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## Accounting Software in Not-for-profit Organizations: A Case Study

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### ABSTRACT

Of late, not-for-profit organizations (NPOs) are playing a major role in the economic development of a country in general more so in the developing nations. They have become one of the avenues of employment, income generation and add to the value of GDP of the country. NPOs mostly secure funds as donations and are mostly exempt from income tax and other taxes, hence it is essential to have robust accounting software to tighten the belt and at the same time the system should also be transparent. Hence, this research looks at the unique nature of accounting requirements placed upon NPOs. Generally, accounting software is not usually fully appreciated by management, hence poor accountability of funds. Hence this paper seeks to find out the extent to which NPOs make use of accounting software and their perception on them. The scholars collected the primary data by through a questionnaire and personal interviews. The data so collected were analysed by using SPSS and presented in the form of tables and diagrams. The research results show that NPOs use both manual and computer-aided methods for maintaining the books of accounts, different accounting software packages are used by different NPOs and the NPOs give weightage to efficiency while choosing the accounting software

### Introduction

A not-for-profit organization (NPO) is a voluntary organization that operates with the aim of providing assistance to individuals and groups, rather than generating profits for itself, such as Charities, Churches, Hospitals, Schools, etc. There are rules and regulations across the world for financial accounting for profit motive organizations. Contrary to that, NPO's financial reporting is still a cob webbed area in accounting as the main objective of NPOs is to provide services for public, and not to generate profits for the owners of the organization (Accounting Coach, 2013). Since NPOs do not have commercial owners,

financing for these organizations is usually from contributions as donations, membership fees, program revenues, fund raising events, public and private grants, and investment income (Zi Jin, 2010). Donors' confidence on good accounting practices of NPOs plays a major role in attracting donations by NPOs. Donor's confidence is the trust the donor has on a person and organization. Frumkin and Keating (2003), Frumkin and Kim (2003) were of opinion that the not-for-profit sector is dependent on donor confidence which influences the flow of funds. As a step towards finding out the ways in which to improve reporting of NPOs, this paper analyses the use of accounting software by NPOs. In the United States of America, NPOs have adopted Accu Fund, Church management software such as CRM software, and many others. Other countries over the globe have also adopted the use of NPO's accounting software. In Botswana (a democratic country in Southern Africa) however, it is not clear if NPOs have adopted the use of software in the preparation of financial statements.

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## Problem Statement

The need for NPOs has grown over the years and it is imperative to note that as these organizations increase in numbers, their accounting methods become more of a concern since all their activities result in expenditure and money invested have to be accounted for. Not much research has been done on NPOs' accounting software elsewhere in the world and in Botswana; no prior study has been done on NPOs' accounting software, hence this study.

## Objectives

- To appraise the source of funds received by NPOs.
- To examine the type of account records keeping by NPOs.
- To review whether NPOs resort manual or software in keeping their accounts.
- To explain the type of software the NPOs are using.
- To evaluate the efficiency of the software used by NPOs.
- To propose for further development in using software by NPOs.
- To investigate Botswana Institute of Chartered Accountants' (BICA) requirements for NPOs.

## Literature Review

Like any other organization, all NPOs need a workable system to keep track of their finances. It is critical to understand the unique accounting requirements of NPO and how to meet them. Many not-for-profit organizations are staffed by people that are unfamiliar with basics of fund accounting principles, which are often critical. There are different types of financial records that NPO has to consider in its accounting processes. There are some differences in the financial accounting statements prepared by NPOs and by other types of organizations. Developing software for not-for-profit organizations makes financial reports much more meaningful than standard reports not broken down by fund. For financial reporting, Collins and colleens (1978) say that in order for the organization to review the financial activities of the past year, it should prepare financial statements; hence the importance of softwares in assisting NPOs to prepare these statements.

### Accounting software used by NPOs

**Sage Fund Accounting:** Sage Fund Accounting is optimally designed for mid-sized not-for-profit organizations and government entities that require flexibility as well as detailed budgeting and grants management capabilities. The strengths associated with Sage Fund Accounting include, fundraising & grant management add-on options, excellent budgeting capability, availability as premise or hosted product, and available in single-user & multi-user editions. Potential limitations could be that of software cost which may be prohibitive for small organizations and initial setup can be time-consuming if not well-planned to help ensure long-term success. (Review of Not-for-Profit Accounting software, 2011).

