For Business Owners and Accountants

QuickBooks® 2009

Solutions Guide

"Laura Madeira has created an extremely valuable QuickBooks resource that belongs on every business and accountant's bookshelf"

—Rich Walker, CPA, Intuit Accountant Relations

Laura Madeira
Accountant
Member of Intuit's Writer/ Trainer Network

QUE®

QuickBooks® Solutions Guide for Business Owners and Accountants

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Introduction

This is your QuickBooks solutions guide. This guide was written for both business owners and accountants. Much more than the typical "how to" of software books, this book makes reviewing QuickBooks data easy and trouble-free. For the business owner, it is like having a personal consultant working alongside you. For the accounting professional, this book makes working with clients' QuickBooks files easier than ever before.

This book provides easy-to-follow directions for properly setting up QuickBooks, reviewing your setup, checking your data for accuracy, and, when needed, making the proper corrections.

How This Book Is Organized

QuickBooks Solutions Guide for Business Owners and Accountants offers a wealth of information gathered from the author's years of working with business and accounting professionals who use the QuickBooks financial software product. To find just the right information, this book is organized into specific chapters, each focused on a particular task or account category of your QuickBooks data.

Chapter 1, "Creating a New QuickBooks Data File," Chapter 2, "Reviewing the QuickBooks Chart of Accounts," and Chapter 3 "Reviewing and Correcting Item List Errors," cover the following topics while using screen captures to enhance your understanding of each topic:

- Creating a data file
- Working with the chart of accounts
- Setting up items (an *item* is a QuickBooks tool that makes your accounting more accurate)

After you have the basics set up, Chapter 4, "Easily Review Your QuickBooks Data," and Chapter 5, "Power Reports for Troubleshooting Beginning Balance Differences," show you where to begin and prepare you to quickly and confidently review QuickBooks data. These chapters help you answer the following questions:

- Where do I start?
- What should I review?
- What "power reports" in QuickBooks can I use?

The remaining chapters conveniently address each specific account category. The following individual chapters provide details on setting up and reviewing QuickBooks and, when needed, methods for correcting QuickBooks data:

- Chapter 6, "Bank Account Balance or Reconciliation Errors"
- Chapter 7, "Reviewing and Correcting Accounts Receivable Errors"
- Chapter 8, "Reviewing and Correcting Errors with the Undeposited Funds Account"
- Chapter 9, "Handling Current Asset Accounts Correctly"
- Chapter 10, "Reviewing and Correcting Inventory Errors"
- Chapter 11, "Reviewing and Correcting Accounts Payable Errors"
- Chapter 12, "Reviewing and Correcting Sales Tax Errors"
- Chapter 13, "Reviewing and Correcting the Opening Balance Equity Account"
- Chapter 14, "Reviewing and Correcting Payroll Errors"

The book would not be complete without the discussion of two more important topics, making this book your own *QuickBooks Solutions Guide* tool:

- Chapter 15, "Sharing Data with Your Accountant or Your Client"
- Chapter 16, "Reporting Tips and Tricks," including a new reporting tool, Intuit Statement Writer 2009.

Finally, the book also looks at a revolutionary new detecting and correcting feature release with QuickBooks 2009:

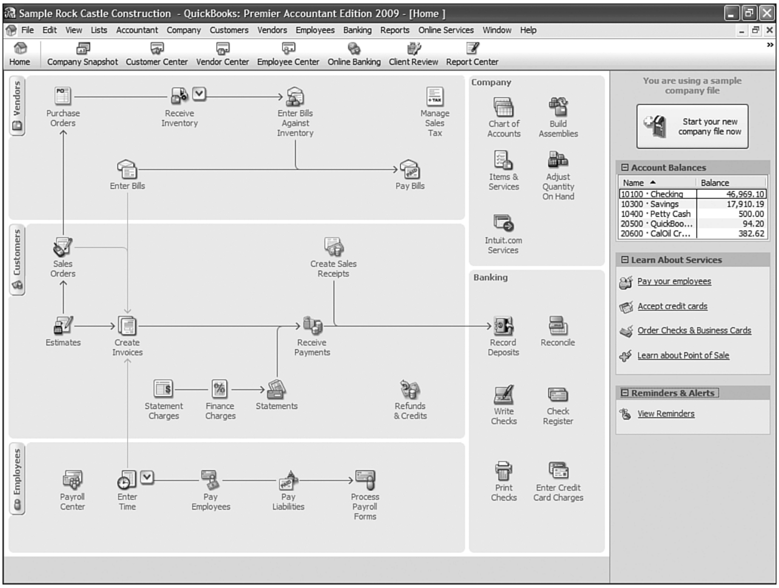
- Chapter 17, “New for 2009! Detecting and Correcting with the Client Data Review Feature”

Conventions Used in This Book

The book is straightforward enough so that you can easily go to a specific chapter and find the needed information. It is worthwhile, however, to let you know how information is presented in this book.

Menu Commands

QuickBooks 2009 offers a variety of methods to accomplish a task. To simplify the instructions given, use the top menu bar in QuickBooks.


Sample Rock Castle Construction - QuickBooks: Premier Accountant Edition 2009 - [Home]
File Edit View Lists Accountant Company Customers Vendors Employees Banking Reports Online Services Window Help
Home
Company Snapshot
Customer Center
Vendor Center
Employee Center
Online Banking
Client Review
Report Center
Vendors
Purchase Orders
Receive Inventory
Enter Bills Against Inventory
Manage Sales Tax
Enter Bills
Pay Bills
Customers
Sales Orders
Create Sales Receipts
Estimates
Create Invoices
Receive Payments
Statement Charges
Finance Charges
Statements
Refunds & Credits
Employees
Payroll Center
Enter Time
Pay Employees
Pay Liabilities
Process Payroll Forms
Company
Chart of Accounts
Build Assemblies
Items & Services
Adjust Quantity On Hand
Intuit.com Services
Banking
Record Deposits
Reconcile
Write Checks
Check Register
Print Checks
Enter Credit Card Charges
You are using a sample company file
Start your new company file now
Account Balances
Learn About Services
Pay your employees
Accept credit cards
Order Checks & Business Cards
Learn about Point of Sale
Reminders & Alerts
View Reminders

Name	Balance
10100 · Checking	46,969.10
10300 · Savings	17,910.19
10400 · Petty Cash	500.00
20500 · QuickBoo…	94.20
20600 · CalOil Cr…	382.62

QuickBooks home page

For example, the instructions for preparing a report might look like the following:

1. Click **Reports, Vendors & Payables**.

This directive refers to clicking Reports on the menu bar, as shown in the previous figure, and then selecting Vendors & Payables as a submenu of Reports.

Additionally, for added clarity in the topic discussion, you can appreciate the frequent use of screen captures, which make following the instructions easy.

Web Pages and Manufacturer Information

A few web pages are listed in this book, mostly directing you to the **www.intuit.com** website. These addresses were current as this book was written; however, websites can change.

Special Elements

As you read through this book, you'll note several special elements, presented in what we call "margin notes." Different types of margin notes are used for different types of information, as you see here.

Digging Deeper

This is a tip that might prove useful for whatever you're in the process of doing.

Rescue Me!

This is a caution that something you might accidentally do might have undesirable results—so take care!

Chapter 1

Creating a New QuickBooks Data File

- EasyStep Interview—Overview
- Converting from Other Accounting Software to QuickBooks
- Setting Up a QuickBooks Data File for Accrual or Cash Basis Reporting

EasyStep Interview—Overview

Over the years, I have helped hundreds of businesses troubleshoot problems with getting the proper financial and management information out of their QuickBooks data. I have found that improper setup of the data file was most often the primary cause, second only to judgment errors in posting transactions to the incorrect account.

The purpose of this book is to share with businesses and accounting professionals the many tools that QuickBooks provides for troubleshooting and correcting common data setup or entry errors. In QuickBooks, many preference settings and warnings will help prevent several of these common mistakes. Each chapter identifies these settings so you can make sure your data or your client's data is properly set up and maintained.

It is not my intention to offer any tax advice; I make comments throughout the text encouraging you to consult your accounting or tax professional before making any data corrections that might have a significant impact on a company's financials.

Recent editions of QuickBooks makes properly setting up the data file easy thanks to the question-and-answer format built in to the QuickBooks EasyStep Interview. These easy-to-follow prompts assist new QuickBooks users with properly setting up the data file by asking basic questions about their business.

To access the EasyStep Interview, open QuickBooks and select File, New Company. (See Figure 1.10, which is the startup screen of the EasyStep Interview.) You have the option to Start Interview, Skip Interview, or Convert Data from other financial software programs. For accounting professionals, the option to skip the interview is particularly useful if you are going to be providing your client predefined lists that you use commonly for all your clients.

When you choose the option to Skip Interview when creating a new data file, QuickBooks still requires the following:

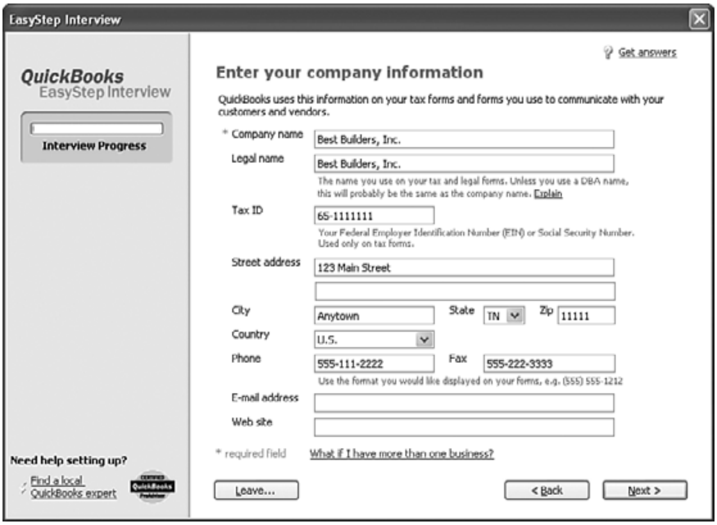
- The company name and address details (see Figure 1.1)
- The company's financial structure (see Figure 1.3)
- The first month of your fiscal year (see Figure 1.5)
- An option to customize QuickBooks by selecting an industry-specific chart of accounts (similar to Figure 1.2)
- Requirement to name your data file and store it on your computer

After you store your data file, QuickBooks opens the new data file, and you will no longer have access to the EasyStep Interview. If you selected the Skip Interview option and you leave the EasyStep Interview before completing the required steps in the previous bulleted list, QuickBooks will *not* save your work.

If you choose the option to Start the Interview, QuickBooks provides a series of question-and-answer type choices to help you properly set up your data file and default certain features. If you have to leave the interview at any time before finishing it, QuickBooks will remember where you left off in the process when you return.

Have the following information on hand before setting up your QuickBooks data file:

- Company name—This should be the company name or a name that best describes the business. By default, this is the filename given to the data file (.QBW extension) on your computer.
- Legal name—The legal name displays on certain reports and federal tax forms.
- Tax ID—Although this ID is not required to begin using QuickBooks, it is required if you want to sign up for one of the QuickBooks payroll services.
- Remaining information—This includes a phone number, e-mail address, Web site, and so on (see Figure 1.1), and can optionally be added to certain forms in QuickBooks, such as a customer invoice form.



Enter your company information

QuickBooks uses this information on your tax forms and forms you use to communicate with your customers and vendors.

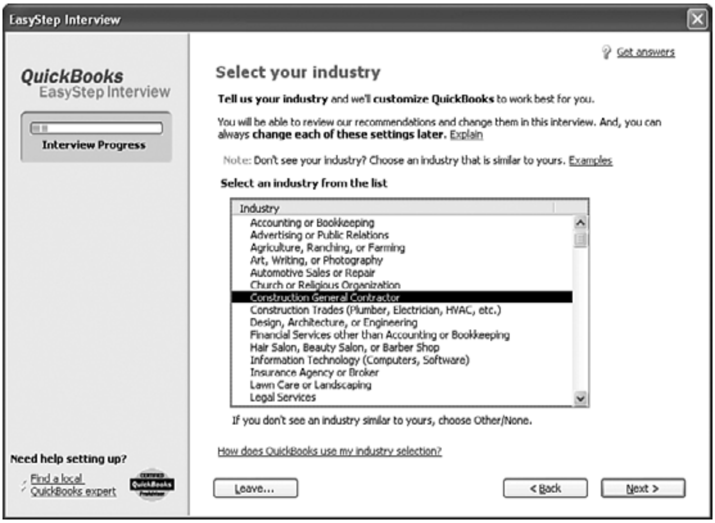
* Company name: Best Builders, Inc.
Legal name: Best Builders, Inc.
The name you use on your tax and legal forms. Unless you use a DBA name, this will probably be the same as the company name. Explain
Tax ID: 65-1111111
Your Federal Employer Identification Number (EIN) or Social Security Number. Used only on tax forms.
Street address: 123 Main Street
City: Anytown
State: TN
Zip: 11111
Country: U.S.
Phone: 555-111-2222
Fax: 555-222-3333
Use the format you would like displayed on your forms, e.g. (555) 555-1212
E-mail address:
Web site:
* required field
What if I have more than one business?

FIGURE 1.1

Entering company information in the EasyStep Interview.

Be prepared to answer the following questions that are asked as part of the EasyStep Interview process:

- Selecting your industry—QuickBooks recommends certain features that will be useful for the industry selected. QuickBooks also creates a Chart of Accounts list customized for the industry selected (see Figure 1.2). Additionally, some industry selections also create industry-specific items that are used to prepare customer and job estimates, sales orders, and invoices.


EasyStep Interview
QuickBooks
EasyStep Interview
Interview Progress
Need help setting up?
Find a local QuickBooks expert
Get answers
Explain
Examples
How does QuickBooks use my industry selection?
Leave...
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Next >

Select your industry

Tell us your industry and we'll **customize QuickBooks** to work best for you.

You will be able to review our recommendations and change them in this interview. And, you can always **change each of these settings later.**

Note: Don't see your industry? Choose an industry that is similar to yours.

Select an industry from the list

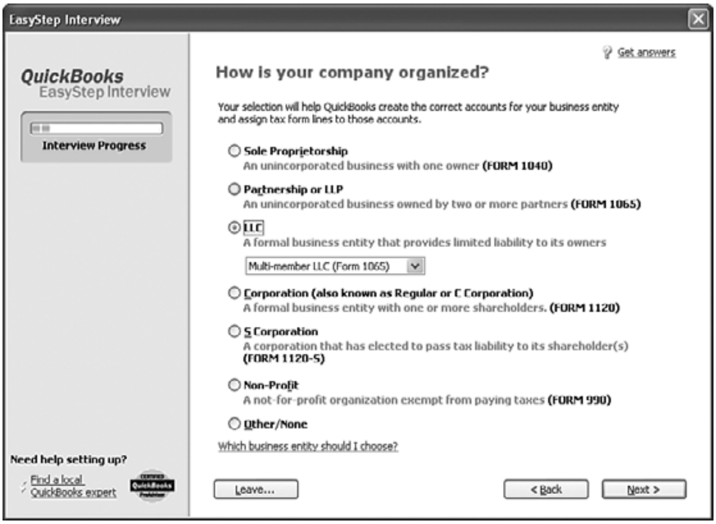
Industry
Accounting or Bookkeeping
Advertising or Public Relations
Agriculture, Ranching, or Farming
Art, Writing, or Photography
Automotive Sales or Repair
Church or Religious Organization
Construction General Contractor
Construction Trades (Plumber, Electrician, HVAC, etc.)
Design, Architecture, or Engineering
Financial Services other than Accounting or Bookkeeping
Hair Salon, Beauty Salon, or Barber Shop
Information Technology (Computers, Software)
Insurance Agency or Broker
Lawn Care or Landscaping
Legal Services

If you don't see an industry similar to yours, choose Other/None.

FIGURE 1.2

Customize QuickBooks for your specific industry.

- Identifying how your company is organized—This selection helps QuickBooks create the correct accounts, customizing for the legal type selected and assigning the proper tax form lines to those accounts (see Figures 1.3 and 1.4). These tax line assignments simplify the process of creating tax documents with tax preparation software, such as Intuit's TurboTax, ProSeries, or Lacerte.



EasyStep Interview
QuickBooks
EasyStep Interview
Interview Progress
Get answers
Need help setting up?
Find a local QuickBooks expert
Leave...
< Back
Next >

How is your company organized?

Your selection will help QuickBooks create the correct accounts for your business entity and assign tax form lines to those accounts.

○ **Sole Proprietorship**
An unincorporated business with one owner **(FORM 1040)**

○ **Partnership or LLP**
An unincorporated business owned by two or more partners **(FORM 1065)**

● **LLC**
A formal business entity that provides limited liability to its owners
Multi-member LLC (Form 1065)

○ **Corporation (also known as Regular or C Corporation)**
A formal business entity with one or more shareholders. **(FORM 1120)**

○ **S Corporation**
A corporation that has elected to pass tax liability to its shareholder(s) **(FORM 1120-S)**

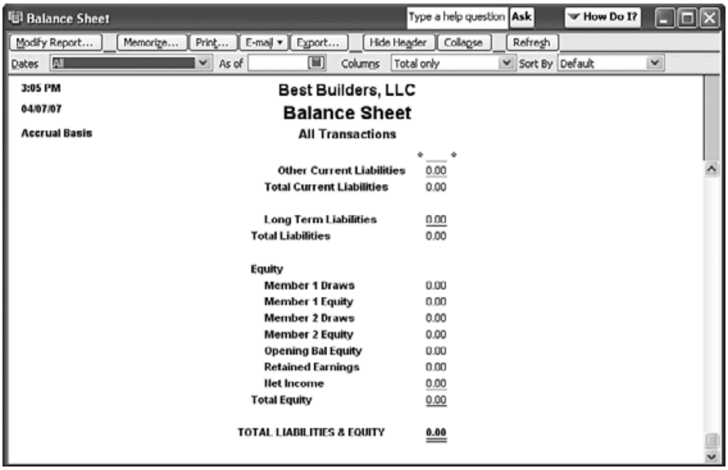
○ **Non-Profit**
A not-for-profit organization exempt from paying taxes **(FORM 990)**

○ **Other/None**

Which business entity should I choose?

FIGURE 1.3

Selecting the legal organization of your company.



Balance Sheet
Type a help question
Ask
How Do I?
Modify Report...
Memorize...
Print...
E-mail
Export...
Hide Header
Collapse
Refresh

Dates: All | As of | Columns: Total only | Sort By: Default

3:05 PM
04/07/07
Accrual Basis

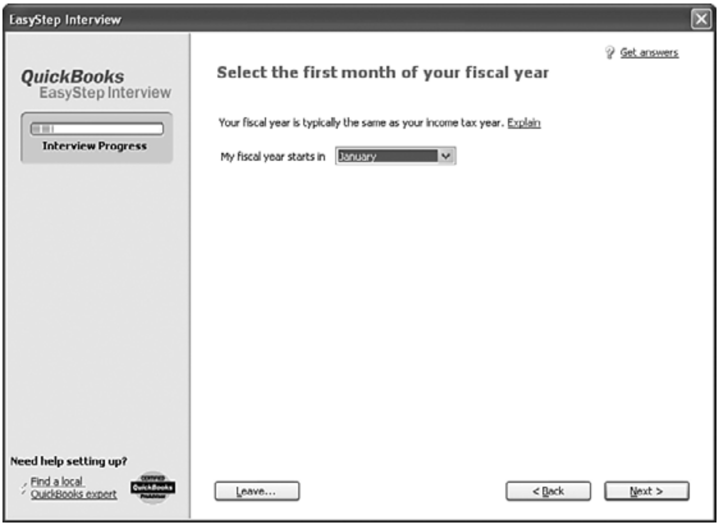
Best Builders, LLC
Balance Sheet
All Transactions

Other Current Liabilities	0.00
Total Current Liabilities	0.00
Long Term Liabilities	0.00
Total Liabilities	0.00
Equity	
Member 1 Draws	0.00
Member 1 Equity	0.00
Member 2 Draws	0.00
Member 2 Equity	0.00
Opening Bal Equity	0.00
Retained Earnings	0.00
Net Income	0.00
Total Equity	0.00
TOTAL LIABILITIES & EQUITY	0.00

FIGURE 1.4

QuickBooks creates unique equity accounts when you select the company's legal organization.

- Select the first month of your fiscal year—The answer to this EasyStep Interview question causes the reports that filter on fiscal year-to-date to know what month is the first month in the fiscal year (see Figure 1.5). For most companies, this is the first month of your income tax year.


EasyStep Interview
QuickBooks
EasyStep Interview
Interview Progress
Get answers
Need help setting up?
Find a local QuickBooks expert
Leave...
< Back
Next >

Select the first month of your fiscal year

Your fiscal year is typically the same as your income tax year. Explain

My fiscal year starts in January

FIGURE 1.5

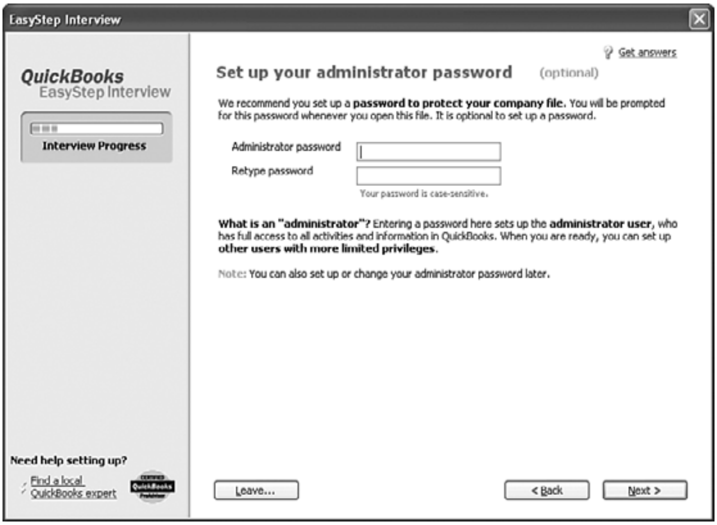
Selecting the first month of your year affects any fiscal year-to-date reports.

Digging Deeper

If the month selected as the first month of your fiscal year is incorrect, you can easily change it by choosing Company, Company Information. Changing this month does not affect individual transactions but does ensure that the reports that filter for fiscal year-to-date transactions are correct.

- **Setting an administrator password**—Setting an administrator password is always a good practice (see Figure 1.6). If you do not set one during the EasyStep Interview, you can open a QuickBooks file with the default username of Admin and leave the password blank. Using a blank password is fine during the initial setup, but more security should be put in place after you enter sensitive information. You can also set up this password later.

At this point in the EasyStep Interview, QuickBooks asks where you want to store the company data file and what name you want to give it, if different than the default company name previously assigned.



Set up your administrator password (optional)

We recommend you set up a **password to protect your company file.** You will be prompted for this password whenever you open this file. It is optional to set up a password.

Your password is case-sensitive.

What is an "administrator"? Entering a password here sets up the **administrator user**, who has full access to all activities and information in QuickBooks. When you are ready, you can set up **other users with more limited privileges**.

Note: You can also set up or change your administrator password later.

FIGURE 1.6

Create an Admin password and don't forget to write it down.

Digging Deeper

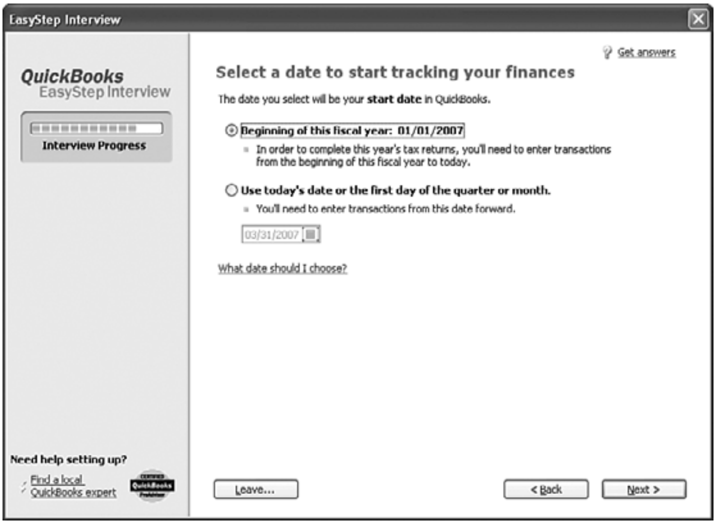
In QuickBooks 2009, the default directory for storing a QuickBooks data file is Shared Documents\Intuit\QuickBooks\Company Files. However, when a QuickBooks data file is initially created, you can select a specific file location different than the default.

If you need to leave the EasyStep Interview at any time, QuickBooks returns to the point you left off when you open the data file again.

The EasyStep Interview now prompts you for certain information based on what industry you selected. Your answers to the remaining questions will make certain features in QuickBooks the default. The purpose of this book is not to define each of these choices; most are self-explanatory. However, discussing the effect of several choices is useful.

