

8 common accounting mistakes you can avoid

To err is human, but your supporters and members, not to mention the IRS, may be less than forgiving if the errors you make affect your nonprofit's financial books. Accurately managing money that comes in and goes out is imperative.

Fortunately, if you attend to accounting details and know which pitfalls to avoid, it can be easy. The following accounting missteps are common among nonprofits, so take whatever measures are necessary to avoid them.

1. Failing to follow accounting procedures. Even the smallest nonprofit should set formal, documented and detailed procedures for managing bookkeeping and accounting chores. Your process needs to include all aspects of managing your organization's money, including the proper way to accept, document and deposit donations, pay bills, and handle every step in between.

Put your procedures in writing and make sure you follow each step, every time. This helps to minimize the chances of skipping something important and makes it possible for employees to easily fill in for the person who regularly performs a particular accounting task.

2. Making data entry errors. It's easy to wreak havoc on your accounts by entering a \$500 payment as \$50 or transposing numbers, so check and double-check every entry every time. Reconcile accounts against bank statements immediately and don't overlook even the smallest discrepancy. Little errors don't go away; they just become bigger problems.

3. Working without a budget. You can't control overspending or invest a surplus if you don't know they exist. That's why budgets are so important; they offer a baseline. Budgets don't have to be intricate to be useful; just look at a few months' worth of bills and deposits to create a starting point. Then refine your plan as you go along. Include a "miscellaneous" category, but don't allow it to account for the majority of your expenses.

4. Outsourcing everything. Hiring contract workers or outside experts to handle taxes and IRS filings is a wise move because you can rely on their expertise to get things done correctly and on time. But don't abdicate all responsibility. Even if someone else is handling the details, your board and executive leadership need to understand the basic accounting operations that are being performed and keep apprised of where everything is in the process. Also, when choosing outside resources, make sure they have nonprofit experience. (See "The nuances of nonprofit accounting" on.)

5. ***Failing to properly categorize.*** All money coming in and going out of your organization must be assigned to the appropriate category. This is particularly important if you accept ***donations*** that may be earmarked for certain projects or programs. Your CPA can help you set up the initial chart of accounts and define how you should assign items. Make sure everyone who participates understands the categories and how they're used.
6. ***Avoiding proper filing.*** Disorganization when you handle and file important documentation such as receipts, invoices and bank statements can cost you time and money. Establish — and use without fail — a filing system for all accounting paperwork. And don't let paperwork stack up: Establish a daily or weekly filing schedule.
7. ***Playing loose with petty cash.*** Small expenditures like picking up a few office supplies or buying a pizza for volunteers who are staying late is much easier to do when you have cash on hand. ***Establishing*** a petty cash fund is as easy as writing a check to your organization and cashing it. Handle the cash with care, though. Keep it under lock and key, authorize only a few people to make cash disbursements and require receipts for all expenditures.
8. ***Forgetting to back up information.*** Even the best system with error-free ***implementation*** will trip you up if it's not backed up regularly. So establish an automatic backup of your accounting program. A Web-based system is particularly useful because it stores your information off-site, making it accessible in the event of a natural disaster, fire or other emergency.

Avoid errors, avoid problems

Taking your time and double-checking your actions will keep you from making many common accounting mistakes. And if you're simply unsure about how to handle a financial matter or need help devising organizationwide policies, talk to an accounting professional.

Sidebar: The nuances of nonprofit accounting

When choosing an accountant, tax advisor, bookkeeper or other financial professional, make sure that person has experience with nonprofit accounting. Many accounting principles apply universally, but nonprofits have the particular responsibilities of accounting for contributions and managing expense classifications.

It's tempting, particularly for small or startup nonprofits, to accept free help or advice from a board member's brother-in-law who's a corporate accountant or from the founder's neighbor with a tax practice. But don't be pennywise and accounting foolish. Select financial experts who know how to navigate the unique world of nonprofit accounting.