

## Accounting application program – QuickBooks

### Understanding QuickBooks Lists

QuickBooks offers several methods for tracking and reporting on your accounting data so you can review how your business is doing financially. This chapter explains QuickBooks' Chart of Accounts and other lists available to help analyze your business.

With QuickBooks, you can use the following lists to analyze your business:

- 1) Chart of Accounts—For organizing your daily transactions.
- 2) Items List—For tracking the profitability of individual services and products sold.
- 3) Class List—For tracking different corporate profit centers (divisions).
- 4) Customer Type List—Capability to view your gross profit by user-defined customer types.

The QuickBooks chart of accounts is easy to set up. It might already exist if you created your file with the Express Start discussed in Chapter 1, “Getting Started with QuickBooks.” What becomes problematic for some is how to efficiently use each of the available list types when you want to segment the business reporting activity in QuickBooks. We will start first with the chart of accounts.

### 1. Chart of Accounts

The chart of accounts is a list of asset, liability, equity, income, and expense accounts to which you assign your daily transactions.

This list is one of the most important lists you will use in QuickBooks; it helps you keep your financial information organized. When this list is created with summary accounts and you use the other list types for detail, you can capture information in a timely manner, which will help you make good financial and management decisions for the business.

### Account types

There are two main types of accounts in the QuickBooks chart of accounts:

- [Balance sheet](#) accounts
- [Income](#) and [expense](#) accounts

#### Balance sheet accounts

Accounts that appear on a balance sheet report. In QuickBooks, these include the following types of accounts:

- Bank
- Accounts receivable
- Accounts payable
- Fixed asset, other asset, other current asset
- Other current liability, long term liability
- Credit card

**Equity**

You can think of balance sheet accounts as the money or things that you own and the debts that you owe. They include assets like bank accounts, buildings, and money that people owe you; they also include liabilities like credit cards or loans from banks.

Another category of balance sheet accounts is equity accounts. These represent the worth of your business including any investments the owners have made in the company. Your company's equity is all of your assets (what you own) minus your liabilities (what you owe). This is sometimes called the "net worth" of your company.

Each balance sheet account in QuickBooks has its own register that tracks the balance of the account. You can also see the account balances by looking at your chart of accounts.

**Balance sheet** is a report that summarizes the financial position of a business. A balance sheet shows the value of your company's assets, liabilities, and equity as of a particular day. It is called a balance sheet because the value of the assets is always exactly equal to the combined value of the liabilities and equity.

QuickBooks offers four different preset balance sheet reports. You'll find these reports under Company & Financial on the Report Center or Reports menu.

**Expense account**

An account that tracks and categorizes what your company is spending. (You can think of expenses as money that leaves the company.) They work like categories do in Quicken.

Unlike balance sheet accounts, expense accounts don't have their own register.

To get a list of the transactions posted to an expense account

1. Go to the Lists menu and click Chart of Accounts.
2. Select the expense account.
3. Click Reports at the bottom of the list and then click QuickReport.



**Income account**

An account that tracks the source of your company's income. (You can think of income as money that comes into the company.)

Unlike balance sheet accounts, income accounts don't have their own register. You can get a list of the transactions posted to an income account by selecting the account in the chart of accounts and clicking QuickReport.

## **Account Types Details**

Understanding the chart of accounts isn't complicated. There are six standard account categories used for tracking the financial activity of your business: assets, liabilities, equity, income, cost of goods sold, and expense.

**Assets:** Assets include something you have purchased in the past that will be used in the future to generate economic benefit. QuickBooks offers these categories in the order of how liquid the asset is—or in simple terms, how quickly you can turn the asset into cash:

- Bank**—Used to track your cash in and out of the business. This account type and the credit card account type are the only account types you can select as the payment account in the Pay Bills or Write Checks dialog box.
- Accounts Receivable**—This account type requires a Customer or Customer and Job name with each entry. You use this account type when generating an invoice or credit memo transaction or when receiving a customer payment. You can create more than one Accounts Receivable account if needed. However, I do not recommend it because it adds the extra work of recording customer payments to the correct Accounts Receivable account.
- Other Current Asset**—This account type is general in nature and includes the QuickBooks Inventory Asset and the Undeposited Funds account. The Undeposited Funds account is used like a “desk drawer” in that it holds customer payments to be totaled on a single deposit ticket.
- Fixed Asset**—Used to track purchases of tangible property that will have a useful life of longer than one year. Accumulated Depreciation totals are also held in this account type as a negative fixed asset.
- Other Assets**—Intangible assets that have a life of more than one year; also any asset that is not a Fixed Asset or Current Asset.

