourself than it needs to be).

**Following Along**

In part 2 of this book I will be setting up a fake church called 1st Church. I recommend that you follow along with me and create a fake church of your own using QuickBooks. After you’ve run through all these lessons with me using your own fake church you’ll be in a great position to set up your accounting system for your actual church.

Keep in mind that you can create as many churches as you like using the software.

**Guide to Part 2**

**Lesson 20:** Buying and Installing QuickBooks

**Lessons 21-22:** How to Set Up a Chart of Accounts

**Lesson 23:** How to Set Up Classes for Programs and for Unrestricted, Temporarily Restricted, and Permanently Restricted Funds

**Lessons 24 – 38:** How to Enter Transactions

- Contributions
- Pledges
- Expenses
- Temporarily Restricted Adjustments
- Depreciation Expenses
- Adjusting Entries
- Closing Entries to Separate Net Asset Accounts

**Lessons 39 – 42:** Managing Reports

- Year End Donor Statements/ Contribution Receipts
- Appendix and GAAP Reporting

**End of Lesson 19**
Lesson 20: Buying and Installing QuickBooks

The first thing you’ll need to do is purchase the software. Click here to go to QuickBooks’ official website and get the nonprofit version for 20% off. I highly recommend the nonprofit version for churches – it’s the version I’ll be using in this tutorial. Accounting is tough enough as it is. Don’t make it more difficult by trying to jimmy-rig a version of the software that’s not right for your situation.

In the past there’s been some confusion about how to buy QuickBooks Nonprofit. Here are the exact steps:

1. Click on the link above that will save you 20% on QuickBooks Nonprofit and give you free shipping (if you choose the CD format).

2. When you land on website pictured below, click on the Nonprofit tab.

You can buy the CDs or you can download the software and have it up and running within the hour.

**Setting up the Software**

Once you’ve installed the software and entered your keys, then click on the QuickBooks Premier Edition Icon on your Desktop. This is what you should see:
We’re going to select the Premier Nonprofit Edition because churches are nonprofits. Then click next. Don’t worry, you can always change this setting later (though I don’t think you’ll want to).

At this point you’ll get some sort of Important Notice window (pictured below). Read it quickly and click “Finish”.

**Important**: If you install QuickBooks on more than one computer, you must install the same Premier Edition on each computer.

Click Finish to configure QuickBooks to fit your industry and complete the installation. Click the Back button to change your installation now, or you can change it later at any time.
Sometime during the setup you should see this notice window (pictured below). This window is important. I’d recommend you click “Yes” so that you can get the security and bug updates from Intuit. This will help keep your software running smoothly.

Getting Setup:

Eventually you’ll come to this window:

Let’s get your business set up quickly!

If you’re upgrading or converting over from a different program then you’ll want to select, “Other Options”. In this tutorial I’m going to choose “Express Start”. Express Start is great because it will point you in the generally correct direction. You can always go back and change the advanced details later if you decide you don’t like the Express Start recommendations.
The Express Start Window

The Express Start window is very helpful for churches. Here’s the first window you’ll need to fill out:

Type in your church’s name. I’ve typed in 1st Church (my imaginary church for all my accounting lessons).

For Industry, select “Help me choose” and the following window will pop up. Change it from Non-Profit to Church or Religious Organization. Then click OK.
After adding your industry, you’ll need to enter your Company Type. Click on “Help me choose”, then click on Non-Profit (as pictured below).
The final step on this first window is to add your Tax ID # (likely your Employer Identification Number – EIN). Click “Continue” and you’ll see the following screen:
Enter all your church’s information here. The only real thing worth noting here is that you’ll want to use your church’s legal name. The legal name is the name that is used by the IRS for payroll reports you receive. It’s the name associated with your EIN.

After you finish entering all that information, you can create your company file. Feel free to preview your settings, but don’t get worked up if some of the settings look off (we’ll be adjusting some of this at a later point).

QuickBooks is User Friendly

A recurring theme you’ll notice throughout these lessons is that you can always go back and change a setting at a later point. This means that you don’t have to get everything perfect your first time through! Developing a good accounting system is a continuous process where you make little improvements over time. If you’re someone with very little accounting and QuickBooks experience, then I recommend you have an attitude of continuous learning. Learn a little more accounting each day, week, and year and you’ll end up saving your church a lot of money in the long run.

You’ve Got a Company File!

After creating the company file you’ll be taken to this page:
On this page you’ll see three different “Add” buttons. We’re only going to add the people you do business with for now. We’ll add products and bank accounts later. So click on the big blue “Add” button next to “Add the people you do business with”.

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You've got a company file! Now add your info.

Get your critical info into QuickBooks so you can start working.

Got 90 seconds? See how easy it is.

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Add the people you do business with

Why do this? Import or enter your contacts so you can bill your customers, pay your vendors, and track your employees. See how it works (2:13)

Add

Add the products and services you sell

Why do this? So your customers know what they’re getting billed for when you send invoices or receipts. See how it works (1:45)

Add

Add your bank accounts

Why do this? So you can track deposits, payments and how much money you have. Don’t worry we won’t connect to your bank. See how it works (0:28)

Add

No data to enter right now? No problem. You can always add it later.
You want to add all the people your church does business with. This includes stores you purchase supplies from (vendors), people who donate money to your church, and employees who work for your church. Having these names in your database will save you a lot of time in the future as you make journal entries.

You can import this list from email or Excel or you can manually enter the names in. I’m going to manually enter names into 1st Church. Again, don’t worry if you have typos or miss something, you can easily go back and add/delete/edit names in the future.

For now I’ve simply added the names of people who donate to 1st Church. Members who attend your church and donate money should be marked as Customers in this window. Employees should be marked as employees and vendors marked as vendors.

**Tip:** For now I wouldn’t worry about entering complete family information. In other words, don’t enter all the names of the children in the Smith family. Only enter the names of people who donate to the church.

If you have a list of membership information handy, then I’d recommend you take the time now to go through and fill out the rest of the fields for each donor, vendor, and employee (company name, first name, last name, email phone, alt phone, and fax). Filling out this information now will save you from having to look up the information later. Keep in mind if you miss a few pieces of information now, that’s fine – you can always edit this list later. Click “Continue” once you’re satisfied with the information you’ve entered.

You’ll come to this screen next:
I got tired of making up names so I only came up with 24 contacts. Your church will likely have many more contacts than this.

**Should I Enter Opening Balances Now?**

QuickBooks gives you the opportunity on this screen (pictured above) to enter balances due from customers and balances owed to vendors. Whether or not you decide to enter balance information now is your choice, but I personally wouldn’t fill out this information now. In fact, I would never enter opening balances when QuickBooks asks you to (and they ask you on multiple occasions). Below is my reasoning for waiting to enter this information.

**Fiscal Year Considerations**

Accountants generate reports based on an agreed upon time period known as the fiscal year. Church’s fiscal year starts on January 1st and ends on December 31st. Most companies and churches choose this same time period (January 1st through December 31st) for their reporting purposes. Your church can choose whatever time period it wants, but I recommend choosing a fiscal year of January 1st through December 31st. Your church might have already agreed upon a fiscal year so check with your accountant or with your church leader in charge of finances to see what your church’s fiscal year is.

In our example, I’m setting up QuickBooks on March 21st. This means that I’ve already got financial transactions from January 1st to March 20th that I need to enter into QuickBooks. Because only 2.5
months have passed since the beginning of the year, I recommend manually entering all transactions that have happened during these 2.5 months.

Below are two benefits of entering the individual transactions instead of adding the opening balances like QuickBooks prompts you to:

(1) If you’re just starting out with QuickBooks, this is an excellent opportunity to get some experience entering transactions. Hopefully you have all these transactions recorded somewhere, so entering them into QuickBooks will be easy and, well, quick. By the time you’ve caught up to the present time you’ll be very comfortable with your new software.

(2) If the donor ever questions the amount pledged, it’s nice to be able to show him/her all the recorded transactions along with the supporting paper work. If you’ve just entered the opening balance, you won’t have this information.

**What if we’re halfway through the fiscal year?**

If you’re halfway through the fiscal year and have hundreds or thousands of transactions to record, then you may want to make some summarizing journal entries like the one below. I still wouldn’t recommend adding beginning balances on this screen.

<table>
<thead>
<tr>
<th>Assets-Pledges Receivable</th>
<th>$1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution Revenue- Bill Gates</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

On Jan. 8th 2012 Bill pledged $500 to the church. On Jan. 15 Bill pledged another $250. On Jan 21 Bill pledged another $250. This is the entry for updating QuickBooks.

These summarizing entries mean you only have to make one journal entry for each donor and vendor in order to catch you up to the point where you are starting to use QuickBooks, but they still offer more information than entering opening balances does.

**What if we’re at the end of the fiscal year?**

If you’re only a month away from a new fiscal year I’d recommend waiting to implement QuickBooks until the new fiscal year begins.

In summary, for now I recommend you click “Continue” without adding any opening balances at this point.

Clicking “Continue” will take you back to the page where you add people, products, and bank accounts. We’re not going to add any products or bank accounts yet. We will in the future. For now, click “Start Working”.
At this point QuickBooks will open a home screen (pictured below) and a “Ready to start working” popup. This probably all looks unfamiliar right now, but don’t panic – just close the “Ready to start working” popup and continue reading this book. You’ll be very familiar with this home screen soon.

Ending the Lessons

That wraps up today’s lesson on QuickBooks. We learned how to install and set up the software. In the next lesson we’ll be tackling the chart of accounts.

End of Lesson 20
Lesson 21: The Chart of Accounts

In the last lesson we purchased QuickBooks Nonprofit, installed the software, and set up the software for use. We came to the home screen of the software and were a bit overwhelmed by all the options. At this point, most people want to dive right in and start entering journal entries into QuickBooks. However, before you enter transactions into QuickBooks you’ll need to set up the chart of accounts.

If you jump right in and start entering transactions, your ledger accounts will end up in a mess which will make it all but impossible to generate any of the needed reports (the whole reason you’re doing accounting in the first place).

The chart of accounts is a chart that lists numerically all the church’s ledger accounts (T-accounts) we talked about earlier in the book. These ledgers hold basic accounting information.

Here’s a look at a very simple example of a chart of accounts (more sophisticated examples are listed below):
The chart of accounts is extremely important because every time you enter a journal entry into QuickBooks you’ll be linking that entry to at least two ledger accounts (a debit account and a credit account) within the chart of accounts.

For example, let’s say your church receives $10,000 in tithes/offering this week. You’d be debiting cash for $10,000 and crediting tithes and offerings revenue for $10,000. In our simple chart of accounts above that means you’d be debiting account #1000 for cash and crediting account #4000 for tithes and offerings revenue.
As you finish this book and we enter transactions into QuickBooks, you’ll start to see how important this chart of accounts (COA) is. I encourage you to read this whole lesson (even if you don’t completely understand it) and keep it in mind as you continue on to the next sections about transactions and reports. When you see how reports are produced using the numbers in the COA, you’ll start to see why it’s so important to get it set up right.

Setting up Your Church’s Chart of Accounts

If this is your first time setting up a COA, then you’ll probably be frustrated that no one-size-fits-all solution exists. If you look at five different church’s COAs, you’d see that none of them are exactly the same (though they do have some things in common). I’ll talk about some of those commonalities below, but I really recommend two different methods for setting up your COA. Which method you choose depends on the resources you have available to you.

Method 1 – Use My COA or Other Example COAs

You can simply download my COA and then modify it to meet your needs. Get rid of any accounts that don’t make sense for your church and add any accounts that do.

Tip: When you’re going over the accounts in any example COAs you might have, simply ask yourself, “Does my church care about this information? Would it be helpful in a report?” If so, keep the account. If not, inactivate it or delete it.

My example COA will allow you to print reports that will be useful for church leaders. It will also allow you to create reports that are in compliance with SFAS 116 and 117. Feel free to modify it any way you like. Once you see how it works, you’ll be able to make adjustments so it’ll work even better for your church (I’ve left plenty of room for you to modify it to fit your needs).

Here’s what my COA looks like. I’ll show you how to download and import it into Quickbooks in the next lesson. I’ll be using this COA throughout the rest of this book to enter transactions and create necessary and useful reports. I’d recommend importing this COA into your copy of QuickBooks and following along.

