made simple guides

Made Simple guides are aimed at finance professionals working in charities. They cover technical areas such as risk assessment, accounting, tax and VAT treatments and aim to provide practical guidance to busy accountants in charities.

The content of guides is correct at the time of going to print, but inevitably legal changes, case law and new financial reporting standards will change. You are therefore advised to check any particular actions you plan to take with the appropriate authority before committing yourself. No responsibility is accepted by the authors for reliance placed on the content of this guide.

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CFDG (Charity Finance Directors' Group) is the professional body for finance directors within the sector, and has nearly 1,500 members. CFDG provides assistance to charities on a range of issues, such as accounting, taxation, audit and other finance-related functions. CFDG's mission is to deliver services that are valued by members and enable those with financial responsibility in the charity sector to develop and adopt best practice.

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Introduction

Most charities of a reasonable size use accounting software to help them to record transactions. This guide will help you with the selection process so that you buy the right package. Alternatively, you may want to just upgrade or re-configure your current package. This is worth serious thought – most of us only use a small proportion of the capability of our current systems. Some research and planning may enable you to re-design the chart of accounts so that information and reports are more useful.

Most accounting packages are fundamentally databases. They have then been adapted to the specific requirements of double entry bookkeeping and ledger systems. Therefore, the old adage of 'garbage in, garbage out' applies! You do really need to begin by considering what it is that you want to get out of an accounting system.

It is likely that you will need financial statements at the year end, and you will want a range of different reports during the year. Some reports are needed for internal purposes, such as checking the age of debtors. You may also need to provide budgets and reports to funders. Obviously the more you can do with one set of data, the better. However, you need to be prepared for conflicts – you may have to prioritise or compromise. For example, it may be more important to produce monthly management accounts for managers with appropriate analysis and then accept that there will be additional work at the year end to analyse certain costs to comply with the charity SORP (Statement of Recommended Practice).

step 1 Identify your requirements

An accounting system is a core operational tool which helps your finance staff to record financial transactions, produce invoices and track debtors, pay VAT on time etc. Far more than this, it is also a vital source of business information for the whole organisation. Therefore, you need to talk not only to finance staff, but also to budget-holders or managers of projects, who will have views on the kinds of reporting that they need.

Case study **Charity Training Services (CTS)**

CTS runs short training courses for the voluntary and public sector. Fees are charged for the courses and most courses are led by freelance trainers. CTS itself has a small administrative staff and premises where the courses are run. A review of their needs reveals:

- they need to invoice people for course fees
- some people pay after they receive the invoice; others send payment with booking
- many customers book several courses at once for different individuals to attend training
- they have about 50 different trainers, each leading about one session per week, submitting invoices weekly
- they need a weekly report showing course bookings and income
- they need a monthly report to show income and expenditure compared to budget.

From this they conclude that they need a nominal ledger, sales ledger and purchase ledger. They will enter all the trainers as suppliers and all those booking courses will be customers on the sales ledger.

Having gathered various views on what is needed, you can consolidate these into a statement of requirements for the whole organisation.

step 2 Select a supplier

The statement of requirements is normally incorporated into a formal invitation to tender (‘ITT’). This will also need to include other information such as the number of users for the accounting system, the number of sites it will operate on and how you might want them linked, as well as some technical information about the operating system you use and the overall IT and communications environment. The ITT is important as you will be asking suppliers to provide quotes against this specification and you will incorporate elements of this into the final contract.

Alternatively, you may feel that it is enough to ask some potentially suitable suppliers to provide information about their product which you can then measure up against your requirements.

It is wise to arrange interviews or demonstrations from a shortlist of about three suppliers. You should take up references from similar organisations to help you assess their service and check their credit status. Having decided on a preferred supplier, more detailed discussions will follow about price and their proposed implementation plan. You should agree a contract with the chosen supplier including key dates, as well as a staged payment schedule based on testing to demonstrate that the system works as agreed.

The formality and scale of the selection process will depend on the size and complexity of your organisation. You will want to try to get this right as your accounting software is a core system you will be relying on, so it is worth going through a rigorous selection process and ensuring that the contract meets your needs.

step3 Develop the chart of accounts

Considerable care and thought will be needed to devise a new chart of accounts and other coding systems, so that transactions can be analysed correctly and in such a way that reports can be produced in the required format. With any given system, there may be choices to be made as to how best to do this, but these choices are difficult to make without having a reasonable working knowledge of the system. It is a good idea, therefore, to set up a pilot system and train a small number of key users in how the system works. They can then test the proposed configurations and iron out any issues or bugs before making final adjustments and training the remaining staff.