**Liabilities:** Liabilities are the debts the company has yet to pay. QuickBooks includes these subgroups:

- Accounts Payable**—This account type is reserved for the QuickBooks Accounts Payable account where vendor bills and bill payments reside. You can create multiple Accounts Payable accounts. However, I do not recommend it as it adds complexity in the enter bill and pay bill processes.
- Credit Cards**—Optionally, use this grouping to track the charges and payments made against a company credit card. One benefit is that you can reconcile this account as you do your bank account and also download your credit card transactions directly into QuickBooks.
- Other Current Liability**—This is debt that is expected to be paid within one year. This grouping includes the QuickBooks-created Payroll Liabilities account and Sales Tax Payable account, in addition to other user-defined liability accounts.
- Long-Term Liability**—This is debt that will not be paid within one year.

**Equity:** The Equity account category holds the owners (or owners') residual interest in the business after the liabilities are paid. Accounts in this category include common stock; owner's investments and draws; retained earnings; and opening balance equity (an account created by QuickBooks that is discussed in more detail in “Closing Opening Balance Equity into Retained Earnings” in Chapter 15, “Reviewing Your Data”).

**Income:** Money earned from the sale of your products or services is recorded as income. Your company might have one income account or several, depending on the detail needed for your financial analysis.

Another category of income is Other Income, or income generated from the sale of a product or service not normal to your operations. Interest Income is an example of an Other Income account type.

**Cost of Goods Sold:** The Cost of Goods Sold account is for costs directly related to producing a service or good for sale. There is a direct relationship between these costs and your revenue. If your company sells a product, your cost of goods sold (COGS) expenses would be the material, labor, and other costs incurred to make and sell the product. By contrast, your office expenses for rent or advertising are considered indirect and should not be posted to the Cost of Goods Sold account type.

Note: When you are creating your Cost of Goods Sold accounts, consider using summary accounts, such as material, labor, and subcontract, and letting your Item List track more detail. For example, if you are a construction company and you have expenses for site work, concrete, framing, painting, and so on, rather than having a Cost of Goods Sold account for each trade, use the Item List for these. See the section —Adding an Item in this chapter for more details. Reports by item are available to break down the total of Cost of Goods Sold account into more detail.

**Expense:** An expense is recorded when an asset is used or there is an outflow of cash. The expense accounts were created during the Express Start or Advanced Setup and provide you with the basic classifications needed for properly tracking your expenses.

Although QuickBooks does not automatically create other groupings within the expenses category, a recommendation would be to group your expenses by fixed (or uncontrollable) and variable (or controllable) costs. When you review your costs, these additional groupings make easy work of determining which costs you have more control over.

You can also categorize an expense as an Other Expense, which is an expense that is not normal to your operations. You should contact your accountant for advice on what expenses are appropriate to record to an Other Expense category type.

### Adding a New Account

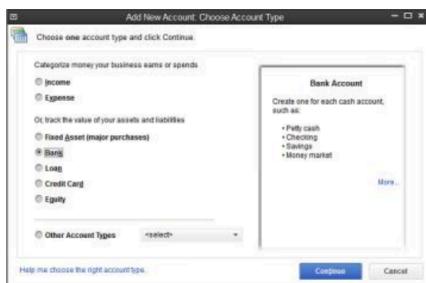
If you created your own new data file using one of the methods taught in Chapter 1, you might already have the basics of your chart of accounts created for you. Let's think positively and use the example that your business is doing so well you have opened a new money market account with your bank. You know you need to create a new bank account in QuickBooks so that you can reconcile your banking activity with your financial institution's records.