Here are three other example COAs to look at:

Note: I don’t expect you to understand everything that’s going on in these COAs, but it’s still a good idea to look them over and get a feel for them.

Example 1. Open up QuickBooks Nonprofit and get to your home screen. Click on the Chart of Accounts icon or simply hit “ctrl” and then “a”. 
If you’ve set up QuickBooks following my previous instructions, you’ll see the chart of accounts that QuickBooks provides for churches. It will look like this:
Take a few seconds to look over this chart of accounts. Note the column labeled “Type”. QuickBooks makes you choose a “Type” for each ledger account you create.

<table>
<thead>
<tr>
<th>Ledger Account</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Donations or Revenues</td>
<td>Income</td>
</tr>
<tr>
<td>Any Expenses</td>
<td>Expense</td>
</tr>
<tr>
<td>Vehicles, Buildings, Equipment, Land</td>
<td>Fixed Asset</td>
</tr>
<tr>
<td>Net Asset Accounts</td>
<td>Equity</td>
</tr>
</tbody>
</table>

I think it’s worth taking five minutes to look at the COA that QuickBooks provides for churches, but that’s about where the usefulness of this COA ends, in my humble opinion. Most churches don’t use this COA because it doesn’t meet their reporting needs.

**Example 2.** This is from a church in Baltimore. It’s a great example and it even has definitions of each account at the bottom.


**Example 3.** A bunch of CPAs got together in California and produced what is known as the Unified Chart of Accounts (UCOA). The intention is to have all nonprofits using a similar COA. I personally wouldn’t
spend too much time looking at this COA, because it’s just not a great fit for churches. 
http://nccs.urban.org/projects/ucoa.cfm

Tip: Try contacting a colleague who performs your same duties in a similar church. Ask if you can borrow
his/her COA to help get ideas for your own COA.

Method 2 – Hire an Experienced Accountant

Hold a meeting with as many of the following people as possible:

- The person who will be entering the data into QuickBooks
- An accountant (church accounting experience is preferred)
- Person in charge of finances on the board of directors
- Program managers (or people who will be spending the money within the church)

Have the accountant bring a few example COA’s from other churches he/she has worked with. Go over
your church’s reporting needs with the accountant and come up with your church’s specific COA. Do not
simply hire any old accountant with a pulse. If you’re going to spend the money to bring in an
accountant, make sure you get one that has experience with churches! A church’s COA is different from
a normal business’s COA and even from a non-religious nonprofit COA.

Commonalities in COA’s

Almost all Nonprofit COAs are setup using the following number schemes.

1000’s represent Asset Accounts
2000’s represent Liability Accounts
3000’s represent Net Asset Accounts
4000’s represent Revenue Accounts
5000’s represent Expense Accounts

Conclusion

Today we learned what the COA is. In the next lesson I’ll show you how to set up the COA in QuickBooks.

End of Lesson 21
Lesson 22: Entering the Chart of Accounts into QuickBooks

In the last lesson we talked about the chart of accounts (COA) and why it’s important. We looked at several example COAs to get the juices flowing in your mind. Today I’ll show you how to import my example COA into your QuickBooks software. I’ll also show you how to add/delete ledger accounts within the COA. Once you have your COA outlined, it is very easy to enter into QuickBooks.

**Importing the 1st Church COA**

**Step 1: Delete Current Accounts**

Remember how in the last lesson I mentioned that the COA provided by QuickBooks isn’t very useful? Well, before you import my 1st Church COA, I’d recommend deleting the ledger accounts provided by QuickBooks so that they don’t get jumbled together.

Open up the COA by hitting “Ctrl” and then “a” or by going to the home screen and clicking on the COA icon.

Once you’re in the COA, select an account, right click, and then choose “Delete Account”.

![Chart of Accounts Icon](image)
Click “OK” when asked about whether you are sure you want to delete the account.

Delete all the accounts except for 24000 – Payroll Liabilities and 80000 – Ask My Accountant. QuickBooks won’t allow you to delete a payroll account and the Ask My Accountant account is a useful one to have.

Unfortunately QuickBooks will only allow you to delete one account at a time. In order to speed the deleting process up you can use the following shortcut. With an account selected hit “Ctrl” and then “d” and then hit the “Enter” key when asked if you are sure you want to delete the account. You’ll have these 30 or so accounts deleted in no time.

**Step 2: Download 1st Church COA**

Next, [click here to download my COA](#) to your computer’s hard drive. Save it somewhere you can find it. The COA is in the form of an IIF file. IIF stands for Intuit Interchange Format, which means you can only open it using QuickBooks.

**Step 3: Import to QuickBooks**

Within QuickBooks, go to File ->Utilities ->Import ->IIF files.
Select my IIF file from where you saved it on your computer and click ‘Open.’ Voila! You’ll have my chart of accounts uploaded to your QuickBooks. Hopefully that saved you some time.

Open up your new COA within QuickBooks and admire this beautiful piece of art.

**Adding/Deleting Accounts**

Even though my COA is a nice framework to begin with (yes, I’m patting myself on the back here), you’ll still need to modify it from time to time to fit your church’s specific situation. I’ll show you how to make adjustments to the COA below.

**Adding New Accounts**

Open up the COA by clicking on the chart of accounts icon (alternatively you can hit “ctrl” and then “a”).

Click on “Account” in the bottom left of your screen and then click on “New”.
After clicking on “New” this window will pop up:

In this window you’ll have to select the type of account you’ll be creating. QuickBooks helps you choose (select an account type and QuickBooks will show you the description of that account type on the right).
It’s worth noting here that any donations or revenue your church receives should be marked as an “Income” account type.

<table>
<thead>
<tr>
<th>Ledger Account</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any Donations or Revenues</td>
<td>Income</td>
</tr>
<tr>
<td>Any Expenses</td>
<td>Expense</td>
</tr>
<tr>
<td>Vehicles, Buildings, Equipment, Land</td>
<td>Fixed Asset</td>
</tr>
<tr>
<td>Net Asset Accounts</td>
<td>Equity</td>
</tr>
</tbody>
</table>

Tip: Feel free to ask me about any accounts you’re unsure of (just leave a comment below).

Note: If you imported the 1st Church COA, then I’ve already gone through and chosen the type for you for each account.

After you’ve chosen your account type and clicked “Continue”, the next thing you’ll want to do is enter the number. Giving each account a number helps keep the COA organized. Next enter the account name and a description. In the example below I’m creating Account 1100 “Cash and Marketable Securities” (this account is already included in my 1st Church COA).

Don’t worry about any of the other fields for now (you can always fill them in later). Click on “Save & Close” to create your account (or “Save and New” if you’re entering more than one).

**Creating a Subaccount in QuickBooks**

Subaccounts are very useful for tracking more detailed information. Normally a statement of financial position only has one line item for cash and all cash equivalents (marketable securities, checking, CDs,
Money Market accounts, etc.). Cash equivalents are simply items that can easily be converted to cash. You can use subaccounts to track each of these cash equivalents.

In the example below I’m going to add a subaccount called “Checking Account” to the cash and marketable securities account.

I’ve entered the account number and name like last time. This time I’ll click on ‘Subaccount of’ and a drop down box will appear. I’ll choose ‘Cash and Marketable Securities.’

After I’ve typed in all the necessary information I’ll click on “Save & Close”. Entering in new accounts is easy. Here’s what this section of the COA looks like after I’ve added the main cash account and three subaccounts.

These subaccounts provide you with a more detailed look at your church’s finances. For accounting purposes, you could put all information about cash into one account (account 1100). However, putting information in the different subaccounts (checking, savings, and petty cash) provides you with more specific information about where the cash really is.

Conclusion

That sums up our discussion on the COA. The COA will creep up from time to time in the lessons that follow. You’ll thank me for helping you get this set up once we finish all the lessons. Having a good COA in place will make entering transactions and reporting much easier. For now, you still might be a bit
confused about how this all works. By the end of Part 2 of this book you’ll get to see the COA in action and it will make a lot more sense. In the next lesson we’ll be talking about a special QuickBooks tool called ‘Classes.’

End of Lesson 22
Lesson 23: Tracking Your Programs’ Finances with Classes Using QuickBooks

Church leaders find it very useful to see how each program or fund is doing financially. They like to be able to look at a report and see how the missionary program is doing or how the youth fund is performing. Reports for each fund can be created with the click of a button on QuickBooks, but you’ll need to learn about **Classes** to make this all happen.

**Can’t I just Use the Chart of Accounts (COA) to Track Programs or Funds?**

That’s a great question, but unfortunately the answer is “No”. I’d love to get into a lengthy discussion about why it’s not possible to do so with QuickBooks, but we’ll save that for another day.

For now, it’s best to think of the COA as the horizontal rows in your reports and the classes as the vertical columns in your reports. Here’s a simple example of what I’m talking about:

<table>
<thead>
<tr>
<th>Statement of Activities</th>
<th>General</th>
<th>Missionary</th>
<th>Youth</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$5,000</td>
<td>$2,000</td>
<td>$1,000</td>
<td>$8,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>$2,000</td>
<td>$1,000</td>
<td>$500</td>
<td>$3,500</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$3,000</td>
<td>$1,000</td>
<td>$500</td>
<td>$4,500</td>
</tr>
<tr>
<td><strong>Increase in Net Assets</strong></td>
<td>$3,000</td>
<td>$1,000</td>
<td>$500</td>
<td>$4,500</td>
</tr>
</tbody>
</table>

The red vertical columns represent the classes I’ve set up in QuickBooks. When you’re generating reports you can sort information by classes.

The blue horizontal rows represent the accounts I’ve added to my chart of accounts.

Hopefully from the above example you can see how useful classes are. They make it so you can see your revenue, expenses, and income by classes. If you have the nonprofit version of QuickBooks that I recommend, you can also sort your statement of financial position by classes. That’s one of the reasons I recommend it over just regular QuickBooks Pro.

**Tangent:** You can use these classes to meet the requirement to sort by unrestricted, temporarily restricted, and permanently restricted. However, most churches find it more useful to track everything by program and then make the GAAP compliant reports at the end of the accounting period by making a few small adjustments. Basically all you have to do is combine all of your temporarily restricted program funds and you’ll have your temporarily unrestricted account.
Note that you could set up three classes (unrestricted, temporarily restricted, and permanently restricted) and track everything that way all year, but that wouldn’t be nearly as useful.

**Setting up Classes in QuickBooks**

For 1st Church we’re going to set up classes to track our program funds. 1st Church has four funds to track: the general/unrestricted fund, the missionary fund, the youth program fund, and the building fund.

Here’s how you enter these classes in QuickBooks. I recommend you follow along and add these classes for your fake church.

Go to Lists >>> Class List. On the bottom left of that screen click on Class >>> New or type ‘Ctrl and N.’

Type in the classes you’ll want to track in your church. In our example we’ll be typing in four funds (pictured below):

I always add numbers before the class name so that I can keep them in order.

**Additional Tip**

I’d recommend going to Edit >>> Preferences >>> Accounting >>> Company Preferences. Once you get there click on “Prompt to assign classes”. This makes it so that every time you enter a transaction or journal entry into QuickBooks you’ll be prompted to assign a class. Assigning a class for every journal entry is very important if you want to keep track of your church’s funds.
Conclusion

That about sums up our discussion on classes. Now when we go to enter transactions (in the next lesson) we'll see how these classes come into play.

End of Lesson 23
Lesson 24: Entering Transactions

At this point we’ve set up our chart of accounts and our classes. We’re finally ready to enter transactions (journal entries) into QuickBooks. This is a good day indeed.

In the first part of this book we talked about the church accounting cycle (pictured below). In the next few lessons we’re going to run through this cycle in QuickBooks. I’m going to provide two months worth of transactions for 1st Church and we’re going to enter them into QuickBooks. Then we’re going to print out all the necessary management reports and GAAP reports. We’ll also print out the end of year donor summary reports.

Now, if you read the first part of my book about journal entries you’ll have a good feel for what’s going on when you enter information into QuickBooks. QuickBooks is funny though; it isn’t designed for accounting experts (it’s designed for your average person). This means that you don’t actually enter debits and credits in the program. Instead, you enter transactions and QuickBooks makes the debit/credit journal entries for you. You’ll see what I’m talking about when we start entering transactions in the next lesson.