Select a Start Date

One of the most important decisions you will make when beginning to work with QuickBooks is determining the start date (see Figure 1.7). You might want to discuss with your accountant what date to use. For most businesses, it is the day you begin entering data into QuickBooks. You select the start date during the EasyStep Interview, which defaults to the beginning of the current fiscal year; however, many companies begin using QuickBooks sometime during the year. The date you select is assigned to any opening balance entries entered when you create a list item on the chart of accounts or when you enter an opening balance for a new customer, job, or vendor.



Select a date to start tracking your finances

The date you select will be your **start date** in QuickBooks.

● **Beginning of this fiscal year: 01/01/2007**
- In order to complete this year's tax returns, you'll need to enter transactions from the beginning of this fiscal year to today.

○ **Use today's date or the first day of the quarter or month.**
- You'll need to enter transactions from this date forward.

03/31/2007

What date should I choose?

FIGURE 1.7

Selecting the date you will begin using QuickBooks.

The following are potential start dates:

- When you first begin your business activities (with no prior expenses or income). This date is the easiest one to work with because you have no historical balances or transactions to consider. You begin by paying vendors and invoicing customers. Everything else will fall into place.
- After you have established your business, but you decide to assign the start date as that of when your business began and enter historical transactions, thus recreating the business accounting from the beginning. This practice is common when a company is only a few months old. You follow the same advice as if your business were new. However, if the company is several months or years old, this method can be time-consuming and difficult to manage.
- At the beginning of a calendar year, such as January 1, 200x. This choice is common when the decision to begin using QuickBooks is at the end of a year or not long into the next year. Again, if the company has previously had business transactions, there will be beginning balances to enter. This information is discussed in detail in the section of

this chapter titled "Setting Up a QuickBooks Data File for Accrual or Cash Basis Reporting."

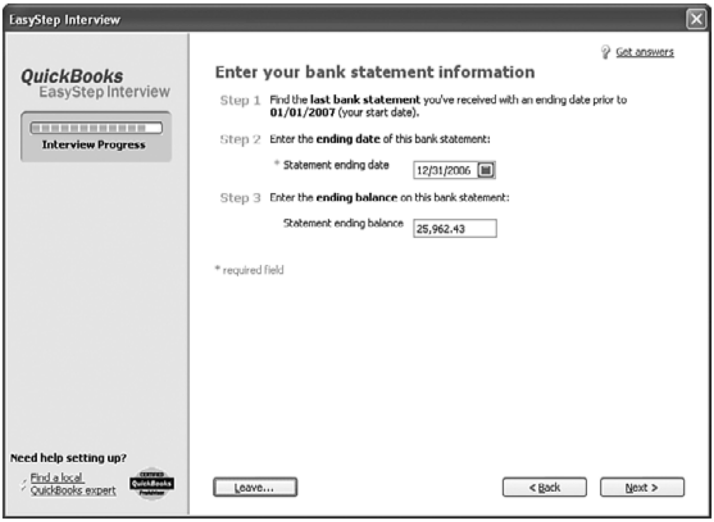
- At the beginning of your fiscal year (for companies whose tax year does not coincide with the calendar year).
- The first day of a month during the current calendar year or your fiscal year.

Digging Deeper

For established companies that select a start date after the business has had activity, it is recommended that the start date be the beginning of a month. This practice makes reconciling balances to other software or to documents outside QuickBooks easier. If your bank statement or credit card statements ends within a month rather than at month end, request that the bank or lending institution change your statement ending date to the end of the month for future statements if possible.

Enter Bank Account Information

From your bank statement, tell QuickBooks the name of the bank account, the account number (optional), whether the account was opened before the QuickBooks start date, and the ending balance (see Figure 1.8).



Enter your bank statement information

Step 1 Find the **last bank statement** you've received with an ending date prior to **01/01/2007** (your start date).

Step 2 Enter the **ending date** of this bank statement:

* Statement ending date 12/31/2006

Step 3 Enter the **ending balance** on this bank statement:

Statement ending balance 25,962.43

* required field

FIGURE 1.8

Enter the ending date and balance from your bank statement.

Digging Deeper

The bank account information you enter is necessary for you to properly reconcile your QuickBooks bank account. For the Statement ending date, use the last month's bank statement ending date before your selected start date. For the Statement ending balance, use the amount the bank shows on your printed bank statement *not including* any uncleared checks or deposits in transit (uncleared). You will enter these individually later.

Review Income and Expense Accounts

During the EasyStep Interview you might have selected a default chart of accounts for your new QuickBooks data file.

Even if you select None/Other when selecting a chart of accounts, specific accounts in QuickBooks is automatically created when related forms are opened for the first time:

- Accounts Receivable
- Inventory Asset
- Undeposited Funds
- Accounts Payable
- Payroll Liabilities
- Sales Tax Payable
- Opening Balance Equity
- Capital Stock
- Retained Earnings
- Shareholder Distributions
- Cost of Goods Sold
- Payroll Expenses
- Estimates (nonposting)
- Purchase Orders (nonposting)

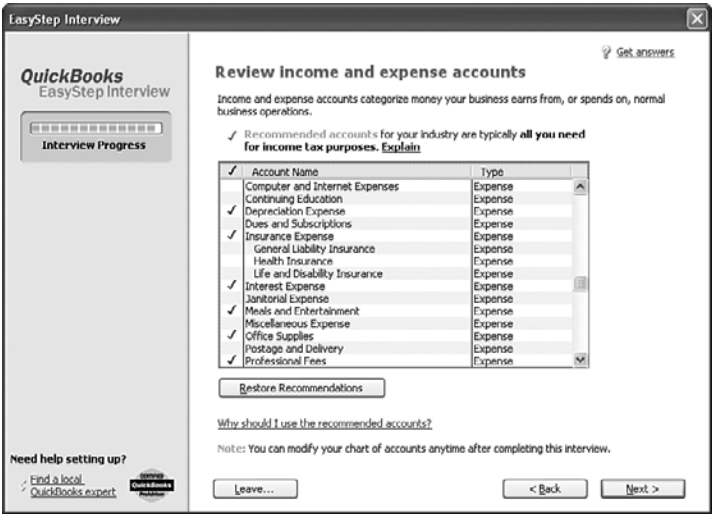
To identify which charts of accounts were created by QuickBooks:

1. Click **Lists**, **Chart of Accounts**.
2. Click once to select a specific account you want to verify whether it is one of the default QuickBooks accounts.

3. After it's selected, click on **Account** and choose **Edit Account**.
4. If the Account type field is grayed out, this is a QuickBooks defaulted chart of accounts, and you should not create your own account for the same purpose. Instead, be sure to use this one.

These accounts are important to the QuickBooks functions. If a user deletes these accounts, QuickBooks recreates them when the related form is used. For example, if you delete the Accounts Receivable account and later open an invoice form, QuickBooks recreates the Accounts Receivable account.

Although QuickBooks defaults certain chart of accounts in the EasyStep Interview, you can conveniently remove any of the predetermined Income, Cost of Goods Sold, or Expense type accounts that you don't want in your file by removing the check mark next to the listed account name (see Figure 1.9) while in the EasyStep Interview.



Review income and expense accounts

Income and expense accounts categorize money your business earns from, or spends on, normal business operations.

✓ Recommended accounts for your industry are typically **all you need for income tax purposes.** Explain

✓	Account Name	Type
	Computer and Internet Expenses	Expense
	Continuing Education	Expense
✓	Depreciation Expense	Expense
	Dues and Subscriptions	Expense
✓	Insurance Expense	Expense
	General Liability Insurance	Expense
	Health Insurance	Expense
	Life and Disability Insurance	Expense
✓	Interest Expense	Expense
	Janitorial Expense	Expense
✓	Meals and Entertainment	Expense
	Miscellaneous Expense	Expense
✓	Office Supplies	Expense
	Postage and Delivery	Expense
✓	Professional Fees	Expense

Note: You can modify your chart of accounts anytime after completing this interview.

FIGURE 1.9

Select which default chart of account list items you want for your data file.

See Chapter 2, "Reviewing the QuickBooks Chart of Accounts," for methods to correct if you inadvertently create an account type that duplicates a QuickBooks created account.

Converting from Other Accounting Software to QuickBooks

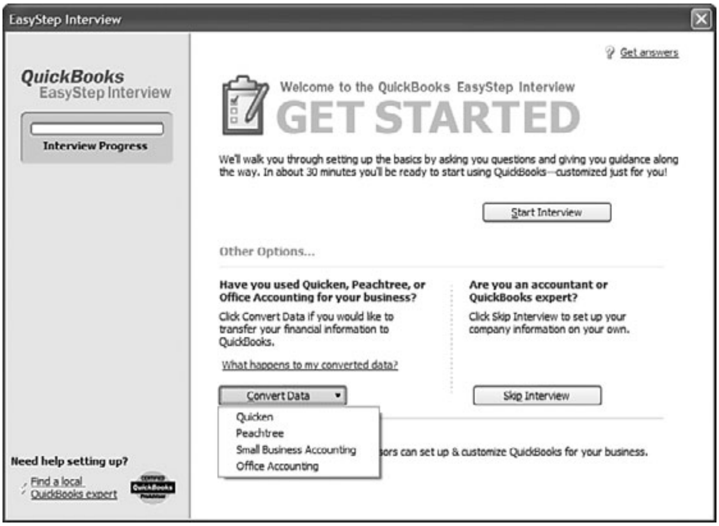
QuickBooks has automated the process of converting files from other financial software into QuickBooks files, including the following:

- Quicken
- Peachtree by Sage
- Small Business Accounting by Microsoft
- Office Accounting

This section provides specific details about how QuickBooks handles these conversions and what you need to consider when making the choice to convert existing data from one of the listed financial software programs to a QuickBooks data file.

Converting from Quicken to QuickBooks

To begin the conversion, open QuickBooks, select File, New, and then select Convert Data directly from the EasyStep Interview opening screen (see Figure 1.10). The Conversion tool copies your Quicken data to a new QuickBooks file, leaving your original Quicken data file unchanged.


EasyStep Interview
Get answers
QuickBooks
EasyStep Interview
Interview Progress
Welcome to the QuickBooks EasyStep Interview
GET STARTED
Start Interview
Other Options...
What happens to my converted data?
Convert Data
Quicken
Peachtree
Small Business Accounting
Office Accounting
Skip Interview
Need help setting up?
Find a local QuickBooks expert

We'll walk you through setting up the basics by asking you questions and giving you guidance along the way. In about 30 minutes you'll be ready to start using QuickBooks—customized just for you!

Have you used Quicken, Peachtree, or Office Accounting for your business?

Click Convert Data if you would like to transfer your financial information to QuickBooks.

Are you an accountant or QuickBooks expert?

Click Skip Interview to set up your company information on your own.

ors can set up & customize QuickBooks for your business.

FIGURE 1.10

Converting files from other software packages right from the EasyStep Interview opening screen.

Table 1.1 shows you how the Quicken accounts are converted into QuickBooks accounts.

Table 1.1 Quicken Account Conversion

This type of account in Quicken:	Becomes this type of account in QuickBooks:
Checking	Bank
Credit Card	Credit Card
Asset	Other Current Asset
Liability	Other Current Liability
Investment	Other Current Asset

Because QuickBooks does not offer the Investment tracking feature that is in Quicken, you can choose whether to include or exclude the value of your investments in the resulting QuickBooks balance sheet. If you choose to include them, QuickBooks converts the investment accounts into Other Current Asset chart of account type.

If you choose to exclude the investments, you are given the opportunity to delete the accounts before converting to QuickBooks. Any transfers that were recorded to or from the deleted accounts are recorded to your opening balance equity account. This is in keeping with the “debits equal credits” accounting that is going on behind the scenes in QuickBooks.

You are asked whether there is a Quicken Accounts Receivable account with customer payments. If you click Yes, the QuickBooks Conversion tool asks you to identify your Quicken Accounts Receivable account. QuickBooks then begins converting the Quicken transactions to QuickBooks Accounts Receivable transactions. This process can take several minutes.

During the conversion, you are informed of the following:

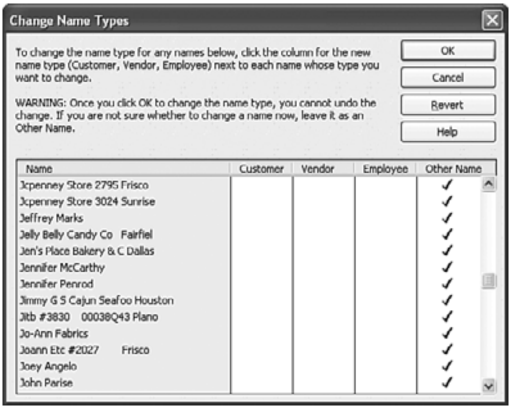
- QuickBooks creates an Opening Balance Equity account to compensate for deleted Quicken accounts.
- Memorized Invoices in Quicken might need to be reviewed.
- Duplicate check, invoice, or credit memo numbers are stored in a QBwin.log for review.
- Every payee name in Quicken must be on a QuickBooks list.

Because QuickBooks cannot determine which list an item belongs to, it places all items on the Other Name list (see Figure 1.11). In QuickBooks, users can then click Lists, Other Names List, Change Name Type for the one-time option to change the payee to a vendor, employee, or customer.

Rescue Me!

After you click OK to change the name type, you cannot undo the change. If you are not sure what list the payee belongs to, leave it as an Other Name.

Because Quicken allows for flexibility in how the accounting is documented—for example, allowing both business and personal funds to be comingled—my recommendation is for new QuickBooks users who are converting their Quicken data to hire a professional with accounting experience to make sure the resulting information is correct going forward.



To change the name type for any names below, click the column for the new name type (Customer, Vendor, Employee) next to each name whose type you want to change.

WARNING: Once you click OK to change the name type, you cannot undo the change. If you are not sure whether to change a name now, leave it as an Other Name.

Name	Customer	Vendor	Employee	Other Name
Jcpenney Store 2795 Frisco				✓
Jcpenney Store 3024 Sunrise				✓
Jeffrey Marks				✓
Jelly Belly Candy Co Fairfiel				✓
Jen's Place Bakery & C Dallas				✓
Jennifer McCarthy				✓
Jennifer Penrod				✓
Jimmy G S Cajun Seafoo Houston				✓
Jitb #3830 00038Q43 Plano				✓
Jo-Ann Fabrics				✓
Joann Etc #2027 Frisco				✓
Joey Angelo				✓
John Parise				✓

FIGURE 1.11

QuickBooks converts all Quicken payees to the Other Name list in QuickBooks.

Intuit offers a listing on the Internet of qualified QuickBooks Certified ProAdvisors in your area. In your QuickBooks data file, select Help, Find a Local Expert (you will need an Internet connection).

Converting from Peachtree, Small Business Accounting, or Office Accounting to QuickBooks

Just as in the Quicken conversion, QuickBooks can convert your Peachtree, Small Business Accounting, or Office Accounting data to QuickBooks data directly from the EasyStep Interview dialog. The conversion process leaves your original Peachtree, Small Business Accounting, or Office Accounting data untouched.

If you have not already downloaded the free Peachtree, Small Business Accounting, and Office Accounting QuickBooks Conversion tool, you are directed from the EasyStep Interview dialog to do so. The free downloadable tool converts Peachtree (any version 2001–2008), Microsoft Small Business Accounting (2006), and Office Accounting Express or Office Accounting Professional (2007) to QuickBooks Pro, Premier, or Enterprise Solutions. The tool can be used to convert multiple company files from any of the named software.

The Conversion tool works with Windows 98 Second Edition, 2000, XP, and Vista operating systems. You must have both the prior financial software installed and the QuickBooks software installed and registered for the conversion to work.

The download link as of the time of this writing for the free Conversion tool is http://quickbooks.intuit.com/product/about_quickbooks/peachtree_conversion.html. From this same site, you can also download a technical "white paper" that details the conversion specifics.

In the conversion process, you can select the specific Peachtree, Small Business Accounting, Office Professional, or Office Accounting Express file and the QuickBooks product version to which you will be converting it. Additionally, you can specify the conversion of Lists and transactions (including historical transactions) or Lists only.

You will also select a conversion date; any transactions dated after this date will not be converted.

Because of the differences between the two products, you are also given a choice to identify customers and vendors in QuickBooks with the name of the Peachtree, Small Business Accounting, Office Professional Accounting, or Office Accounting Express ID value. You must choose to use the name or the ID value in QuickBooks, so making this decision before performing the conversion is best.

The following Peachtree, Small Business Accounting, Office Professional, and Office Accounting Express files are converted.

Key lists include the following:

- Chart of accounts
- Customer/prospects
- Jobs
- Employees/sales reps
- Vendors
- Inventory item
- Custom fields
- Balance information

Open transactions include the following:

- Open invoices
- Open vendor bills

Customer transactions include the following:

- Estimates
- Sales orders
- Invoices
- Payment receipts
- Deposits
- Credit memos

Vendor transactions (new!) include the following:

- Purchase orders
- Bills
- Bill payments
- Checks
- Bill credits

Converting from QuickBooks for Windows to QuickBooks Online Edition

With QuickBooks Online Edition, users can manage their business accounting information from anywhere—work, home, or on the road—at anytime. Monthly subscription fees are assessed for this product.

QuickBooks Online Edition allows a one-time conversion from QuickBooks Pro, or Premier for Windows. The process is simple and converts both lists and historical transactions.

To convert your QuickBooks for Windows software one-time, click File, Utilities and choose the option for Copy File for Online Edition.

Feature differences exist between the Online Edition and the Desktop versions; review the feature comparison chart at http://quickbooks.intuit.com/ product/ accounting_software/product_comparison.jhtml to see whether the Online Edition is right for you and your business or your client's business.

Converting from QuickBooks for Mac to QuickBooks for Windows

Users who are changing their operating system to Windows have the option to convert their QuickBooks for Mac data, lists, and transactions to a QuickBooks Pro for Windows data file. Only QuickBooks for Mac versions 6.0, 2005, 2006, 2007, and 2008 offer this capability. For version 6.0, click File, Create a File for QuickBooks for Windows.

In versions 2005–2007, click File, Back up to QuickBooks for Windows. In QuickBooks 2008–2009, click File, Utilities, and then select Copy Company File for QuickBooks Mac. Save this file to your desktop or computer hard drive. This is the file that will be converted, leaving your original file intact.

With each command, a .QBB backup file is created; this file is restored in QuickBooks for Windows. It is recommended that you restore the same-year version of a Mac file to a same-year version of the Windows program; that is, restore QuickBooks for Mac 2009 in a QuickBooks Windows 2009 file.

The conversion from QuickBooks for Mac to QuickBooks for Windows is a simple and worry-free process.

Converting from QuickBooks for Windows to QuickBooks for Mac

Users who are changing their operating system to a Mac have the option to convert their QuickBooks for Windows data, lists, and transactions to a QuickBooks Pro for Mac data file. Click File, Utilities, Copy Company File for QuickBooks Mac.

You can convert your QuickBooks for Windows file to work with QuickBooks for Mac 2009.

Before completing the conversion, make sure that you are *not* currently using any of these features not currently offered with the Mac edition:

- Payroll
- Merchant Services
- Integrated applications (third-party software)
- QuickBooks Online Bill Pay
- Multi-user
- Inventory Assemblies

The conversion process will keep your original data file in a Windows format, in the event that the Mac edition did not meet your needs.

Setting Up a QuickBooks Data File for Accrual or Cash Basis Reporting

Although the purpose of this book is not to give definitive accounting or tax advice on any of the topics covered, it is worth discussing the nature of accrual versus cash basis reporting because it pertains to creating a new data file.

Understanding the basics of these two types of reporting is important. When filing a tax return, businesses must specify cash or accrual as their accounting method. However, for management purposes, business owners can view one or both types of reports when making internal decisions. The capability to view reports in either accrual or cash basis is one of the features that sets the QuickBooks software apart from other accounting solutions.

The difference between the two methods is in the timing of when income and expenses are recognized in your financials. Table 1.2 shows how QuickBooks treats the different types of transactions in both reporting methods on the Profit & Loss statement.

Table 1.2 Accrual Versus Cash Accounting

Transaction Type	Profit & Loss Accrual Basis	Profit & Loss Cash Basis
Customer Invoice	Revenue is recorded on the date of the invoice.	Revenue is recorded on the recorded on the date of the customer payment transaction.
Customer Credit Memo	Revenue is decreased on the date of the credit memo.	No impact.
Vendor Bill	Cost is recorded as of the date entered on the vendor bill transaction.	Cost is recorded on the date of the bill payment check.
Vendor Credit Memo	Cost is decreased on the date of the vendor credit memo.	No impact.
Check	Cost is recorded using the date entered on the check transaction.	Cost is recorded using the date entered on the check transaction.
Credit Card	Cost is recorded using the date entered on the credit card transaction.	Cost is recorded using the date entered on the credit card transaction.
General Journal	Cost or revenue is recorded using the date entered on the general journal transaction.	Cost or revenue is recorded using the date entered on the general journal transaction.
Inventory Adjustment	Date of inventory adjustment is the date the financials are affected.	Date of inventory adjustment is the date the financials are affected.

If you have just recently started a new business and QuickBooks is the first financial tracking software you have used, rest easy. QuickBooks makes it possible for you to do the daily tasks of paying vendors or employees and invoicing customers without any complicated startup procedures. Later, you can view reports in either Cash or Accrual basis.

However, if you are converting to QuickBooks from some other software application other than those currently supported with the QuickBooks conversion tool (see the section titled "Converting from Other Accounting Software to QuickBooks"), you will be manually entering open customer, vendor, and bank balances, in addition to additional balance sheet balances.

Earlier this chapter provided details on selecting a Start Date, the date that you first want QuickBooks to track your financial accounting. If the business had expenses or sold products and services before this start date, you most likely have open transactions. For example, if your start date is January 1, 20xx, then your beginning balances would be dated as of December 31, 20xx.

The following is a brief list of what you need to collect when creating a new QuickBooks data file. These lists should represent their respective value as of the day *before* your QuickBooks start date.

- Accounts Receivable—List by Customer of what customers owed you on the day before your start date, including any invoices where the payment was received but not deposited by the start date
- Accounts Payable—List by Vendor of those bills that you had not paid as of your start date
- Bank Ending Balance—Ending balance from your bank statement on the day before your start date
- Uncleared Checks and Deposits—List of all checks and deposits that have not yet cleared your bank account as of your start date
- Other Balances—List of all other assets, liabilities, and equity you have in the business
- Payroll—Year-to-date totals for each employee (if using payroll in QuickBooks)

To get your QuickBooks data ready for entering current transactions, you need to record these open balances. However, before doing so, you need to have a few things already set up in QuickBooks. You might refer to the following items as "Master Lists."

Digging Deeper

Before you begin entering these startup balances, make sure you have the following created in your QuickBooks data file:

- **Chart of Accounts**—This list is usually created automatically for you in the EasyStep Interview process discussed earlier in this chapter.
- **Items List**—These are the services or products that you sell and the sales tax that you collect on these sales. See the section titled, "Using Item Types in QuickBooks," in Chapter 3 for a detailed discussion of setting up items. Be sure to take special consideration with Inventory items. This information is detailed in Chapter 10, "Reviewing and Correcting Inventory Errors."
- **Customer and Job Names**—To assign to open (unpaid) invoices.
- **Vendor Names**—To assign to open (unpaid) vendor bills.
- **Employee Names**—To assign to current year payroll transactions.
- **Payroll Items**—To assign for year-to-date payroll totals.

The following options are available when you're creating startup or opening transactions for a business that is beginning to use QuickBooks for an existing business, after using some other software or manual accounting method.

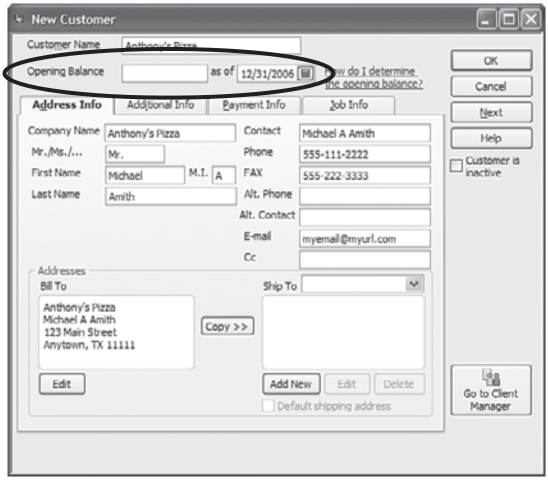
Cash or Accrual Basis Startup Transactions: Accounts Receivable

After you have completed the EasyStep Interview, you need to take some additional steps that are important to the successful setup of your new QuickBooks file.

To create a customer or job from the Customer Center, select New Customer & Jobs. You can enter an opening balance in the New Customer or New Job dialog (see Figure 1.12). However, I don't recommend entering the beginning balance here as I explain in this section.