**QuickBooks:** Not-for-profit organizations have different requirements and needs than for-profit businesses. QuickBooks

Online includes general accounting features such as bookkeeping, invoicing, and billing. QuickBooks Premier for NPOs in addition includes features such as tracking donations, pledges and grants, and allocating expenses to specific programs suitable for NPOs which need basic bookkeeping and accounting software. QuickBooks Online makes general accounting tasks like bookkeeping and invoicing easy. It also makes and record deposits, make payments, and create custom reports in a few clicks. QuickBooks Online puts all accounting information in one central place so that it is always organized and easy to track deposits, view upcoming payments due, and more.

**CIMA Accounting and Payroll Software:** An accounting software that fits easily in small to mid-sized not-for-profit organizations that require flexibility, scalability, and customization capabilities not often found in basic, off-the-shelf products. Strengths of CIMA include; excellent report customization, solid grant tracking, easy system navigation, solid import/export capability and separate data-entry modes ([www.accufund.com](http://www.accufund.com)).

**Sage Peach Tree Software:** Accounting software that would work well with smaller NPOs that place affordability equal to functionality and it is optimally designed for the one to ten person organizations. Strengths of Sage Peach Tree are; easy to install & easy to navigate, good for reporting. It is also useful for advanced business intelligence for custom reporting and analysis in Microsoft Excel. This software has excellent integration with Microsoft Word for producing donor & fundraising letters. It is useful for cash flow management. Further it allows employees to see how the organization is performing. But, this software has limited growth capability and has limited fundraising capability (source: [www.cougarmtn.com](http://www.cougarmtn.com)).

### Need for Special Type of Accounting Software for NPOs

One of the principal differences between commercial organizations and NPOs is that they have different reasons for their existence. Commercial organizations are there for business profits in market transactions. Contrary to that, NPOs pursue public benefits and provide programs and services which are often not provided otherwise (Zi Jin, 2010). Henke (1983) was of opinion that financial reports for not-for-profit organizations should reflect the service story of the entity, rather than net income or net loss realized by the entity. In sharp contrast, accounting reports for profit enterprises must emphasize the extent of achievement of the profit objective and the ability of the entity to support itself. NPOs have become a major economic force (Salamon et al, 1999), and non-governmental organizations have turned into important political actors (Meyer et al, 1997; and Lewis, 1999). Hence, this research looks at the unique nature of organizations that do not have commercial owners and must therefore rely on a variety of funds and, having done so, outlines the various software packages used by NPOs to assist the preparation of financial statements.

## Methodology

### Sampling Scheme

The scholars decided to use purposive sampling scheme as the purpose of this study is to investigate if there is any accounting software adopted by NPO in Botswana, hence necessary to use this type of sampling. The scholars also used systematic sampling to the extent that there are two or more accountants or managers in an organization. In respect to the above, the scholars chose money handlers, accountants, treasurers, managers or anyone responsible for the finances of the organization. The scholars distributed 45 questionnaires of which 28 duly filled in questionnaires were received back.

### Data Collection

In order to achieve the aim and objectives of the study, a semi-structured questionnaire was designed to gather required information. Out of 45 questionnaires issued to relevant people in organizations under study only 28 duly filled in questionnaires were received. There were instances where questionnaires could not be filled in due to time constraint. Then interview method was used for data collection. Both primary and secondary data were collected. Secondary data were collected from Journals, internet and Botswana Institute of Chartered Accountants (BICA). Both qualitative and quantitative data were collected. All the data collected were stored in a file in an order so as to avoid mix-up. Data collected was stored in the alphabetical order based on name of the organization.

### Data Processing

The scholars edited, classified, coded and reviewed the collected data in order to ensure the quality, accuracy, consistency and completeness. The data were analysed by using SPSS and MS excel.

### Source of Information

The scholars collected information from cashiers, treasurers, accountants, and managers in the selected organizations. The main reason for collecting information from these people was that they are directly concerned with money and are accountable for it. Hence it was thought that they would be in a position to report on the accounting software they have in place.

### Organisations Selected for the Purpose of the Study

A total of 28 different organizations were selected from different towns such as Molepolole (5), Gaborone (17), Tlokweng (2) and other places (4). Table 1 shows that of the 28 organisations selected for the purpose of the study as many as 7 (25 per cent) were Service organizations, 5 (17.9 per cent) were churches, 3 (10.7 per cent) each were youth organisations, child care organisations and clubs; and the others (student

organisations, gender-based organisations, organisations against crime etc.) were one each.