Now, before you get all mad at me for teaching you journal entries, keep in mind that you’ll still need the accounting knowledge I taught you in order to enter these transactions correctly. In addition, you’ll be able to understand what’s going on behind the scenes.

The next lesson is simply a list of all the transactions that we’ll be covering throughout the rest of this book. You can refer back to it when you have questions about how to account for a certain type of transaction.

End of Lesson 24
Lesson 25: Transactions for 1st Church

Below are all of the transactions for 1st Church during January and February of 2012. Throughout the rest of the book I’ll be showing you how to enter these transactions into QuickBooks. I hope that you’ll follow along with me and enter the transactions in as well.

Quickly read over the transactions. In the next lesson we’ll cover transaction #1. Exciting times indeed.

Donations/Pledges/Revenue Transactions #1-7

<table>
<thead>
<tr>
<th>Transaction #</th>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1/8/2012</td>
<td>Received 3 envelopes from three donors. Each gave $2,000 for the upcoming year. Donors: CS Lewis, Albus Dumbledore, Adam Morrison</td>
</tr>
<tr>
<td>2</td>
<td>1/8/2012</td>
<td>Received 1 envelope from one donor giving money to youth and missionary programs ($3,000 each). Donor: James Taft</td>
</tr>
<tr>
<td>3</td>
<td>1/15/2012</td>
<td>Kalidan Stormbringer donated $10,000 for the building fund you're setting up. It will earn 5% annually.</td>
</tr>
<tr>
<td>4</td>
<td>1/11/2012</td>
<td>Jennifer McGraw pledged $5,000 for the year. Unrestricted.</td>
</tr>
<tr>
<td>5</td>
<td>2/5/2012</td>
<td>Received check from Jennifer McGraw for $5,000 for her pledge.</td>
</tr>
<tr>
<td>6</td>
<td>1/16/2012</td>
<td>Two new pledges: Kathy Ivens $3,000 to the missionary fund, and Kim Johannson $2,000 to the youth fund.</td>
</tr>
<tr>
<td>7</td>
<td>1/16/2012</td>
<td>Made bank deposits</td>
</tr>
</tbody>
</table>

Expenses/ Fixed Asset Purchases/ Allocation Transactions #8-16
<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>1/2/2012</td>
<td>Purchased $20,000 vehicle by borrowing money from the bank.</td>
</tr>
</tbody>
</table>
| 9 | 12/31/2012 | Depreciation Expenses
Five years straight line on $20,000 vehicle (no salvage value)
$4,000 depreciation expense (we’re pretending the entire year has passed) |
| 10| 1/21/2012  | Purchased office supplies from Heaven's Office Supplies: $250 for admin, $100 for missionary fund, $100 for youth fund (direct disbursement). |
| 11| 2/5/2012   | Received a $500 bill from Heaven City Utilities for all utilities for the month of January. |
| 12| 2/15/2012  | Paid $500 bill from Heaven City Utilities. Need to allocate expenses at the end of the month. |
| 13| 2/17/2012  | Paid $1,000 to Heavenly Youth (a getaway camp near your area).               |
| 14| 2/17/2012  | Paid $1,000 to Missionary Central.                                          |
| 15| 2/17/2012  | Basic Clergy Salary: $1,000 expense general journal entry.                  |
| 16| 2/29/2012  | Allocating depreciation and utilities to the different programs.
Depreciation 25% ($1,000 each missionary and youth). Utilities: 25% $125 each. |

Appendix/ GAAP Entries #17-18

<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>NA</td>
<td>Net Assets Released from Restriction entry.</td>
</tr>
<tr>
<td>18</td>
<td>1/3/2013</td>
<td>Journal entry to move everything to correct Net Assets accounts.</td>
</tr>
</tbody>
</table>

End of Lesson 25
Lesson 26 Entering Donations and Contributions into QuickBooks

Every church has a slightly different donation system. Some churches have donors fill out envelopes, others have trays that are passed around to potential donors, and some churches receive donations through credit cards or even PayPal. Whatever type of donation system you’re running, you’ll need to keep track of the donations as revenue within QuickBooks.

Remember to follow along with me on your fake church as we enter these transactions.

Transaction #1

Received 3 envelopes from three donors. Each gave $2,000 for the upcoming year.
Donors: CS Lewis, Albus Dumbledore, Adam Morrison

Three of your stalwart members donated $2,000 each for the upcoming year.

From your QuickBooks home screen, click on “Donations”.


When you do this within the QuickBooks Nonprofit Premier edition, the standard donor template will pop open. Below I’ll show you how to fill that out for this first transaction.
**Customer: Job** – In the top left of the screen (pictured above) you’ll see a drop down box titled Customer: Job. Click on the down arrow and you’ll see a list of all the donors you’ve entered into the system.

I already entered in a few names when we were setting up QuickBooks. I’ll just choose CS Lewis from my donor list. You can click on “Add New” and then type CS Lewis into the box that pops up. Don’t worry about adding any other information right now. Then click “OK”.
Class – Now that we’ve got the donor listed we’ll need to choose the class. This is a general unrestricted donation that CS Lewis is allowing my church to use for whatever purpose we see fit. I’ll put this in the General Fund class that we created earlier.

Date – Don’t forget to fill out the correct date. The date box is in the top right of the screen. If you don’t put the date in, QuickBooks will just automatically default to today’s date. For this transaction the date is 1/8/2012.

Donation Number – This should be automatically filled out for you. Thanks QuickBooks!

Payment Method – In our example CS Lewis wrote 1st Church a check for $2,000. The check number was 1234.

You can see that QuickBooks has a lot of different payment methods for accepting donations.
**Item** – To understand what an item is, it’s best to just go through an example. Click on the Item drop down box and then click on “Add New”.

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tithes/Offerings</td>
<td>General Donation</td>
</tr>
</tbody>
</table>

CS Lewis’s donation was simply an offering or tithe to the church. For these types of offerings, choose “Service” in the Type dropdown box.

1st church is going to name the item Tithes/Offerings. The description will be, “Used for general donations to the church.”

The important part is the “Account” you use (bottom right of this screen). Whenever you enter this type of item into QuickBooks it will debit cash and credit the account you choose here. Hopefully you’re starting to see why the Chart of Accounts (COA) is so important within QuickBooks.

1st Church’s COA (the one I created and that you hopefully downloaded) has an account for Tithes/Offerings. It also has a subaccount for weekly offerings and envelopes. This is the correct account to use in this transaction.
Having these subaccounts in your COA is really useful. If your church board just wants to see total offerings, you can quickly show them. If they want a more detailed report to see the amount of offerings from weekly envelopes, or from electronic offerings, or from any other sort of offering, you can do that too. The church leadership will love you.

After you’re done choosing an account, click “OK”.

**Description** – I just typed the words “General Donation” as the description.

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tithes/Offerings</td>
<td>General Donation</td>
</tr>
</tbody>
</table>

**Amount** – This is pretty obvious. Enter the amount of the donation.

| Amount | 2,000.00 |

**Donor Message** – If you’ll be sending your donor a receipt for this donation, then feel free to type in a quick donor message.
Memo – I’m leaving this field blank, but if you wanted to leave yourself a note about the transaction, here’s the place to do it.

Now click “Save & New” and QuickBooks will make a sound that means it’s saved your transaction and it will automatically have a new screen for your next transaction.

Go ahead and enter the donation transactions for our good friends Albus Dumbledore and Adam Morrison.

The screen will be identical to the one above, except that the names will be different. When you’ve finished entering Adam Morrison’s donation, click “Save & Close”.

Conclusion

You’ve just finished entering transaction #1 of 18 for 1st Church. This transaction could be categorized as an unrestricted donation. In the next lesson we’ll take on transaction #2 which will be a temporarily restricted donation.

End of Lesson 26
Lesson 27 Entering a Temporarily Restricted Donation

In the accounting portion of this book we talked about unrestricted, temporarily restricted, and permanently restricted donations. In the last lesson we entered an unrestricted donation into QuickBooks. Today, I’ll show you how to enter a temporarily restricted donation.

Transaction #2

Accounting is really an attempt to capture the important parts of a story. Here’s today’s story, which is transaction #2.

| 2 | Received 1 envelope from one donor giving money to youth and missionary programs ($3,000 each). |
|   | 1/8/2012 |
|   | Donor: James Taft |

It’s still the first Sunday of the year and your counting team is opening up envelopes. You open up an envelope from James Taft that has a check in it and instructions for how the donated money should be used. This is a temporarily restricted donation because your church has to use the money in accordance with the donor’s wishes.

James wants his $6,000 donation to be used for the youth and missionary programs ($3,000 each).

From the home screen in QuickBooks, click on donations (just like in the previous lesson). It’s easy to find the home screen in QuickBooks. You can simply click on Home in the top left.

Here’s what this transaction will look like in QuickBooks.
Customer: Job – Add James Taft as a customer.

Class: Don’t use the class dropdown box at the top because you’ll need to put this donation into multiple classes or funds.

Date, Payment Method, and Check: Make sure you have all this information correct.

Item: This is still a weekly donation from a member so choose the Item “Tithes/Offerings”. The difference is this time you’ll create two different items because the money will be going to two different programs.

Description: Write a brief description, if you so desire.

Class: This is where the power of classes comes into play within QuickBooks. We created a missionary class and a youth class in the earlier lesson on classes. Click on the dropdown box in the first line and choose 200Missionary Fund.
On the next line click on the dropdown box and select 300Youth Fund.

Allocating the contributions by classes will allow you to run program/fund reports that are very useful to church leaders. I’ll show you an example of one of these reports in the next lesson.

**Amount:** Type in the amount that will be going to each program – in this case $3,000 for each.

Type in a **Donor Message** and a **Memo** (if you so desire) and then click “Save & Close”.

**Conclusion**

In this lesson we learned how to enter temporarily restricted donations into QuickBooks. You’re probably chomping at the bit to see some reports. In the next lesson I’ll show you some basic, but powerful reports.

**End of Lesson 27**
Lesson 28: Basic Reports

So far we’ve only made it through two transactions, but it’s a good time to look at some basic reports within QuickBooks. These reports will help you understand what’s going on behind the scenes.

I highly recommend that you create these reports with me using your nonprofit version of QuickBooks. Create the reports and then see if they look like mine. If you need help getting your reports to look correct, then leave me a comment below.

Donor Contribution Summary Report

Within QuickBooks, click on Reports >> Nonprofit Reports >> Donor Contribution Summary.

If a popup window comes up and asks you for dates, choose the “Fiscal Year to Date” option. A report should pop up that looks something like this:
Hopefully you can see how this would be a useful report. Church leaders can quickly take a look at who is donating to the church and how much they’re donating. This report can be exported to Excel, emailed, or printed with the click of a button.

In Lesson 39 I’ll show you how to use this report to quickly make your year-end donor summary statements for tax purposes.

**Custom Transaction Detail Report**

For those aspiring accountants among us, the “Custom Transaction Detail Report” is a useful report that shows all the journal entries that QuickBooks has made to date. It’s not as pretty as I would like, but you get used to it.

Go to Reports >>> Custom Reports >>> Transaction Detail.
Here’s what our report looks like to date. Note that I set the date for January 8th.