### Creating a New Account

To practice adding a new account record, open the sample data file as instructed in Chapter 1. If you are working in your own file, use these instructions to create a new bank (or other type of account) in your chart of accounts:

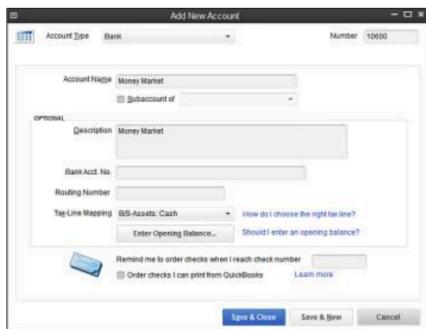
1. From the menu bar, select Lists, Chart of Accounts, or use the keyboard shortcut of Ctrl+A.
2. In the Chart of Accounts dialog box, select New from the Account drop-down list. Optionally, use the keyboard shortcut Ctrl+N.

- In the Add New Account dialog box (see [Figure 1](#) below), click the Bank option button and then click Continue.



[Figure 1](#). When creating a new account, useful information about the account type is displayed on the right.

- In the Account Name field, type Money Market and in the Number field (if account numbering is enabled), type 10600 (see [Figure 2](#) below).



[Figure 2](#). Adding a new account when account numbering is enabled.

- Optionally, select the Subaccount Of checkbox and select the account you want to associate this account with. (Typically you would not make a bank account a subaccount of another account.)
- Enter an optional description; this description will display in certain reports.
- Accept the default Tax-Line Mapping, which comes from your sample data file or the choices you made when creating your own new file using the Express or Advanced Setup option

discussed in Chapter 1. You can also select the drop-down list and choose a different tax line assignment, or click the “How do I choose the right tax line?” link for more information. If opened, close the help dialog box to continue.

The tax line is necessary only if you or your accountant prepares the business’s tax return using software that integrates with QuickBooks.

8. Click No if the Set Up Online Services dialog displays. Or if you’re working in your own data file, you might want to click Yes. More details are available in Chapter 13, “Working with Bank and Credit Card Accounts.”
9. Click Save & Close.

The Add New Account dialog box also includes several other important fields:

- Bank Acct No.—This information is used if you set up your QuickBooks bank account for online banking downloads. For more information, see Chapter 13.
- Routing Number—This information is used if you set up your QuickBooks bank account for online banking downloads (see Chapter 13).
- Enter Opening Balance—This button opens the Enter Opening Balance dialog box where you can enter your Statement Ending Balance and Statement Ending Date. Click the “Should I enter an opening balance?” link for help in entering these important starting numbers.

This dialog box also enables you to request a reminder to order checks when you reach a specific check number or order checks directly from Intuit.

The specific details required when creating a new account will vary depending on the type of account you are adding to the chart of accounts.

Creating a new account in the chart of accounts is simple. However, if after reviewing the content in this chapter you find the need to make corrections, read the section —Modifying an Account in the Chart of Accounts in this chapter

## 2. Items

Items are what you sell or buy and are used on all customer transactions and optionally on purchase transactions. Items provide a quick means for data entry. However, a more important role for items is to handle the behind-the-scenes accounting while tracking product- or service-specific costs and revenue detail.

### Adding an Item

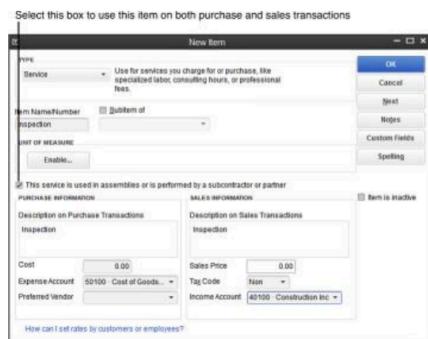
Adding items to your QuickBooks file takes some planning, but the effort will pay off with improved reporting on the different services or products your company provides.

Later in this chapter you will learn how to add multiple items at a time using the Add/Edit Multiple List Entries. In this example, you will be adding a single new Service item type to the sample data file.

## Adding a New Service Item

To practice adding a new service item, open the sample data file as instructed in Chapter 1. If you are working in your own file, use these instructions to begin creating your own service items.

1. From the menu bar, select Lists, Item List to open the Item List dialog box.
2. Select New from the Item drop-down list. Optionally, use the keyboard shortcut Ctrl+N.
3. From the Type drop-down list select Service.
4. In the Item Name/Number field, type Inspection.
5. Select the This Service Is Used in Assemblies or Is Performed by a Subcontractor or Partner checkbox, as shown in [Figure 1](#) below. This makes the item “two-sided,” assigning both an expense account when used with a purchase transaction and an income account when used with a sales transaction.