Entering an amount in the Opening Balance field causes QuickBooks to do the following:

- **One invoice total**—A lump sum open invoice total is created for each customer.
- **Accrual Basis Reporting**—For this type of reporting, the Opening Balance field increases Accounts Receivable (debit) and increases Uncategorized Income (credit) assigned the date in the "as of" field on the New Customer or New Job dialog.
- **Cash Basis Reporting**—For this type of reporting, the field has no effect until the date of customer payment. When the customer payment is received, it increases (debit) the account you assign to customer payments (either the QuickBooks Undeposited Funds or the bank account) and increases Uncategorized Income (credit).


New Customer
Address Info
Additional Info
Payment Info
Job Info
ow do I determine the opening balance?
OK
Cancel
Next
Help
Customer is inactive
Addresses
Copy >>
Edit
Add New
Edit
Delete
Default shipping address
Go to Client Manager

Customer Name: Anthony's Pizza
Opening Balance: as of 12/31/2006
Company Name: Anthony's Pizza
Mr./Ms./...: Mr.
First Name: Michael M.I. A
Last Name: Amith
Contact: Michael A Amith
Phone: 555-111-2222
FAX: 555-222-3333
Alt. Phone:
Alt. Contact:
E-mail: myemail@myurl.com
Cc:
Bill To:
Anthony's Pizza
Michael A Amith
123 Main Street
Anytown, TX 11111
Ship To:

FIGURE 1.12

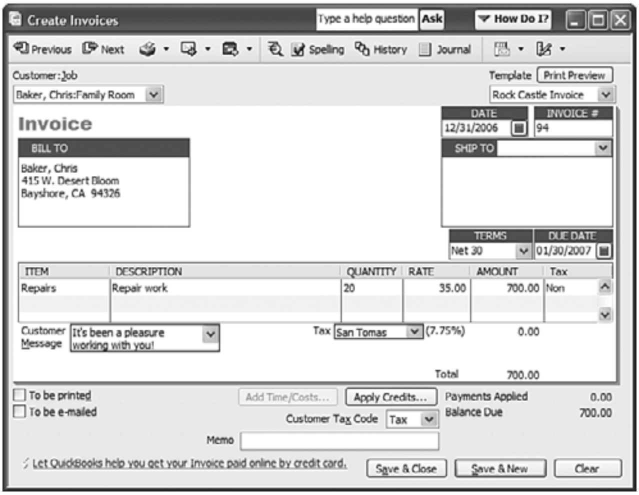
The Opening Balance field in a New Customer dialog.

You might well imagine that creating open customer invoices in the New Company or New Job dialogs is generally not recommended. Instead, follow these steps to create open customer invoices as of your start date:

1. Click **Customers**, **Create Invoices** (see Figure 1.13).

Digging Deeper

To access the invoice form, you can also use the shortcut key Ctrl+I or access it directly from the opening screen in QuickBooks, known as the Home page.


Create Invoices
Type a help question
Ask
How Do I?
Previous
Next
Spelling
History
Journal
Print Preview
Add Time/Costs...
Apply Credits...
Let QuickBooks help you get your invoice paid online by credit card.
Save & Close
Save & New
Clear

Customer:Job: Baker, Chris:Family Room

Template: Rock Castle Invoice

Invoice

DATE: 12/31/2006

INVOICE #: 94

BILL TO:
Baker, Chris
415 W. Desert Bloom
Bayshore, CA 94326

SHIP TO:

TERMS: Net 30

DUE DATE: 01/30/2007

ITEM	DESCRIPTION	QUANTITY	RATE	AMOUNT	Tax
Repairs	Repair work	20	35.00	700.00	Non

Customer Message: It's been a pleasure working with you!

Tax: San Tomas (7.75%) 0.00

Total 700.00

☐ To be printed

☐ To be e-mailed

Payments Applied 0.00

Balance Due 700.00

Customer Tax Code: Tax

Memo:

FIGURE 1.13

Creating an open customer invoice.

2. Enter **Customer:Job**.
3. Use the date drop-down to enter the original invoice date (it should be before your start date).
4. Enter the originally assigned invoice number.
5. In the Item column, enter the item(s)—the products or services that were sold—if you want to accurately track your revenue from this item. It should be the same item(s) that appeared on the original invoice to the customer.
6. If applicable, enter a value in the Quantity column.
7. If the rate did not default (because it was not included when the list item was created), enter a value in the Rate column.
8. The correct tax status on the line should default if the list item was set to the proper tax status. If some customers pay tax and others do not, you must first indicate the taxable status of an item by clicking **Lists, Item List**. Highlight the item in question and select the **Item** button and choose **Edit Item**. The Edit Item dialog opens, and you can mark the item with the appropriate tax code.

QuickBooks first determines whether an item is taxable, and then it checks whether the customer is a tax-paying customer before assessing tax on a customer balance.

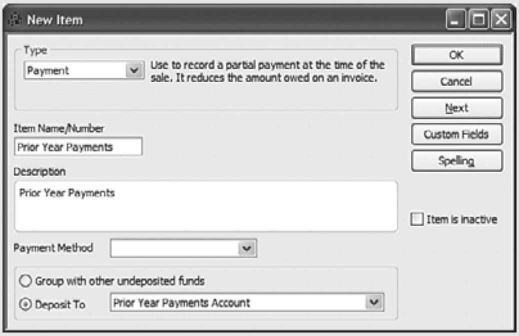
9. Make sure the **To Be Printed** and **To Be E-mailed** check boxes in the lower left are not selected. Remember to select the appropriate box here when you create your first new invoice in QuickBooks. QuickBooks will remember the setting from the last saved or edited invoice.
10. Check your Balance due to make sure it agrees with the list item total from which you are working.
11. Click **Save & Close** if you are done, or click **Save & New** if you have more invoice transactions to record.

Partially Paid Open Customer Invoices on Cash Basis Reporting

To properly prepare reports on cash basis and to properly report on sales by item, you should perform additional steps for those open invoices that had partial balances paid as of your startup date. These steps are required if you want to accurately track sales by item:

1. Click **Lists**, **Chart of Accounts** and select the **Account** button, choosing the **New** option. The Add New Account dialog opens. Place a mark in the radial button next to **Bank** to select that account type.
2. Click **Continue**. The dialog opens where you can name the new bank account `Prior Year Payments Account`. This temporary deposit account is later closed to Opening Balance Equity, which is later closed to Retained Earnings. Click **Save & Close**.
3. Click **Lists**, **Item List** and click the **Item** button, choosing the **New** option. The New Item dialog opens. Assign the type as **Payment** and name it `Prior Year Payments`. Assign the Prior Year Payments account created in step 1 as the account to **Deposit To** (see Figure 1.14). Click **OK**.
4. To create the open invoice, click **Customers, Create Invoices**. Select the **Customer:Job** from the drop-down menu. Enter the original invoice date (it should be before your QuickBooks start date), and enter the invoice number that was originally presented to the customer for payment.

Continues...


New Item
OK
Cancel
Next
Custom Fields
Spelling

Type: Payment

Use to record a partial payment at the time of the sale. It reduces the amount owed on an invoice.

Item Name/Number: Prior Year Payments

Description: Prior Year Payments

☐ Item is inactive

Payment Method:

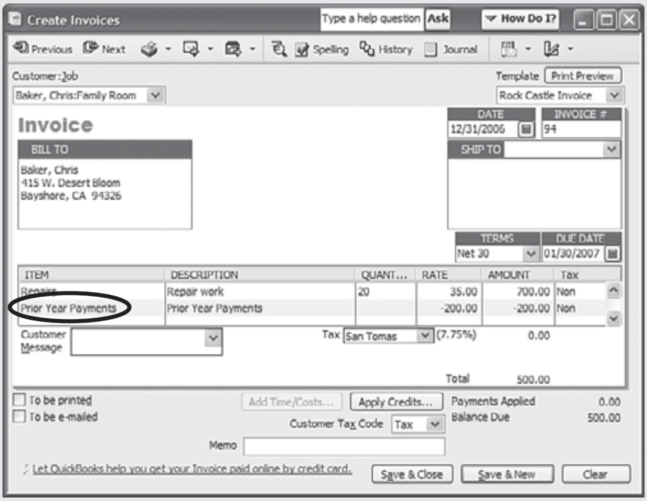
○ Group with other undeposited funds

● Deposit To: Prior Year Payments Account

FIGURE 1.14

Create a payment item type to use on partially paid startup invoices.

5. On line 1 (or more if needed) of the customer invoice, enter your normal service or product item you sold to the customer. On the next available line, use the new Prior Year Payments item you created and enter the total of the customer's prior payments as a negative amount (see Figure 1.15). Click **Save & Close** if you are done or **Save & New** to create additional open customer invoices.


Create Invoices
Type a help question
Ask
How Do I?
Previous
Next
Spelling
History
Journal
Print Preview
Invoice
Add Time/Costs...
Apply Credits...
Let QuickBooks help you get your Invoice paid online by credit card.
Save & Close
Save & New
Clear

Customer:Job: Baker, Chris:Family Room

Template: Rock Castle Invoice

DATE: 12/31/2006

INVOICE #: 94

BILL TO:
Baker, Chris
415 W. Desert Bloom
Bayshore, CA 94326

SHIP TO:

TERMS: Net 30

DUE DATE: 01/30/2007

ITEM	DESCRIPTION	QUANT...	RATE	AMOUNT	Tax
Repairs	Repair work	20	35.00	700.00	Non
Prior Year Payments	Prior Year Payments		-200.00	-200.00	Non

Customer Message:

Tax: San Tomas (7.75%) 0.00

Total 500.00

☐ To be printed

☐ To be e-mailed

Customer Tax Code: Tax

Payments Applied 0.00

Balance Due 500.00

Memo:

FIGURE 1.15

Creating an invoice that was partially paid before the start date.

6. Verify that the Balance Due amount on the invoice form accurately matches the open invoice total from your prior accounting list or report.
7. Compare your QuickBooks A/R Aging Summary report to your open invoices startup list total. If the balances agree, go to step 8. If they do not agree, review either the Summary or Detail A/R Aging report and identify which customer(s) balances are incorrect.
8. When your totals agree, click **Banking, Use Register** and select the **Prior Year Payments** bank account.
9. To close the fictitious bank account balance to the Open Balance Equity account, enter the following on the next available line of the register.

   For the date, enter the day before your startup date. Optionally for the number, use the term ***Closing.*** In the payment column, enter the same dollar amount as the register total displayed prior to this transaction. In the **Account** field, select the QuickBooks-created equity account named **Opening Balance Equity**.
10. Click **Record** to save the transaction.

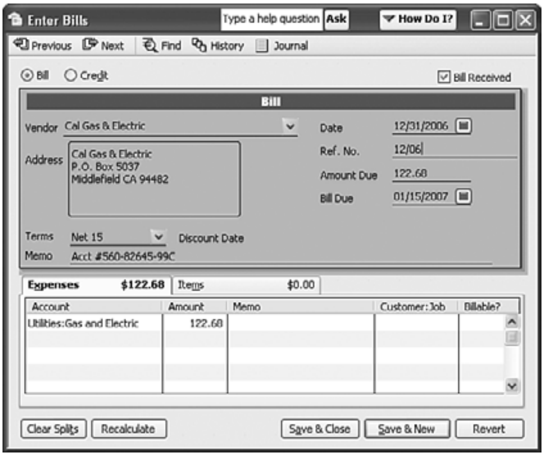
    Your Prior Year Payments bank register should now have a zero balance. (See Chapter 13, "Reviewing and Correcting the Opening Balance Equity Account.")

Cash or Accrual Basis Startup Transactions: Accounts Payable

Accounts Payable startup refers to those vendor bills that were not paid as of your start date. Presumably, these are the vendor bills that we would be paying out in our first month of using QuickBooks.

Correctly setting up the starting Accounts Payable balance is just as important to your financials as the setup in Accounts Receivable.

1. Click **Vendor, Enter Bills** to open a new blank bill form (see Figure 1.16).



● Bill ○ Credit ☑ Bill Received

Vendor: Cal Gas & Electric

Address:
Cal Gas & Electric
P.O. Box 5037
Middlefield CA 94482

Date: 12/31/2006

Ref. No.: 12/06

Amount Due: 122.68

Bill Due: 01/15/2007

Terms: Net 15

Discount Date

Memo: Acct #560-82645-99C

Expenses $122.68 | Items $0.00

Account	Amount	Memo	Customer:Job	Billable?
Utilities:Gas and Electric	122.68			

FIGURE 1.16

Enter a vendor bill that was unpaid at your start date.

2. Enter the bill **Date**. This date should be on or before your QuickBooks start date, and it is often the date on the vendor's bill you received.
3. Enter the vendor's bill number in the **Ref. No** field. This serves two important purposes: One is to optionally print the reference number on the bill payment stub that is sent to the vendor, and the other is that QuickBooks will warn you if a duplicate bill is later entered with the same Ref. No.
4. Enter a number in the **Amount Due** field, if you previously paid part of the bill; the amount should equal the balance remaining to be paid. (See the sidebar "Partially Paid Open Vendor Bills on Cash Basis Reporting.")
5. QuickBooks defaults the **Bill Due** date to the terms specified on the Additional Info tab in the Edit Vendor dialog; however, you can also override the Bill Due date on this screen, if necessary.
6. Click the **Expenses** tab and assign the appropriate expense account. If you are tracking costs by items, use the appropriate item on the **Item** tab. In accrual basis, the account or item selected is not as important because the expense was recorded on the vendor's bill date in your previous software or accounting method. For cash basis, it is most important because the cost is recorded to the expense account or item not when the bill is dated, but on the date of the bill payment check transaction, which should occur after the start date.
7. Click **Save & Close**.

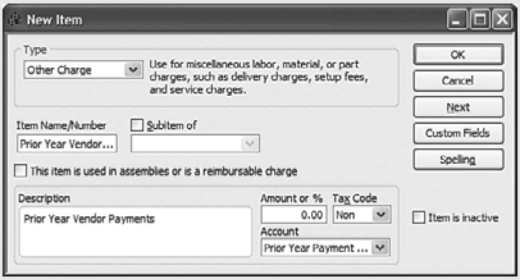
8. Click **Report, Vendors & Paybles** and choose the **A/P Aging Summary or Detail** and compare the totals with your previous accounting software or manual records.
9. If the open bills you are entering are for inventory, make sure you read the details in Chapter 10.

Partially Paid Open Vendor Bills on Cash Basis Reporting

To properly prepare reports on cash basis, you should perform additional steps for those open vendor bills that have partial payments as of your startup date. These steps are required if you want to accurately track your costs by item.

Use the Prior Year Payments bank account that you created in the previous set of steps. This temporary payment account is later closed to Opening Balance Equity, which is later closed to Retained Earnings. (Refer to Chapter 13 on closing Opening Balance Equity to Retained Earnings.)

1. Click **Lists, Item List**. The Item List dialog opens. Click the **Item** button and choose **New**. Select the **Other Charge** item type. In the Item Name/Number, type **Prior Year Vendor Payments** (see Figure 1.17). Assign it to the **Prior Year Payments** bank account by selecting it from the Account drop-down menu. (This account was created in the previous set of steps. See the sidebar "Partially Paid Open Customer Invoices on Cash Basis Reporting.") Click **OK** to save.



Type: Other Charge

Use for miscellaneous labor, material, or part charges, such as delivery charges, setup fees, and service charges.

Item Name/Number: Prior Year Vendor...

☐ Subitem of

☐ This item is used in assemblies or is a reimbursable charge

Description: Prior Year Vendor Payments

Amount or %: 0.00

Tax Code: Non

Account: Prior Year Payment ...

☐ Item is inactive

FIGURE 1.17

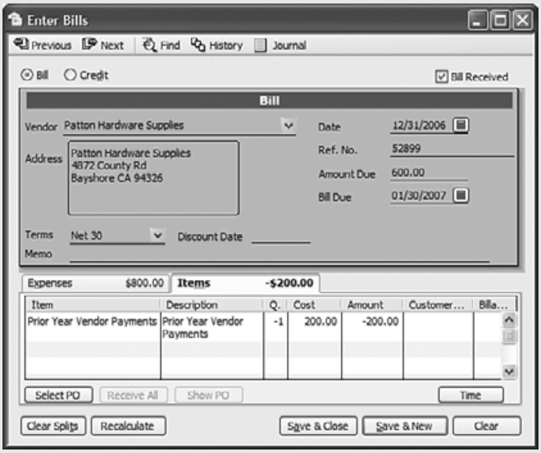
Create an Other Charge type item to record prior year vendor payments.

2. Follow steps 1 through 6 in the preceding section titled "Cash or Accrual Basis Startup Transactions: Accounts Payable" with

Continues...

the exception that you want to record the full amount of the original bill. You can use the **Expenses** tab and assign the appropriate expense account, or if you are tracking costs by item, use the **Items** tab and assign the correct item.

3. On the Items tab, add the Other Charge type item called **Prior Year Vendor Payments**. Enter a negative amount equal to the total of all previous bill payments (see Figure 1.18).



● Bill ○ Credit

☑ Bill Received

Vendor: Patton Hardware Supplies

Address:
Patton Hardware Supplies
4872 County Rd
Bayshore CA 94326

Date: 12/31/2006

Ref. No.: 52899

Amount Due: 600.00

Bill Due: 01/30/2007

Terms: Net 30

Discount Date:

Memo:

Expenses $800.00 | Items -$200.00

Item	Description	Q.	Cost	Amount	Customer...	Billa...
Prior Year Vendor Payments	Prior Year Vendor Payments	-1	200.00	-200.00		

FIGURE 1.18

Create an open vendor bill including any prior year vendor payment line detail.

4. Verify that the Amount Due amount on the Enter bill form accurately matches the open vendor invoice total from your previous software (or accounting method) report.
5. Compare your QuickBooks A/P Aging Summary report to the open vendor bill startup list total from your previous software. If the balances agree with each other, go to the next step. If they do not agree, review either the Summary or Detail A/P Aging report and identify which vendor(s) balances are incorrect and make the needed changes.
6. When the totals of your prior accounting Payables agree with the new QuickBooks A/P summary report, click **Banking, Use Register** and select the **Prior Year Payments** fictitious bank account.

7. On the next available register line, enter the day before your startup date and the word **`Closing`** for the number. In the Deposit column, enter the total amount you see in the balance column of this register. In the Account field, select the QuickBooks-created equity account named **Opening Bal Equity**.

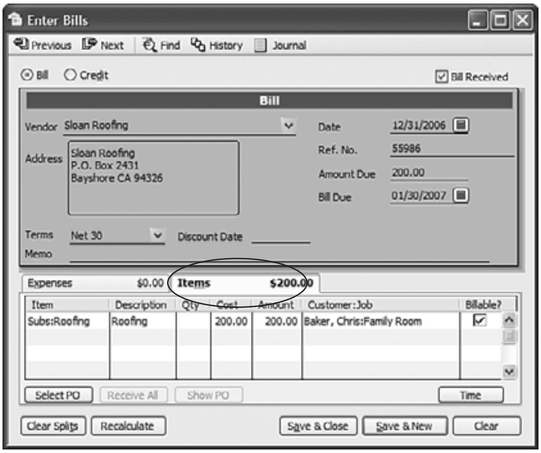
   Click **Record** to save your transaction. When completed, your fictitious Prior Year Payments account will have a zero balance. (Refer to Chapter 13 for more information.)

Digging Deeper

See Table 1.2 for details on how a Profit & Loss statement is affected in both accrual and cash basis for each QuickBooks transaction.

Digging Deeper

If your vendor bill, vendor credit, or check is for a Customer:Job for which you created an estimate and you want to track using the Job Profitability reports, you need to enter your cost detail on the Items tab. You can access the Items tab on any New or Edit vendor bill, vendor credit, or check form by selecting the Items tab, as shown in Figure 1.19.



● Bill ○ Credit

☑ Bill Received

Bill

Vendor Sloan Roofing

Address
Sloan Roofing
P.O. Box 2431
Bayshore CA 94326

Date 12/31/2006

Ref. No. 55986

Amount Due 200.00

Bill Due 01/30/2007

Terms Net 30

Discount Date

Memo

Expenses $0.00

Items $200.00

Item	Description	Qty	Cost	Amount	Customer:Job	Billable?
Subs:Roofing	Roofing		200.00	200.00	Baker, Chris:Family Room	☑

FIGURE 1.19

Create a vendor bill using items for proper Customer and Job profitability reporting.

Cash or Accrual Basis Startup Transactions: Bank Account Statement Balance

In addition to setting up the Accounts Payable and Receivable startup transactions, you also must record the balance the bank had on record as of the start date. Having accurate information is necessary when you are ready to reconcile the bank account in QuickBooks to the bank's records.

Digging Deeper

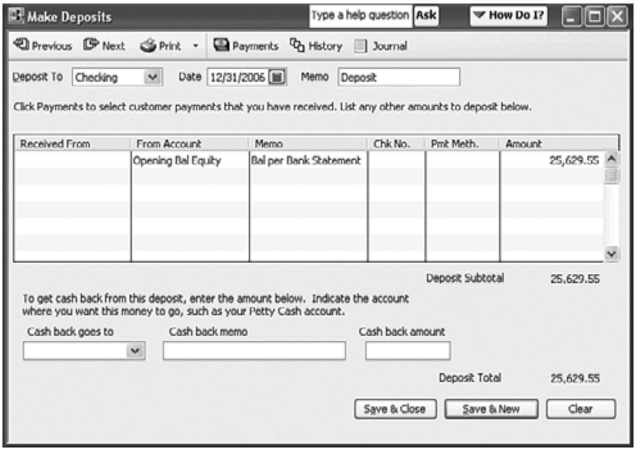
If you completed the new bank information in the EasyStep Interview, you might have already entered your statement ending balance.

Click Banking, Use Register and select your bank account to open the register. If you have a balance in the register, check to see that it agrees with your bank balance as of the start date in QuickBooks. If the amount has a memo of Opening Balance, you can be sure it was probably created during the EasyStep Interview process.

If the amount is correct and agrees with your bank's statement ending balance, you are fine. If not, double-click the transaction and edit the amount. Otherwise, use the steps listed in this section for entering your opening bank balance.

To create your beginning bank balance:

1. Click **Banking, Make Deposits** to record your bank statement balance (if a positive balance).
2. In the **Deposit To** field, enter your bank account from your chart of accounts list. The Date should be the same as your bank statement ending date, usually the day before your QuickBooks start date.
3. Assign **Opening Bal Equity** to the **From Account** column (see Figure 1.20). The balance really belongs in Retained Earnings, but posting it here first gives you a chance to make sure the opening entries for your cash account are correct. (See Chapter 13 for a complete discussion on closing the Opening Balance Equity account to Retained Earnings.)



Deposit To: Checking Date: 12/31/2006 Memo: Deposit

Click Payments to select customer payments that you have received. List any other amounts to deposit below.

Received From	From Account	Memo	Chk No.	Pmt Meth.	Amount
	Opening Bal Equity	Bal per Bank Statement			25,629.55

Deposit Subtotal 25,629.55

To get cash back from this deposit, enter the amount below. Indicate the account where you want this money to go, such as your Petty Cash account.

Cash back goes to:
Cash back memo:
Cash back amount:

Deposit Total 25,629.55

FIGURE 1.20

Entering the statement ending balance from the bank.

4. Enter an optional **Memo**.
5. Enter the **Amount**. The amount recorded here is the ending balance from the bank statement just before your QuickBooks start date. This amount *should not* include any uncleared checks or deposits that have not cleared the bank funds yet.
6. Click **Save & Close** to record the transaction.

If you have outstanding deposits that did not clear your bank funds, the way you enter them depends on the basis of accounting used:

- Accrual basis users create the deposit(s) using the same steps as outlined for entering the beginning bank balance and date the transactions before the start date.
- Cash basis users click Customers, Receive Payment and apply the deposit to an open invoice, which you created earlier in this chapter. Date this transaction *on* or *after* your start date

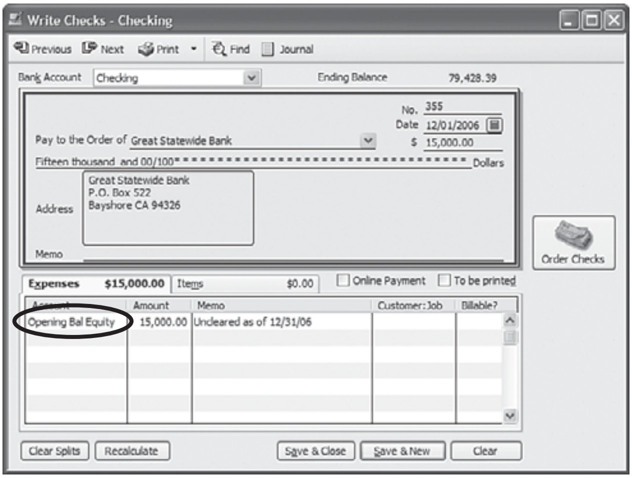
If your bank account had a negative balance as of your start day, you might also use a check form to record that amount.