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Num</th>
<th>Memo</th>
<th>Account</th>
<th>Check</th>
<th>Class</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 8, 12</td>
<td>Sales Receipt</td>
<td>2</td>
<td>CS Lewis</td>
<td>General Don.</td>
<td>12000</td>
<td>Undeposited Funds</td>
<td>100Gen...</td>
<td>4110 Weekly Off.</td>
</tr>
<tr>
<td>Jan 8, 12</td>
<td>Sales Receipt</td>
<td>2</td>
<td>CS Lewis</td>
<td>General Don.</td>
<td>12000</td>
<td>Undeposited Funds</td>
<td>100Gen...</td>
<td>4110 Weekly Off.</td>
</tr>
<tr>
<td>Jan 8, 12</td>
<td>Sales Receipt</td>
<td>3</td>
<td>Adam Morrison</td>
<td>General Don.</td>
<td>12000</td>
<td>Undeposited Funds</td>
<td>100Gen...</td>
<td>4110 Weekly Off.</td>
</tr>
<tr>
<td>Jan 8, 12</td>
<td>Sales Receipt</td>
<td>4</td>
<td>Alyss Dunbar</td>
<td>General Don.</td>
<td>12000</td>
<td>Undeposited Funds</td>
<td>100Gen...</td>
<td>4110 Weekly Off.</td>
</tr>
<tr>
<td>Jan 8, 12</td>
<td>Sales Receipt</td>
<td>5</td>
<td>James Tart</td>
<td>General Don.</td>
<td>12000</td>
<td>Undeposited Funds</td>
<td>100Gen...</td>
<td>4110 Weekly Off.</td>
</tr>
<tr>
<td>Jan 8, 12</td>
<td>Sales Receipt</td>
<td>6</td>
<td>James Tart</td>
<td>For Riasson...</td>
<td>12000</td>
<td>Undeposited Funds</td>
<td>100Gen...</td>
<td>4110 Weekly Off.</td>
</tr>
</tbody>
</table>

Take a look at the two lines I’ve outlined in red. On Line 1, QuickBooks is debiting a cash account (#12000 Undeposited Funds). If you’ll remember back to our debit and credit rules, then you’ll remember that when you increase an asset, you debit that account.

On Line 2 QuickBooks is crediting a revenue account (#4110 Weekly Offerings/Envelopes). Credits are shown with a negative sign in this report. From the rules we learned, we know that when revenue is
increased, you credit the revenue account. It's pretty neat that when you entered that transaction into QuickBooks, the software made the debit and credit entries for you.

We’re not going to discuss this report in more detail for the time being; just know that you can use it to look at all the transactions you’ve entered.

**Statement of Financial Position (Balance Sheet)**

The 2011 and 2012 versions of QuickBooks Nonprofit have a nifty little report called “Balance Sheet by Class”.

Go to Reports >>> Company & Financial >>> Balance Sheet by Class.

When you first open this report, you’ll see a popup window that says something along the lines of, “You need to enter transactions in a specific way to ensure correctness.” Fortunately for you I’m showing you the correct way to enter the transactions so don’t worry too much about this popup. Click “OK”.

Here’s the top portion of this report for 1st Church:
This is a powerful report that shows you the assets, liabilities, and net assets of each of your church’s programs. Note that we haven’t deposited any of our donations so instead of Cash under Current Assets, the report is showing Undeposited Funds. I’ll show you how to deposit funds in a later lesson.

**Statement of Activities (Income Statement)**

To pull up 1st Church’s Statement of Activities we’ll go to Reports >>> Nonprofit Reports >>> Statement of Financial Income and Expense.
Here’s what the report will look like:

![Image of a financial statement report](image)

Because of the handy work we did together with classes, you can see the income, expenses, and net income for each of your programs. Hopefully you’re really starting to see how important these classes are within QuickBooks. They keep track of each of your program’s individual funds. Within QuickBooks you can easily see all the revenues, expenses, assets, and liabilities for each of your funds.

Quick Tip: If you don’t like that QuickBooks is showing you all the subaccounts in these reports, then simply click on “Collapse” at the top of the screen and it will clean up the report.

**Conclusion**

Today we took a looked at some of the useful reports that QuickBooks offers. I encourage you to take some time and click around on some of the other reports to see what they do. Try customizing some reports, exporting them to Excel, or emailing them. Each time you enter a new transaction, generate these reports and see how they have been impacted because of the transaction you entered (this is a good way to learn QuickBooks).

In the previous two lessons we discussed how to enter unrestricted and temporarily restricted donations. In the next lesson we’ll take a look at how to enter permanently restricted contributions.
Lesson 29: Handling Permanently Restricted Donations

In the last lesson we used QuickBooks to generate some useful reports. Today, we'll be looking at how to enter permanently restricted donations into the software.

In the accounting section of this book we discussed permanently restricted donations, but let's quickly revisit the issue.

Basically, the actual money donated to a permanently restricted fund (the principal) can never be used. Why would anyone donate money that can never be used? Because the interest generated from the principal amount can be used. Large wads of cash that generate interest income are known as endowments.

1st Church has a building maintenance endowment fund. Members can contribute money to this fund and all the interest generated from this fund is used for repairs and maintenance of the church building. This is a great way to keep your building in good shape.

From the home screen click on “Donations”.

Here’s what your donation screen will look like when we’re finished. I’ll walk you through the steps below.

Customer Job: Add Kalidan Stormbringer to your list of donors just as we did in previous lessons.

Class: Choose 400Building Fund.

Date: Make sure the date is correct.
Item: Click on Item >>> Add New.
Choose “Service” for type. Type in the name “Endowment Income” and then choose an account. From my Chart of Accounts that you imported, you can select “4130 Building Endowment Income”. This will be the account credited for these transactions. Click “OK” when you’re finished.

Payment Method: Choose a check. Enter the check #1122.
Amount: Type in the full amount of $10,000.
Leave a message and a memo (if you so desire) and then click “Save & Close”.
If you entered the transaction in correctly using a class assignment, then all of your reports will now show your new fund. I recommend you take a quick look at some of your main reports and see how this new transaction has affected them.

1st Church
Balance Sheet by Class
As of January 15, 2012

Conclusion
Keeping track of permanently restricted donations is easy in QuickBooks. Simply assign the restricted donations a class. That wraps up our lesson for today. In the next lesson we’ll discuss pledges.

End of Lesson 29
Lesson 30: Entering Pledges into QuickBooks (The Right Way)

Today we’ll learn how to correctly enter pledges into QuickBooks. In the last lesson we went over how to enter permanently restricted donations. In this lesson we’ll look at transaction #4 that deals with entering pledges into QuickBooks.

<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>1/11/2012</td>
<td>Jennifer McGraw pledged $5,000 for the year. Unrestricted.</td>
</tr>
<tr>
<td>5</td>
<td>2/5/2012</td>
<td>Received check from Jennifer McGraw for $5,000 for her pledge.</td>
</tr>
</tbody>
</table>

Handling pledges is a little different than handling normal donations. From our accounting lessons you should remember that when your church receives a pledge, it is indeed receiving an asset. That asset is known as accounts receivable or pledges receivable in this case.

Within the QuickBooks Home screen if you hover your mouse pointer over the Create Invoices icon you will see that it says “Enter a new pledge”. This is where you want to enter new pledges.

Here’s what your screen will look like when we’re finished entering the pledge. I’ll discuss the steps below.
**Customer Job:** Click the dropdown box and then add Jennifer McGraw to the list.

**Class:** This is an unrestricted pledge so for class select “100 General Fund”.

**Date:** As always make sure you have the date correct (the date you received the pledge).

**Item:** We’ll need to create a new item because pledges are different than what we’ve dealt with so far. Click on the Item dropdown box and then click “Add New”.
For Type select “Service”. Type “Pledge Income” in for the Item Name. Type “Pledges to the Church” for the Description. For the account select account 4310 General Pledge Income. This is the income/revenue account that will be credited whenever you enter in general pledges.

After you’ve selected the correct account, click on “OK” and you’ll be taken back to the pledge window.

**Description:** Type in a brief description

**Amount:** Type in the full amount: $5,000.

Type in a Message and a Memo if you so choose and then click “Save & Close”.

You entered the pledge. Good job.

QuickBooks will keep track of all of your pledges. You can run a quick Pledges Receivable report that will show all of your outstanding pledges and how long they have been outstanding. This is a very useful report for church leaders.

In the next lesson we’ll enter a few more pledges and then run a Receivables Report. For now I want to show you what to do when you receive payment for your pledges.

**Receiving Payment for Pledges**

On February 5th you receive a check from Jennifer McGraw for the full amount of her pledge. Let’s look at how to handle this transaction in QuickBooks.

```
5  
2/5/2012 Received check from Jennifer McGraw for $5,000 for her pledge.
```

From the QuickBooks Home screen click on the “Receive Payments” icon. If you hover over the icon then you will see a little textbox pop up that says, “Record a payment to fulfill a pledge.”

Here’s what your screen will look like when we’re done entering the payment for the pledge. I’ll go over the steps to get there below.
**Received From:** Because you’ve already entered Jennifer McGraw into the system when you click on the dropdown box you should see her name there.

Notice that once you select the customer (donor), QuickBooks will show you that donor’s current balance due. Jennifer’s current pledge balance is $5,000.

**A/R Account:** This is an important box. You can use this box to help manage all the different types of receivables your church has. 1st Church only has two types of receivables: normal accounts receivable and pledges receivable. If your church has other types of receivables that need to be tracked, then simply add a new subaccount.
This is a pledge receivable that is being paid off so select account 1220 Pledges Receivable.

**Amount:** Type in the amount being paid off. Jennifer is paying the full $5,000 in this situation.

**Payment Method:** Select the payment method and type in the check number.

**Date:** Make sure you enter in the date that the check was received.

**Check Box:** On the lower part of the screen click on the check mark that will apply this payment to the pledge invoice we created at the beginning of this lesson.

Doing this will mark off the original pledge invoice as paid (as pictured below). This way if you pull up the old pledge for any reason you will see that it was paid. It’s nice to have software that will do this for you (in the olden days we had to use stamps).

Back on the Donor Payment screen just above the “Save & Close” button you’ll see the amount due and the amount applied to the pledge.
Once everything on this screen looks accurate, click “Save & Close”.

Conclusion

Today we learned how to enter pledges into QuickBooks. We also learned what to do when payments for pledges are received. In the next lesson we’ll take enter a few more pledges and then run some receivables reports.

End of Lesson 30
Lesson 31: Running Pledge Receivables Reports

In the last lesson we learned how to enter pledges in QuickBooks. We also learned how to manage payments for pledges within the software program. Today, we’ll enter in a few more pledges and I’ll show you how to make some useful pledge receivable reports.

Here’s Transaction #6 for those of you following along.

| 6    | 1/16/2012 | Two new pledges: Kathy Ivens $3,000 to the missionary fund, and Kim Johansson $2,000 to the youth fund. |

Go to QuickBooks Home Screen >>> Create Invoices just like we did in the last lesson.

Kathy’s Pledge:

The main difference between this pledge and the one we did in the last lesson is that the money pledged is restricted to the missionary fund. Assign the class correctly and you’re set.

Kim’s Pledge:
Notice that Kim’s pledge is assigned to the Youth Fund.

**Pledge Receivable Reports**

Once you enter in those pledges, you’re ready to create some useful reports. If you go to Reports>>>Customers and Receivables, then you will see that there are a whole slew of reporting options for your receivables. You are sure to find the report that your church leaders want.
Let’s take a quick look at the “A/R Aging Summary” report as of 1/17/2012.

1st Church  
A/R Aging Summary  
As of January 17, 2012  

<table>
<thead>
<tr>
<th>Name</th>
<th>Current</th>
<th>1-30</th>
<th>31-60</th>
<th>61-90</th>
<th>&gt;90</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jennifer McGraw</td>
<td>0.00</td>
<td>5,000.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>5,000.00</td>
</tr>
<tr>
<td>Kathy Ivens</td>
<td>0.00</td>
<td>3,000.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Kim Johansson</td>
<td>0.00</td>
<td>2,000.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>0.00</strong></td>
<td><strong>10,000.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>10,000.00</strong></td>
</tr>
</tbody>
</table>

Note that this report is run on January 17th and Jennifer McGraw didn’t make payment until February 5th (that’s why she’s still on the receivables report).

This report is very useful because it shows how long your receivables have been outstanding.

Here’s a look at another useful receivables report: The “Customer Balance Detail” Report.
I took this report on February 7th so it shows that Jennifer McGraw has indeed made payment on her initial pledge and that her balance is at zero for the year. This is a great report for keeping track of donor pledges and payments of those pledges.

Conclusion

Those are all the receivable reports I’m going to cover for now. If you want to play around with some of the other receivables reports available in QuickBooks, then now is a good time. In the next lesson we’ll be moving away from pledges to focus on bank deposits.

End of Lesson 31
Lesson 32: Bank Deposits in QuickBooks

Today we’ll be discussing bank deposits. Depositing your church’s sacred money is something you need to be very careful about, but I’m not going to be talking about the controls you should put in place to keep you and your church safe. Instead, I’ll be talking about how to handle bank deposits within QuickBooks.

