


The Art of the CHART

How the Chart of Accounts can serve
your nonprofit organization's
needs in five steps





You might think setting up a nonprofit Chart of Accounts is a standard, fairly straightforward process, but actually there is a lot of strategy that goes into it—or that should go into it—to save you a lot of work and headaches down the road.

So, whether you are just starting up your organization, or you are struggling with your reporting requirements, this might be the best time to focus on your Chart.

With everything going on in your organization, you might be tempted to put your Chart on the back burner, but this critical command center helps you monitor and manage your operations, and should be placed front and center. The Chart organizes one of your most valuable assets: your data. When set up correctly, your chart will help expose trends, issues and opportunities from your day-to-day operations. Because of this, a well-organized Chart will make it easier for you to make better, faster and more informed decisions to move your organization forward.

So, the time you spend evaluating your Chart will typically be among the most worthwhile time you'll spend on your organization. Really! Once you make the decision to focus on this critical area, what do you need to do? Well, there's truly an art to setting up the Chart, and we'll let you in on the best practices, so you can benefit from a structure that's right for your organization.



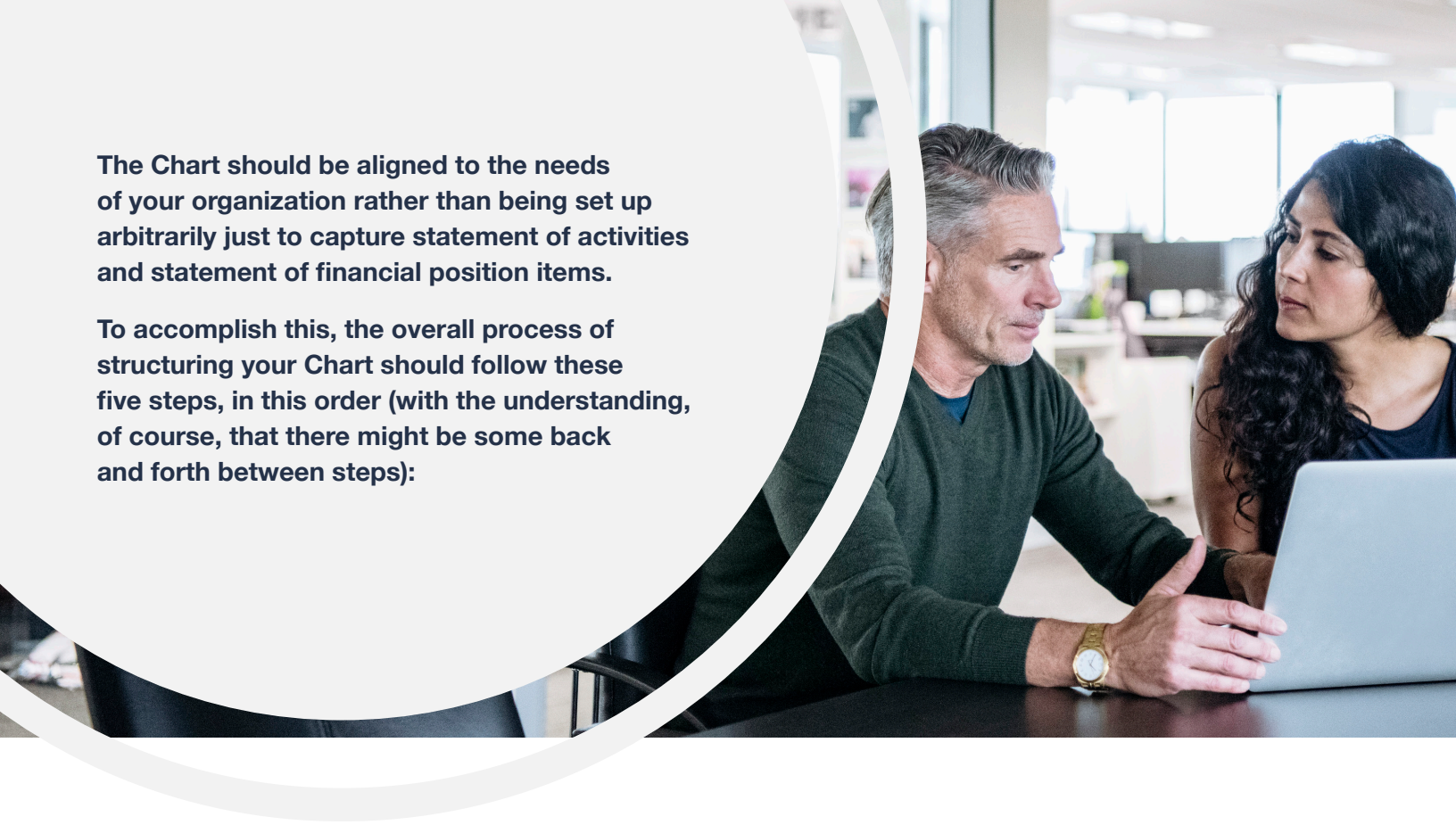
HOW THE
CHART CAN
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5 *key steps*



The Chart should be aligned to the needs of your organization rather than being set up arbitrarily just to capture statement of activities and statement of financial position items.