Cash or Accrual Basis Startup Transactions: Checking Uncleared Bank Checks

You are almost done with the startup entries. The last thing to do is to record the checking account's uncleared checks and debits, as shown in Figure 1.21.

To complete the startup process for your banking transactions, follow these instructions to create your uncleared checks:

1. Click Banking, Write Checks.
2. Enter the actual check number that was issued in the **No.** field.
3. Enter the date of the original check in the **Date** field, which should be before the start date.
4. Select the payee from the Payee drop-down menu.
5. Enter the amount of the check.
6. Enter the **Opening Bal Equity** account on the Expenses tab (see Figure 1.21). (This account is used because in both accrual and cash basis reporting, the check expense amount was included in our prior software or accounting method Profit & Loss totals.)
7. Click **Save & Close** or **Save & New** until you are completed with this task.



Bank Account: Checking
Ending Balance: 79,428.39
No. 355
Date 12/01/2006
Pay to the Order of Great Statewide Bank
$ 15,000.00
Fifteen thousand and 00/100********************************** Dollars
Address: Great Statewide Bank
P.O. Box 522
Bayshore CA 94326
Memo
Expenses $15,000.00
Items $0.00

Account	Amount	Memo	Customer:Job	Billable?
Opening Bal Equity	15,000.00	Uncleared as of 12/31/06		

FIGURE 1.21
Entering a check that was not cashed by the bank as of the start date.

To verify the accuracy of the information, click Reports, Company & Financial, Balance Sheet Standard and set the date to be one day before your start date. Your bank account balance(s) should be equal to Bank Statement Ending Balance plus Outstanding (uncleared) Deposits less Outstanding (uncleared) Checks.

Chapter 2

Reviewing the QuickBooks Chart of Accounts

- Understanding the Chart of Accounts
- Importing a Chart of Accounts
- Preferences That Affect the Chart of Accounts
- Accounts That QuickBooks Creates Automatically
- Methods to Troubleshoot and Correct Chart of Account Issues

Understanding the Chart of Accounts

The chart of accounts is a list of asset, liability, 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. If this list is created properly, you can capture information in a timely manner that will help you make good financial and management decisions for the business.

Understanding the chart of accounts isn't complicated; there are six standard accounting categories: assets, liabilities, equity, income, cost of goods sold, and expense.

Assets

Assets include items 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 fluid the asset is, or in simple terms how quickly you can turn the asset into cash:

- Bank—You use this account type to track your cash in and out of the business. This account type (in addition to the credit card account type) is the only account type that you can select as the payment account in the Pay Bills or Write Checks dialog.
- 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 form or when receiving a customer payment. You can create more than one Accounts Receivable type account if you want.
- 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 deposits to be totaled together on one deposit ticket.
- Fixed Asset—This account type shows purchases of goods or materials that will be used by the business long term in generating revenue. Accumulated Depreciation totals are also held in this account type as a negative fixed asset.
- Other Assets—User-defined other asset accounts are created in this section.

Liabilities

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

- Accounts Payable—This account type is reserved for the QuickBooks Accounts Payable account where vendor bills and bill payments reside.
- Credit Cards—Optionally, users can use this grouping to track the charges and payments made against a company credit card. One benefit is that you can reconcile this account like you do your bank account and download your credit card transactions directly into your data.
- Other Current Liability—This is debt that is expected to be paid within one year. This grouping includes the QuickBooks-created Payroll Liabilities and Sales Tax Payable, 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 owner's (or owners') residual interest in the business after the liabilities are paid. Accounts for this section include Common Stock; Owner's Investments and Draws; Retained Earnings; and Open Bal Equity, an account created by QuickBooks that is discussed in more detail in Chapter 13, "Reviewing and Correcting the Opening Balance Equity Account."

Income

Money that is 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. Other categories include Other Income, or income that is generated from the sale of a product or service not normal to your operations.

Cost of Goods Sold

The Cost of Goods Sold account is for costs that are *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.

Digging Deeper

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 have a COGS account for each cost type, use the Item List. Select Lists, Item List to open the Item List dialog. Click Item, New and create an item for each cost type, assigning the Cost of Goods Sold account. 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 created during the EasyStep Interview provides 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). When you review your costs, these additional groupings make easy work of determining which costs you have more control over.

You can also categorize expenses as an Other Expense, which is an expense that is not normal to your operations.

Importing a Chart of Accounts

Are you familiar with Excel? Does your accountant have a preferred chart of accounts? Create the list in Excel with a few required fields. Then import the list into your QuickBooks data file. Before performing any import, it is recommended that you make a backup of your data file. The import is not reversible!

Importing from an Excel File Format

Rescue Me!

When importing your chart of accounts from an Excel file format into a data file with an existing chart of accounts, you might encounter some import errors. However, the import tool provides a preview window that identifies whether any errors or duplications are expected with the import. If errors are detected in the import, QuickBooks gives you a dialog asking whether you want to save the error log file. A .csv log file is created that you can review for a line-by-line detail of the errors.

For accountants, the ability to import an existing chart of accounts from an Excel worksheet makes sharing a common chart of accounts with multiple clients easy.

Create a spreadsheet in Excel, shown in Figure 2.1, with the following fields:

- Type—This field is required. It refers to account categories and subcategories in QuickBooks. The spelling must be exactly like the QuickBooks account type.

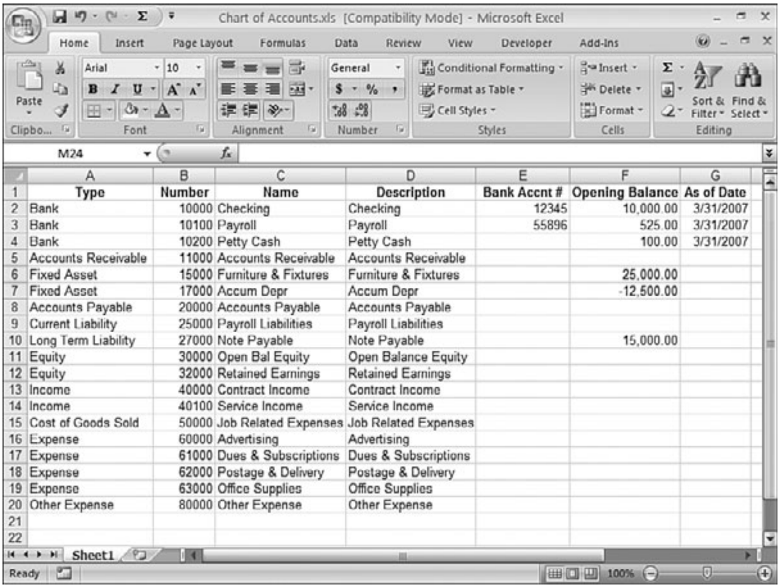


Chart of Accounts.xls [Compatibility Mode] - Microsoft Excel
Home
Insert
Page Layout
Formulas
Data
Review
View
Developer
Add-Ins
Paste
Arial
10
General
Conditional Formatting
Format as Table
Cell Styles
Insert
Delete
Format
Sort & Filter
Find & Select
Clipbo...
Font
Alignment
Number
Styles
Cells
Editing
M24
Sheet1
Ready
100%

Type	Number	Name	Description	Bank Accnt #	Opening Balance	As of Date
Bank	10000	Checking	Checking	12345	10,000.00	3/31/2007
Bank	10100	Payroll	Payroll	55896	525.00	3/31/2007
Bank	10200	Petty Cash	Petty Cash		100.00	3/31/2007
Accounts Receivable	11000	Accounts Receivable	Accounts Receivable			
Fixed Asset	15000	Furniture & Fixtures	Furniture & Fixtures		25,000.00	
Fixed Asset	17000	Accum Depr	Accum Depr		-12,500.00	
Accounts Payable	20000	Accounts Payable	Accounts Payable			
Current Liability	25000	Payroll Liabilities	Payroll Liabilities			
Long Term Liability	27000	Note Payable	Note Payable		15,000.00	
Equity	30000	Open Bal Equity	Open Balance Equity			
Equity	32000	Retained Earnings	Retained Earnings			
Income	40000	Contract Income	Contract Income			
Income	40100	Service Income	Service Income			
Cost of Goods Sold	50000	Job Related Expenses	Job Related Expenses			
Expense	60000	Advertising	Advertising			
Expense	61000	Dues & Subscriptions	Dues & Subscriptions			
Expense	62000	Postage & Delivery	Postage & Delivery			
Expense	63000	Office Supplies	Office Supplies			
Other Expense	80000	Other Expense	Other Expense			

FIGURE 2.1

An Excel worksheet created to import a chart of accounts into QuickBooks.

- Number—This field is optional and is the account number assigned in the Add New Account or Edit Account dialog. Using account numbers is optional in QuickBooks. See the section titled "Preferences That Affect the Chart of Accounts," later in this chapter, for information about account numbering preferences.
- Name—This field is required. You can set default preferences in QuickBooks for including name only, description only, or name and description on reports.

- Description—This field is optional. You can set default preferences in QuickBooks for including name only, description only, or name and description on reports. For more information about the appearance of the description on reports, see Chapter 16, "Reporting Tips and Tricks."
- Bank Account/Credit Card/Account Number—This field is optional and contains the account's number assigned by its holding institution.
- Opening Balance—This field is optional. If you enter a balance in this field, QuickBooks debits or credits the account, with the offset going to the Open Bal Equity account. If you do not enter any value, no transaction is created.

Rescue Me!

QuickBooks does not import from a spreadsheet a balance for Accounts Receivable or Accounts Payable type accounts due primarily to the one customer, one vendor per journal entry limitation. In general, I do not recommend using the Opening Balance column for beginning balances unless the import is supervised by an accounting professional who can review the resulting information for accuracy.

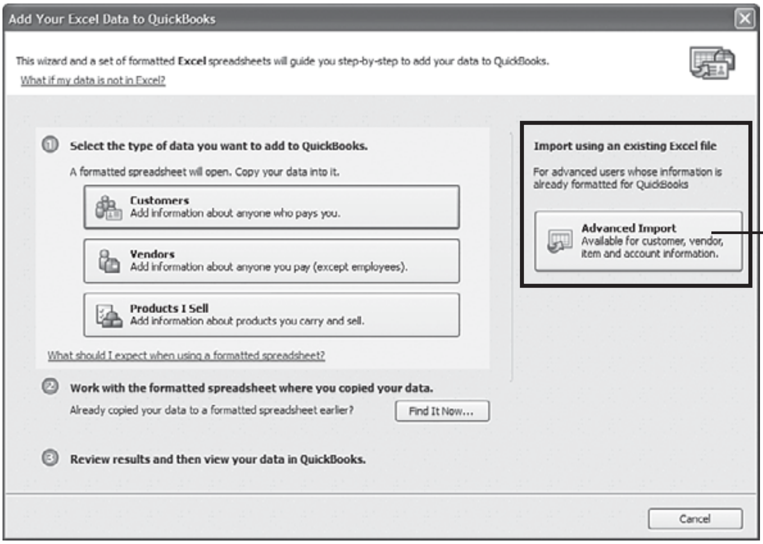
- As of Date—This field is optional. This is the date assigned to the transaction created when a value is placed in the opening balance column. If no date is entered and an opening balance amount was recorded, QuickBooks defaults the transaction date to today's computer system date.

Other fields you can include are reminder to order checks, track reimbursed income, income account for reimbursed expenses, and an option to mark the account as inactive in QuickBooks.

To import the list, you first must map the Excel column data to the appropriate QuickBooks data field.

From a new QuickBooks data file:

1. Click **File**, **Utilities**, and select **Import**, **Excel Files**. The Add Your Excel Data to QuickBooks dialog opens.
2. Select the **Advanced Import** button on the right, as shown in Figure 2.2.
3. In the **Import a File** dialog, browse to the file location where you stored the Excel document.
4. Select the Excel workbook sheet that you want to import.
5. Indicate whether there is a header row by clicking the check box.



This wizard and a set of formatted **Excel** spreadsheets will guide you step-by-step to add your data to QuickBooks.

What if my data is not in Excel?

① **Select the type of data you want to add to QuickBooks.**

A formatted spreadsheet will open. Copy your data into it.

Customers Add information about anyone who pays you.

Vendors Add information about anyone you pay (except employees).

Products I Sell Add information about products you carry and sell.

What should I expect when using a formatted spreadsheet?

② **Work with the formatted spreadsheet where you copied your data.**

Already copied your data to a formatted spreadsheet earlier?

③ **Review results and then view your data in QuickBooks.**

Import using an existing Excel file

For advanced users whose information is already formatted for QuickBooks

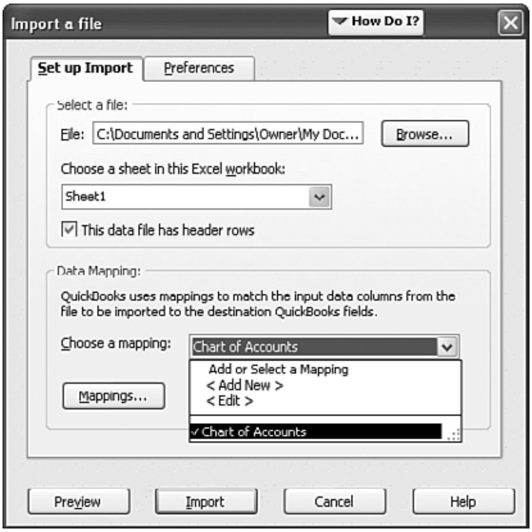
Advanced Import Available for customer, vendor, item and account information.

Select the Advanced Import

FIGURE 2.2

Released with QuickBooks 2008; the Add Your Excel Data to QuickBooks Wizard helps users import lists from Excel, including the Chart of Accounts.

6. Choose a mapping. If this is your first mapping, click < **Add New** >. If you are editing a previously saved mapping, select < **Edit** >, or if you have stored a previously created mapping, the name you gave it displays at the bottom of the drop-down list and you can select it here (see Figure 2.3). After selecting the mapping, a dialog opens, enabling you to change how the imported data will be assigned in QuickBooks.
7. After the mapping dialog is open (see previous step), you select the Import Type (Customers, Vendors, Items, or Accounts). QuickBooks lists on the left those fields in QuickBooks that you can populate with information from Excel. On the right side of the Mappings dialog, you see the column headers as you defined them in Excel. Select which column is assigned to which QuickBooks data field (see Figure 2.4).
8. Select the **Preview** item on the lower left of the Import a File dialog to review the data for any errors. Figure 2.5 shows the type name changed to Checking, and the import tool reported it as an invalid account type.


Import a file
How Do I?
Set up Import
Preferences
Select a file:
Browse...
Data Mapping:
Add or Select a Mapping
< Add New >
< Edit >
✓ Chart of Accounts
Mappings...
Preview
Import
Cancel
Help

File: C:\Documents and Settings\Owner\My Doc...

Choose a sheet in this Excel workbook: Sheet1

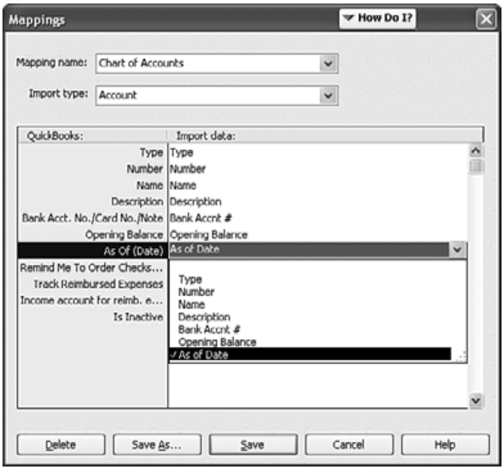
☑ This data file has header rows

QuickBooks uses mappings to match the input data columns from the file to be imported to the destination QuickBooks fields.

Choose a mapping: Chart of Accounts

FIGURE 2.3

Choose a Mapping enables you to add a new mapping or edit a saved mapping.


Mappings
How Do I?
Type
Number
Name
Description
Bank Accnt #
Opening Balance
✓ As of Date
Delete
Save As...
Save
Cancel
Help

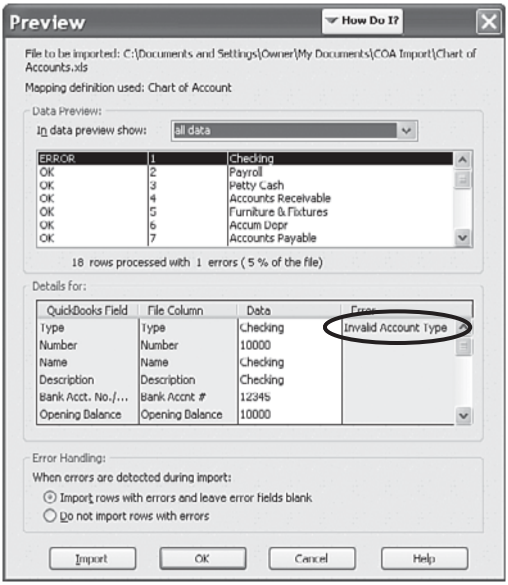
Mapping name: Chart of Accounts

Import type: Account

QuickBooks:	Import data:
Type	Type
Number	Number
Name	Name
Description	Description
Bank Acct. No./Card No./Note	Bank Accnt #
Opening Balance	Opening Balance
As Of (Date)	As of Date
Remind Me To Order Checks...	
Track Reimbursed Expenses	
Income account for reimb. e...	
Is Inactive	

FIGURE 2.4

Setting the mapping rules for this saved mapping.



File to be imported: C:\Documents and Settings\Owner\My Documents\COA Import\Chart of Accounts.xls

Mapping definition used: Chart of Account

In data preview show: all data

ERROR	1	Checking
OK	2	Payroll
OK	3	Petty Cash
OK	4	Accounts Receivable
OK	5	Furniture & Fixtures
OK	6	Accum Depr
OK	7	Accounts Payable

18 rows processed with 1 errors (5 % of the file)

QuickBooks Field	File Column	Data	Error
Type	Type	Checking	Invalid Account Type
Number	Number	10000	
Name	Name	Checking	
Description	Description	Checking	
Bank Acct. No./...	Bank Accnt #	12345	
Opening Balance	Opening Balance	10000	

When errors are detected during import:

● Import rows with errors and leave error fields blank

○ Do not import rows with errors

FIGURE 2.5

Preview the import before actually importing the data.

Rescue Me!

Clicking the Preview button enables you to see whether the information will import correctly.

Using the correct types is critical to the success of the import. QuickBooks recognizes these types:

- BANK
- AR (for Accounts Receivable)
- OCASSET (for Other Current Asset)
- FIXASSET (for Fixed Asset)
- OASSET (for Other Asset)
- AP (for Accounts Payable)
- CCARD (for Credit Card)
- OCLIAB (for Other Current Liability)
- LTLIAB (for Long Term Liability)
- EQUITY
- INC (for Income)
- COGS (for Cost of Goods Sold)

- EXP (for Expense)
- EXINC (for Other Income)
- EXEXP (for Other Expense)
- NONPOSTING (for Sales Orders, Estimates, and Purchase Orders)

If you do not include a type or you have an unrecognized type, QuickBooks provides an error log from the Preview window. Refer to Figure 2.5, where the term Checking was put in the account type instead of the proper term Bank.

Importing from Excel can be an easy method to use when you want to use a chart of accounts list from your accountant or want the flexibility of creating it in the Excel program. However, other options offer similar functionality, including the IIF format file.

Importing from an Intuit Interchange Format (IIF) File

The term *Intuit Interchange Format (IIF)* refers to data exchange functionality that has been around for some time. It is a method for exporting lists from one QuickBooks data file and importing these lists (not transactions) into a new QuickBooks data file. The process creates a comma-separated value format file with the extension of .iif. You can view and edit this file using Excel.

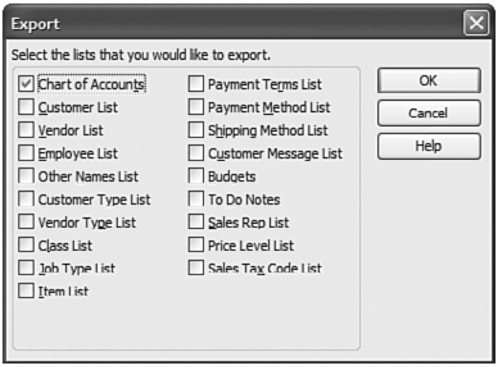
The most common use for this tool is to export lists from one QuickBooks data file to a new QuickBooks data file. The process is easy and relatively error free. Other uses for the tool include transaction imports. This book does not cover this topic; however, you can find more information about this utility by typing **IIF** in the search field at www.quickbooks.com\support\.

The IIF format is a preferred and easy method to use if you already have a QuickBooks data file with a chart of accounts (or other lists) that you want to duplicate.

The only disadvantage to working with an IIF format file is all the extra information that is in the worksheet, making it awkward to edit or add to the existing information.

Perform the following steps to export an IIF-formatted chart of accounts file from an existing QuickBooks file:

1. Click **File**, **Open** to open the QuickBooks file that has the chart of accounts (or other lists) that you want to export and duplicate in another file.
2. Click **File**, **Utilities**, select **Export**, **Lists to IIF Files**.
3. Select **Chart of Accounts** by clicking to place a check mark in the box, as shown in Figure 2.6.



Select the lists that you would like to export.

☑ Chart of Accounts
☐ Customer List
☐ Vendor List
☐ Employee List
☐ Other Names List
☐ Customer Type List
☐ Vendor Type List
☐ Class List
☐ Job Type List
☐ Item List
☐ Payment Terms List
☐ Payment Method List
☐ Shipping Method List
☐ Customer Message List
☐ Budgets
☐ To Do Notes
☐ Sales Rep List
☐ Price Level List
☐ Sales Tax Code List

FIGURE 2.6

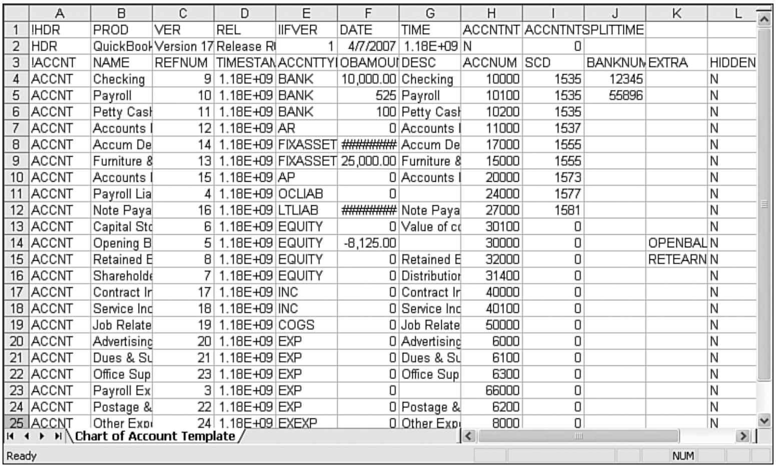
The Export dialog shows choices of lists available for export.

Digging Deeper

Creating individual IIF files for each of the master lists you want to export is preferred to creating one combined file. In other words, create one file for your Chart of Accounts separate from a file for Vendors or Customers. This way, if one list has trouble importing, it won't prevent the other lists from importing.

4. Click **OK**; you are prompted to save the file.

Figure 2.7 shows the exported QuickBooks chart of accounts in the IIF format in an Excel workbook. You can see that it is not as user friendly as the Excel import discussed previously.