Background Information

1st Church has one checking account and one savings account that nets 5% interest. The savings account is used for permanently restricted donations (as seen in the image below).

1st Church wants to make sure that it doesn’t spend it’s temporarily restricted funds. However, the church leaders don’t want to open up a different checking account just to keep track of the temporarily restricted funds. Fortunately QuickBooks can handle this problem for you.

In 1st Church’s chart of accounts (the COA you imported into your QuickBooks) you’ll see that I’ve created two sub accounts under the checking account.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>1000's</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1100 Cash and Marketable Securities</td>
</tr>
<tr>
<td></td>
<td>1110 Checking Account</td>
</tr>
<tr>
<td></td>
<td><strong>1111 Unrestricted Funds</strong></td>
</tr>
<tr>
<td></td>
<td><strong>1112 Temporarily Restricted</strong></td>
</tr>
<tr>
<td></td>
<td>1120 Savings Account</td>
</tr>
<tr>
<td></td>
<td><strong>1121 Permanently Restricted</strong></td>
</tr>
<tr>
<td></td>
<td>1130 Petty Cash</td>
</tr>
</tbody>
</table>

When making deposits with QuickBooks you can designate which account the money goes into. All the youth/missionary deposits go into account 1112 Temporarily Restricted. All the general donations go into 1111 Unrestricted Funds. This helps keep track of the amount of actual cash you have that is restricted.

Note that in the example above I’m talking about COA accounts and not real bank accounts. You don’t need to open up a new bank account for each fund or program (you can just use COA accounts to track them).

I’ll show you how this works in the example below. I suggest you follow along on your version of QuickBooks.
Transaction #7

<table>
<thead>
<tr>
<th>Date</th>
<th>Donor</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/8/2012</td>
<td>CS Lewis</td>
<td>$2,000</td>
</tr>
<tr>
<td>1/8/2012</td>
<td>Albus Dumbledore</td>
<td>$2,000</td>
</tr>
<tr>
<td>1/8/2012</td>
<td>Adam Morrison</td>
<td>$2,000</td>
</tr>
<tr>
<td>1/8/2012</td>
<td>James Taft</td>
<td>$6,000</td>
</tr>
<tr>
<td>1/15/2012</td>
<td>Kalidan Stormbringer</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

It’s always recommended that you take money offerings to the bank as soon as possible (the same day if possible). However, for teaching purposes we are going to pretend that the following money wasn’t deposited until 1/16/2012.

On the QuickBooks Home screen go to “Record Deposits”.

If you’ve been entering the transactions with me then you should see a window like the one pictured below:
These are all the payments that have not been deposited according to QuickBooks. As a general rule of thumb it’s a good idea to enter deposits into QuickBooks just after you get back from the bank where you deposited the money.

We’ll start out with the Unrestricted Funds Deposit.

If you’ll recall from an earlier lesson the donations from CS Lewis, Adam Morrison, and Albus Dumbledore were all unrestricted.

**Transaction #1**

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Type</th>
<th>No.</th>
<th>Payment Method</th>
<th>Name</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/08/2012</td>
<td></td>
<td>RCPT</td>
<td>2</td>
<td>Check</td>
<td>CS Lewis</td>
<td>2,000.00</td>
</tr>
<tr>
<td>01/08/2012</td>
<td></td>
<td>RCPT</td>
<td>3</td>
<td>Check</td>
<td>Adam Morrison</td>
<td>2,000.00</td>
</tr>
<tr>
<td>01/08/2012</td>
<td></td>
<td>RCPT</td>
<td>4</td>
<td>Check</td>
<td>Albus Dumbledore</td>
<td>2,000.00</td>
</tr>
<tr>
<td>01/08/2012</td>
<td></td>
<td>RCPT</td>
<td>5</td>
<td>Check</td>
<td>James Taft</td>
<td>6,000.00</td>
</tr>
<tr>
<td>01/15/2012</td>
<td></td>
<td>RCPT</td>
<td>6</td>
<td>Check</td>
<td>Kalican Stormbringer</td>
<td>10,000.00</td>
</tr>
</tbody>
</table>

Click the check mark in the farthest left column for these three donors and then click “OK”.
This will take you to the deposit screen. On this screen you want to select the appropriate account to put this money in (the Unrestricted Funds Account). Keep in mind that at this point you’ve already deposited the money into the actual bank account and you’re now recording the deposit in QuickBooks.

Make sure you have the correct Date in place and also enter a Memo if you so desire.

Here’s what the full screen looks like.
The key here is to deposit to the unrestricted account. Also marking the class as the general fund is a good idea.

Notice that the “From Account” column has an account called 12000 “Undeposited Funds”. QuickBooks automatically enters all cash receipts into this account. This way when you’re depositing the money you can move it from this undeposited account to the correct cash account.

From here just click “Save & New.”

Now click on James Taft and click “OK”.

In this transaction James gave $3,000 to the missionary fund and $3,000 to the youth program.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/8/2012</td>
<td>Received 1 envelope from one donor giving money to youth and missionary programs ($3,000 each). Donor: James Taft</td>
</tr>
</tbody>
</table>

You’ll want to enter this donation into the temporarily restricted bank account as shown below.

Doing this will allow your church to know how much money on hand is restricted and how much is unrestricted.

Don’t worry about class on this one. Click “Save & New”.
Now choose Kalidan Stormbringer from the list and click “OK”.

Kalidan’s donation was a $10,000 permanently restricted donation for the building maintenance fund. Only the interest from the donation can be used.

This means you’ll want to deposit it to the permanently restricted bank account.

Make sure you enter the correct amount and date. Go ahead and choose 100Building Fund for the Class.

Once everything looks right click “Save & Close”.

Voila! You’ve recorded all the deposits you made and you managed to organize the cash into the proper funds (unrestricted, temporarily restricted, and permanently restricted).

**Conclusion**

Today we learned how to enter deposits in QuickBooks. We also learned how to keep track of restricted funds without actually having to open another checking account at the bank. In the next lesson we’ll learn how to handle physical asset purchases within QB.

**End of Lesson 32**
Lesson 33: Purchasing Long Term Assets and Depreciation Expenses

Accounting has a rather funny way of handling purchases of long term assets like land, buildings, and vehicles. When your church buys a new vehicle for $20,000 it isn’t considered a $20,000 expense at the time of the purchase. Instead the vehicle is placed on your statement of financial position as a long term asset and each year your church will expense a portion of that $20,000 through what is known as a depreciation expense. We’ll look at an example below.

There are certain rules that explain how much depreciation you should take each year, but it’s best to work with an accountant on this matter. For those curious I can explain these rules at a later date. Today our task is to record the purchase of a long term asset in QuickBooks. After we do that, we’ll record depreciation expense for the vehicle.

Transactions 8 and 9

<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>1/2/2012</td>
<td>Purchased $20,000 vehicle by borrowing money from the bank.</td>
</tr>
<tr>
<td>9</td>
<td>12/31/2012</td>
<td>Depreciation Expenses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Five years straight line on $20,000 vehicle (no salvage value)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$4,000 depreciation expense (we’re pretending the entire year has passed)</td>
</tr>
</tbody>
</table>

On the second day of this year Pastor John at 1st Church went out and purchased a $20,000 van to be used exclusively by the church. The church took out a loan to make the purchase.

Recording this transaction requires us to make a general journal entry in QuickBooks (here’s where our journal entry work in the accounting section of this book is really going to pay off).

To get to the general journal go to “Company” on the top tool bar and then select “Make General Journal Entries”.

Some window will likely pop up that tells you about automatic numbering; just click “OK”.

Here’s what your journal entry is going to look like when we’re all done. I’ll walk you through the steps to get there below.
**Date:** Enter the date of the transaction. In this case the van was purchased on 1/02/2012.

**Account:** Remember from our accounting days that we debit assets when assets increase and credit liabilities when liabilities increase. Using the chart of accounts I provided for you will make entering this journal entry a breeze.

Click on the account dropdown box and then find the vehicles account under property, plants, and equipment.
After you’ve chosen the account simply enter $20,000 as the debit amount, write a memo, and for class choose the general fund.

When you click on the next line down within the general journal you’re going to see that QuickBooks automatically enters a credit amount of $20,000. This is because QuickBooks knows that debits must equal credits.

Now find the appropriate liability account to credit. For 1st Church this is account #2410 Notes Payable to Bank.
After you’ve selected the account, simply make sure the amount, memo, and class columns are filled out. At this point, click “Save & Close”.

That’s it. You’ve entered the journal entry for 1st Church’s Vehicle Purchase. Feels good to make a real journal entry doesn’t it?

If you go to the statement of financial position (balance sheet) you’ll notice that the vehicle is now listed.

### Fixed Assets

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1400</td>
<td>Property, Plant, and Equipment</td>
<td>20,000.00</td>
<td></td>
</tr>
<tr>
<td>1450</td>
<td>Vehicles</td>
<td></td>
<td>20,000.00</td>
</tr>
</tbody>
</table>

**Total 1400 · Property, Plant, and Equipment** 20,000.00

**Total Fixed Assets** 20,000.00

### Depreciation Expense

1st Church depreciates their vehicles using the straight line depreciation method. This simply means that they depreciate the same amount each year until the end of the vehicle’s useful life. Knowing the useful life of a vehicle requires an estimate. We’ll say for 1st Church that the vehicle is expected to last for five years at which point it will be taken to the dump because it will be worth nothing at that point (the youth really destroy the van if you know what I mean).

Doing some basic math: $20,000 vehicle divided by 5 years = $4,000 worth of depreciation expense each year.
Here’s transaction #9 that deals with depreciation:

<table>
<thead>
<tr>
<th>9</th>
<th>12/31/2012</th>
<th>Depreciation Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Five years straight line on $20,000 vehicle (no salvage value)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$4,000 depreciation expense (we’re pretending the entire year has passed)</td>
</tr>
</tbody>
</table>

Most churches make depreciation expense journal entries at the end of the year. It would be really time consuming to calculate the depreciation expense and make a journal entry for it every day. So for this example, we’re going to pretend like it’s already 12/31/2012.

**Understanding Depreciation Expense**

Before we make the entry in QuickBooks, let’s take a little time to understand the depreciation expense journal entry.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2012</td>
<td>Depreciation expense for the year 2012 on our Van.</td>
</tr>
</tbody>
</table>

Depreciation is an expense. Whenever you increase an expense you debit that expense account (as shown above).

We’ve debited expenses for $4,000 but what account should we credit? Remember that when we initially purchased the $20,000 van we put the van down as a long term asset using a journal entry that looked something like this:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/02/2012</td>
<td>Purchased a van for $20,000. Hope the youth don’t destroy it.</td>
</tr>
</tbody>
</table>

We’ve estimated that the van will only last for five years. That means that at the end of the year we need to reduce the long term asset by 1/5. When we reduce an asset we credit that account. That means we should credit the long term asset as shown below right???
It turns out that the above journal entry is incorrect. In the accounting world we don’t credit the long term asset in this situation. Instead we credit a rather intriguing account known as accumulated depreciation. Accumulated depreciation is a contra-asset account (yes contra-asset is a weird word).

This contra-asset account reduces the amount of the long-term asset (the vehicle in this case) on the statement of financial position.

Note: A contra-asset account does what it sounds like it does: an increase in a contra-asset account means a decrease in total assets. Think of it as an anti-asset account.

**Why not simply credit the long term asset you ask?**

Many budding accountants wonder why accountants have gone through all the trouble of making up a contra-asset account to reduce long term assets. Why not just credit the long-term asset to reduce it? Creating an accumulated depreciation (contra-asset) account allows users to see the original purchase cost of the long term asset as well as the depreciated amount (as seen in the image below taken from 1st Church’s Statement of Financial Position).

**How to Enter Depreciation Expense in QuickBooks**

Now that you have the general idea behind depreciation expenses, let’s take a look at how to make this entry in QuickBooks.

Open your general journal again by going to Company >>> Make General Journal Entries.

Here’s what your window will look like when you’ve completed it. I’ll talk about the steps to get there below.
Date: Select the appropriate date. In this case the date is 12/31/2012.