To accomplish this, the overall process of structuring your Chart should follow these five steps, in this order (with the understanding, of course, that there might be some back and forth between steps):



1

BEGIN WITH THE END IN MIND – REPORTING

While it may seem counterintuitive, the best way to start designing your Chart is from the end point. That is, instead of determining the list of accounts you want to include, start with the end results — the reports and analysis you need to prepare for your stakeholders. Consider the reports you will need for Internal, External and Statutory purposes.

For example:

- Internal — SOA by fund, department, product, service; operational reports; KPIs; budgets/forecasts
- External — financial statements, board packets, audit reviews
- Statutory — federal, state, country-specific reporting

If you are part of a global organization, you will have additional requirements for reporting organization transactions and results. For example, you will need to determine whether you have both IFRS and GAAP requirements.



2

IDENTIFY THE DATA YOU NEED

Once you've determined the various reports you need to produce, you need to identify the type of data you need to capture. Specifically, in addition to the financial data, consider the operational data that you might want to measure. For example, a nonprofit, such as a healthcare provider might want to capture revenue per patient or bed, which would require acquiring that information. You also might want to include non-financial statement items. For example, you might want to track meals served within a certain period.



3

IDENTIFY DATA SOURCES AND CAPTURE PROCESSES

It's only after you know which data you need to capture, and at what level of detail, that you can determine the best, most efficient and effective ways of capturing it. For example, do your out of pocket reimbursements come from a 3rd-party? Will this information be entered manually, uploaded, and delivered directly?





4

CHOOSE THE RIGHT SYSTEM

Often, organizations design / redesign a new Chart because they are implementing a new accounting system; however, a better way to approach the process is to select an accounting and financial management system after you have determined your reporting and data needs and your processes. This approach will allow you to select the system that best addresses your requirements, rather than the other way around. For example, if you have global operations and need to keep two separate sets of books for IFRS and GAAP, you will want to ensure your system can accommodate that. If you don't have a large IT department and expect your financial system to produce comprehensive financial and operational reporting, you will want to choose a system that can deliver that capability.

5

BUILD IN FUTURE FLEXIBILITY


While it is often difficult to forecast where your organization is headed, in some instances you may be able to anticipate future needs. For example, if your organization has an expansion growth model, when you do grow, it takes minutes to add dimensions and / or locations with Sage Intacct. As an organization needs evolve, your chart will need to evolve as well, so make sure you build in flexibility to meet ever-changing requirements. Also, to ensure ongoing success, establish and communicate clear account definitions, and chart maintenance policies and procedures as well as create a process to integrate changes to organization processes, policies, and reporting structures.

Simply put, don't allow additions or changes to be made to the Chart that don't fit in with the overall goals and structure that you established. For example, avoid creating a revenue account specifically for a new product or service when this would be best handled by an added dimension or class.

**TAKING THE
CHART DESIGN
TO AN**

Art form





Before diving into your chart design, here are several best practices for getting the most out of your Chart to meet the needs of your organization:

● ASK THE RIGHT QUESTIONS UPFRONT

Evaluate your objectives to ensure that your Chart is aligned with the way you run your organization. Consider the following questions:

- What is the purpose of the chart? In general, Charts are designed for reporting purposes across three primary areas: Internal (e.g., board books; monthly analysis for management; budget variance; monthly close), External (e.g., auditors, organization members, financial institutions) and Tax. Since you can't design a chart that meets all three requirements in one structure, select the primary one, and then use reporting tools to reorganize the data to meet the requirements of the other two areas.
- How much data do you want to keep in the General Ledger? As mentioned earlier, your reporting needs will determine the type of data you need to capture. You may want to rely on operational systems to track the details of your donations or contributions — for example use the General Ledger (GL) for summarizing daily, weekly, or monthly donation figures. However, if you want to track and report on detailed operational statistics that are combined with your financial data for detailed reporting purposes, then you need to include statistical accounts in the GL.

For example, if a mission organization wants reports on how many families were fed in a specific time-frame, including details of the country where those families were fed, these details would need to be held in the statistical data included in the GL.

- Do we need 400 account titles? No, when we implement a nonprofit organization, it's not unusual to see 800 to 1000 items in their legacy Chart of accounts. As per our best practice, we typically separate out the dimension piece and it shrinks down to 200.
- What are your statutory requirements? Here you need to pay close attention to requirements by location (e.g. country, state, or province).