	A	B	C	D	E	F	G	H	I	J	K	L
1	!HDR	PROD	VER	REL	IIFVER	DATE	TIME	ACCNTNT	ACCNTNTSPLITTIME			
2	HDR	QuickBook	Version 17	Release R	1	4/7/2007	1.18E+09	N	0			
3	!ACCNT	NAME	REFNUM	TIMESTAN	ACCNTTYI	OBAMOUI	DESC	ACCNUM	SCD	BANKNUM	EXTRA	HIDDEN
4	ACCNT	Checking	9	1.18E+09	BANK	10,000.00	Checking	10000	1535	12345		N
5	ACCNT	Payroll	10	1.18E+09	BANK	525	Payroll	10100	1535	55896		N
6	ACCNT	Petty Cash	11	1.18E+09	BANK	100	Petty Cash	10200	1535			N
7	ACCNT	Accounts I	12	1.18E+09	AR	0	Accounts I	11000	1537			N
8	ACCNT	Accum De	14	1.18E+09	FIXASSET	########	Accum De	17000	1555			N
9	ACCNT	Furniture &	13	1.18E+09	FIXASSET	25,000.00	Furniture &	15000	1555			N
10	ACCNT	Accounts I	15	1.18E+09	AP	0	Accounts I	20000	1573			N
11	ACCNT	Payroll Lia	4	1.18E+09	OCLIAB	0		24000	1577			N
12	ACCNT	Note Paya	16	1.18E+09	LTLIAB	########	Note Paya	27000	1581			N
13	ACCNT	Capital Stc	6	1.18E+09	EQUITY	0	Value of cc	30100	0			N
14	ACCNT	Opening B	5	1.18E+09	EQUITY	-8,125.00		30000	0		OPENBAL	N
15	ACCNT	Retained E	8	1.18E+09	EQUITY	0	Retained E	32000	0		RETEARN	N
16	ACCNT	Shareholde	7	1.18E+09	EQUITY	0	Distributior	31400	0			N
17	ACCNT	Contract Ir	17	1.18E+09	INC	0	Contract Ir	40000	0			N
18	ACCNT	Service Inc	18	1.18E+09	INC	0	Service Inc	40100	0			N
19	ACCNT	Job Relate	19	1.18E+09	COGS	0	Job Relate	50000	0			N
20	ACCNT	Advertising	20	1.18E+09	EXP	0	Advertising	6000	0			N
21	ACCNT	Dues & Su	21	1.18E+09	EXP	0	Dues & Su	6100	0			N
22	ACCNT	Office Sup	23	1.18E+09	EXP	0	Office Sup	6300	0			N
23	ACCNT	Payroll Ex	3	1.18E+09	EXP	0		66000	0			N
24	ACCNT	Postage &	22	1.18E+09	EXP	0	Postage &	6200	0			N
25	ACCNT	Other Exp	24	1.18E+09	EXEXP	0	Other Exp	8000	0			N

FIGURE 2.7

A chart of accounts IIF format file.

Rescue Me!

The IIF file format is sensitive to changes in rows and columns. I recommend not changing the order or width of rows and columns when editing or adding data. Additionally, the file has several header rows that cannot be removed if the import tool is to work correctly when you import it with the IIF import menu option.

To import the saved IIF file into a new QuickBooks file, do the following:

1. Click **File**, **Open** to see the new QuickBooks file, preferably one that does not have a chart of accounts or other list types you are importing. (Importing into a file with an existing chart of accounts is possible. QuickBooks will reject the remaining portion of the import duplicate account number or name is detected.)

   If you have not already created your new file, click **File**, **New** and follow the prompts. (See Chapter 1, "Creating a New QuickBooks Data File," for more information on using the EasyStep Interview to create a new QuickBooks data file.)
2. Click **File**, **Utilities**, and select **Import**, **IIF Files**.
3. When the Import dialog opens, browse to the location of the stored IIF formatted file.
4. With your mouse pointer, select the file and click on **Open**.
5. QuickBooks then imports the IIF formatted file into the QuickBooks data file.

Now that you have your new data file with new lists from another file, you are ready to begin entering transactions. Just think of all the time you saved by not having to manually create each list item in the new file.

Preferences That Affect the Chart of Accounts

Using specific preferences, you can modify much of how the QuickBooks features work. Click Edit, Preferences and select the Accounting preference. Next, click the Company Preferences tab.

Here is a list of the preferences that affect the chart of accounts. They are all found in the Accounting preferences section.

- Use account numbers—Selecting this option turns on the data field that holds a numeric assignment for each chart of accounts. By default, this feature is *not* selected in a newly created QuickBooks file.

Digging Deeper

For accounts that had an account number assigned, *not* selecting the Use Account Numbers option does not remove the account number; it simply makes the field not visible. For accountants, turn on the feature and assign your desired account numbers, and then turn the feature off when the file is returned to your client. When you review the file again, any accounts created since your last review will not have an account number, which makes locating them easy.

This is only one method you can use. For clients that have QuickBooks 2009, the new Client Data Review (CDR) feature, available for accountants with QuickBooks Premier Accountant 2009, will track any changes made to the chart of accounts including added, renamed, deleted, or merged to name a few. See Chapter 17, "Detecting and Correcting with the Client Data Review Feature."

- Show lowest subaccount only—If you have created a subaccount listing under a main (parent) listing, any drop-down menu will show only the lowest subaccount level, preventing users from posting to the main account.

Digging Deeper

If you see a subaccount under a main account on a report called Other, it might be due to someone posting to the main (or parent) account rather than to the appropriate subaccount.

- Require accounts—By default, this feature is selected in a newly created QuickBooks file. If this feature is not selected, any transactions saved without an appropriate income or expense account will be posted to a QuickBooks automatically created uncategorized income or uncategorized expense account. This process follows the rule that there must always be a debit and credit side to each transaction. Fortunately, you do not have to know how to post a debit or credit because QuickBooks does this thinking for you with each transaction.

Accounts That QuickBooks Creates Automatically

Although you are given quite a bit of flexibility in creating the chart of accounts using a variety of methods, QuickBooks creates certain accounts that are hard-coded into the programming of the software, meaning you do not need to create them yourself.

A common mistake is to create these accounts, not recognizing that they were already created or will be created when the related form is chosen.

I usually tell my clients to accept the default chart of accounts because they can be modified at anytime. Even if you select None/Other during the EasyStep Interview when creating a chart of accounts, specific accounts in QuickBooks are automatically created. These accounts follow:

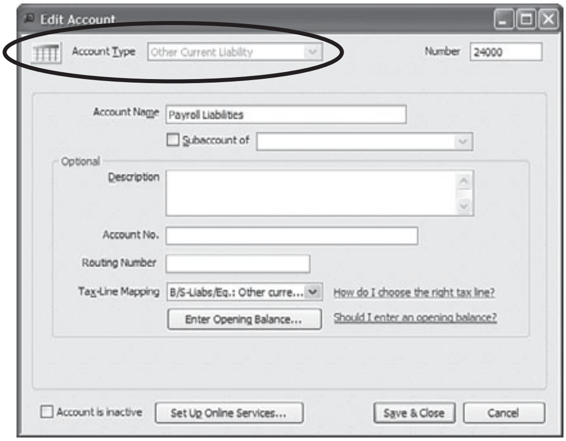
- Payroll Liabilities (Other Current Liability)
- Capital Stock (Equity)
- Opening Bal Equity (Equity)
- Retained Earnings (Equity)
- Shareholder Distributions (Equity)
- Payroll Expenses (Expense)

The specific default chart of accounts that QuickBooks creates varies depending on the type of entity you selected when creating your data file. For example, if you selected Sole Proprietor on the “How is your company organized” dialog as shown in Figure 1.3, QuickBooks will create an Owners Draw and Owners Equity, but no Capital Stock or Shareholder Distributions.

Additionally, if you selected None/Other during the EasyStep Interview when presented with a list of industry-specific chart of accounts, QuickBooks creates the following accounts only when the associated form or transaction is used or a related preference is selected:

- Inventory Asset (Asset)—Inventory item created
- Accounts Receivable (Asset)—Invoice form opened
- Sales Tax Payable (Liability)—Sales Tax preference enabled
- Accounts Payable (Liability)—Vendor bill form opened
- Purchase Orders (Non-Posting)—Purchase Order form opened
- Estimates (Non-Posting)—Estimate form opened

To determine whether an account was created by QuickBooks, edit the account in question; if the Account Type field is not active (grayed out), this account was automatically created by QuickBooks (see Figure 2.8).


Edit Account
Subaccount of
Optional
Description
Account No.
Routing Number
How do I choose the right tax line?
Enter Opening Balance...
Should I enter an opening balance?
☐ Account is inactive
Set Up Online Services...
Save & Close
Cancel

Account Type: Other Current Liability

Number: 24000

Account Name: Payroll Liabilities

Tax-Line Mapping: B/S-Liabs/Eq.: Other curre...

FIGURE 2.8

In the Edit Account dialog box, if Account Type is grayed out, this account was created by QuickBooks.

Methods to Troubleshoot and Correct Chart of Account Issues

When searching for reasons why your financial statements do not appear correct, the first place to look is often the chart of accounts. It is also important to carefully consider the impact of the change on your financials and make sure you choose the right method for correction.

There are many ways to resolve errors found on the chart of accounts. However, before attempting any of the suggested methods here, you should consider the following:

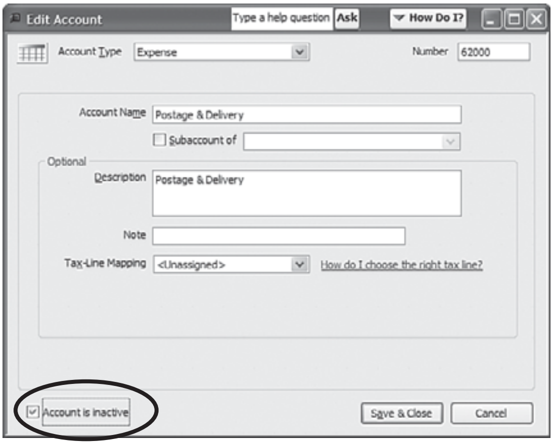
- The effect the change could have on prior-period financials
- The effect the change could have on previously recorded transactions
- The impact the changes would have on the records your accountant has kept for the company

A quick review of the chart of accounts should include the following:

- Duplicated accounts
- Unnecessary accounts (too much detail)
- Accounts placed in the wrong account type category
- Misplaced subaccounts

Removing Duplicated Accounts by Marking an Account Inactive

Marking an account inactive is usually the best choice when you have duplicate or extra list items on your chart of accounts (see Figure 2.9). Making an account inactive removes it from any drop-down list on any forms. However, for reporting periods where the account has a value, any reports generated for this time period includes the inactive account balance.



Account Type: Expense
Number: 62000
Account Name: Postage & Delivery
☐ Subaccount of
Description: Postage & Delivery
Note:
Tax-Line Mapping: <Unassigned>
☑ Account is inactive

FIGURE 2.9

Select the Account is inactive check box to remove the list item from any drop-down menus.

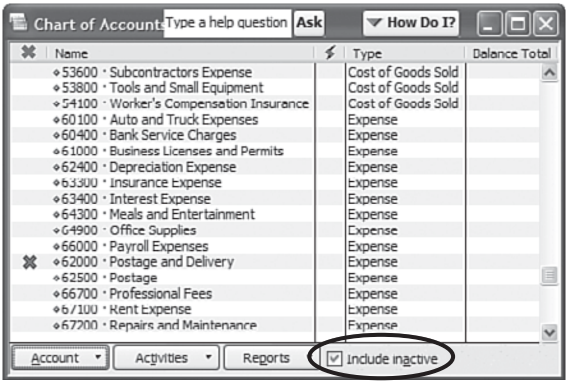
Digging Deeper

In earlier versions of QuickBooks, you might have accounts that have an asterisk (*) in front of the name to indicate a duplicate account name. This situation usually only happens when you did not select to use one of the sample charts of accounts. QuickBooks has certain accounts that it creates automatically. For example, if you did not select a sample default chart of accounts and created your own Accounts Receivable account, later when you opened a customer invoice form, QuickBooks created the Accounts Receivable account but recognized that one existed with the same name. You should merge your created account (the one without the *) into the QuickBooks-created account. See the later section titled "Merging Duplicated Accounts" for instructions on how to merge two like accounts.

Digging Deeper

Need to mark several accounts as inactive? Simply select the Include inactive check box at the bottom of the Chart of Accounts list (after at least one account is inactive), as shown in Figure 2.10. You can mark any list item you want to become inactive by clicking in front of the list item name.

If you try to use an inactive account, QuickBooks will ask you if want to "Use it once" or "Make it active."



✖	Name	⚡	Type	Balance Total
	◆53600 · Subcontractors Expense		Cost of Goods Sold	
	◆53800 · Tools and Small Equipment		Cost of Goods Sold	
	◆54100 · Worker's Compensation Insurance		Cost of Goods Sold	
	◆60100 · Auto and Truck Expenses		Expense	
	◆60400 · Bank Service Charges		Expense	
	◆61000 · Business Licenses and Permits		Expense	
	◆62400 · Depreciation Expense		Expense	
	◆63300 · Insurance Expense		Expense	
	◆63400 · Interest Expense		Expense	
	◆64300 · Meals and Entertainment		Expense	
	◆64900 · Office Supplies		Expense	
	◆66000 · Payroll Expenses		Expense	
✖	◆62000 · Postage and Delivery		Expense	
	◆62500 · Postage		Expense	
	◆66700 · Professional Fees		Expense	
	◆67100 · Rent Expense		Expense	
	◆67200 · Repairs and Maintenance		Expense	

☑ Include inactive

FIGURE 2.10

Easily mark accounts inactive from the Chart of Accounts dialog box.

Merging Duplicated Accounts

Another method to remove duplicated accounts is to merge the similar accounts. To perform a chart of accounts merge, both accounts must be in the same chart of accounts category; in other words, you cannot merge an Asset with a Liability type account.

Before merging accounts, be sure to perform a backup of your data, just in case the result is not what you expected. When the accounts are merged, all transactions previously assigned to the removed account now appear as if they were always assigned to the remaining account.

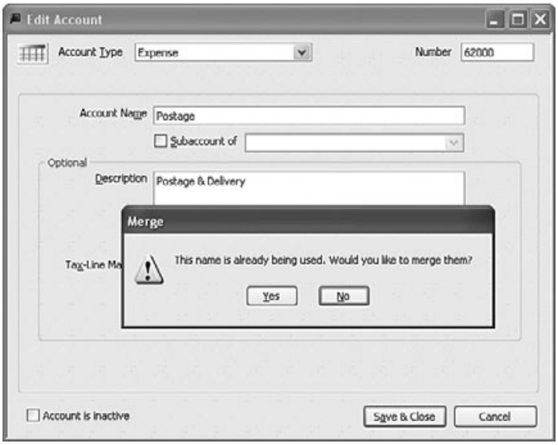
Rescue Me!

This method potentially changes your financials and should be cautiously performed only after you have discussed the effect with the company's accountant and made a backup of the data file.

To merge two accounts, do the following:

1. Click **Lists**, **Chart of Accounts** and highlight the account you want to remove with the merge. With the account highlighted, press Ctrl+E on your keyboard to open the Edit Account dialog.
2. If you are using account numbering, replace the account number with the account number for the account you want to retain. (If you are not using account numbering, you can type the *exact* spelling of the name of the other account you are merging this one into.)

   QuickBooks cautions you that the name is already being used and asks whether you want to continue (see Figure 2.11). If you do not get this message, you didn't type the name or account number exactly the same. You will want to try again.
3. Click **Yes**.



Edit Account

Account Type: Expense

Number: 62000

Account Name: Postage

☐ Subaccount of

Optional

Description: Postage & Delivery

Merge

This name is already being used. Would you like to merge them?

☐ Account is inactive

FIGURE 2.11

QuickBooks offers a word of caution when you are merging two Charts of Accounts lists.

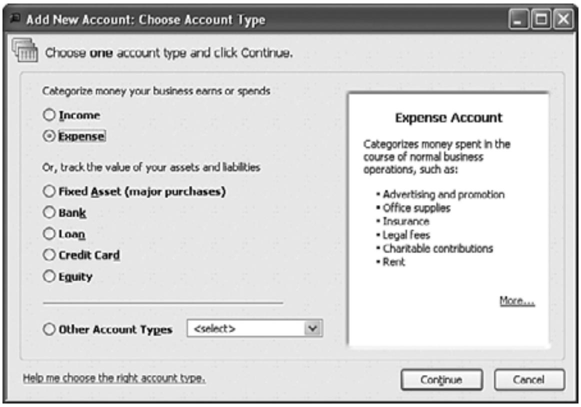
Rescue Me!

Chart of accounts, customers, jobs, vendors, and other names lists can all be merged within their own type or category. Be careful—there is no undo function, making the action irreversible.

Wrong Account Type Assigned to a Chart of Accounts Listing

The mistake most often made when creating your own chart of accounts is assigning the wrong account type. QuickBooks provides additional subcategories under the six standard accounting types, as identified in the "Understanding the Chart of Accounts" section at the beginning of this chapter.

The Add New Chart of Account entry dialog, shown in Figure 2.12, reduces errors that occur when creating a new chart of accounts. When creating a new account, you select an account type, and QuickBooks provides a description of what a typical transaction would be for this type. In prior versions of the software, the default type was a Bank Account, and users would mistakenly create their accounts as if they were bank accounts.



Add New Account: Choose Account Type

Choose one account type and click Continue.

Categorize money your business earns or spends

○ Income

● Expense

Or, track the value of your assets and liabilities

○ Fixed Asset (major purchases)

○ Bank

○ Loan

○ Credit Card

○ Equity

○ Other Account Types <select>

Expense Account

Categorizes money spent in the course of normal business operations, such as:

- Advertising and promotion
- Office supplies
- Insurance
- Legal fees
- Charitable contributions
- Rent

FIGURE 2.12

The Add New Account dialog.

Rescue Me!

Exercise caution before changing an account type. The change affects any prior-period financials. If this consequence is a limitation for your company, a simple solution would be to create a general journal to remove the amount from one account and assign it to another. This method preserves the integrity of prior-period financials. (See Chapter 5, "Power Reports for Troubleshooting Beginning Balance Differences," for more information on the Audit Trail report.) The Audit Trail report in QuickBooks does not track that a change was made to an account type.

Merging accounts can also be advantageous when you want to fix future transactions and prior-period transactions. For example, suppose you created a Current Asset account type instead of the correct Expense account type. Simply changing the account type via the Edit Account dialog box (see following steps) corrects all prior-period and future transactions to be assigned to the new account type.

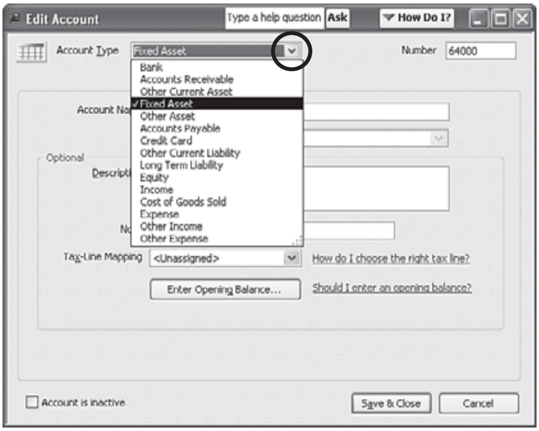
However, you will not be able to change an account type, or merge a chart of an account if there are sub-accounts associated with that chart of account list item.

Rescue Me!

Any changes to account types and merging accounts are *not* captured by the "always on" audit trail. To track changes made to an account such as, modifying the name, changing the type, or merging accounts, see details on the new QuickBooks 2009 Client Data Review in Chapter 17.

To change an account type, follow these steps:

1. Click **Lists**, **Chart of Accounts** (or press Ctrl+A). The Chart of Accounts list dialog displays.
2. Select the account for which you want to change the type.
3. Click the **Account** drop-down menu at the bottom of the list. Select **Edit Account** (or press Ctrl+E to open the account for editing). The Edit Account dialog box displays.
4. Click the drop-down arrow next to **Account Type** (see Figure 2.13) and choose a new account type from the list.
5. Click **Save & Close**.



Account Type Fixed Asset

Number 64000

Tax-Line Mapping <Unassigned>

☐ Account is inactive

Edit Account
Type a help question
Ask
How Do I?
Bank
Accounts Receivable
Other Current Asset
✓Fixed Asset
Other Asset
Accounts Payable
Credit Card
Other Current Liability
Long Term Liability
Equity
Income
Cost of Goods Sold
Expense
Other Income
Other Expense
Account Na
Optional
Descripti
No
How do I choose the right tax line?
Enter Opening Balance...
Should I enter an opening balance?
Save & Close
Cancel

FIGURE 2.13

Changing an existing account's type.

Digging Deeper

Not all account types can be changed. Accounts Receivable, Accounts Payable, Credit Cards (with online access configured), and any of the default accounts created by QuickBooks cannot be changed to a different type. In addition, for any balance sheet account that the account type is changed to a non-Balance Sheet account type, QuickBooks warns that you can no longer enter transactions directly into the register.

Assigning or Removing a Subaccount Relationship

Often in accounting reports, you have specific accounts for which you want to see a more detailed breakdown of the costs. You can get this breakdown easily by creating the main account and associating subaccounts with the main account.

Figure 2.14 shows Utilities as a main account with an indented subaccount for each type of utility expense. To edit an existing account to be a subaccount of another main account:

1. Click **Lists**, **Chart of Accounts** (or press Ctrl+A). The Chart of Accounts list dialog displays.
2. Select the account for which you want to be a subaccount of another account.
3. Click the **Account** drop-down menu at the bottom of the list. Select **Edit Account** (or press Ctrl+E to open the account for editing). The Edit Account dialog box displays.
4. Place a check mark in the **Subaccount of** box and choose from the drop-down menu the account you want it to be associated with. (It must be of the same account type).
5. Click **Save & Close**.

Users can assign a subaccount that is only in the same general account type. For example, an Expense type cannot be a subaccount of a Current Asset type account (see Figure 2.15).

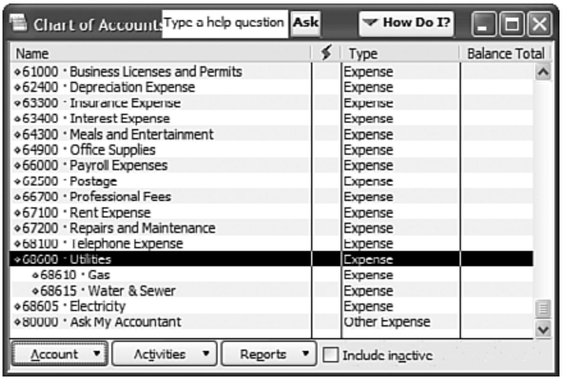
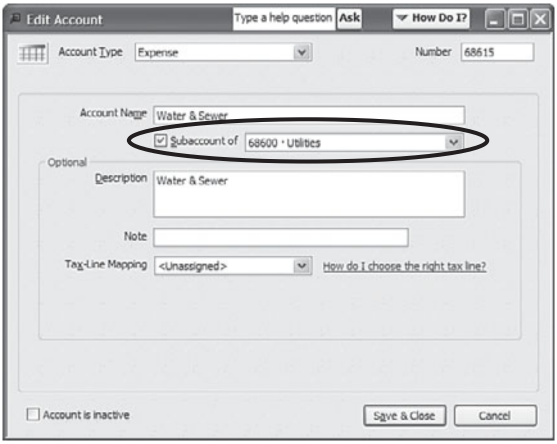


Chart of Accounts
Type a help question
Ask
How Do I?
Account
Activities
Reports
☐ Include inactive

Name	Type	Balance Total
61000 · Business Licenses and Permits	Expense	
62400 · Depreciation Expense	Expense	
63300 · Insurance Expense	Expense	
63400 · Interest Expense	Expense	
64300 · Meals and Entertainment	Expense	
64900 · Office Supplies	Expense	
66000 · Payroll Expenses	Expense	
62500 · Postage	Expense	
66700 · Professional Fees	Expense	
67100 · Rent Expense	Expense	
67200 · Repairs and Maintenance	Expense	
68100 · Telephone Expense	Expense	
68600 · Utilities	Expense	
68610 · Gas	Expense	
68615 · Water & Sewer	Expense	
68605 · Electricity	Expense	
80000 · Ask My Accountant	Other Expense	

FIGURE 2.14

Chart of Accounts showing a subaccount relationship to main account.


Edit Account
Type a help question
Ask
How Do I?
Optional
How do I choose the right tax line?
Save & Close
Cancel

Account Type: Expense

Number: 68615

Account Name: Water & Sewer

☑ Subaccount of: 68600 · Utilities

Description: Water & Sewer

Note:

Tax-Line Mapping: <Unassigned>

☐ Account is inactive

FIGURE 2.15

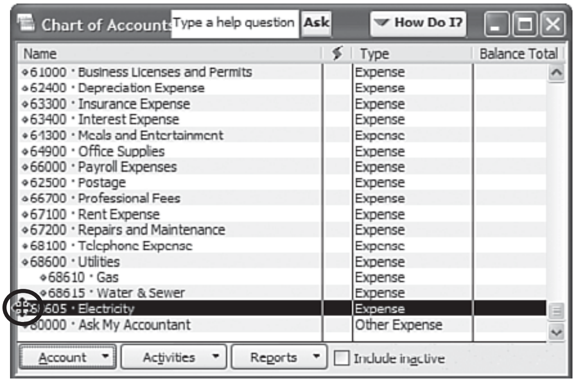
Edit Account dialog assigning a subaccount to main account.

Digging Deeper

If you need to change the subaccount to another General Ledger account type, first deselect the Subaccount of check box. Click Save & Close to save the change. Then edit the account and change the type. You cannot change subaccount types when they are associated with a main account. You also cannot change the account type when that account has subaccounts associated with it.

You can also change account relationships directly on the Chart of Accounts list:

1. To remove or add a subaccount directly from the list, place your mouse pointer over the diamond in front of the list item (see Figure 2.16). The cursor changes to indicate that you can drag the item.