[Figure 1](#). Items are used on customer sales transactions and purchase transactions.

6. In the Purchase Information text box, type Inspection.
7. Enter a default Cost. This amount will default on a purchase transaction, but can also be changed at the time of entry. If you do not want a default cost for the item, leave the box blank.
8. In the Expense Account field, select the appropriate account. For this example, we will use the Cost of Goods Sold account because the item is directly related to our Customers or Jobs.
9. In the Preferred Vendor field assign a vendor or leave blank. When a preferred vendor is assigned QuickBooks will pre-fill that vendor name on a purchase order transaction when the item is selected.
10. Accept the default description in the Sales Information text box or type a unique description. This description will default on your sales transactions for this item. Optionally, enter a default Sales Price. This amount will default on sales transactions, but can be changed at the time of entry.

11. From the Tax Code drop-down list, select Non. In your own file, select the tax code, choosing Tax if the item is subject to sales tax or Non for nontaxable services. Check with your state's taxing authority if you have any questions about an item or service you sell being taxable or not.
12. From the Income Account drop-down list, for this practice, select the Subcontracted Labor Income account.
13. If you are finished adding items, click OK to save and exit the New Item dialog box. If you want to continue adding items, click Next to add another item.

Note: Use the Items tab on expense transactions such as Write Checks or Enter Bills to ensure that you have the detailed reporting you need to review customer or job profitability.

These reports are useful for a business owner who would like to know the profitability of individual customers or jobs.

#### Item Types

QuickBooks has 11 item types to choose from (not including the Fixed Asset Item), although some of the items might not be listed in your data file if the related feature is not enabled. You can choose the type to assign to a list item; however, each type has certain unique characteristics. Here are some general guidelines about the proper use for item types:

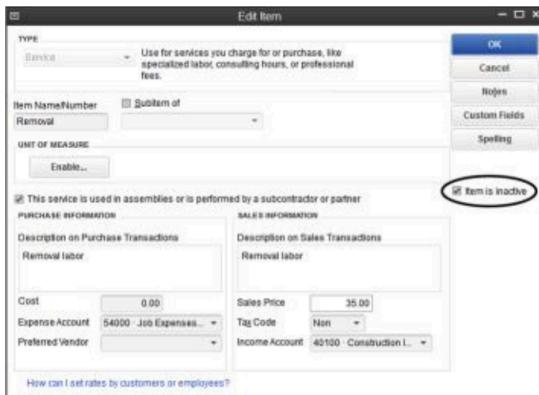
- Service—Create this type for services offered by you or your subcontractors.
- Inventory Part—This type displays only if you select the Inventory and Purchase Orders Are Active checkbox on the Items & Inventory—Company Preferences tab of the Preferences dialog box. (Access the dialog box from the menu bar by selecting Edit, Preferences.) Inventory is used to track products you make or buy, place in a warehouse location, and later sell to a customer. Inventory is increased with a received purchase order or bill and is decreased on a customer invoice.
- Inventory Assembly—This item type is an assembling of multiple inventory components, as in a Bill of Materials. When an inventory assembly is built, the individual items (components of the assembly) are deducted from inventory and the quantity of the finished assembly product is increased. The assembly functionality is available only in QuickBooks Premier, Professional Bookkeeper, Accountant, or Enterprise.
- Non-inventory Part—This type is used for products you purchase but do not track as inventory. Correct use of this type would include products you purchase that are ordered for a specific customer and directly shipped to the customer, or for materials and supplies you purchase but do not sell to the customer.
- Other Charge—This is a multipurpose item type. Freight, handling, and other miscellaneous types of charges are examples of the proper use of the Other Charge item type. Using this type makes it possible to segregate sales of your service or product from other types of revenue and expenses in reports.
- Subtotal—This type is used to add subtotal line items on sales and purchase transactions. This item is especially useful if you want to calculate a specific discount on a group of items on a customer invoice.
- Group—This type is used to quickly assign a grouping of individual items on sales and purchase transactions. Unlike assemblies, groups are not tracked as a separate finished unit. Groups can

save you data entry time and enable you to display or hide details on a customer's printed invoice.