Account: This is an expense. So we’re going to debit an expense account. In this case we’re debiting account 5640 Deprec. Expense- Vehicles.

Notice that this is a subaccount of total depreciation expenses. This will make it so your leaders can look at a general report that shows them the total depreciation expenses or they can look at a more detailed report that will show them the depreciation expense for each category of long term assets.
**Account:** The second account on this journal entry is accumulated depreciation (the contra-asset account that we talked about above).

Once you get the accounts correct, then the rest of this journal entry is easy. Just make sure the debits and credits are correct. Also make sure you assign this to the general fund. The missionary and youth programs will be using this vehicle and we’ll talk about how to allocate the expense to those programs in Lesson 38. Click “Save & Close” when you’ve finished making the entry.

**Conclusion**

Today we learned how to make general journal entries in QuickBooks. We made the entries for the purchase of a new long term asset and we also made a depreciation journal entry. This is advanced stuff so good job if you’ve made it this far. In the next lesson we’ll learn how to enter bills.

**End of Lesson 33**
Lesson 34: Paying Bills with Direct Disbursement

In the last section we learned how to handle long term assets and depreciation in QuickBooks. Today we’ll learn how to handle bills.

There are really two ways to handle bills within QuickBooks: (1) The direct disbursement method and (2) the normal billing method.

The Direct Disbursement Method

The direct disbursement method is simple and quick. It works well on those occasions when you don’t receive a formal bill and you are just paying for an expense. It also works well when you’re paying a bill on the same day you receive it.

Let’s look at an example:

| 10 | 1/21/2012 | Purchased office supplies from Heaven's Office Supplies: $250 for admin, $100 for missionary, $100 for youth (direct disbursement). |

On the 21st of this year you went down to Heaven’s office supplies and purchased $450 worth of office supplies that will be used this year (stamps, paper, staplers, printer ink, etc.). $250 of this purchase is for general administrative purposes, $100 is for the missionary program, and $100 is for the youth program.

Within the QuickBooks home screen click on “Write Checks”.


Here’s what your check should look like when we’ve finished with this transaction. We’ll talk about the steps to get here below:
**Bank Account:** For the bank account, select account 1111 Unrestricted Funds. It’s true that some of this money will be used for missionary and youth programs. Unfortunately, there is no easy way in this situation to take the money from both the general fund and the temporarily restricted fund bank account. You can either enter two separate checks or you can transfer the funds from temporarily restricted to unrestricted at a later point (I’ll show you how to do this at the bottom of this lesson).

**Pay to the Order of:** Click on the dropdown box and click “Add New”. When the next window pops up click on “Vendor” (a vendor is simply a company that sells your church something). Then, type in the vendor name and any other information you wish to add for now. Then click on “OK”.

**Date:** Make sure the date is correct.

**Dollar Amount:** Enter in the numerical dollar amount and then QuickBooks will automatically populate the written dollar amount.

**Account:** In your chart of accounts you should have an account for office supplies expense. It’s account #5310 for 1st Church.
Because this expense will be charged to different programs, you’ll need to enter three lines worth of information (as pictured below).

Add the correct amount to be charged to each program and then make sure you have the class assigned appropriately. This will ensure that your reports are tracking expenses by class. This makes it much easier for church management to see where money is being spent.

Note that you can print checks directly from QuickBooks if your heart so desires (a handy feature).

If I run a quick statement of activities report (income statement), this is what it will look like.
Notice that the $450 spent is allocated across the different programs making it easy for church leaders to see how money is being spent. This is much better than simply putting all $450 worth of expenses in the general fund.

Here’s a quick look at what the statement of financial position by class will look like:

```
1st Church
Statement of Financial Income and Expense
January 1 - 21, 2012
```

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>100General Fund</th>
<th>200Missionary Fund</th>
<th>300Youth Fund</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Expenses</td>
<td>250.00</td>
<td>-100.00</td>
<td>-100.00</td>
<td>450.00</td>
</tr>
<tr>
<td>Total Expense</td>
<td>250.00</td>
<td>-100.00</td>
<td>-100.00</td>
<td>450.00</td>
</tr>
<tr>
<td>Net Ordinary Income</td>
<td>-250.00</td>
<td>-100.00</td>
<td>-100.00</td>
<td>-450.00</td>
</tr>
<tr>
<td>Net Income</td>
<td>-250.00</td>
<td>-100.00</td>
<td>-100.00</td>
<td>-450.00</td>
</tr>
</tbody>
</table>

Notice the -100 under the missionary and youth funds. This represents the money that was spent on office supplies for the missionary and youth programs. Instead of being represented as a -100 in the unrestricted bank account it should be taken from the temporarily restricted account. You do this by transferring funds.

**Transfer Funds**

In transaction #10 above the missionary program spent $100 and the youth program spent $100. We need to transfer these funds from the temporarily restricted bank account to the unrestricted bank account. Note that you won’t have to do this on every transaction. It is necessary in this scenario because the money was originally taken from the unrestricted bank account even though it was used for the missionary and youth programs.

Go to Banking>>>Transfer Funds
For the $100 spent on the missionary program make the following transfer.

Note that the memo says, “Purchased $100 of missionary supplies using the unrestricted bank account.”

For the $100 of office supplies spent on the youth make the following transfer.
The memo says, “Purchased $100 of youth office supplies using the unrestricted bank account.”

Making these transfers helps you keep better track of the amount of money in each of your programs temporarily restricted accounts. It also helps make sure that you’re reporting the correct amount of unrestricted and temporarily restricted money. Here’s what the statement of financial position looks like after the money transfer.

![Transfer Funds Between Accounts](image)

Notice the only difference is that the -100 has been moved from the unrestricted funds bank account to the temporarily restricted funds bank account.

Keep in mind that you don’t actually have to go down to the bank and make a money transfer. 1st Church keeps all of its unrestricted and temporarily restricted money in one bank account at Heaven
City Bank. The temporarily restricted bank account is a fictional account churches create so that they can keep track of how much temporarily restricted money they have.

Conclusion

Today we learned how to enter expense journal entries into QuickBooks using the direct disbursement method. We also learned how to transfer funds using QuickBooks. In the next lesson we’ll learn how to use the billing method for expenses.

End of Lesson 34
Lesson 35: Handling Expenses using the Billing Method

We learned in the last lesson that direct disbursements are great for situations where you don’t actually receive a formal bill and you are simply purchasing something at the store. However, when your church does receive a bill and you don’t end up paying that bill for some time, then it’s probably a better idea to use the billing features within QuickBooks. I’ll show you an example of how to do this today.

**Transactions 11 and 12**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>2/5/2012</td>
</tr>
<tr>
<td>12</td>
<td>2/15/2012</td>
</tr>
</tbody>
</table>

The dreaded day has come when you open your church’s mail and find a bill from Heaven City Utilities. Here’s what you need to do in QuickBooks.

From the home screen click on “Enter Bills”.

![QuickBooks Enter Bills Screen](image)
Here’s what your screen should look like when you’re done (except for the big stamp that says “Paid” on it). My bill is showing as paid because I’ve already entered the transaction to pay for it (we’ll be entering that transaction a minute).

A/P Account: The first thing you’re going to want to do is select the correct accounts payable (AP) account.

Make sure you select the subaccount (this is important in case you want to enter other accounts payable subaccounts in the future). Remember that these subaccounts are useful for keeping track of more detailed information. You can create reports that show the subaccounts or you can create reports that hide the subaccounts and only show the summed up numbers.

Vendor: Click on the dropdown box and then click “Add New”. Add the name and any other information you see fit.
**Date:** Make sure you have the right date.

**Amount:** Add in the amount of the bill; $500 in this case.

**Bill Due:** Enter the date for when the bill is due. The automatic setting is 10 days and that’s what I’ve used in this case.

**Account:** Choose the correct expense account, pictured below.

![Expense Account Selection](image)

**Amount:** After you’ve selected the correct expense account, enter the amount.

**Memo:** Enter a quick memo if you so desire.

**Class:** For class, select the general fund. Keep in mind that at the end of the month we’ll allocate the utilities to the different programs (administrative, missionary, and youth).

Click “Save & Close” once everything looks right.

**A Word on “Reminders”**

It can be difficult to remember to pay all of these bills once you enter them into the system. Fortunately QuickBooks has a reminder tool. If you go to Edit >>> Preferences >>> Reminders >>> Company Preferences you’ll see all these reminder options:
Once you set up your reminders, every time you open QuickBooks a window will show up reminding you of some tasks on your to-do list.

**Paying off Bills**

So you’ve entered the bill and now the time has come to pay it off.

| 12 | 2/15/2012 | Paid $500 bill from Heaven City Utilities. Need to allocate expenses at the end of the month. |

From the home screen click on “Pay Bills”. 
The first thing you’ll need to do once the “Pay Bills” screen opens up is choose the correct accounts payable account. Once you do this, your outstanding bills will be listed (as pictured below).
Next, put a checkmark next to the bill that you’re about to pay. Enter in the date that you’ll be paying this bill (2/15/2012).

Choose the Method (check in this case) and then select the appropriate account (we’ll be using the unrestricted funds account). Finally, click “Pay Selected Bills”.

At this point, you should be taken to a screen that tells you that, “payment has successfully been recorded.” This screen also allows you to pay more bills, print the checks, or be done. Click on “Done”.

Let’s take a second to look what happened here behind the scenes. When we created the bill, QuickBooks debited the expense account and credited an accounts payable account (liability account).

When we paid off the bill, QuickBooks debited the liability because it no longer exits. Our cash account (checking) was credited.

**Conclusion**

Today we learned how to enter bills into QuickBooks and how to pay those bills off. After doing all this you should know how to make most of the expense entries you’ll need at your church. Just for practice in the next lesson we’ll do some more expense entries.

**End of Lesson 35**
Lesson 36: Program Expense Entries

In the previous lessons we learned two methods for entering expenses into QuickBooks: (1) The direct disbursement method and (2) the billing method. Today we’ll learn how to enter some program specific expenses into QuickBooks.

Transactions 13 and 14

<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>2/17/2012</td>
<td>Paid $1,000 to Heavenly Youth (a getaway camp near your area).</td>
</tr>
<tr>
<td>14</td>
<td>2/17/2012</td>
<td>Paid $1,000 to Missionary Central</td>
</tr>
</tbody>
</table>

Transaction 13

Go to Home Screen >>> Write Checks.

Here’s what your check will look like:
There are three items worth noting on this check. (1). The money should come out of the temporarily restricted bank account. This way you can keep track of how much money is in the account. (2). The account is 5520 Youth Program Expense. (3). Make sure to assign the class to the youth.

Click “Save & New”.

**Transaction 14**
Let’s take a quick look at the statement of activities after running these expenses.
Conclusion

Today we entered some program specific expenses into the software and took a look at 1st Church’s income statement. In the next lesson we’ll briefly talk about payroll.

End of Lesson 36
Lesson 37: Payroll Expenses

Today, we’ll take a quick look at payroll. Because some churches do their own payroll and others simply outsource payroll, it can be a difficult topic to cover. In addition, the withholding rules and rates are constantly changing and are beyond the scope of this book. If I find there is a large demand to learn more about payroll, then I can write another mini-book on the subject in the future.

Today, we will look at payroll in very general terms.

Transaction #15

On the 17th of February, 1st Church receives a payroll report from the payroll company it outsources its payroll to. Here’s how to enter this transaction into QuickBooks.

Go to Company >>> Make General Journal Entries

In this journal entry you debit a salary expense account (in this case account #5410) for $1,000. You credit the unrestricted funds bank account for $800.
The $200 difference is the amount of money your church is withholding for tax purposes. You’ll need to credit a tax withholding (liability) account for the $200 that you are withholding. In the above example I simply credited one account: payroll tax withholdings. However, in real life it’s more complex than this. You can take a look at the chart of accounts below to get an idea of some of the payroll withholding accounts that would need to be credited.