Name	⚡	Type	Balance Total
◆61000 · Business Licenses and Permits		Expense	
◆62400 · Depreciation Expense		Expense	
◆63300 · Insurance Expense		Expense	
◆63400 · Interest Expense		Expense	
◆64300 · Meals and Entertainment		Expense	
◆64900 · Office Supplies		Expense	
◆66000 · Payroll Expenses		Expense	
◆62500 · Postage		Expense	
◆66700 · Professional Fees		Expense	
◆67100 · Rent Expense		Expense	
◆67200 · Repairs and Maintenance		Expense	
◆68100 · Telephone Expense		Expense	
◆68600 · Utilities		Expense	
◆68610 · Gas		Expense	
◆68615 · Water & Sewer		Expense	
[illegible]605 · Electricity		Expense	
80000 · Ask My Accountant		Other Expense	

FIGURE 2.16

Select the diamond in front of the account name to change the placement.

2. Drag the diamond to the right and up using the dashed line that displays to help guide and properly place it under the main account (but it must be in same account category) to create a subaccount relationship (see Figure 2.17).

   The Chart of Account list shows the corrected relationship (see Figure 2.18).

Financial reporting is more accurate when you take the time to review and correct your chart of accounts setup. Often, you can manage the information better when you group similar income or expense accounts using the subaccount feature.

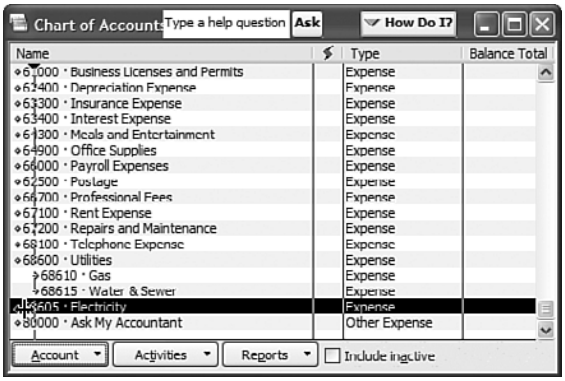


Chart of Accounts
Type a help question
Ask
How Do I?
Account
Activities
Reports
☐ Include inactive

Name	⚡	Type	Balance Total
◆61000 · Business Licenses and Permits		Expense	
◆62400 · Depreciation Expense		Expense	
◆63300 · Insurance Expense		Expense	
◆63400 · Interest Expense		Expense	
◆64300 · Meals and Entertainment		Expense	
◆64900 · Office Supplies		Expense	
◆66000 · Payroll Expenses		Expense	
◆62500 · Postage		Expense	
◆66700 · Professional Fees		Expense	
◆67100 · Rent Expense		Expense	
◆67200 · Repairs and Maintenance		Expense	
◆68100 · Telephone Expense		Expense	
◆68600 · Utilities		Expense	
◆68610 · Gas		Expense	
◆68615 · Water & Sewer		Expense	
◆68605 · Electricity		Expense	
◆80000 · Ask My Accountant		Other Expense	

FIGURE 2.17

Dragging the diamond to the right and up creates the subaccount relationship.

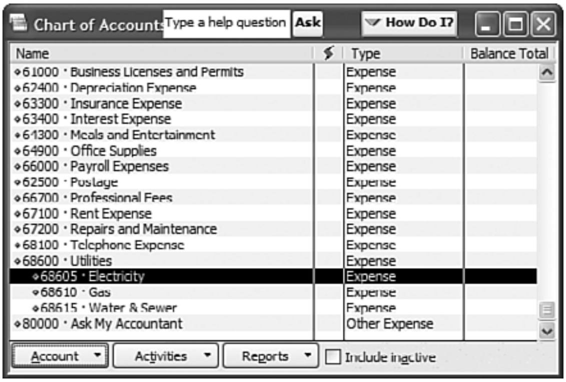


Chart of Accounts
Type a help question
Ask
How Do I?
Account
Activities
Reports
☐ Include inactive

Name	⚡	Type	Balance Total
◆61000 · Business Licenses and Permits		Expense	
◆62400 · Depreciation Expense		Expense	
◆63300 · Insurance Expense		Expense	
◆63400 · Interest Expense		Expense	
◆64300 · Meals and Entertainment		Expense	
◆64900 · Office Supplies		Expense	
◆66000 · Payroll Expenses		Expense	
◆62500 · Postage		Expense	
◆66700 · Professional Fees		Expense	
◆67100 · Rent Expense		Expense	
◆67200 · Repairs and Maintenance		Expense	
◆68100 · Telephone Expense		Expense	
◆68600 · Utilities		Expense	
◆68605 · Electricity		Expense	
◆68610 · Gas		Expense	
◆68615 · Water & Sewer		Expense	
◆80000 · Ask My Accountant		Other Expense	

FIGURE 2.18

The chart of accounts view after the change is made.

Chapter 3

Reviewing and Correcting Item List Errors

- Understanding the Differences Among the Chart of Accounts, Items, Classes, and Customer Types
- Using Item Types
- Finding Item Errors in QuickBooks
- Fixing Item Errors in QuickBooks
- Creating Items as Subitems

Differences Between the Chart of Accounts, Items, Classes, and Customer Types

QuickBooks offers several methods for separating business results into meaningful segments. You have the chart of accounts list for organizing your transactions, the Items list for tracking the profitability of individual services and products you sell, classes for tracking different corporate profit centers, and the ability to view your profitability by user-defined customer types.

The QuickBooks accounting structure is generally easy to set up and define. 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.

Digging Deeper

A well-defined QuickBooks data file most likely includes the use of items, classes, and customer types, in addition to the chart of accounts.

Before reviewing and correcting item list errors, you need to understand the differences between items and the other lists available in QuickBooks.

Chart of Accounts

The chart of accounts list, in particular, the Profit & Loss accounts, should offer just enough detail for you to make financial decisions for your overall business, but not so much detail that you have too much information to analyze.

Keeping your Profit & Loss chart of accounts minimized enables you to easily analyze business finances. For example, a contractor might employ 30 or more different types of specialty trades when building a house, such as site work, concrete, plumbing, and so on. To create a Cost of Goods Sold account for each type of trade would be too much detail when reviewing financial reports for the overall business.

A better approach would be to create summary Cost of Goods Sold accounts that, for the contractor example, might be Cost of Goods Sold—Labor, Cost of Goods Sold—Material, Cost of Goods Sold—Equipment, and so on. Other industries that track many services or products would also benefit from including only summary accounts on the Profit & Loss statement.

Digging Deeper

Are you creating a new data file or using an existing file? Your accountant should review your chart of accounts and make sure that it meets certain accounting guidelines. Taking this extra step can save you lots of extra work at tax reporting time if you find you have not used the appropriate accounts.

Items

Items are what you sell or buy and are used on all customer forms and optionally on purchase forms. 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 item-specific costs and revenue detail.

Using the contractor example given previously, you could create an item for Site Work Labor, Concrete Labor, and Plumbing Labor and assign each item to your single Cost of Goods Sold—Labor chart of accounts. Using items enables you to capture cost detail by labor type rather than creating a Chart of Account for each type. Then when you view your Profit & Loss statement, you can easily see what your total Cost of Goods Sold is for all labor types.

A few of the reports that are dependent on the use of items include:

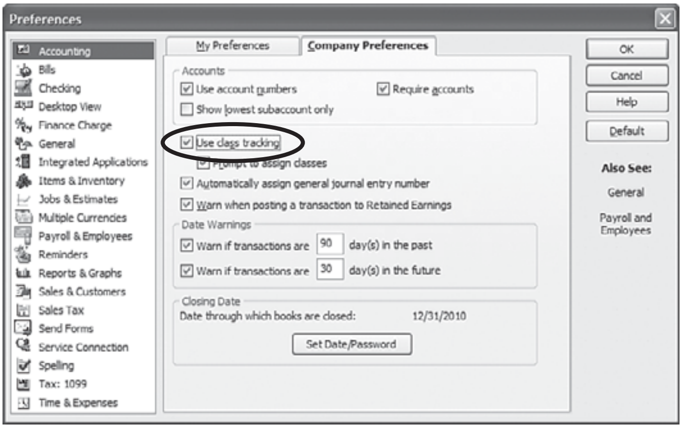
- Job Profitability Summary or Detail
- Job Estimates Versus Actuals Summary or Detail
- Item Profitability
- Time by Item

Classes

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:

1. Click **Edit**, **Preferences**.
2. Select the **Accounting** preference on the left.
3. Click the **Company Preferences** tab.
4. Select the **Use Class Tracking** option, as shown in Figure 3.1.

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 3.2. Examples of classes might be a construction company that offers either new construction or remodel 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.


Preferences
Accounting
Bills
Checking
Desktop View
Finance Charge
General
Integrated Applications
Items & Inventory
Jobs & Estimates
Multiple Currencies
Payroll & Employees
Reminders
Reports & Graphs
Sales & Customers
Sales Tax
Send Forms
Service Connection
Spelling
Tax: 1099
Time & Expenses
My Preferences
Company Preferences
OK
Cancel
Help
Default
Also See:
General
Payroll and Employees
Set Date/Password

Accounts

☑ Use account numbers ☑ Require accounts

☐ Show lowest subaccount only

☑ Use class tracking

☑ Prompt to assign classes

☑ Automatically assign general journal entry number

☑ Warn when posting a transaction to Retained Earnings

Date Warnings

☑ Warn if transactions are 90 day(s) in the past

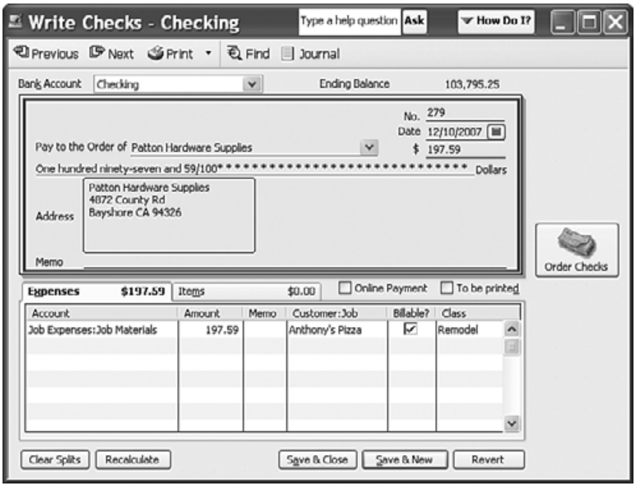
☑ Warn if transactions are 30 day(s) in the future

Closing Date

Date through which books are closed: 12/31/2010

FIGURE 3.1

Enable the preference for class tracking.


Write Checks - Checking
Type a help question
Ask
How Do I?
Previous
Next
Print
Find
Journal
Order Checks
Clear Splits
Recalculate
Save & Close
Save & New
Revert

Bank Account Checking Ending Balance 103,795.25

No. 279

Date 12/10/2007

Pay to the Order of Patton Hardware Supplies $ 197.59

One hundred ninety-seven and 59/100*********************************** Dollars

Address
Patton Hardware Supplies
4872 County Rd
Bayshore CA 94326

Memo

Expenses $197.59 Items $0.00 ☐ Online Payment ☐ To be printed

Account	Amount	Memo	Customer:Job	Billable?	Class
Job Expenses:Job Materials	197.59		Anthony's Pizza	☑	Remodel

FIGURE 3.2

An example of a check with a class list item assigned on the transaction line.

Digging Deeper

When deciding to use classes, it is important that you have only one primary purpose for the class structure. If you try to track more than one “type” of class, the value in the reporting is diminished. For example, your company has both an east coast and west coast division. These represent the proper use of the QuickBooks class feature. However, using classes to also track the source of the business—for example, yellow pages, email marketing, and so on—would diminish the success of class reporting because you would be tracking two unrelated groupings. Instead, you can use classes for one purpose and customer types for another.

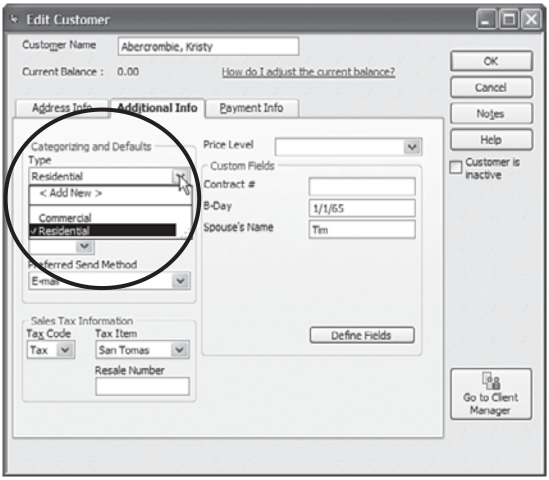
Customer Types

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 assign a customer type:

1. Click the **Customer Center** icon from the Home page.
2. Select a customer by double-clicking on the name.
3. Click the **Additional Info** tab and select a type from the drop-down menu or select **Add New** in Categorizing and Defaults, as shown in Figure 3.3.

Many of the customer reports can be filtered for customer type, making it another useful list for segmenting your data.


Edit Customer
How do I adjust the current balance?
Address Info
Additional Info
Payment Info
Categorizing and Defaults
< Add New >
Commercial
✓ Residential
Price Level
Custom Fields
Contract #
Sales Tax Information
Resale Number
Define Fields
OK
Cancel
Notes
Help
☐ Customer is inactive
Go to Client Manager

Customer Name: Abercrombie, Kristy
Current Balance : 0.00
Type: Residential
Preferred Send Method: E-mail
Tax Code: Tax
Tax Item: San Tomas
B-Day: 1/1/65
Spouse's Name: Tim

FIGURE 3.3

Assign a customer type in the Edit Customer dialog.

Using Item Types

QuickBooks has 11 item types to choose from (not including the Fixed Asset Item, Price Levels, or Billing Rates not discussed in this book, although some of the list 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**—You usually create this type for services you sell and, optionally, purchase.
- **Inventory Part**—This type appears only if Inventory and Purchase Orders are active on the Company tab of the Items and Inventory preferences (click Edit, Preferences, select Items and Inventory, and click the Company tab). 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.

Digging Deeper

If the item you purchase will never be included on a customer's invoice or sales receipt, then it should not be created as an Inventory Part, instead create it as a Non-inventory part.

- **Inventory Assembly**—This 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 product is increased. The assembly functionality is only available in QuickBooks Premier 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 see your services separate from the other charge types of revenue and expense.
- **Subtotal**—This type is used to add subtotal line items on sales and purchase forms. This item is especially useful if you want to calculate a specific discount on a group of items on an invoice form.
- **Group**—This type is used to quickly assign a grouping of individual items on sales and purchase forms. Unlike assemblies, groups are not tracked as a separate finished unit. Groups can save you data entry time and enable you to print or not print the details on a customer's invoice.
- **Discount**—This type facilitates dollar or percent deductions off what your customers owe on a sales form. This item type cannot be used on purchase forms.
- **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 is done with a Daily Sales Summary form (see the QuickBooks Help menu). 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.

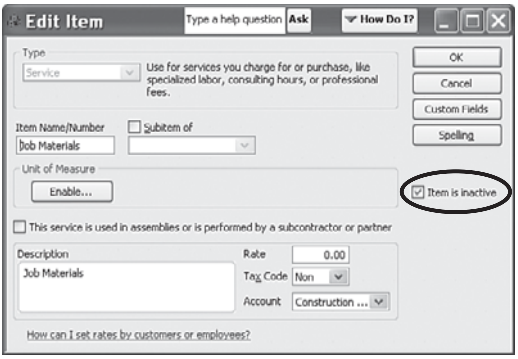
- **Sales Tax Item**—This type is available only if you enabled sales tax by selecting Yes to charging sales tax on the Company tab of the Sales Tax preferences (click Edit, Preferences and select Sales Tax). In most cases, QuickBooks automatically assigns this item to an invoice. In some states or industries 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.

Rescue Me!

Carefully determine the correct item type to use when creating items. After they're 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 clicking Lists, Items. The Item List dialog opens. Select the Item button, choose Edit Item, and place a check mark in the Item is inactive check box. When this box is selected, as Figure 3.4 shows, the item is not included in any drop-down lists on forms, but is included in reports if used during the period being reported.

However, do not make an inventory type inactive if QuickBooks still shows available inventory quantity. This topic is discussed more fully in Chapter 10, "Reviewing and Correcting Inventory Errors."



Edit Item

Type: Service

Use for services you charge for or purchase, like specialized labor, consulting hours, or professional fees.

Item Name/Number: Job Materials

☐ Subitem of

☑ Item is inactive

☐ This service is used in assemblies or is performed by a subcontractor or partner

Description: Job Materials

Rate: 0.00

Tax Code: Non

Account: Construction ...

FIGURE 3.4

Marking a list item inactive only removes it from drop-down lists, not reports.

Finding Item Errors in QuickBooks

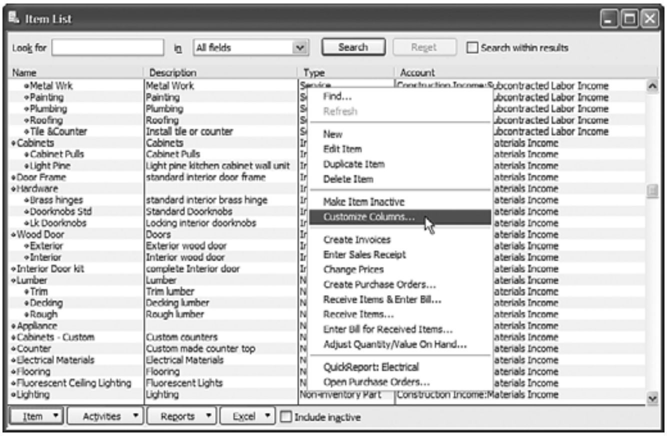
Want to quickly fix some of the most common errors in QuickBooks? Reviewing and correcting items in QuickBooks can be the best and easiest way to repair a company's data file. The most common reason or misstatement on a company's financials is often traced to incorrectly set up items. Often, it is easy to tell that the items were set up incorrectly. Some indicators of this might be understated revenue, negative costs, or just an overall lack of confidence in the financials. This is because items are "mapped" to the chart of accounts, if an item is improperly assigned to the wrong type of an account, this could create errors in accurate financial reporting.

To help you in those instances where incorrectly set up items might not be so apparent, the following sections offer a few methods for reviewing the item list.

Reviewing Accounts Assigned to Items

Adding and removing columns you view in the Item List dialog can help you notice any setup errors that exist. To customize the Item List Lookup dialog for items, do the following:

1. Click **Lists**, **Item List** and while highlighting any list item, right-click it and click **Customize Columns**, as shown in Figure 3.5.



Item List
Look for
in
All fields
Search
Reset
☐ Search within results
Find...
Refresh
New
Edit Item
Duplicate Item
Delete Item
Make Item Inactive
Customize Columns...
Create Invoices
Enter Sales Receipt
Change Prices
Create Purchase Orders...
Receive Items & Enter Bill...
Receive Items...
Enter Bill for Received Items...
Adjust Quantity/Value On Hand...
QuickReport: Electrical
Open Purchase Orders...
Item
Activities
Reports
Excel
☐ Include inactive

Name	Description	Type	Account
Metal Wrk	Metal Work	Service	Construction Income:Subcontracted Labor Income
Painting	Painting	S	ubcontracted Labor Income
Plumbing	Plumbing	S	ubcontracted Labor Income
Roofing	Roofing	S	ubcontracted Labor Income
Tile &Counter	Install tile or counter	S	ubcontracted Labor Income
Cabinets	Cabinets	Ir	aterials Income
Cabinet Pulls	Cabinet Pulls	Ir	aterials Income
Light Pine	Light pine kitchen cabinet wall unit	Ir	aterials Income
Door Frame	standard interior door frame	Ir	aterials Income
Hardware		Ir	aterials Income
Brass hinges	standard interior brass hinge	Ir	aterials Income
Doorknobs Std	Standard Doorknobs	Ir	aterials Income
Lk Doorknobs	Locking interior doorknobs	Ir	aterials Income
Wood Door	Doors	Ir	aterials Income
Exterior	Exterior wood door	Ir	aterials Income
Interior	Interior wood door	Ir	aterials Income
Interior Door kit	complete Interior door	Ir	aterials Income
Lumber	Lumber	N	aterials Income
Trim	Trim lumber	N	aterials Income
Decking	Decking lumber	N	aterials Income
Rough	Rough lumber	N	aterials Income
Appliance		N	aterials Income
Cabinets - Custom	Custom counters	N	aterials Income
Counter	Custom made counter top	N	aterials Income
Electrical Materials	Electrical Materials	N	aterials Income
Flooring	Flooring	N	aterials Income
Fluorescent Ceiling Lighting	Fluorescent Lights	N	aterials Income
Lighting	Lighting	Non-inventory Part	Construction Income:Materials Income

FIGURE 3.5

Customizing columns on the item list can help you see item errors easily.

2. In the dialog box that appears, add the COGS Account by highlighting it in the Available Columns pane, as you see in Figure 3.6, and clicking **Add** to include the account in the Chosen Columns pane on the right.

Add or remove from the Chosen Columns pane those fields that you want or don't want to see when viewing the Item List Lookup dialog.

3. Click the **Move Up** or **Move Down** buttons in the center of the dialog box to customize the order in which you want to view the columns (see Figure 3.6), and then click **OK**.
4. Optionally, to widen columns of displayed date on your computer screen, place your mouse on the right or left lines of any group in the grey bar header and drag to make the column wider or smaller.

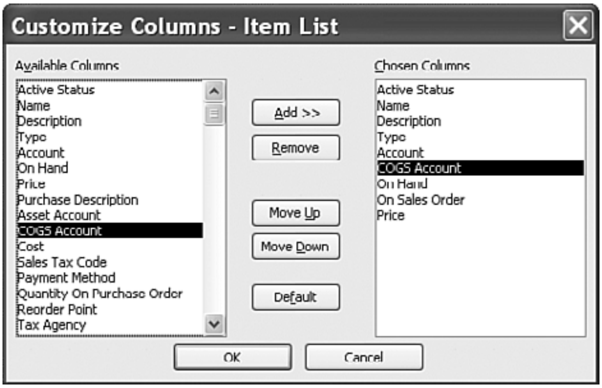

Customize Columns - Item List
Available Columns
Active Status
Name
Description
Type
Account
On Hand
Price
Purchase Description
Asset Account
COGS Account
Cost
Sales Tax Code
Payment Method
Quantity On Purchase Order
Reorder Point
Tax Agency
Add >>
Remove
Move Up
Move Down
Default
Chosen Columns
Active Status
Name
Description
Type
Account
COGS Account
On Hand
On Sales Order
Price
OK
Cancel

FIGURE 3.6

Choose the available columns you want to view in the Customize Columns - Item List.

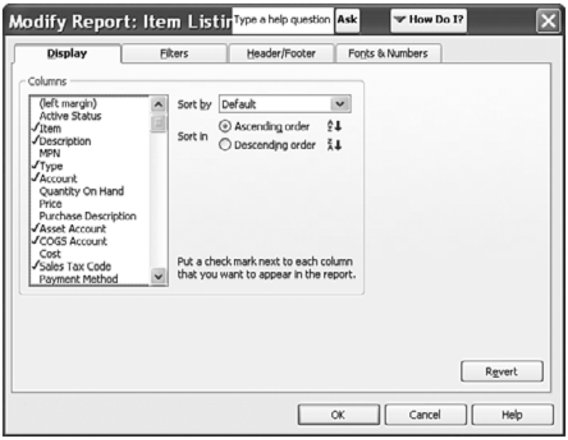
Now, you can conveniently review the list on the computer screen for those items that do not have a Cost of Goods Sold or expense account assigned, or might have the wrong account assigned. Not having an expense account assigned becomes problematic when the item is both purchased and sold; both types of transactions will report only to the single account selected.

See the "Fixing Item Errors in QuickBooks" section of this chapter for a more detailed discussion of how to properly fix one-sided items.

Item Listing Report

Another method to review the item list setup is the Item Listing report (click Reports, Lists and select the Item Listing report). Click Modify on the report, and in the dialog box that appears, click the Display tab to select the columns to view. Useful columns include Item, Description, Type, Account, Asset Account (for inventory items only), COGS Account, and Sales Tax Code, as shown in Figure 3.7. Whenever the item is used on a purchase or sales transaction (such as an invoice, a sales receipt, a bill, a check, and so on), these columns show to which accounts QuickBooks records the transaction on the chart of accounts.

What exactly are you looking for on the list item report as shown in Figure 3.8? One thing you are looking for are items that you use on both purchase and sales forms but that have only the Account column details. Or you might also be looking for items with the incorrect account assigned. If you collect sales tax, be sure the correct sales tax code is selected. For a more detailed discussion of sales tax in QuickBooks, see Chapter 12, "Reviewing and Correcting Sales Tax Errors."