- Discount—This type facilitates dollar or percent deductions off what your customers owes. This item type cannot be used on purchase transactions.
- Payment—This item type is not always necessary to set up. You create this item type if you record the payment directly on an invoice as a line item, such as with a Daily Sales Summary (see the QuickBooks Help for more details). On typical customer invoices, you should not record payments in this manner because there is no tracking of the customer's check or credit card number.
- Sales Tax Item—This type is available only if you enabled sales tax on the Sales Tax—Company Preferences tab of the Preferences dialog box. (Access the dialog box from the menu bar by selecting Edit, Preferences.) In most cases, QuickBooks automatically assigns this item to an invoice. In some states or industries where there are multiple sales tax rates for a given sale, you can also add this item to an invoice as a separate line item.
- Sales Tax Group—This type is used to group multiple tax district flat-rate sales tax items that are combined and charged as one sales tax rate.

**CAUTION:** Carefully determine the correct item type to use when creating items. After they are created, the following item types cannot be changed to any other item type: service, inventory assembly, subtotal, discount, payment, sales tax item, and sales tax group.

If you find you have set up the wrong item type, correcting it might require making an accounting adjustment. To avoid using the incorrect item on future transactions, mark the item as inactive by selecting Lists, Item List from the menu bar to open the Item List dialog box. Select Edit Item from the Item drop-down list and then select the Item Is Inactive checkbox. When this box is selected, as [Figure 2](#) below shows, the item is not included in any drop-down lists on transactions, but is included in reports if used during the period being reported.



[Figure 2](#). Marking a list item inactive only removes it from drop-down lists, not reports.

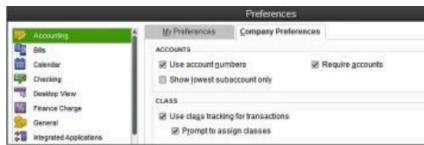
However, do not make an inventory type inactive if QuickBooks still shows available inventory quantity.

### 3. Class

Another method for segmenting your QuickBooks financial information is by using classes. The use of classes is a preference setting and must first be enabled by logging in to the data file as the Admin or External Accountant user.

To enable classes, follow these steps:

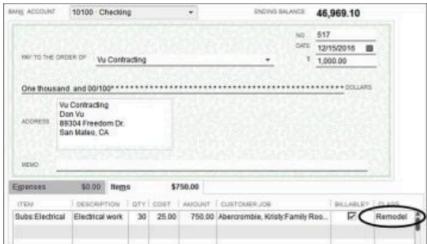
1. From the menu bar, select Edit, Preferences.
2. In the Preferences dialog box, select the Accounting preference on the left.
3. Select the Company Preferences tab.
4. Select the Use Class Tracking for Transactions checkbox, as shown in [Figure 3](#) below.



[Figure 3](#). Class tracking provides another method for financial reporting for management purposes.

5. Click OK to save your changes and close the dialog box.

Classes are typically used when a company has multiple revenue-generating business types or multiple profit centers. These class list items are then assigned to each transaction, as in [Figure 4](#). Examples of classes might be a construction company that offers either new construction or remodeling services, or a restaurant with multiple locations. In both examples, using classes that are assigned to each transaction line for both revenue and costs enables you to report profit and loss by class.



**Figure 4.** Assigning a class list item to a check transaction line provides additional management-reporting capabilities.

#### 4. Customer/Supplier Type

You can use customer types to categorize your customers in ways that are meaningful to your business. A retailer might use customer types to track retail versus wholesale; a medical office might track types of services; a service company might track what marketing event brought in the customer. You can filter certain reports by these customer types, giving you critical information for making business management decisions. These customer types can also be useful for marketing purposes when you want to direct a letter to a specific customer type.

To create or edit a customer record and assign a customer type, follow these steps:

1. On the Home page, click the Customers button. Optionally, use the shortcut Ctrl+J.
2. Double-click to select a customer name in the list that displays.
3. In the Edit Customer dialog box, click the Additional Info tab and select a type from the Type drop-down list. Optionally, select <Add New> from the drop-down list to add a new type, as shown in [Figure 5](#).