<table>
<thead>
<tr>
<th>2320 Payroll Tax Withholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2321 Federal Tax Withheld</td>
</tr>
<tr>
<td>2322 FICA Liability</td>
</tr>
<tr>
<td>2323 Medicare Liability</td>
</tr>
<tr>
<td>2324 State Tax Liability</td>
</tr>
<tr>
<td>2325 Local Tax Liability</td>
</tr>
<tr>
<td>2326 State SUI Liability</td>
</tr>
<tr>
<td>2327 State SDI Liability</td>
</tr>
</tbody>
</table>

Hopefully you can see why accounting and bookkeeping companies charge extra for managing payroll. It requires expertise and understanding of federal, state, and local laws.

A withholding is simply money that is not paid to employees because the church is keeping the money (temporarily) so it can pay the taxes when they come due. When your church pays these taxes you’ll make a general journal entry where you debit the withholding accounts and credit the cash account.

**Allocating Payroll Expenses**

You’ll notice in the above example that I assigned all the payroll expenses to the general fund class. Many churches want to be able to assign the payroll expenses by program. We’ll now do that in 1st Church.

The accountant and church leaders have determined that $500 of the $1,000 wage expense can be attributed to the missionary and youth programs ($250 for each program). To allocate these expenses, we’ll need to open up the general journal again.

Go to Company >>> Make Journal Entries in order to open up the General Journal again.

The first action we need to take when the general journal is open is to credit the original expense for $500 using the general fund class (shown below). This will take away $500 of general fund payroll expenses that should be assigned to the missionary and youth programs instead of the general fund. Then we’ll need to debit the expense account again and assign $250 to the youth program and $250 to the missionary program (as pictured below).
Now church management has a more accurate picture of the expenses for each of your programs.

After making this entry if we take a look at the statement of activities we’ll see that the expenses are distributed correctly.

### 1st Church

**Statement of Financial Income and Expense**

January through February 2012

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>100General Fund</th>
<th>200Missionary Fund</th>
<th>300Youth Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>4100 · Tithes/Offerings Income</td>
<td>6,000.00</td>
<td>3,000.00</td>
<td>3,000.00</td>
</tr>
<tr>
<td>4300 · Pledge Income</td>
<td>5,000.00</td>
<td>3,000.00</td>
<td>2,000.00</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>11,000.00</strong></td>
<td><strong>6,000.00</strong></td>
<td><strong>5,000.00</strong></td>
</tr>
</tbody>
</table>

| Gross Profit | 11,000.00 | 6,000.00 | 5,000.00 |

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>100General Fund</th>
<th>200Missionary Fund</th>
<th>300Youth Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>5100 · Utility Expenses</td>
<td>250.00</td>
<td>125.00</td>
<td>125.00</td>
</tr>
<tr>
<td>5300 · Administrative Expenses</td>
<td>250.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>5400 · Wage Expenses</strong></td>
<td><strong>500.00</strong></td>
<td><strong>250.00</strong></td>
<td><strong>250.00</strong></td>
</tr>
<tr>
<td>5500 · Program Expenses</td>
<td>0.00</td>
<td>1,000.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td>5600 · Depreciation Expenses</td>
<td>2,000.00</td>
<td>1,000.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td><strong>3,000.00</strong></td>
<td><strong>2,475.00</strong></td>
<td><strong>2,475.00</strong></td>
</tr>
</tbody>
</table>

### Transferring Funds

In the initial journal entry above we took all $800 of the money from the unrestricted bank account. For reporting purposes it would be better to show that 500 of those dollars actually came from the temporarily restricted bank account. We’ll make a general journal entry for this transfer.

| 1111 · Unrestricted Funds | 250.00 | Allocating Payroll Expense to | 100General Fund |
| 1112 · Temporarily Restricted | 250.00 | Allocating Payroll Expense to | 200Missionary Fund |
| 1111 · Unrestricted Funds | 250.00 | Allocating Payroll Expense to | 100General Fund |
| 1112 · Temporarily Restricted | 250.00 | Allocating Payroll Expense to | 300Youth Fund |

In this journal entry we’re giving back the general unrestricted bank account $500. We’re taking the money from the missionary and youth programs. This will make it so the bank accounts are all accurate (shown below).
A Note on QuickBooks Payroll Options

QuickBooks has several payroll options. Here’s a great page for comparing all the different payroll programs available from QuickBooks. You can also read here about how to obtain the cheapest version of QuickBooks payroll (the basic version).

Conclusion

Today we learned a bit about payroll. We looked at a very general journal entry for payroll and we also learned how to allocate payroll expenses across programs. In the next lesson we’ll look at more allocation entries.

End of Lesson 37
Lesson 38: Allocating Expenses to Programs

Most churches don’t allocate expenses across programs every single day. Instead they have a designated time scheduled for performing this task. For example, 1st Church makes these entries at the end of every month. However, your church might want to make these entries on a weekly, monthly, quarterly, or annual basis.

Today I’ll show you how to make these entries in QuickBooks. It’s up to you to determine when to make them. It’s also up to you, your church leaders, and your accountant to determine how much of these expenses to allocate to each program.

Transaction #16

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/29/2012</td>
<td>Allocating depreciation and utilities to the different programs.</td>
</tr>
<tr>
<td></td>
<td>Depreciation 25% ($1,000 each missionary and youth). Utilities:</td>
</tr>
<tr>
<td></td>
<td>25% $125 each.</td>
</tr>
</tbody>
</table>

Allocating Depreciation Expenses

If you remember back to our earlier lesson on long term assets, 1st Church bought a $20,000 vehicle. This vehicle incurred $4,000 worth of depreciation expense this year (2012).

Originally this $4,000 expense was charged to the general fund, but the leaders of 1st Church have decided it would be best to allocate some of this expense to the youth and missionary programs (after all they’ve been using the vehicle too!).

After some discussion the leaders have decided to allocate 25% of the expense ($1,000) to the youth program and 25% of the expense to the missionary program (they figure that is about the amount that each program uses the van).

Open the general journal by going to Company >>> Make General Journal Entries

Original Entry

Below is a screenshot of the original entry we made within QuickBooks. We debited $4,000 worth of depreciation expense and assigned it all to the General Fund.
Allocation Entry

Below is a screenshot of the allocation entry that we’ll make in order to spread the expense out to the different programs.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Name</th>
<th>Debit</th>
<th>Credit</th>
<th>Memo</th>
<th>Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>02/29/2012</td>
<td>56-40 Deprec. Expense</td>
<td>4,000.00</td>
<td></td>
<td>Depreciation for vehicle for the...</td>
<td>100 General Fund</td>
</tr>
<tr>
<td></td>
<td>1474 Acc. Dep.-Yeh...</td>
<td></td>
<td>4,000.00</td>
<td>Depreciation for vehicle for the...</td>
<td>100 General Fund</td>
</tr>
</tbody>
</table>

In the allocation entry you are taking away $2,000 of the expense from the general fund by crediting the depreciation expense account for $2,000 with the class being assigned to General Fund. Then you are debiting the depreciation expense account twice ($1,000 each) with the proper classes in place. This leaves the depreciation expense at $4,000, but now the expense is allocated out across programs correctly.

Allocating Utility Expenses

On February 15th, 1st Church was charged $500 for utilities. This expense was initially assigned to the general fund. However, church leaders feel it would be fair to allocate some of this expense to the youth and missionary programs.

Again, they determine that 25% or $125 for each program is fair.
Here is the journal entry we’ll make:

![Journal Entry Image]

First, credit the utility expense account using the general fund for $250. Then debit the same account using the appropriate funds ($125 each).

**Knowing Which Accounts to Credit**

At first, when you’re not really familiar with your chart of accounts it can be hard to remember which expense accounts require allocation. It’s hard to allocate expenses if you don’t know which accounts need allocating. The transaction detail report is a great report that helps you see all the debits and credits you’ve made in the past. This report can be very helpful for tracking down accounts that need allocated.

Go to Reports >>> Custom Reports >>> Transaction Detail (as pictured below).
Enter the appropriate date range and then you’ll be provided with a report of all transactions during that time period.
You can double click on any of the transactions in this report to learn more.

**Statement of Activities**

Here’s what our statement of activities looks like after you’ve made the two allocating entries discussed above.

![Statement of Financial Income and Expense]

After your allocation entries, the church leadership will have a clearer picture of where the expenses are occurring within your church. Leaders will be able to make wiser decisions about budgeting and purchases.

**Transferring Funds**

At this point, you’re not quite done. The $250 spent on utilities for the missionary and youth program was originally taken from the unrestricted general bank account. 1st Church wants to show that this money came from the temporarily restricted account from the youth and missionary programs. The following general journal entry makes this transfer happen.
Here’s what the bank accounts will look like at this point.

1st Church
Balance Sheet by Class
As of February 29, 2012

Assets
Current Assets
  Checking/Savings
    1111 · Unrestricted Funds 10,200.00  0.00  0.00
    1112 · Temporarily Restricted 0.00  1,525.00  1,525.00
Total 1110 · Checking Account 10,200.00  1,525.00  1,525.00

Conclusion
Today we learned about allocating expenses to the different programs within the church. This usually requires making a general journal entry within QuickBooks. It also requires some judgment as to how much of each expense should be allocated.

End of Lesson 38
Lesson 39: How to Create a Year End Donor Summary Statement in QuickBooks

This post is an excerpt from the course (the QuickChurch Accounting Course) I teach about church accounting and using QuickBooks. My hope is that you will see how useful the information I divulge in the course is and hopefully end up joining for a one-time fee of $29.95. You can read more about the course here.

Most churches (and other nonprofits) like to give their donors a year-end donation acknowledgment letter. This letter serves two primary purposes: (1) It allows your donors to take a tax-deduction on the amount of money they have donated to your church and (2) It gives your church a chance to say thank you for the donations and ask for more donations in the future.

Let’s take a look at how to create this report within QuickBooks.

If you’ve researched using QuickBooks or if you have used it for your church then you know that creating this donor statement is not as easy as it should be. After countless soul-searching hours trying to find a solution to this problem I present you with three options:

- Option 1: Simple Contribution Summary
- Option 2: Simple Contribution Summary with Cover Letter
- Option 3: Third Party Software

**Warning before Beginning**

If you want accurate donor reports it is important that you enter donations and pledges using the method outlined in my book and recommended by QuickBooks (mainly that you don’t enter the donations using the “Make Deposits” option or the “Bank Register” option). If you use the wrong method to enter donations then your donor reports will be missing contributions. See illustration below for more detail.
If you use the register or deposits windows to enter donations it will ask you to enter the customer name, but it doesn’t tie the donations to the customer. This means that any reports you generate for the customer won’t include donations or pledges you entered using this method.

**Option 1. The Simple Contribution Summary**

This is the perfect solution for small churches that can simply hand out the reports at church or have a different system set up for mailing letters to members.

Simply fire up your QuickBooks NonProfit Version >>> click on reports >>> nonprofit reports >>> and then donor contribution summary (as shown in the picture below).
This will create a report of all the pledges (invoices) and donations made by donor as pictured below:
Now this report by itself is useful because it lists all contributions for the year by donor. However, it doesn’t really serve as an effective letter to donors because it crams all the donors onto the same page. There is a trick to get around this.

Click on print and then check the box called “Page break after each major grouping.” See picture below:
This will print out an individual contribution report for each of your donors.
This report doesn’t quite fill all the requirements for tax-deduction purposes (you can read Lesson 18 for more information on these requirements). It still lacks one thing: the legalese about not providing any goods or services in return for the donations.

Unfortunately QuickBooks doesn’t have an easy way to modify the report to add this (frustrating I know). Here’s a workaround that will work for smaller churches just wanting to fulfill basic requirements.

Click on modify report, then click on the header/footer tab (as shown below). Make sure the “Extra Footer Line” checkbox is checked. Then add the following line: “No goods or services were given in return for donations.” You don’t have a lot of room in this box so you really have to keep it short but still fulfill the requirement.
Then click on “OK”. Now look at your print preview and you’re set!
Obviously this method is not flawless. It’s a bare-bones approach. It doesn’t give you a chance to really communicate with your donors and it doesn’t print out envelopes with addresses on it. That’s why we have method 2.

**Option 2: Simple Contribution Summary with Cover Letter**

In this option you create the same report shown above, but you add a cover letter that has a bunch of “feel good” information and asks for the donors continued support. You can do this all within QuickBooks and Microsoft Word.