Columns

(left margin)
Active Status
✓Item
✓Description
MPN
✓Type
✓Account
Quantity On Hand
Price
Purchase Description
✓Asset Account
✓COGS Account
Cost
✓Sales Tax Code
Payment Method

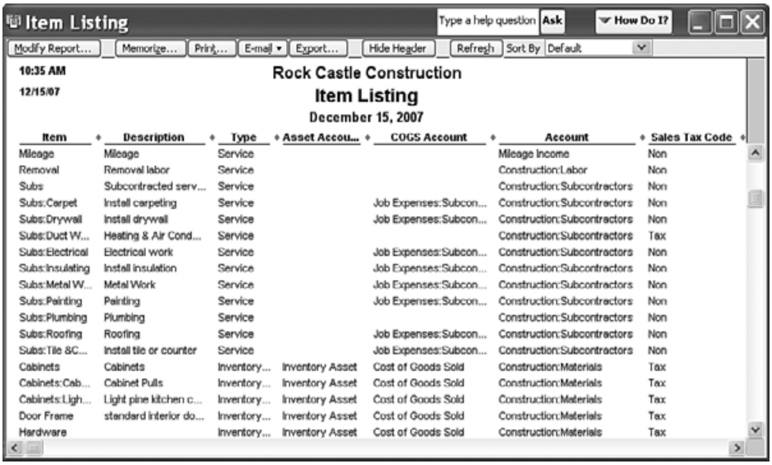
Sort by: Default

Sort in: ● Ascending order ○ Descending order

Put a check mark next to each column that you want to appear in the report.

FIGURE 3.7

Modify a report to display specific detail.



10:35 AM
12/15/07

Rock Castle Construction
Item Listing
December 15, 2007

Item	Description	Type	Asset Accou...	COGS Account	Account	Sales Tax Code
Mileage	Mileage	Service			Mileage Income	Non
Removal	Removal labor	Service			Construction:Labor	Non
Subs	Subcontracted serv...	Service			Construction:Subcontractors	Non
Subs:Carpet	Install carpeting	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Drywall	Install drywall	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Duct W...	Heating & Air Cond...	Service			Construction:Subcontractors	Tax
Subs:Electrical	Electrical work	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Insulating	Install insulation	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Metal W...	Metal Work	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Painting	Painting	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Plumbing	Plumbing	Service			Construction:Subcontractors	Non
Subs:Roofing	Roofing	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Subs:Tile &C...	Install tile or counter	Service		Job Expenses:Subcon...	Construction:Subcontractors	Non
Cabinets	Cabinets	Inventory...	Inventory Asset	Cost of Goods Sold	Construction:Materials	Tax
Cabinets:Cab...	Cabinet Pulls	Inventory...	Inventory Asset	Cost of Goods Sold	Construction:Materials	Tax
Cabinets:Ligh...	Light pine kitchen c...	Inventory...	Inventory Asset	Cost of Goods Sold	Construction:Materials	Tax
Door Frame	standard interior do...	Inventory...	Inventory Asset	Cost of Goods Sold	Construction:Materials	Tax
Hardware		Inventory...	Inventory Asset	Cost of Goods Sold	Construction:Materials	Tax

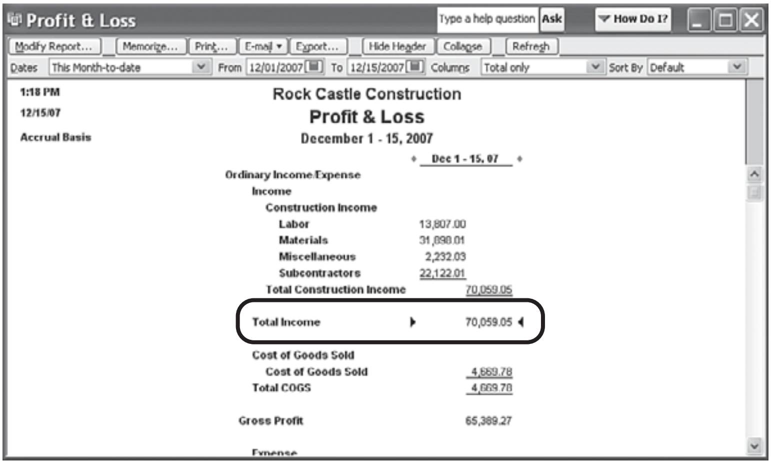
FIGURE 3.8

Modify the Item Listing report to review your item setup.

Profit & Loss Summary Report

If you suspect errors with your financials, drilling down (double-clicking with your mouse pointer) on the Total Income, Cost of Goods Sold, or Expense detail from a Profit & Loss Standard Report might provide clues to the mistakes. To generate this report, follow these steps:

1. Click **Reports**, **Company & Financial**, and select the **Profit & Loss Standard** report.
2. On the Profit & Loss Standard report, double-click the **Total Income** column total, as shown in Figure 3.9. A Transaction Detail by Account report appears, showing each line of detail that makes up the amount you viewed on the original Profit & Loss Standard report.



Dates: This Month-to-date From 12/01/2007 To 12/15/2007 Columns: Total only Sort By: Default

1:18 PM
12/15/07
Accrual Basis

Rock Castle Construction
Profit & Loss
December 1 - 15, 2007

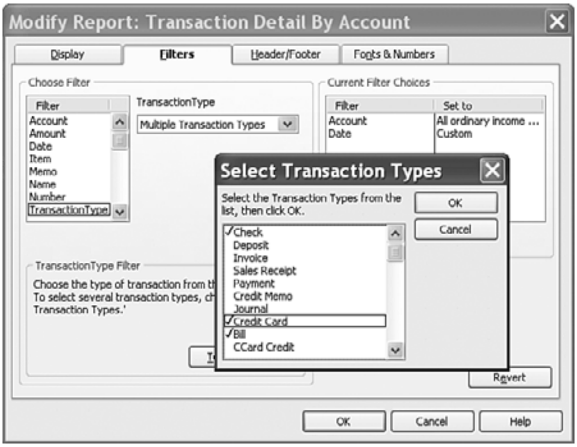
	Dec 1 - 15, 07
Ordinary Income/Expense	
Income	
Construction Income	
Labor	13,807.00
Materials	31,898.01
Miscellaneous	2,232.03
Subcontractors	22,122.01
Total Construction Income	70,059.05
Total Income	70,059.05
Cost of Goods Sold	
Cost of Goods Sold	4,669.78
Total COGS	4,669.78
Gross Profit	65,389.27
Expense	

FIGURE 3.9

Review your Profit & Loss Standard Total Income.

3. On the Transaction Detail by Account report, click **Modify Report**. In the dialog box that appears, click the **Filters** tab. In the Choose Filter pane, scroll down to select **Transaction Type**.
4. In the Transaction Type drop-down menu, select **Multiple Transaction Types**, as shown in Figure 3.10. The Select Transaction Type dialog appears. Click to place a check mark next to each transaction type that normally would *not* be reported to an income account, such as a check, bill, credit card, and so on, and then click **OK**.

The resulting report now shows all purchase type transactions (or whatever transaction types you selected) that were recorded to income accounts. In the example shown in Figure 3.11, a vendor check transaction type appears in the totals for income. This is because on the vendor check an item was used that had only an income account assigned. After you determine that you have these types of errors in posting, you should review your item list for any one-sided items. This topic is discussed in the next section.


Modify Report: Transaction Detail By Account
Display
Filters
Header/Footer
Fonts & Numbers
Choose Filter
Filter
Account
Amount
Date
Item
Memo
Name
Number
TransactionType
Current Filter Choices
Select Transaction Types
OK
Cancel
Revert
OK
Cancel
Help

TransactionType: Multiple Transaction Types

Filter	Set to
Account	All ordinary income ...
Date	Custom

Select the Transaction Types from the list, then click OK.

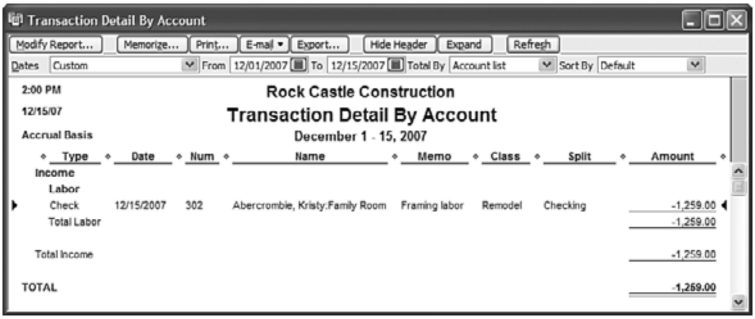
- ✓Check
- Deposit
- Invoice
- Sales Receipt
- Payment
- Credit Memo
- Journal
- ✓Credit Card
- ✓Bill
- CCard Credit

TransactionType Filter

Choose the type of transaction from th
To select several transaction types, ch
Transaction Types.'

FIGURE 3.10

Modify the detail of Total Income from the Profit & Loss statement to help review whether items were set up correctly.


Transaction Detail By Account
Modify Report...
Memorize...
Print...
E-mail
Export...
Hide Header
Expand
Refresh

Dates: Custom From: 12/01/2007 To: 12/15/2007 Total By: Account list Sort By: Default

2:00 PM
12/15/07
Accrual Basis

Rock Castle Construction
Transaction Detail By Account
December 1 - 15, 2007

	Type	Date	Num	Name	Memo	Class	Split	Amount
Income								
Labor								
	Check	12/15/2007	302	Abercrombie, Kristy:Family Room	Framing labor	Remodel	Checking	-1,259.00
Total Labor								-1,259.00
Total Income								-1,259.00
TOTAL								-1,259.00

FIGURE 3.11

The Transaction Detail By Account report shows an expense type transaction reporting to a income account.

Fixing Item Errors in QuickBooks

This chapter has shown some effective ways to determine whether your items were incorrectly set up. In this section, you learn the methods of fixing these item setup errors in QuickBooks.

As with any data correction in QuickBooks, you should make a backup of the data before attempting these methods. The preferred backup method is a QuickBooks backup, or a file with the extension of .QBB. You can create a data backup by choosing File, Save Copy or Backup. If the result after fixing items is not what you expected, you can easily restore the backup file.

These methods might affect your financials for prior accounting periods. You should take care when selecting a method that will impact financial periods that have already been used to prepare your tax documents. Discuss these choices with your accountant before making the changes.

This section details how to fix some of the more common item mistakes. New for 2009, with the QuickBooks Premier Accountant 2009 and QuickBooks Enterprise Solutions Accountant 9.0 editions is the Client Data Review feature.

This new feature is used primarily by accounting professionals who want to view the changes to list items customers have made. Changes to accounts assigned, name changes, and making an item inactive are a few of the changes tracked. For more information on this, see Chapter 17, “New for 2009! Detecting and Correcting with the Client Data Review Feature.”

Correcting One-Sided Items

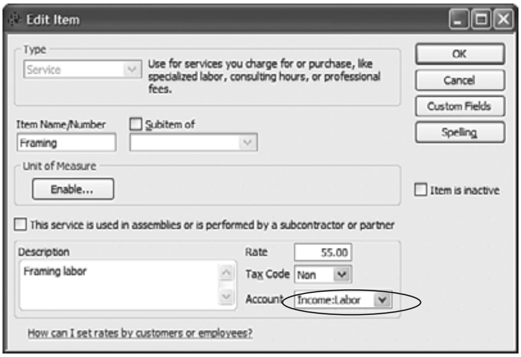
A one-sided item is an item that has only one account assigned. See Figure 3.12, which shows the Framing item setup. Notice the only account assigned to this item is Income:Labor. When this item is used on a customer invoice, it increases the Income:Labor amount. However, if the same item is used on a vendor check or bill, the amount of the expense records directly to the Income:Labor income account as a negative number. This would cause both income and cost of goods sold to be understated.

You should never have one-sided items if you plan to use the item on both purchase documents and sales documents.

This section details how to fix some of the more common item mistakes. New for 2009, with the QuickBooks Premier Accountant 2009 and QuickBooks Enterprise Solutions Accountant 9.0 editions is the Client Data Review feature.

This new feature is used primarily by accounting professionals who want to view the changes to list items customers have made. Changes to accounts assigned, name changes, and making an item inactive are a few of the changes tracked.

For more detail information on this see Chapter 17.



Type: Service
Use for services you charge for or purchase, like specialized labor, consulting hours, or professional fees.

Item Name/Number: Framing

☐ Subitem of

Unit of Measure

☐ Item is inactive

☐ This service is used in assemblies or is performed by a subcontractor or partner

Description: Framing labor

Rate: 55.00

Tax Code: Non

Account: Income:Labor

FIGURE 3.12

An example of a one-sided item in QuickBooks.

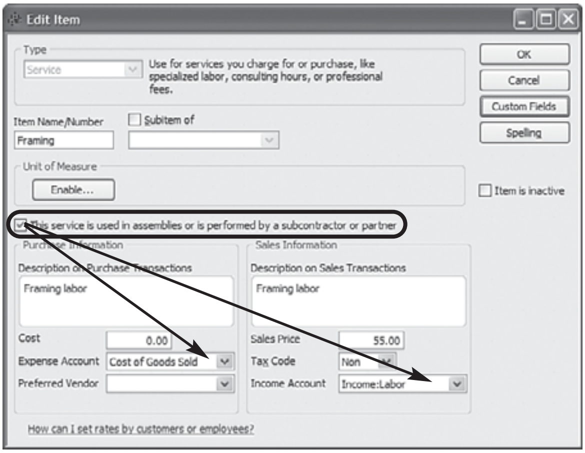
You might have several items on your list that can qualify to be one-sided because they are used only on sales forms and never on purchase forms, or always on purchase forms and never on sales forms. What can become problematic is that at some time, a user will mistakenly use the item on the other form.

I recommend you make all items two-sided (see Figure 3.13). You do so by selecting the check box labeled This service is used in assemblies or… (the rest of the label depends on what item type is selected) in the New or Edit Item dialog box. The results are new Purchase Information and Sales Information panes. Now, the “Account” has become an “Income Account” and you have a new Expense Account field to assign your proper expense account. This way, if you use the item on both a vendor bill or check and a customer sales form, your financials show the transaction in the proper account.

Rescue Me!

Before making these suggested changes, have you made a backup of your data? Some of the recommended changes are not reversible.

You might even consider printing reports before and after to compare and to verify that you achieved the desired end result with your change.



Type: Service

Use for services you charge for or purchase, like specialized labor, consulting hours, or professional fees.

Item Name/Number: Framing

☐ Subitem of

☐ Item is inactive

☑ This service is used in assemblies or is performed by a subcontractor or partner

Description on Purchase Transactions: Framing labor

Cost: 0.00

Expense Account: Cost of Goods Sold

Preferred Vendor:

Description on Sales Transactions: Framing labor

Sales Price: 55.00

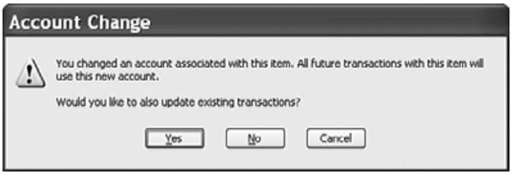
Tax Code: Non

Income Account: Income:Labor

FIGURE 3.13

The one-sided item is now two-sided for accounting.

If you are editing an existing item to make it two-sided, QuickBooks now provides an Account Change warning, as shown in Figure 3.14. The decision made at this time is *critical* to your financials. Saying Yes to updating existing transactions causes all previous transactions to now report to the new account assigned. If you are attempting to fix historical transactions, this can be a timesaving feature because you do not have to change each individual transaction manually.



You changed an account associated with this item. All future transactions with this item will use this new account.

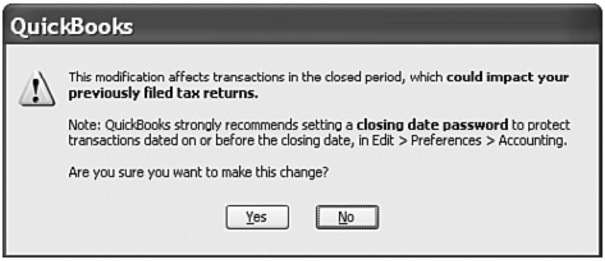
Would you like to also update existing transactions?

FIGURE 3.14

The QuickBooks warning that appears when you change the accounts in the Edit Item dialog.

Click No if you do not want to update prior period transactions. This option might be recommended if you have already prepared your tax data with QuickBooks financial information. The change then takes effect only for future transactions.

Carefully selecting the appropriate choice here determines whether the correction provides the result you were looking for. Beginning with QuickBooks version 2007, users are given a second chance to say No to affect prior period financials (see Figure 3.15). Reference is given in this warning to setting a closing date password. Although setting a closing date password is recommended, doing so does *not* prevent changes to prior period financials when you are modifying the accounts assigned to an item that has previously been used.



QuickBooks

This modification affects transactions in the closed period, which **could impact your previously filed tax returns.**

Note: QuickBooks strongly recommends setting a **closing date password** to protect transactions dated on or before the closing date, in Edit > Preferences > Accounting.

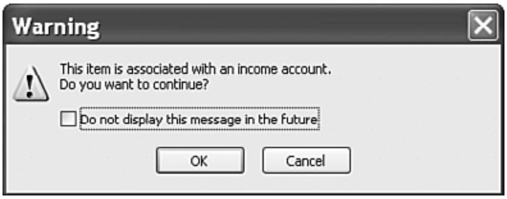
Are you sure you want to make this change?

FIGURE 3.15

QuickBooks provides another warning when you change accounts on existing items.

Additional Warnings for One-Sided Items

You aren't completely on your own when it comes to locating one-sided item errors in item assignments. QuickBooks helps you recognize the potential error by displaying a warning message when you are using an item on a purchase form that is assigned in the New or Edit Item dialog to a revenue account only. Figure 3.16 shows the warning message you see when a check is being written to a vendor but the item used is assigned only to an income account. Be aware that this warning appears only if you have not checked the Do not display this message in the future check box.



Warning

This item is associated with an income account.
Do you want to continue?

☐ Do not display this message in the future

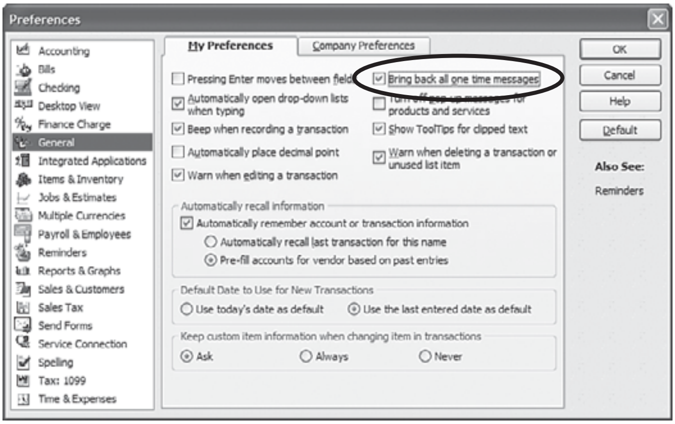
FIGURE 3.16

The warning message displayed when you use an item on a purchase form that is mapped to an Income Account only.

If you disregard the message, QuickBooks posts the expense to the revenue account selected in the Edit Item dialog. The effect of this is to understate revenue (an expense is a negative amount in the revenue account) and to understate your costs (because no cost was recorded to an expense account). Both of these messages distort your financial details, so be sure you don't disregard this important message.

Digging Deeper

Users often disregard these one-time messages and select the Do not display this warning in the future check box (refer to Figure 3.16). To enable these messages, click Edit, Preferences, General and select the Bring back all one time messages check box (see Figure 3.17).


Preferences
Accounting
Bills
Checking
Desktop View
Finance Charge
General
Integrated Applications
Items & Inventory
Jobs & Estimates
Multiple Currencies
Payroll & Employees
Reminders
Reports & Graphs
Sales & Customers
Sales Tax
Send Forms
Service Connection
Spelling
Tax: 1099
Time & Expenses
My Preferences
Company Preferences
OK
Cancel
Help
Default
Also See:
Reminders

☐ Pressing Enter moves between fields
☑ Bring back all one time messages
☑ Automatically open drop-down lists when typing
☐ Turn off pop-up messages for products and services
☑ Beep when recording a transaction
☑ Show ToolTips for clipped text
☐ Automatically place decimal point
☑ Warn when deleting a transaction or unused list item
☑ Warn when editing a transaction

Automatically recall information
☑ Automatically remember account or transaction information
○ Automatically recall last transaction for this name
● Pre-fill accounts for vendor based on past entries

Default Date to Use for New Transactions
○ Use today's date as default
● Use the last entered date as default

Keep custom item information when changing item in transactions
● Ask
○ Always
○ Never

FIGURE 3.17

To be notified of transaction errors previously disregarded, select the Bring back all one time messages check box.

Making an Item Inactive

If you have found errors in your item list, a safe method of fixing them is to make the incorrect items inactive. An inactive item still appears in reports but is not included in any drop-down menus on sales or purchase forms.

To mark an item as inactive:

1. Click **Lists**, **Item List**.
2. Select the item you want to make inactive by clicking it once.
3. Click on the **Items** button and select **Edit Item**.
4. Place a check mark in the **Item is inactive** box.

Making an item inactive does not have any impact on the company's financials. If you want to correct your financials, you need to choose one of two options:

- Edit the account assignment on each item. This gives you the option to retroactively fix all previous transactions that used this item. (Use this cautiously because it changes prior period financials.) The effect of changing an account assignment on an item is the same as the one discussed in the section of this chapter titled “Correcting One-Sided Items.”

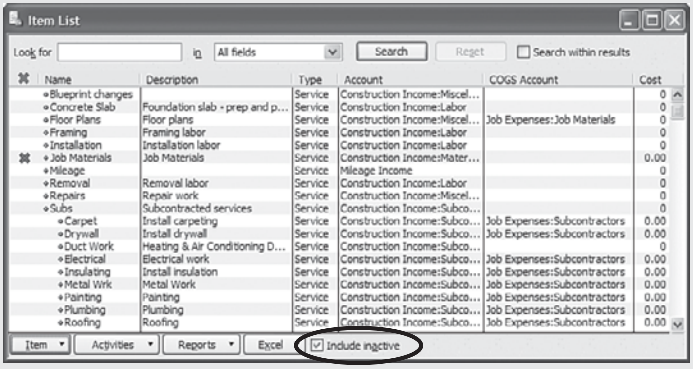
- Create a General Journal Entry transaction to reassign the numbers from one account to another. This method is typically done by your accountant.

Make a backup of your data before making these recommended changes and always discuss the method you choose with your accountant.

Need to Make Several Items Inactive?

Open the Item List by choosing Lists, Item List. Click to put a check mark in the Include Inactive box (in the lower center of the dialog). Click once to the left of any list item to make the item inactive, as shown in Figure 3.18.

If the check box is grayed out, you have not yet made any item inactive. After making the first item inactive, you can put a check mark in the box.



✖	Name	Description	Type	Account	COGS Account	Cost
	Blueprint changes		Service	Construction Income:Miscel…		0
	Concrete Slab	Foundation slab - prep and p…	Service	Construction Income:Labor		0
	Floor Plans	Floor plans	Service	Construction Income:Miscel…	Job Expenses:Job Materials	0
	Framing	Framing labor	Service	Construction Income:Labor		0
	Installation	Installation labor	Service	Construction Income:Labor		0
✖	Job Materials	Job Materials	Service	Construction Income:Mater…		0.00
	Mileage		Service	Mileage Income		0
	Removal	Removal labor	Service	Construction Income:Labor		0
	Repairs	Repair work	Service	Construction Income:Miscel…		0
	Subs	Subcontracted services	Service	Construction Income:Subco…		0
	Carpet	Install carpeting	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Drywall	Install drywall	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Duct Work	Heating & Air Conditioning D…	Service	Construction Income:Subco…		0
	Electrical	Electrical work	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Insulating	Install insulation	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Metal Wrk	Metal Work	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Painting	Painting	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Plumbing	Plumbing	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00
	Roofing	Roofing	Service	Construction Income:Subco…	Job Expenses:Subcontractors	0.00

FIGURE 3.18

Marking Item List elements inactive causes the item not to show on drop-down lists.

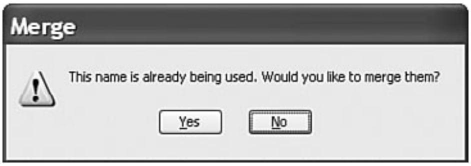
Marking most items inactive is okay. The exception is inventory items. Only inventory items with a zero quantity on hand should be made inactive. See Chapter 10 for more details on handling inventory errors.

Merging Items

If you have duplicated items, one easy method for fixing the problem is to merge items of the same type. When merging two items, you first need to decide which item is going to be merged into the other item. The item merged will no longer exist on your item list.