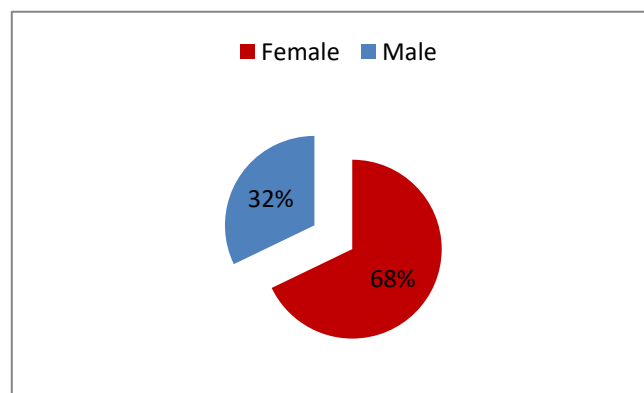
**Table-1: Type of Not-for-profit Organisations**

S. No.	Type of Not-for-profit Organisation	Frequency	Percentages (%)
1	Church	5	17.9
2	Youth Organisation	3	10.7
3	Child Care Organisation	3	10.7
4	Clubs	3	10.7
5	Student Organisation	1	3.6
6	Service Organisation	7	25
7	Gender Based Organisation	1	3.6
8	Organisations Against Crime	1	3.6
9	Others	1	3.6
10	Missing	3	10.7
---	<b>Total</b>	<b>28</b>	<b>100</b>

### Employee Demographic Information

#### (i) Gender

Figure 1 shows the respondents' gender. Nine (32%) were males whilst 19 (68%) were females. The conclusion that could be drawn from these results is that more number of females hold accounting and administrative positions in the selected not-for-profit organisations when compared to males.



**Fig. 1: Gender of the Respondents**

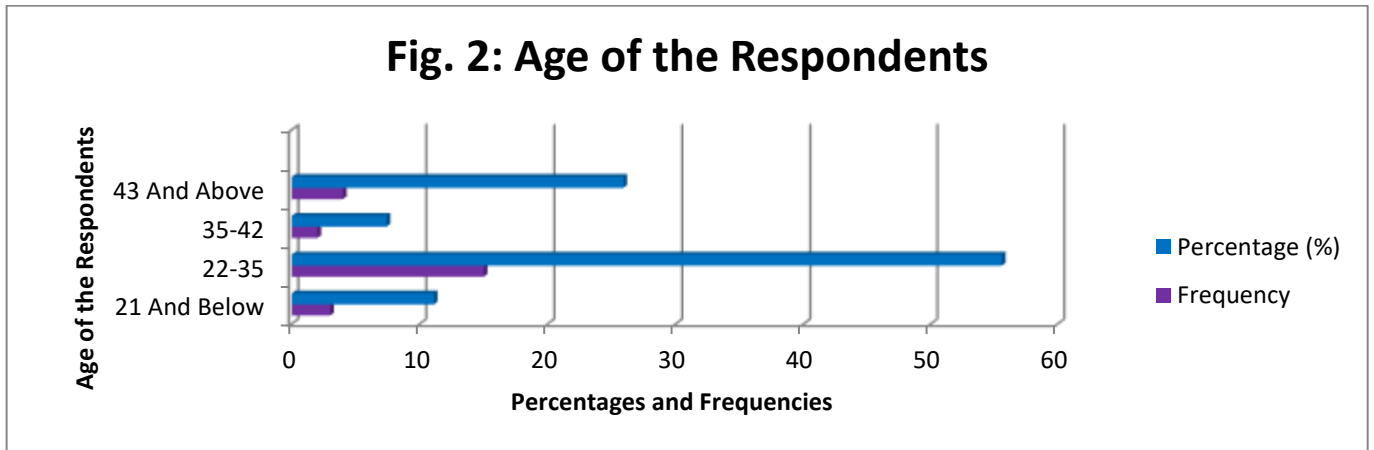
#### (ii) Age

Table 2 shows age-wise distribution of the respondents. Of the total respondents 3 (10.7 per cent) are 21 years and below, 15 (53.6 per cent) are aged between 22 and 35, 2 (7.1 per cent) are aged between 36 and 42 years and the remaining 8 (28.6 per cent) are in 43 and above age group. The results indicate that most of respondents are aged between 22 and 35, followed by the 43 and above category while the 36-42 categories have the least number.