To get the chart of accounts right you need to have a good understanding of the business and the reports that decision-makers and managers need from the system. You need to think about:

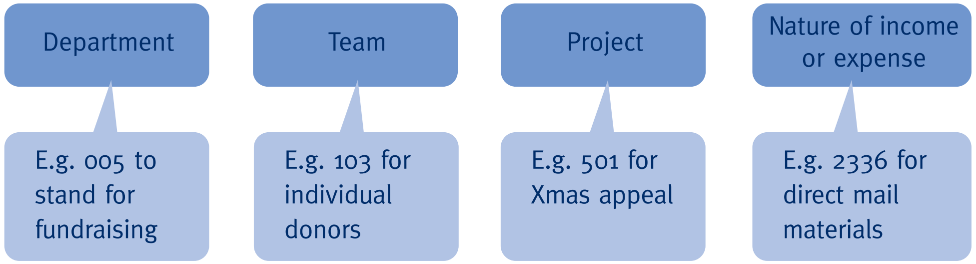
- reports needed by budget-holders
- reports to funders
- reports for senior managers and trustees
- the year end financial statements
- financial control reports e.g. reconciliations
- monitoring debtors and cash collection
- scheduling payments to creditors
- managing cash flow.

As part of step one to identify your requirements, you should have gathered information from various managers about the reports.

Departments or costs centres

Most charities will need to know the costs of different departments and activities. As part of the exercise to understand the charity's

requirements, you should have identified how the 'layers' of analysis will need to work. For example, a department may be responsible for all activity relating to fundraising, but within the department there may be several teams e.g. major donors, corporate support, community giving. Each team may need to track the income and costs of particular appeals or initiatives (project). So the structure for the chart of accounts would need to allow for:



So in this particular example, the code for direct mail materials expenditure for the Xmas appeal sent to individuals would be:

005-103-501-2336

Obviously this is just an example of a coding structure. Often the software will allow for a combination of letters and numbers which is then easier to remember or guess. Generally speaking, you want to create a coding structure that is intuitive so that you do improve the chances of accuracy. The most important aspect to get right is the levels such as department, team or project. So the most important part of this step is to ensure that you know how each part of the organisation is structured and what they want in terms of analysis.

The structure of the organisation's budgets and how income and expenditure is treated in budgets will provide a useful starting point for considering how you should structure the levels in your chart of accounts.

Restricted funds

The nature of the fund may be another important 'layer' for your charity, so you may wish to add a level of coding that describes whether the funding is restricted or unrestricted. This will not be necessary in every charity, as you may have already chosen the source of funding to be one of your levels for analysis and the coding structure.

Transaction detail

You also need to consider the level of detail and the analysis needed for transaction posting to the system. As a general rule, it is wise to allow for transactions to be entered with a high level of detail as it is easier to aggregate transactions and accounts rather then having to go back to original documentation to obtain greater detail.

VAT considerations

If your charity is not registered for VAT than all purchases will be posted including the VAT amount and no further analysis is required. If your organisation is registered for VAT, then you will need to separate the VAT element on invoices where VAT is charged and post this to a separate VAT account. If you are partially exempt or have some non-business activities, then you should be able to use the VAT codes within the accounting software to identify the type of VAT on purchase i.e. whether it is VAT relating solely to an exempt, taxable or non-business activity or whether it relates to a shared cost. This will then mean that you have sufficient analysis in your VAT account to prepare the partial exemption calculations required for the quarterly VAT return.

Assets and liabilities

Your chart of accounts will include separate accounts for all bank and cash accounts, all fixed asset categories and control accounts for certain debtors and creditors. It will depend on your system as

to whether these accounts will also carry the levels of coding such as department or team. This is often possible, but may not be required for your reports.

Case study CTS

As well as offering open courses, CTS has started to deliver training in-house for larger organisations. The charging structure is different and they need to be able to track the profitability.

They have also won a large grant to develop and run training for a major foundation. The grant will have to be treated as a restricted fund.

CTS sees the fees charged by freelance trainers as a direct cost of the particular course, together with the costs of catering and printing materials or providing books. Costs such as the administrative staff salaries and the premises costs are seen as part of the central costs of running the organisation.

They have therefore decided to create three 'departments' within the chart of accounts. In addition, they will use a second level to identify the particular course in the open course programme, or a client organisation in the in-house training activity. They will directly post income and invoices for direct costs to the relevant account codes within those categories. The costs of running the organisation will be posted to the central department. Some costs are re-charged to the relevant course in a monthly journal (e.g. photocopying) and other costs are apportioned only in management accounts produced in Excel outside the accounting system.

step4 Servers and installing new software

Depending on the requirements of the software you choose, you may need to procure and install additional hardware to run it on. The new software has to be installed on a server and all the PCs from which it will be run. You will need to configure the software to suit your needs and the chart of accounts you have designed. This is a technical service that will often be provided by the supplier.

The reports that will be required once the system is operational should be written and tested during this period and the supplier will also need to configure and test any interfaces (e.g. with database or fundraising systems). You should reckon on allowing at least six weeks for this configuration and testing period.