**Figure 5.** Assign a customer type for additional segmented reporting.

4. Click OK to save your changes.

Many of the customer reports can be filtered by customer type, making it another useful list for management reporting.

## Transactions in QuickBooks

### 1. Buying and selling

A sale is the exchange of a commodity or money as the price of a good or a service with a customer. Sales (plural only) is activity related to selling or the amount of goods or services sold in a given time period as recorded in the book/QuickBooks system.

A Purchase is the exchange of a commodity or money as the price of a good or a service with a seller. Purchases (plural only) is activity related to buying or the amount of goods or services bought in a given time period as recorded in the book/QuickBooks system.

All buying and selling is done in QuickBooks from the Supplier and customer area respectively

(Supplier/Custome menu or Group on the Home navigation area)

### Purchases

In QuickBooks we can buy in two ways (use two document of transaction)

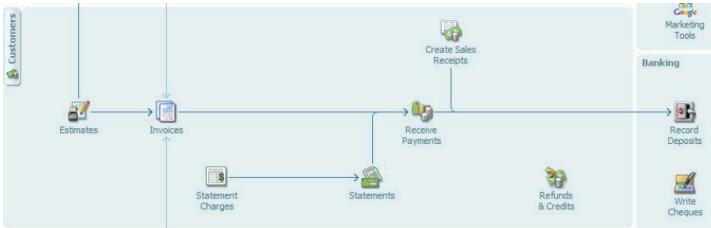
- 1) Purchase order: Used if the transaction involved an order issued for items that will be delivered and payment made on delivery or after  
Procedure: Make a Purchase order for good ordered – Receive good with/without Bill for goods received – Pay bill(then/Later) for bill received
- 2) Bill: Used if the transaction involved items received on the counter on request and payment made on promptly or after  
Procedure: Enter a bill of good bought – Enter payment if good were paid or let the bill outstand till when it will be paid



### Sales

In QuickBooks we can buy in two ways (use two document of transaction)

- 3) Invoice: Used if the transaction involved items given on the counter(or on sale order) on request and payment made after  
Procedure: Make an Invoice to outstand debt with customer – Enter Receive payment for amount cleared by a customer – Record deposit to bank
- 4) Receipt: Used if the transaction involved items given on the counter on request and payment made promptly  
Procedure: Make an Receipt for items sold cash to a customer – Record deposit to bank



## 2. QuickBooks Account Activities

The screenshot shows the 'Activities' dropdown menu in the QuickBooks interface. The menu includes options such as 'Write Cheques', 'Make Deposits', 'Enter Credit Card Charges', 'Transfer Funds', 'Make General Journal Entries', 'Reconcile', and 'Use Register'. The 'Transfer Funds' option is highlighted with a red box.

Name	Type	Balance Total
Accounts Payable	Accounts Payable	0.00
VAT Liability	Other Current Liab...	0.00
Retained Earnings	Equity	
Share Capital Account	Equity	
Uncategorized Expenses	Expense	

**Banking** menu options:

- Write Checks
- Order Checks & Envelopes
- Enter Credit Card Charges
- Use Register
- Transfer Funds**
- Make Deposits
- Reconcile
- Online Banking
- Loan Manager
- Other Names List

### a) Journal entry

A journal entry is the record of a financial transaction entered into a journal. The journal

details all the financial transactions of the business and it makes note of which accounts these transactions affected. All journal entries are made using either the double entry or single entry method of bookkeeping

#### The Purpose of Journal Entries

Journal entries provide foundational information for all of a business's other financial reports. They're used by auditors to analyze how financial transactions impact a business.

Each entry should include the date of the transaction, the parties involved, a debit from at least one account, a credit to at least one other account, a receipt or check number, and a memo describing other details involved in the transaction – anything you might not be likely to remember months or years later.

If you purchase and use accounting system software, it will most likely take care of all these details for you. But you should be able to handle your journal entries and ledger yourself with some basic understanding of the process if you don't think that kind of expense is necessary quite yet because you're just starting out.

#### Double Entry Accounting with Journal entry

A journal entry using the double entry method of accounting includes a variety of information in various columns on the same line. In a double entry system, you might have a debit for the computer purchase, then a credit or increase to your overall office equipment expenses would appear on the same line but in a different column to offset the debit. These columns should be equal, such as -\$2,000 as the debit and +\$2,000 for the credit.