**Table 2: Age of the Respondents**

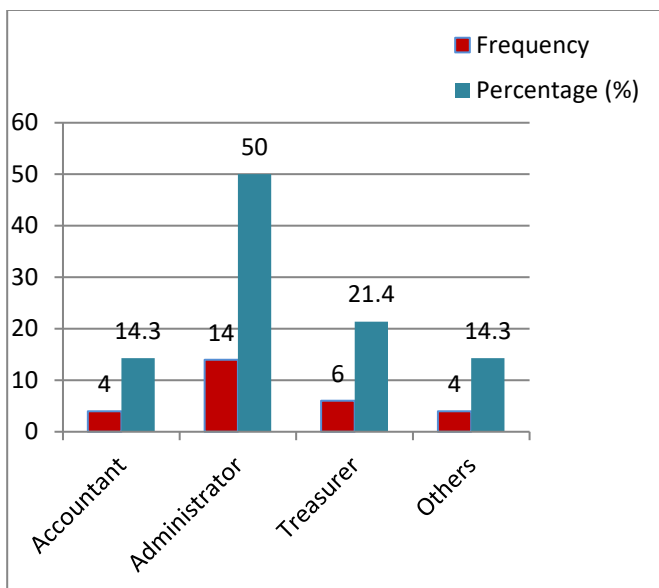
Age	21 And Below	22-35	36-42	43 And Above	Missing
Frequency	3	15	2	4	4
Percentage (%)	10.7	53.6	7.1	14.3	14.3

The above data are presented in the figure 2.



**Positions held by the Respondents**

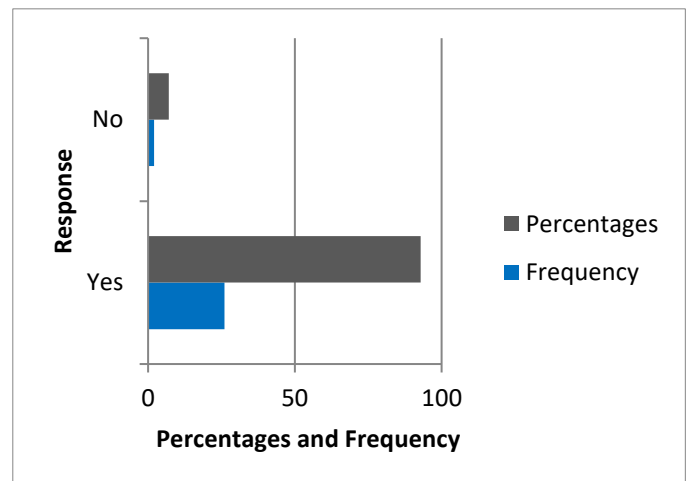
It was the aim of the scholars to identify the various positions held by the respondents so as to deem information collected as valid. From the bar diagram given below (Figure 3), it is evident that 4 of the respondents hold the accounting position while 14 are administrators whilst 6 of them are treasurers and the rest, 4 hold positions other than accounting and administration.



**Fig. 3: Positions Held by the Respondents**

**Accounting Information**

The related data were analysed based on the research objectives stated earlier in the same order as listed.



**Fig. 4: Keeping Accounting Records**

**(1) Source of funds**

It was imperative to investigate the source of funds in fulfilment of objective number 1. This enabled the scholars to analyse the relationship between sources of funds and accounting software used by NPO.

**Table-3: Source of Funds**

Source of funds	Frequency (Percentage)
Donors	23 (82.1)
Subscriptions	4 (14.3)
Other	1 (3.6)
<b>Total</b>	<b>28</b>

Table 3 highlighted the various sources of funding for NPO's that were used as a sample. It is clear that most organisations obtain their funding from donors at 82.1%. The

lowest is others (3.6%) which includes parents. Subscriptions are another source of funds with 14.3%.

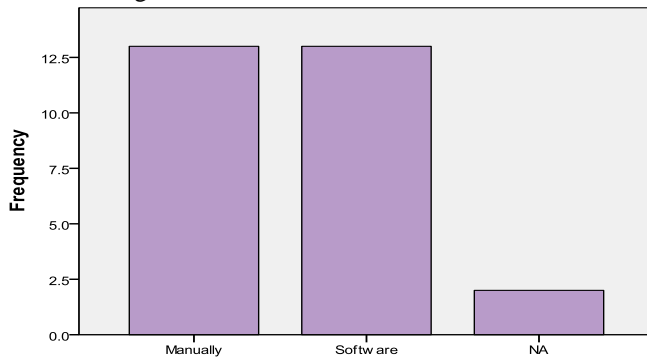
**(2) Keeping Accounting Records**

Based on the objective number 2 of the study, the scholars investigated whether NPO actually keep accounting records.