An alternative to buying software and hardware and running it yourself is to buy software as a service ('Soas'). Soas is a business model whereby a provider rents the use of the software in association with providing technical assistance in using the software. In the case of accounting software, this would typically be provided by an accountancy firm, who would provide access to an accounting system over an internet connection, in association with bookkeeping and or management accounting services. The advantages of the Soas model are that there is no capital commitment, no need to procure a server and the responsibility for keeping the software up to date is retained by the supplier. The main disadvantages are that it can be expensive, there is less choice in software and supplier, and unless it is supplied by an organisation's existing accountants, it is likely that the potential 'added value' of bookkeeping and management accounting services would not be useful.

step5 Staff training and communication

You may have involved finance staff in the testing of the pilot, but you will need to ensure that all staff involved know how to use the new system. For example, managers who want to interrogate their own reports, other support staff who provide primary data such as cash collections – they need to know enough about the new system. Regular, short open sessions can work well to familiarise a broad interest group with a system that has a new look and feel. Specific sessions for particular staff can address their queries. Short sessions work better than long training days.

The 'train the trainer' approach is a good way of building in-house expertise and keeping costs down. This is where the supplier trains a small group of users from each department, who, in turn, train other staff and become internal 'experts' in the new system.

Finance manuals and forms

Think about whether you need to change any written or intranet-based guidance on the financial procedures. You may also confuse people if old forms are still in circulation. Often people just want to know how to get an invoice or their expenses paid. Perhaps a FAQ (frequently asked questions) section would help.

Communication

It is likely that there will be a few hitches. People will be much more understanding if they know in advance that the finance team are trying their best to bring in a new system that will improve things for everyone. So make sure they know about the changes and the timetable, as well as how they can help and make enquiries.

Timeline

If you change your accounting system, you need to know how long it may all take, and when the best time is to make the changeover.

Changeover date

The most popular choice for a changeover date is to 'go live' with a new system at the start of your financial year. In fact, that is not the only time you can do it. The advantages of doing it at that time are that you will need to start any new system off with the correct opening balances. If you do this at the start of the financial year, all your income and expenditure account balances will be zero, and you will know all the other account and fund balances, since they are needed to prepare the year end accounts. You will also have a complete year of transactions on one version of your accounting system. The main disadvantage of starting a new system at the beginning of a financial year is that this is likely to be the busiest time of the year for your finance staff, which could make it difficult to find the additional time necessary for them to help configure the new system and be trained in using it. In practice, you can start a new system at any time, providing you are in a position to calculate all the opening balances. This may involve you in some extra work if, for example, you only normally do it at the year end.

How long the process may take

Most people underestimate the amount of time needed to make these changes. Depending on the size of the organisation and the complexity of its requirements, you will need 1–6 months to identify your requirements and a further 2–3 months to select a supplier. Developing the chart of accounts and installing the systems are likely to take a further 3–6 months and you need to allow for staff training and communication. It is likely that even the fastest process would need about six months, and allowing for holidays and other work priorities it much more likely to be 8 months even in a small organisation. For larger organisations, you will need a full project plan with clear roles and responsibilities to ensure that the changes can be brought in smoothly in a 12–18 month period.

Step 1	Step 2	Step 3	Step 4	Step 5
Identify your requirements	Select a supplier	Develop the chart of accounts	Servers and installing new software	Staff training and communication
1–6 months	2–3 months	1–3 months	2–3 months	1–3 months

Conclusion

Bearing in mind the issue of when is the best time to implement a new system, it can be seen that this is a process that requires considerable planning and foresight. Planning the process properly, and in particular, allowing sufficient time for all of the main steps, can avoid a great deal of stress.

It may also make you think twice about throwing out an old system and getting a completely new one. This may be the best approach if your organisation has changed or grown a great deal, but you may just need to set up your current software in a more effective way. Changing the chart of accounts and using the functions that are available may provide the solutions you are looking for.

When looking for a dealer or accounting system supplier, try and choose one that can demonstrate that they understand charity accounting requirements. The implementation of a new system is much more likely to be successful if the supplier understands your business. Don't be afraid to ask for charity discount (most suppliers will offer this), and remember that further discounts may be available if the supplier is keen to get your business!

Changing accounting systems is not something that anybody would want to undertake frequently, so it makes sense to do it right and ensure that the chosen system will support the organisation's needs for the foreseeable future.

Further information

Accounting Web has a number of general articles that may be useful:
www.accountingweb.co.uk/cgi-bin/item.cgi?id=130507

There are a number of websites that host directories of commonly used accounting software, allow you to download demonstration versions and hold reviews from other users. One of these is:
Accounting software 411
www.accountingsoftware411.com/Press/PressDocView.aspx?docid=7970

Online advice aimed at small companies:
www.gaebler.com/selecting-accounting-software.htm

How to choose an accounting system
free download booklet from Sage at
www.britec.com/site_flash/Accounting.html

There is little information or guidance on developing a chart of accounts. Some resources on this:
www.netmba.com/accounting/fin/accounts/chart/