**Step 1:** Create the contribution summary report as shown above in Option 1.

**Step 2:** Click on Company >>> Prepare Letters with Envelopes >>> and then Customer Letters.
Step 3: Choose all the donors you want to receive a letter or just choose “Active Donors” and click “Next”.
Step 4: Click on Create or Edit a letter template and then click on “Next”.

Step 5: Click on “Create a New Letter Template From Scratch” and then “Next”.
Step 6: Choose “Customer” and then enter a name for the letter template. Click “Next” and Microsoft Word should open up for you.
Step 7: Customize your Word Template

When I first did this I thought that I did something wrong because my word document looked completely blank and normal. If this is your experience, don’t worry you are in the right place.

In Word 2007 and 2010 you go to “Add Ins” at the top and you will see that this is no ordinary document.

These little tools are quite handy indeed.
Add in the information you want for your letter. Here’s one I came up with that can serve as a guide for you.

I’ve highlighted in red some of the custom name fields that you can insert using QuickBooks. Take a look here to see what else you can add to these letters:
These little inserts or fields come in very handy. They allow QuickBooks and Microsoft Word to work together. Basically Word will grab the donor information from QuickBooks and then print out a letter for each individual donor.

**Step 8:** Go back to QuickBooks and click on “Use Template”. QuickBooks will then open up a single Word Document that has letters to each individual donor.

**Step 9:** You can then use either QuickBooks or Microsoft word to create envelopes as well.
Option 3: Use Third Party Software

There are two companies out there that have created a Microsoft Excel product that interacts with QuickBooks to make creating a year end donor summary and contribution letter easier.

1. **Beyond the Ledgers** $50

2. **Big Red Consulting** $59

Some churches prefer this method due to the professionalism and flexibility you have in creating your statements with these tools. I should warn you that there is still some setup required with this option (it’s not a plug and play experience).

**Conclusion**

If you don’t need a sophisticated letter, then creating a year end donor statement in QuickBooks is easy. If you need something a bit more refined, then it can be a bit of a headache. Hopefully this tutorial helped you. Let me know if you have any questions.

**End of Lesson 39**
Lesson 40: Conclusion

That wraps up part 2 of the book. We’ve generated all the major financial reports and learned how to enter common church transactions into QuickBooks. By the time you’ve entered in these 16 transactions you are well on your way to being proficient in QuickBooks.

The next section of the book is an Appendix that is intended for those who feel comfortable with the transactions and reports we’ve generated so far and want to make the reports look more like those found in FAS 117.

If there are any additional topics you would like to see covered, please leave them in the comment section below. This book is a living document and I’m happy to provide more insight where needed.

End of Lesson 40: Appendix found below.
Lesson 41: Appendix and GAAP Compliance

The next section of the book about GAAP compliance is more technical (and therefore confusing) than I would like it to be. If you are being audited by an outside organization, then I highly recommend working with a qualified accountant to prepare actual reports in compliance with SFAS 116 and 117.

The reports we have created together are a very good start, but preparing for an audit is an enormous amount of work and nigh impossible without a CPA.

The next section of this book is designed for accountants and for those who already have a good grasp on the rest of the materials within this book. In the next section I’ll be showing you how to make the reports we’ve generated in 1st Church look like the reports found in FAS 117 (pages 49-58).

End of Lesson 41
Lesson 42: GAAP and the Statement of Activities

Today, we’ll talk more about GAAP as it pertains to the statement of activities.

Statement of Activities

Remember that the driving force behind SFAS 116 and 117 is the idea to classify contributions according to three categories: Unrestricted, Temporarily Restricted, and Permanently Restricted.

The statement of activities that we’ve generated for 1st Church meets this requirement. Our general fund is the unrestricted category. Our missionary and youth programs make up the temporarily restricted category. Our building endowment makes up the permanently restricted category.

<table>
<thead>
<tr>
<th>Statement of Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Expenses</td>
</tr>
<tr>
<td>Net Income</td>
</tr>
<tr>
<td>Increase in Net Assets</td>
</tr>
</tbody>
</table>

If you’re being audited, then your accountant or auditor might want to change the look of the reports we’ve created a little bit so that they look more like the report he/she wants, but basically you’re already compliant. You (or your CPA) can easily modify the reports by exporting them to Excel.

Exporting a Report in Excel

Within QuickBooks open the report you want exported. Then click on Excel >>> Create New Worksheet.
Net Assets Released from Restriction

The FASB seems to prefer that you show all contributions during the year that were at one point restricted, but now have met their restriction requirements and can be released. Take a look at their example statement of activities in SFAS 117 below:

<table>
<thead>
<tr>
<th>Format B</th>
<th>Not-for-Profit Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statement of Activities</td>
</tr>
<tr>
<td></td>
<td>Year Ended June 30, 19X1</td>
</tr>
<tr>
<td></td>
<td>(in thousands)</td>
</tr>
<tr>
<td></td>
<td>Unrestricted</td>
</tr>
<tr>
<td>Revenues, gains, and other support:</td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$ 8,640</td>
</tr>
<tr>
<td>Fees</td>
<td>5,400</td>
</tr>
<tr>
<td>Income on long-term investments (Note E)</td>
<td>5,600</td>
</tr>
<tr>
<td>Other investment income (Note E)</td>
<td>850</td>
</tr>
<tr>
<td>Net unrealized and realized gains on long-term investments (Note E)</td>
<td>8,228</td>
</tr>
<tr>
<td>Other</td>
<td>150</td>
</tr>
<tr>
<td>Net assets released from restrictions (Note D):</td>
<td></td>
</tr>
<tr>
<td>Satisfaction of program restrictions</td>
<td>11,990</td>
</tr>
<tr>
<td>Satisfaction of equipment acquisition restrictions</td>
<td>1,500</td>
</tr>
<tr>
<td>Expiration of time restrictions</td>
<td>1,250</td>
</tr>
<tr>
<td>Total revenues, gains, and other support</td>
<td>43,608</td>
</tr>
</tbody>
</table>

This “Net assets released from restrictions” account is simply moving contributions from the temporarily restricted category to the unrestricted category (when the restriction is met of course). The framework
I’ve set up in this book allows for you to create this type of report (although I personally don’t find the FASB reporting here that useful). Rules are rules right?

**Example of Net Assets Released from Restriction**

Let’s take a look at how this account would be used within 1st Church.

Remember that during the year $6,000 worth of contributions was given to the missionary program (these contributions were temporarily restricted by purpose: they could only be spent on the missionary program). Of that six thousand dollars, $2,475 was spent on the missionary program. The temporary restriction was met for this $2,475 so the money can be classified as, “released from restriction.”

Similarly the youth program received $5,000 worth of contributions. Of that money $2,475 was spent or “released from restriction.” The image below shows the expenses for each program.

![Expense Table]

Let’s add this “Net assets released from restrictions” account to 1st Church’s statement of activities.

If you wanted to make this show up on your statement of activities, then you’d simply make the following journal entries in the General Journal within QuickBooks). My chart of account already contains account 4500 “Net Assets Released from Restrictions.”

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4500 Net Assets Released from Restrictions (Class - Missionary Fund)</td>
<td>$2,475</td>
</tr>
<tr>
<td>4500 Net Assets Released from Restrictions (Class - General)</td>
<td>$2,475</td>
</tr>
<tr>
<td>4500 Net Assets Released from Restrictions (Class - Youth Fund)</td>
<td>$2,475</td>
</tr>
<tr>
<td>4500 Net Assets Released from Restrictions (Class - General)</td>
<td>$2,475</td>
</tr>
</tbody>
</table>

In QuickBooks, here’s what this journal entry would look like:
Here’s a look at the statement of activities after we make this change.

The problem with the report shown above is that it makes the programs look less profitable than they really are. This is because the contributions are being removed from the programs through account 4500. FASB gets around this problem by treating all expenses like they are unrestricted.

**All Expenses are Unrestricted**

For some reason the FASB seems to like the idea of showing all your expenses as unrestricted. The idea being that once you spend the money the restriction placed on the money by the donor has obviously
been lifted. Take a look at this example statement of activities from FAS 117 to see what I’m talking about.

The FASB seems to encourage lumping all the expenses into programs. The problem with this method is that it leaves out important information about how the money was actually spent. I would not recommend keeping your books this way for internal reporting purposes. Church leaders will want to see reports that show them how Program A spent that much money (for all they know the $13,100 spent above could have been used to purchase a luxury cruise to the Bahamas).

However, if you’re being audited then you’ll probably want to comply with the FASB. So let’s talk about how to make your reports look like their reports.

This is merely a report formatting issue and doesn’t require a journal entry. The best way to approach this is to export the report to Excel and then lump the expenses into programs (anything to make the auditors happy!).

You can watch me make these changes in Excel by watching this video I’ve called FASB Lumpening.

Here’s what the statement of activities looks like after you’ve made these changes:
Conclusion

Creating GAAP appropriate reports requires a trained hand. You’ll need to work with an experienced accountant to create the necessary reports and notes to the financial statements if you’re going to be audited. Today we looked at some of the adjustments you’ll likely have to make to the statement of activities in order to make it look more like the reports in FAS 117. In the next lesson we’ll look at some of the adjustments you’ll need for the statement of financial position.

Remember that the amount of net assets released from restrictions is simply the amount of money that was temporarily restricted but now has been spent. This amount is simply the amount you spent within each program (as seen below).

End of Lesson 42
Lesson 43: GAAP and the Statement of Financial Position

In the last lesson we talked about how to make the 1st Church statement of activities look like the statement of activities shown in FAS 117. Today we’ll work on doing the same for the statement of financial position.

FAS 117

The main push in FAS 117 is to classify net assets according to the three categories: unrestricted, temporarily restricted, and permanently restricted. Other than that, the statement of financial position looks just like a normal balance sheet.

FAS 117 Example:

<table>
<thead>
<tr>
<th>Net assets:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>115,228</td>
<td>103,670</td>
</tr>
<tr>
<td>Temporarily restricted (Note B)</td>
<td>24,342</td>
<td>25,470</td>
</tr>
<tr>
<td>Permanently restricted (Note C)</td>
<td>142,020</td>
<td>137,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>281,590</strong></td>
<td><strong>266,140</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$292,220</strong></td>
<td><strong>$278,480</strong></td>
</tr>
</tbody>
</table>

Getting the net asset account amounts right might seem difficult, but it’s really not bad if you have your system set up correctly (like we have done in this book).

Using 1st Church as an example, you simply take the information from the statement of activities and make a few journal entries (shown further below). Remember that the missionary and youth programs are simply temporarily restricted funds.
If I pull up the standard balance sheet in QuickBooks (Reports >>> Nonprofit Reports >>> Statement of Financial Position) and adjust the reporting date to January 3rd of the next year then I’ll see that QuickBooks automatically allocated all my net income to unrestricted net assets (as shown below). It’s important that you change the date or QuickBooks will simply show you Net Income in the Equity section (instead of unrestricted net assets). This is because at the end of the fiscal year QuickBooks automatically closes out net income to retained earnings (unrestricted net assets) for you.

The problem with the report above is that QuickBooks put all the income for the year into unrestricted net assets instead of allocating it out to unrestricted, temporarily restricted, and permanently restricted.
To fix this you (or a qualified accountant) will need to make an allocating journal entry. We’ll go ahead and make this journal entry for 1st Church.

According to the information we generated above 1st Church should have $8,000 in unrestricted net assets, $6,050 in temporarily restricted net assets, and $10,000 in permanently restricted net assets. The journal entry would look like this:

```
3100 Unrestricted Net Assets $16,050
    3200 Temporarily Restricted Net Assets $6,050
    3300 Permanently Restricted Net Assets $10,000
```

Here’s how it would look in QuickBooks. I would suggest making this journal entry at the end of the reporting period (in this case 1/1/2013).

Your statement of financial position should look like the following after the adjustment.
Conclusion

In this lesson we learned how to create a GAAP-compliant statement of financial position within QuickBooks. Using QuickBooks, you will have to make an allocating entry during the closing procedures at the end of the year.

That wraps up the appendix of this book. As mentioned in Lesson 40 of this book, this book is a living document. If you’d like to see something else discussed please head over to Lesson 40 and mention it there.

End of Lesson 43 and Appendix