The data so collected was illustrated using a graph. The figure 4 confirmed that 26 (92.9%) of the total sample keep accounting records, while 2 (7.1%) use letters as a means to report how funds have been used.

**(3) Keeping Accounts by Manual and Software**

Figure 5 below indicated that there is an equal response of keeping accounts manually and through software where 13 organisations each that perform their accounting using software and 13 organizations prepare and present accounts manually. N/A represents organisations that do not keep accounting records but use letter, hence they did not answer this question and are missing.



**Fig. 5: Ways or Means of Performing Accounting**

**Test of Satisfaction**

Table 4 below highlights that out of the 13 organisations that have indicated to be using manual accounting system, 8 (28.6%) of them are satisfied with the system whereas 5 (17.9%) are not satisfied with the manual accounting system. N/A is the missing responses representing organisations that use letter to report, hence did not answer this question.

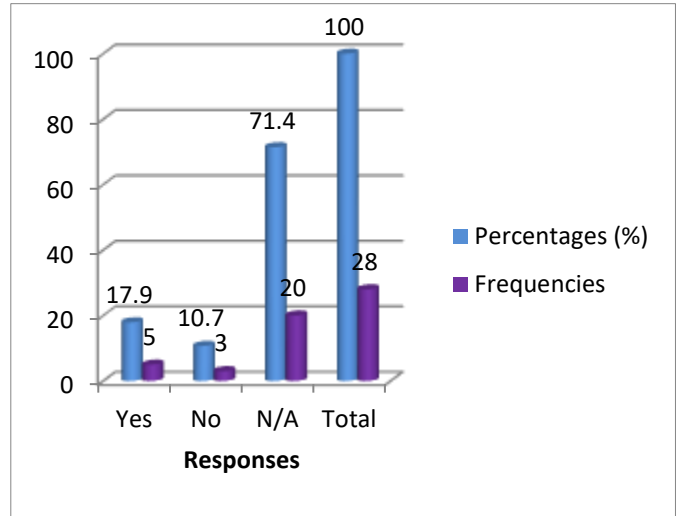
**Table 4: Satisfaction with Manual System**

Satisfaction with manual	Frequency	Percentage (%)
Yes	8	28.6
No	5	17.9
N/A	15	53.6
<b>Total</b>	<b>28</b>	<b>100</b>

Source: Survey

**Intention to upgrade manual Accounting System to Software**

The results from the figure 6 below show that 6 (21.4%) from the 8 that responded on the question of whether their manual accounting software need to be upgraded agreed while

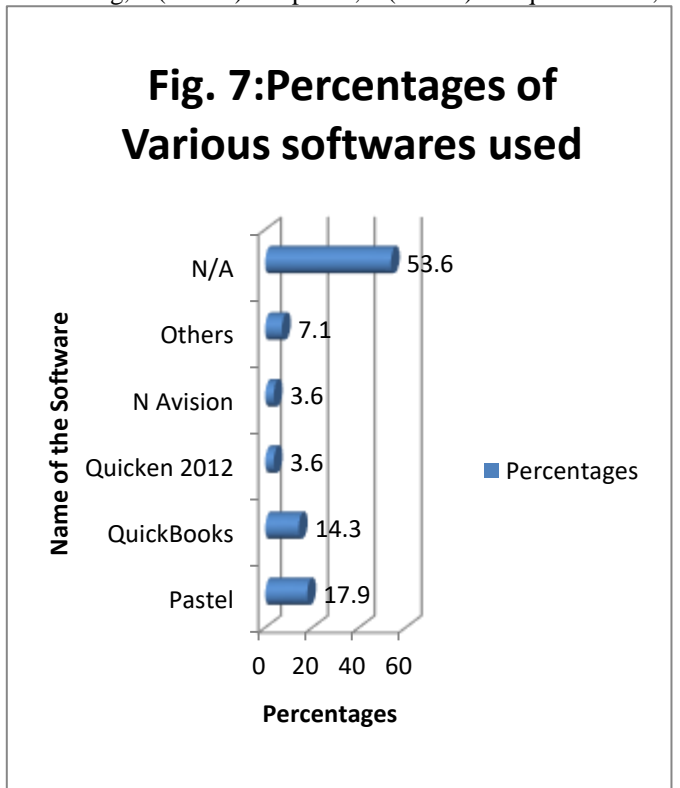


**Fig. 6: Intention to upgrade the Software**

2 (7.1%) indicated that their manual system do not need an upgrade. N/A 20 (71.4%) is the missing responses.