You might have to use even more columns depending on the nature of your entry, but at a minimum, there should be two, one each for debits and credits. Double entry accounting typically makes a journal entry not for the transaction itself, but for the account it affects: assets, liabilities, equity, revenue and expenses. Debits and credits to each are all noted on the same line.

At the end of the year or any other accounting period you select, all your journal entries for debits should correspond to and equal your journal entries for total credits. This means your account is "balanced."

b) Moving Money between Accounts

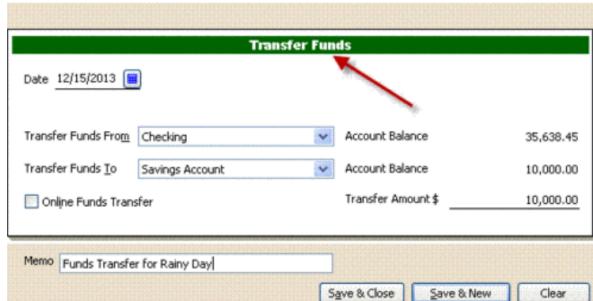
Note, the process of moving cash from one bank account to another within the same business is NOT income when it comes to recording the transaction in QuickBooks (though that would be nice for sure!).

Rather, all that is being done in this case is the transfer of funds from one asset account to another within the same business.

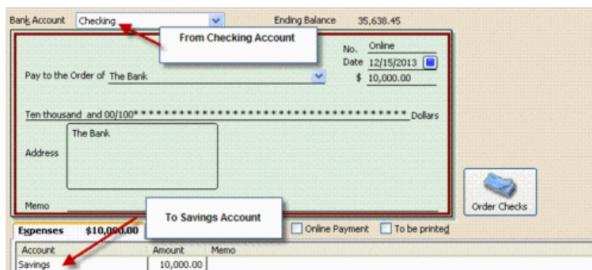
Example - a business transfers \$10,000 from a Checking account into a Savings account to put the money away for a rainy day.

In QuickBooks, there are two ways to go about recording this transfer in your accounting records:

1. Use the Transfer Funds button found in the Banking option in the menu bar.



2. Use the Write Checks window



Either option gets the job done for you. Option 1 is probably easier if you move the money via an online electronic transfer and Option 2 is easier if you are actually making a physical deposit of a check at the bank.

Even better, by using either of the options above, your accounting records will properly reflect the transaction being made. No more will you have a profit and loss report showing income that doesn't exist.

- c) To make deposit, follow these steps:

1. Choose Banking → Make Deposits. ...
2. Select the payments that you want to deposit. ...

3. Click OK. ...
4. Tell QuickBooks into which bank account you want to deposit the money. ...
5. Specify the deposit date. ...
6. (Optional) Add a memo description if you want to.
7. Specify the cash-back amount.

### Reporting on Lists

With a QuickBooks file created and lists entered, you can now review the efforts of your work.

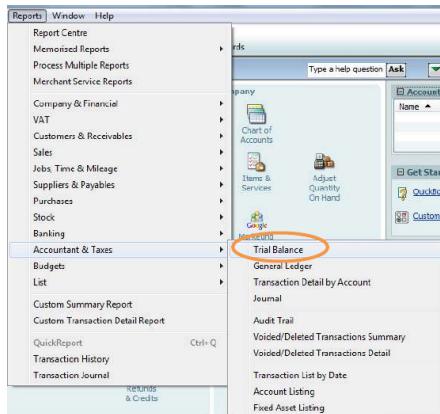
Let's start with a simple listing of your vendors.

1. From the menu bar select Reports, List. Take a moment of your time to review the many lists available for reporting on in this menu. Some lists will display only if the associated preference in QuickBooks is enabled.
2. Select the Vendor Contact List. Optionally, click the Customize Report button.
3. The Modify Report dialog opens with the Display tab selected. From the Columns listing, add or remove checkmarks to include or exclude information from the list report.
4. Click OK when finished.

Reviewing your lists before you begin entering transactions can ensure that the information provided in reports is correct.

Types of report likely to matter in a business and procedure to access them:

Trial balance – A list of all business account balancing



Profit and loss statement and Balance sheet – A summary of the business status in terms of profit/loss and asset base