● CHOOSE THE STRUCTURE THAT BEST FITS YOUR VIEW

There are two main structures for developing a Chart: an organizational or outline approach. The organizational structure, which looks like an org chart, allows you to view the information relating to one organization area in one grouping and it contains all the items or attributes related to it. The outline approach takes a more horizontal view, allowing you to see an attribute, such as assets, across the organization, regardless of where it fits within the organization. The outline structure starts at the highest level, e.g., an asset, and then each level down provides more detail and information. In this example, the level down from assets could be cash, checking and savings accounts, and the next level of detail down from that might include your banks. Both the organizational and outline structures are sound, so choose the one that you feel the most comfortable using based on how you like to view the data. Our preference is the outline approach because we find it is easier to view the top-level balance sheet and then drill down into specific areas as needed.



● KEEP IT SIMPLE – ESTABLISH A NATURAL CHART

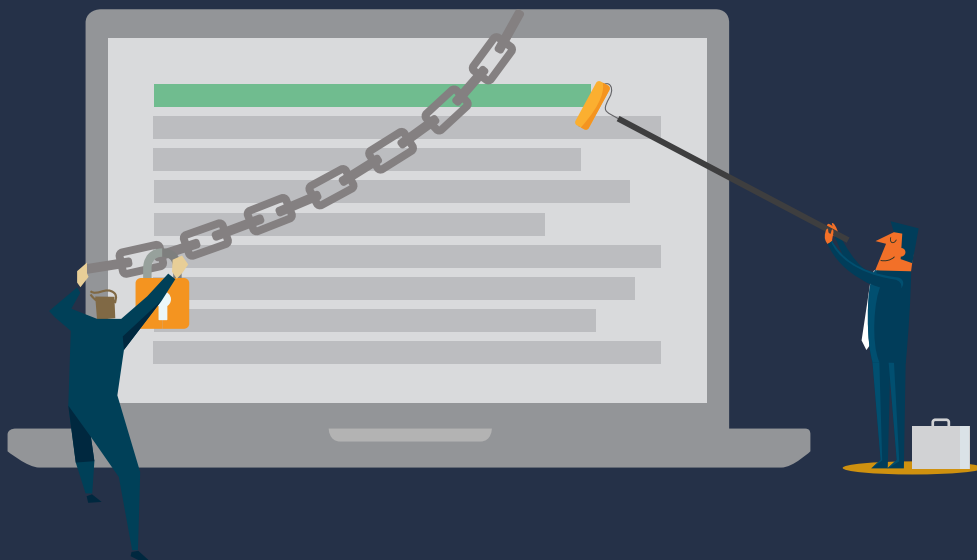
The temptation to include many sub-accounts can create major design and reporting problems. For example, an organization might want to have sub-accounts for a marketing expense for services used by a particular department as well as for a particular location, which could result in a long string of numbers in the GL. This structure also complicates reporting because you would need to pre-define the combinations of accounts and sub-accounts that you will need in a report. A much simpler and more elegant approach is to establish a natural Chart of Accounts structured around the revenue, expenses, assets, and liabilities categories, and then extend the description of each these without tying them to each specific category. You can accomplish this by creating separate elements or dimensions for areas such as departments and locations. For reporting purposes, you can easily select an expense, such as marketing, and then whatever other elements or dimensions, such as departments or locations, you want to view in relation to the expense.



● WORKFLOW APPROVAL: PURCHASING & EMPLOYEE REIMBURSEMENT

Sometimes the Chart is needed for workflow approval/ routing for processes such as purchase requisitions or employee expenses. Before implementing Sage Intacct, you could have 30 different departments. Sage Intacct aids in simplifying the workflow. It's important to understand the organizational requirements and system capabilities required for these processes so you can efficiently comply with your organization's policies.





BUILD IN SECURITY

Determine the type of security you need to support data integrity, internal controls and other requirements. For example, consider user permissions, relationships among some of your dimensions (e.g., limiting a location or department's access to only some of the members on a common customer list) and adds a level of security so that a department only sees their relevant information or expenses.

CONCLUSION

It's never too early to treat your Chart like an art form. Investing design time upfront enables you to make sure that the Chart meets your organization needs and avoids problems down the road. The Chart is a living document that requires flexibility to ensure that its benefits, integrity and relevance stand the test of time in an ever-changing environment. With thoughtful planning and design, your Chart will be a powerful tool, providing visibility and key insights to help you — and other key leaders — make better decisions to take your organization to the next stage of growth.

Need Help Perfecting Your Art of the Chart?

AcctTwo can help you build the ideal Chart of Accounts for your organization, support you with expert accounting services, or help you move to best-in-class cloud-based accounting software.

ABOUT ACCTTWO

AcctTwo is a leading consulting firm and reseller of cloud-based accounting, ERP, Financial Planning & Analysis (FP&A), and Corporate Performance Management (CPM) software. Our sophisticated systems solve the issues growing middle market companies and nonprofit organizations face today. AcctTwo also provides Managed Accounting Services (MAS), allowing clients to focus on the core competencies of their organization. We provide the people, processes, technology, and office facilities to perform these functions, while allowing clients to collaborate interactively through an on-line portal.

AcctTwo is headquartered in Houston, Texas. For more information, please visit accttwo.com or call 713-744-8400.