**(4) Type of Software Used**

There are various softwares used by NPOs, such as Sage Peachtree, Sage fund accounting and QuickBooks, among others. From the 13 organisations that use software for their accounting, 5 (17.9%) use pastel, 4 (14.3%) use quick books, 1

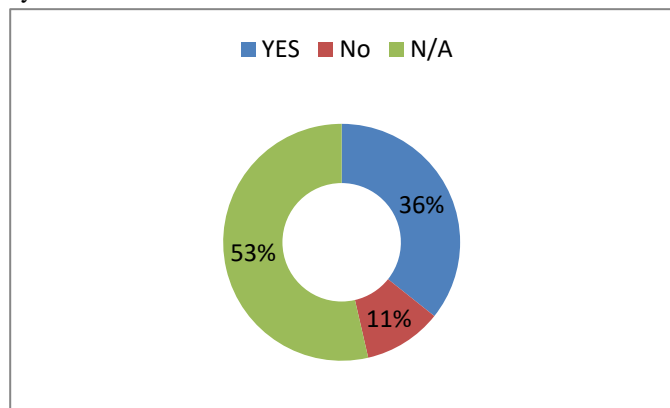


(3.6%) use N Avision, another one uses quicken 2012, while 2 use other software not indicated. The results indicated that of the organisations that have software most of them use pastel, followed by quick books and N Avision. N/A represents organisations that use manual systems hence did not answer this question. The same data is posted in the Figure 7 shown below:

**(5) Efficiency of Software**

This part of the study was carried out to find out how organisations perceive the efficiency of software.

Out of 28 organisations that responded, 13 organisations mentioned that they use software. As depicted by the Figure 8 below, out of the 13 organisations that use software systems, 35.7% have indicated that the software systems are efficient while only 10.7% indicated that their software systems are inefficient. N/A is missing figures and represents organisations that use manual systems hence did not answer this question relating to the efficiency or inefficiency of accounting software systems.



**Fig. 8: Need of Software in Percentage**

**(6) Further Development of Software**

The results from the survey (Table 5) indicated that most organisations software systems are not efficient hence, the limited responses in this question. The results indicate that only 2 (7.1%) respondents strongly agree that their accounting software can be used and further developed whilst 1 (3.6%) only agrees. N/A 25 (89.3%) is missing responses and represents organisations that use manual systems, therefore have not indicated whether they agree or disagree that their accounting software can be used and further developed.

**Table 5: System Development**

System Development	Frequency	Percentage (%)
Agree	1	3.6
Strongly Agree	2	7.2
N/A	25	89.3
<b>Total</b>	<b>28</b>	<b>100</b>

Source: Survey

**(7) Reporting Requirements Set by BICA for the Organisation**

Knowing the necessity of software usage, BICA has certain requirements for NPOs. Hence, the scholars' had the reason for investigating whether the respondents have knowledge about reporting requirements set forth by BICA. The data so collected were presented in Table 6 below.

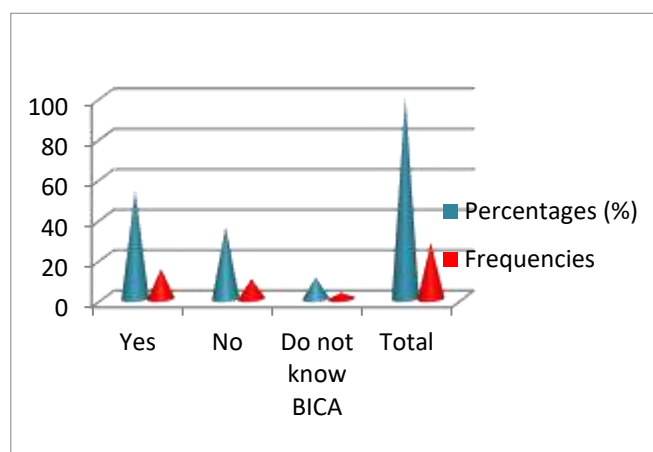
Fifteen (15) organisations indicated that they do, which makes up about 53.6%, whereas 10 respondents who make 35.7% indicated that they had no knowledge of requirements from BICA for their organisation. Lastly, there are organisations that did not know what BICA was and these represented 10.7% (3) of the sample.

**Table 6: BICA Requirements**

BICA requirements	Frequency	Percentage (%)
Yes	15	53.6
No	10	35.7
Do not know BICA	3	10.7
<b>Total</b>	<b>28</b>	<b>100</b>

Source: Survey

The same information is displayed in the figure 9 below.



**Figure 9: BICA Requirements**

**Research Findings**

**Funding and Record Keeping**

Most of the not-for-profit organizations are not funded by government and all their income is from donors. The majority keep accounting records and few don't keep records at all. Those organizations which don't keep records all they account for funds provided by writing to the donors explaining their expenditures in the letter form.

**Accounting Software**

There is a 50-50 (46.4%) tie of 13 organisations each that perform their accounting using a software and manually There

are various software's used by NPO'S. Namely: Sage Peachtree, Sage fund accounting and QuickBooks, among others. From the 13 organisations that use software for their accounting, 5 (17.9%) use pastel, 4 (14.3%) use quick books, 1 (3.6%) use N Avison, another one (3.6%) uses quicken 2012, while 2% use other software not indicated. The results signify that of the organisations that have software most of them use pastel.

### **Development of the Accounting Software**

Out of the 13 organisations that have indicated to be using manual accounting system, 8 (28.6%) of them are satisfied with the system whereas 5 (17.9%) are not satisfied with the manual accounting system. The results show that 6 (21.4%) from the 8 that responded on the question of whether their manual accounting system need to be upgraded agreed while 2 (7.1%) indicated that their manual system do not need an upgrade.

### **BICA Requirements.**

The respondents indicated that they know of BICA Requirements (53.6%) and don't know about them (35.7 %). 10.7% represents those that do not know BICA at all.

### **Conclusions and Recommendations**

#### **Conclusions**

Based on the findings of the study, the following conclusions emerged:

1. Data collected highlighted that most NPOs are sponsored by donors, followed by subscriptions hence software's requirements are not strict.
2. All organizations reported or accounted for funds either way. Most organizations performed proper accounting whereas some simply employed the use of letters to explain expenditure.
3. NPOs were divided equally into those that use systems and those that don't, hence showing that NPOs do have accounting software that they actually use to assist in the preparation of financial statements.
4. There are different software used by different organizations. The use of software is dependent on the amount of funds in every organization as some stated that QuickBooks was cheaper to use as it did not require any renewals yearly like Pastel. However, the efficiency of QuickBooks was brought into question since it made it easy to manipulate data across various reporting dates.
5. In terms of efficiency, the result of data analysis inferred that those used software had the highest rate in terms of efficiency and this is attributed to the fact that software do much of the work for organizations. Interviews with respondents showed that all that is required is data entry and the software would produce financial statements required. It is also important to

note that there are organizations that stated their financial reporting systems were inefficient. They attributed the inefficiency of systems are to:

- The ability to manipulate information across various accounting periods
- Continuous and costly renewals of the systems
- The gap between a Degree/Professional qualification and a software
- The inability to produce wide range of financial statements required by various end users.

On the other hand, with manual system the respondents' intention to upgrade, reflect that most manual systems users reported that their systems were inefficient and would at a point require an update to software.

6. In light of financial reporting requirements by a certified body of the country, most organizations knew of the reporting requirements BICA had in place for their organization. An interview with personnel from BICA showed that regardless of the size of the organization, BICA requires full accountability for funds as donors would. Some NPOs are involved in investments packages whereby they receive large sums of money that are not used; they invest them in stock of in interest building accounts in banks. All amounts made from any of these ventures are taxable and as such should be disclosed.

#### **Recommendations**

From the conclusions drawn above, it is imperative to recommend that:

- Accounting Software's efficiency should be increased by eliminating their inefficiencies such as ability to manipulate data and increasing their user friendly ability.
- In conclusion the scholars recommend that BICA, as the regulatory body of accounting, should develop standardized software for all NPOs so as to rid the vast differences that exist among software used by organizations and also find a way to get all NPOs to know what it required of them when reporting their financial information and making itself known to those that have no idea of its existence.

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