To merge two items:

1. Click **Lists**, **Item List**.
2. Review the list for duplicate items; note the name of the item you want to remain.
3. Double-click the item you want to merge into another item. The Edit Item dialog appears.
4. Type in the **Item Name/Number** field the name exactly as you noted it in step 2. You can also use the Windows copy and paste command to avoid typing of lengthy names or long numbers.
5. Click **OK** to save your change. QuickBooks provides the warning message in Figure 3.19 that you are merging items.


Merge

This name is already being used. Would you like to merge them?

FIGURE 3.19

A warning appears when you merge two items.

Rescue Me!

You can merge only items of the same type together. Duplicate service item types can be merged together, but a service type item cannot be merged with a non-inventory item type. It is not recommended to merge inventory items together; see Chapter 10 for more detail.

Carefully consider the consequences of merging before you do it (and be sure you have a backup of your QuickBooks file). All the historical transactions merge into the remaining list item.

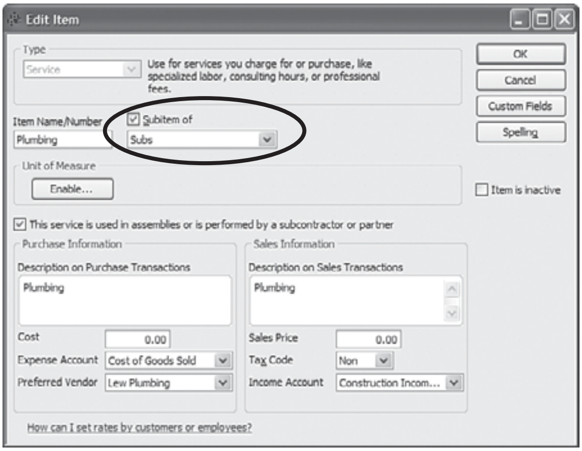
Creating Items as Subitems

Creating an item as a subitem of another item is one way to easily filter reports for a group of similar items. Your accounting data is not affected by having or not having items as subitems.

To make an item a subitem of another item:

1. Click **Lists**, **Item List**.
2. Double-click the item you want to assign as a subitem. The Edit Item dialog opens.
3. Place a check mark in the **Subitem of** box, as shown in Figure 3.20.
4. From the drop-down menu, select the item you want to relate this subitem to.

You can create a subitem only within the same item type; for example, service items cannot be subitems of inventory items.



Type: Service

Use for services you charge for or purchase, like specialized labor, consulting hours, or professional fees.

Item Name/Number: Plumbing

☑ Subitem of: Subs

Unit of Measure

☐ Item is inactive

☑ This service is used in assemblies or is performed by a subcontractor or partner

Purchase Information

Description on Purchase Transactions: Plumbing

Cost: 0.00

Expense Account: Cost of Goods Sold

Preferred Vendor: Lew Plumbing

Sales Information

Description on Sales Transactions: Plumbing

Sales Price: 0.00

Tax Code: Non

Income Account: Construction Incom...

FIGURE 3.20

Mark an item as a subitem of another list item.

You can also rearrange the list by assigning a subitem to another item by using your mouse pointer on the Item List to move the item up or down and to the right or left. This functionality is the same as the example discussed in the section titled “Removing Duplicated Accounts by Marking an Account Inactive” in Chapter 2.

Digging Deeper

Did you know that if you want your customer to see the discount you are providing them on the invoice, you should not use Price Levels? Instead, create your invoice as usual and then include your discount item type on the invoice. This way your customer will see the benefit of the discount.

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Chapter 4

Easily Review Your QuickBooks Data

- Client Data Review—*New for 2009!*
- Choosing a Reporting Basis
- Reviewing the Balance Sheet
- Additional Data Reviews

Client Data Review—*New for 2009!*

One of the most significant releases with QuickBooks 2009 is the Client Data Review (CDR) feature. Used primarily by accounting professionals, it is available in the QuickBooks Premier Accountant 2009 as well as the Accountant edition of QuickBooks Enterprise Solutions 9.0.

With the new Client Data Review feature comes more robust tracking of the changes your client makes to the data between your reviews. Additionally, if your client created an External Accountant user login for you, you will have access to these key benefits and features in non-accountant editions (see Chapter 17, "New for 2009! Detecting and correcting with the Client Data Review Feature" for more details):

- New troubleshooting tools and reports available only within the Client Data Review feature. These are identified in this chapter with the "tool" icon, such as the Troubleshooting Account Balances task that is a CDR-dependent feature.
- A trial balance that "remembers" the previously reviewed balances and compares to the same prior dated balances that QuickBooks calculates today.
- Stored, reviewed balances that your client cannot modify!
- Identifies what chart of accounts balances differ and the amount of the difference when compared to your prior period reviewed financials.
- View or modify the QuickBooks suggested adjusting journal entry created so that your reviewed balances agree with the current QuickBooks data for that prior period.
- Tracking changes to lists, additions, and name changes even tracking accounts or list items that were merged.
- Tracking changes to list items, accounts assigned or for payroll items tracking when a change to a rate is made.
- Working with the Open Windows dialog? Client Data Review will display in the Open Windows dialog enabling you to move efficiently between activities in QuickBooks.
- Conveniently work on Client Data Review in QuickBooks and modify or add transactions as normal with an immediate refresh of the data in your review.
- Functional in the Accountant's Copy file sharing format. (Some limitations specific to Accountant's Copy apply.) See Chapter 15, "Sharing Data with Your Accountant or Your Client" for more details.

There is not a better time to encourage your clients to upgrade to the newest version of QuickBooks. Only QuickBooks 2009 client files will offer this new innovative Client Data Review feature!

Choosing a Reporting Basis

Are you a business owner unsure of what critical information you should be reviewing in your data file and how often you should perform the review, or are you an accounting professional new to the QuickBooks software? This chapter provides you with the needed review and quick, easy-to-create reports with practical steps to manage your or your client's data. Each section references the chapter where you can find more detailed information.

If you are a business owner, you can use the quick methods in this chapter to better manage the results of your day-to-day transaction accuracy so that when you review reports, such as the Balance Sheet or Profit & Loss for your business, you can be confident the information is correct.

The frequency with which a business owner chooses to review his data often differs from the frequency with which an accountant reviews the same data. For a business owner, this review should be performed after the bank account is reconciled. Because so many transactions affect cash, reconciling the bank account often helps uncover data entry errors.

For the accounting professional, when your client learns how to review his data before your appointment, you can spend more time offering valuable business consulting with less time spent on transaction review.

Additionally, this book assumes that the business owner is not a graduated accountant. QuickBooks handles the "accounting" behind the scenes, making it easy to perform your day-to-day transactions. However, don't misunderstand me—you do need an accountant to review your data regularly and prepare financials for lending institutions, in addition to properly preparing your tax return.

This chapter provides a quick, step-by-step guide to navigating the many QuickBooks reports and alerts you to the ones that give you the valuable information you need.

When you review your QuickBooks reports, you have options for the accounting basis you want to report on. To set up the default reporting basis, click Edit, Preferences, select Reports & Graphs, and then click the Company preference tab (you must be logged in as the Admin or new External Accountant user). In the Preferences dialog that opens, select a Summary Report Basis of either Cash or Accrual:

- Cash Basis—Your Profit & Loss report shows expenses as of the date of the bill payment and income as of the date of your customer payment. No record of expense is recorded on the vendor bill date, and no income is recorded on the customer invoice date.
- Accrual Basis—Your Profit & Loss report shows expenses as of the date of the vendor bill and income as of the date of your customer invoice, whether or not these bills or invoices have been paid.

QuickBooks users can prepare reports in both types of basis. The need for selecting a specific basis is more a tax filing determination than a business management reporting decision. Certain Internal Revenue Service rulings govern what type of accounting is appropriate for certain businesses; this discussion is outside the scope of this book.

Digging Deeper

My recommendation is that business owners view their business Profit & Loss report in accrual basis. This method more accurately matches their expenses with the related revenue in the same accounting period. The business's accountant can then review the data in either cash or accrual basis reports. For more information on sharing data with an accountant, see Chapter 15, "Sharing Data with Your Accountant or Your Client."

The reports discussed in the remaining sections of this chapter use accrual basis reporting. The reports I recommend reviewing are just a suggestion; your business (or client) might need to use all or just some of the review recommendations listed here. Where appropriate, I have also referenced the related chapter in this book where you can get more detailed information about the particular review topic.

Reviewing the Balance Sheet

Did you know that the report a business owner is least likely to look at is also one of the most important? To the business owner, the Balance Sheet report shows the balance of assets (what the business owns), liabilities (what the business owes others), and equity (what was put into the business or taken out of the business). Because these numbers are important, a business owner should first review this report.

Remember, this chapter presents the reports in accrual basis unless otherwise mentioned.

Begin by creating a Balance Sheet report of your data; this is the primary report we use for review:

1. Click **Reports**, **Company & Financial** and choose the **Balance Sheet Standard** report. The report dialog opens.
2. Leave the report with today's date. You are going to first review your report with today's date before using any other date. In the following instructions, if a different date is needed, it will be noted in the step-by-step details. Verify that the top left of the report shows Accrual Basis. If not, click the **Modify Report** button on the report, and select **Accrual Basis** from the **Report Basis** options.
3. Click **OK** to accept the change in basis.

Figure 4.1 shows a sample data Balance Sheet.

Account Types

Reviewing the account types assigned requires some basic knowledge of accounting. If as a business owner you are unsure, this review provides the perfect opportunity for your accountant to take a quick look at how your accounts are set up.

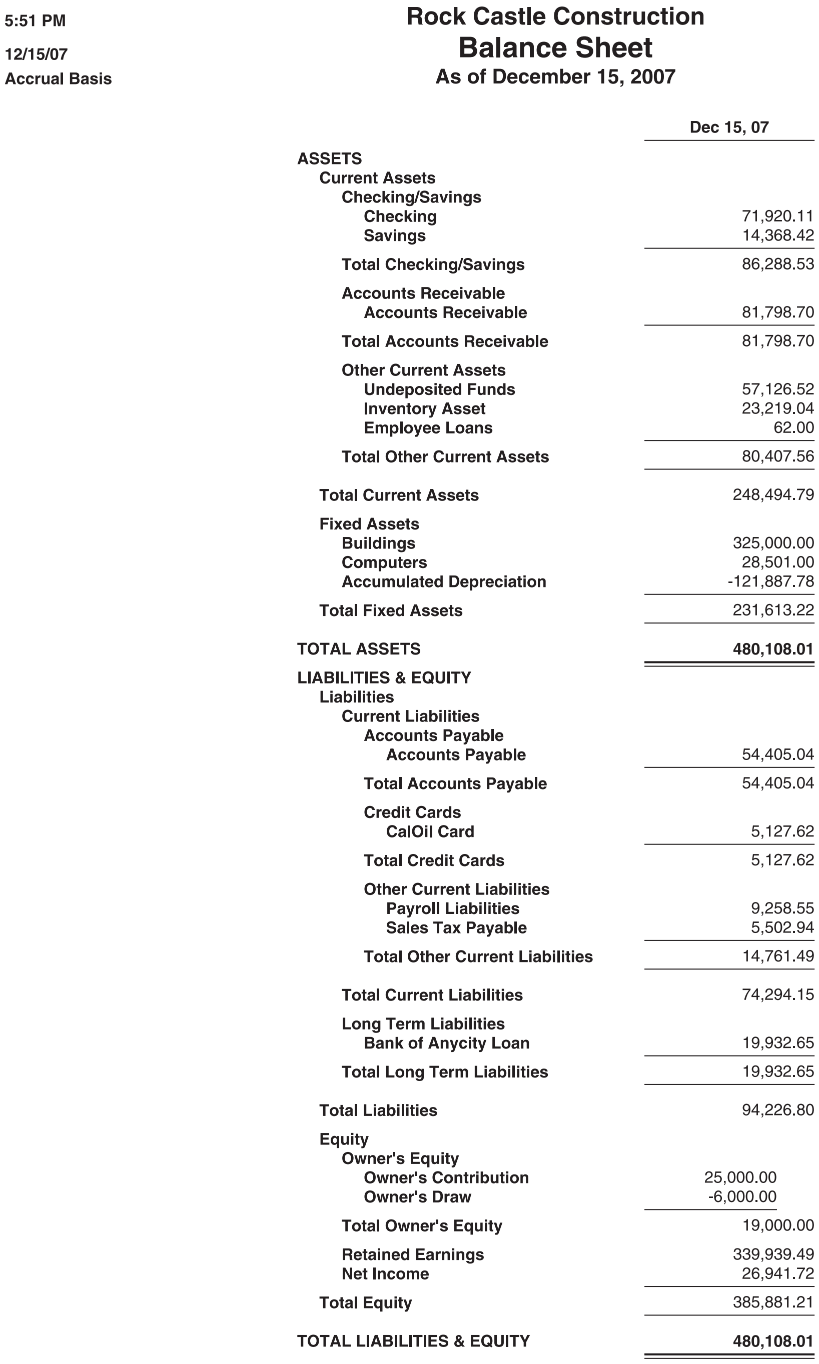
Review the names given to accounts. Do you see account names in the wrong place on the Balance Sheet? For example, does an Auto Loan account show up in the Current Asset portion of the Balance Sheet?

Follow these steps if you need to edit an account type:

1. Click **Lists**, **Chart of Accounts** to open the Chart of Accounts dialog.
2. Select the account in question with one click. Select the **Account** drop-down menu and select the **Edit** menu option. On the Edit Account dialog (see Figure 4.2), you can select the drop-down menu for **Account Type** to easily change the currently assigned account type (see Chapter 2, "Reviewing the QuickBooks Chart of Accounts").

Prior Year Balances

You should provide a copy of your Balance Sheet dated as of the last day of your tax year (or fiscal year) to your accountant and request that she verify that the balances agree with her accounting records used to prepare your tax return. This is one of the most important steps to take in your review because Balance Sheet numbers are cumulative over the years you are in business. You might need to provide the Balance Sheet report in both a cash and accrual basis. (See Chapter 5, "Power Reports for Troubleshooting Beginning Balance Differences," and Chapter 15 for a discussion about setting a closing date to protect prior year numbers.)



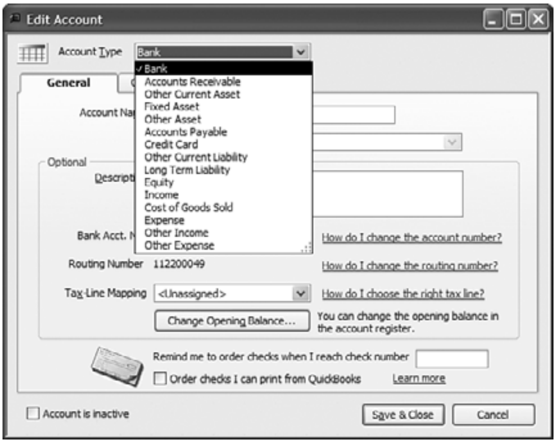
5:51 PM
12/15/07
Accrual Basis

Rock Castle Construction
Balance Sheet
As of December 15, 2007

		Dec 15, 07
ASSETS		
Current Assets		
Checking/Savings		
Checking		71,920.11
Savings		14,368.42
Total Checking/Savings		86,288.53
Accounts Receivable		
Accounts Receivable		81,798.70
Total Accounts Receivable		81,798.70
Other Current Assets		
Undeposited Funds		57,126.52
Inventory Asset		23,219.04
Employee Loans		62.00
Total Other Current Assets		80,407.56
Total Current Assets		248,494.79
Fixed Assets		
Buildings		325,000.00
Computers		28,501.00
Accumulated Depreciation		-121,887.78
Total Fixed Assets		231,613.22
TOTAL ASSETS		**480,108.01**
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
Accounts Payable		54,405.04
Total Accounts Payable		54,405.04
Credit Cards		
CalOil Card		5,127.62
Total Credit Cards		5,127.62
Other Current Liabilities		
Payroll Liabilities		9,258.55
Sales Tax Payable		5,502.94
Total Other Current Liabilities		14,761.49
Total Current Liabilities		74,294.15
Long Term Liabilities		
Bank of Anycity Loan		19,932.65
Total Long Term Liabilities		19,932.65
Total Liabilities		94,226.80
Equity		
Owner's Equity		
Owner's Contribution	25,000.00	
Owner's Draw	-6,000.00	
Total Owner's Equity		19,000.00
Retained Earnings		339,939.49
Net Income		26,941.72
Total Equity		385,881.21
TOTAL LIABILITIES & EQUITY		**480,108.01**

FIGURE 4.1

Review your Balance Sheet first, as in this example.


Edit Account
General
Account Na
Descripti
Bank Acct. N
✓ Bank
Accounts Receivable
Other Current Asset
Fixed Asset
Other Asset
Accounts Payable
Credit Card
Other Current Liability
Long Term Liability
Equity
Income
Cost of Goods Sold
Expense
Other Income
Other Expense
Optional
How do I change the account number?
How do I change the routing number?
How do I choose the right tax line?
Change Opening Balance...
Learn more
Save & Close
Cancel

Account Type: Bank

Routing Number: 112200049

Tax-Line Mapping: <Unassigned>

You can change the opening balance in the account register.

Remind me to order checks when I reach check number

☐ Order checks I can print from QuickBooks

☐ Account is inactive

FIGURE 4.2

The Edit or New Account dialog is where you assign the account type for proper placement of financial reports.

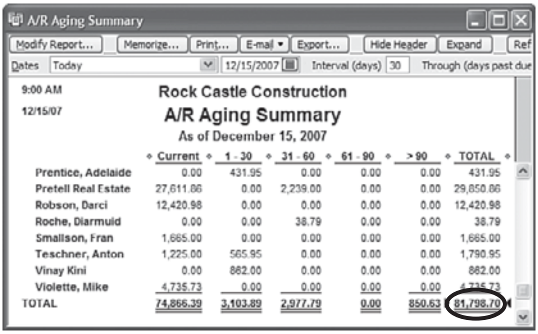
Bank Account Balance(s)

Compare your reconciled bank account balances on the Balance Sheet report to the statement your bank sends you. Modify the date of the Balance Sheet to be the same as the last date of your bank statement balance. Your QuickBooks cash "book" balance should be equal to the bank's balance plus or minus any uncleared deposits or checks/withdrawals dated on or before the statement ending date (see Chapter 6, "Bank Account Balance or Reconciliation Errors").

Accounts Receivable

The Accounts Receivable balance on your Balance Sheet report should agree with the A/R Aging Summary report total, as shown in Figure 4.3. Accounts Receivable reports are available only in accrual basis (see Chapter 7, "Reviewing and Correcting Accounts Receivable Errors").

To create the A/R Aging Summary report, click Reports, Customers & Receivables and choose the A/R Aging Summary or A/R Aging Detail report. Click Collapse on the top of the report to minimize (remove from view) the line detail, making the report easier to view at a glance. The total should match the Accounts Receivable balance on the Balance Sheet report, as was shown in Figure 4.1.



Dates Today 12/15/2007 Interval (days) 30 Through (days past due

9:00 AM
12/15/07

Rock Castle Construction
A/R Aging Summary
As of December 15, 2007

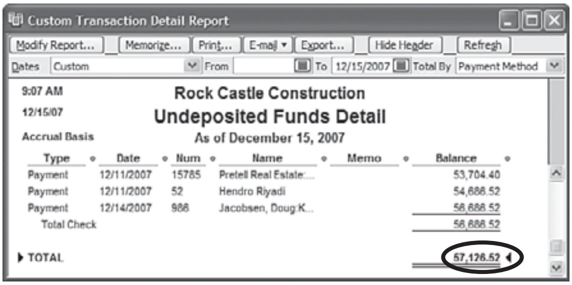
	Current	1 - 30	31 - 60	61 - 90	> 90	TOTAL
Prentice, Adelaide	0.00	431.95	0.00	0.00	0.00	431.95
Pretell Real Estate	27,611.86	0.00	2,239.00	0.00	0.00	29,850.86
Robson, Darci	12,420.98	0.00	0.00	0.00	0.00	12,420.98
Roche, Diarmuid	0.00	0.00	38.79	0.00	0.00	38.79
Smallson, Fran	1,665.00	0.00	0.00	0.00	0.00	1,665.00
Teschner, Anton	1,225.00	565.95	0.00	0.00	0.00	1,790.95
Vinay Kini	0.00	862.00	0.00	0.00	0.00	862.00
Violette, Mike	4,735.73	0.00	0.00	0.00	0.00	4,735.73
TOTAL	74,866.39	3,103.89	2,977.79	0.00	850.63	81,798.70

FIGURE 4.3

The A/R Aging Summary report total should agree with your Balance Sheet Accounts Receivable balance.

Undeposited Funds

The Undeposited Funds amount should agree with funds not yet deposited into your bank account, as shown in Figure 4.4 (use today's date on your Balance Sheet report). (See Chapter 8, "Reviewing and Correcting Errors with the Undeposited Funds Account.")



Dates Custom From To 12/15/2007 Total By Payment Method

9:07 AM
12/15/07
Accrual Basis

Rock Castle Construction
Undeposited Funds Detail
As of December 15, 2007

Type	Date	Num	Name	Memo	Balance
Payment	12/11/2007	15785	Pretell Real Estate:...		53,704.40
Payment	12/11/2007	52	Hendro Riyadi		54,688.52
Payment	12/14/2007	988	Jacobsen, Doug:K...		56,688.52
Total Check					56,688.52
TOTAL					57,126.52

FIGURE 4.4

A custom report created to show the detail of undeposited funds.

Create the following custom report to review the Undeposited Funds detail sorted by payment method:

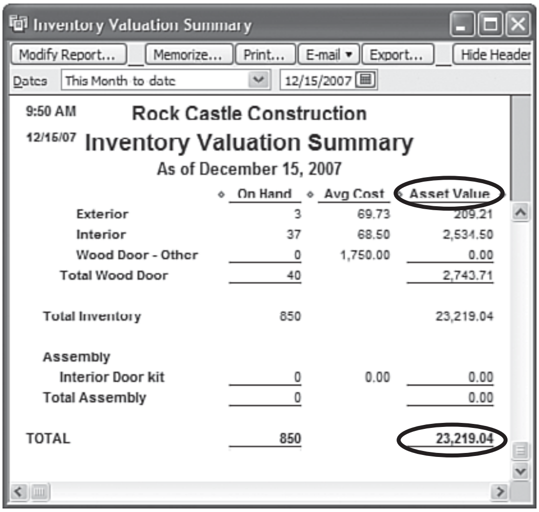
1. Click **Reports**, **Custom Transaction Detail**. The Modify Report dialog opens.
2. In the Report Date Range pane, select **All** (type an "a" without the quote marks and the date range defaults to All).

3. In the Columns pane, select those data fields that you want to view on the report and select **Payment Method** in the Total By drop-down menu.
4. Click the **Filters** tab; Account is already highlighted in the Choose Filter pane. Choose **Undeposited Funds** from the Account drop-down menu to the right.
5. Also in the Choose Filter pane, scroll down to select **Cleared**; on the right, choose Cleared **No**.
6. Optionally, click the **Header/Footer** tab and change the report title to **Undeposited Funds**. Click **OK** to view the report.

The amount of funds shown on this report should agree with the amount of funds you have not yet taken to the bank.

Inventory

The Inventory balance on the Balance Sheet report (refer to Figure 4.1) should agree with the Inventory Valuation Summary report total, as shown in Figure 4.5. The ending dates of both reports need to be the same.



Dates This Month to date 12/15/2007

9:50 AM Rock Castle Construction
12/15/07 Inventory Valuation Summary
As of December 15, 2007

	On Hand	Avg Cost	Asset Value
Exterior	3	69.73	209.21
Interior	37	68.50	2,534.50
Wood Door - Other	0	1,750.00	0.00
Total Wood Door	40		2,743.71
Total Inventory	850		23,219.04
Assembly			
Interior Door kit	0	0.00	0.00
Total Assembly	0		0.00
TOTAL	850		23,219.04

FIGURE 4.5

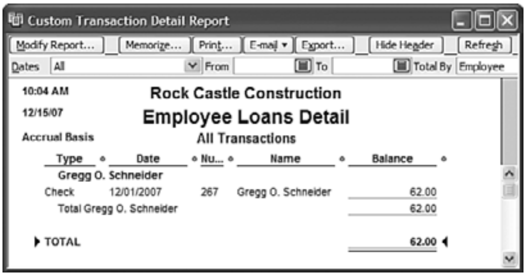
The total of the Asset Value column should agree with the Inventory balance on the Balance Sheet report.

To create the Inventory Valuation Summary report, click Reports, Inventory and choose the Inventory Valuation Summary report. The total in the Asset Value column should match the Inventory Asset balance of the Balance Sheet report (see Chapter 10, “Reviewing and Correcting Inventory Errors”).

Other Current Assets

The Other Current Asset accounts can differ widely by company. If you have employee loans, make sure your records agree with employees' records. For any other accounts in the Other Current Assets category, look to documentation outside QuickBooks to verify the reported balances.

Need an easy report to sort the detail in these Other Current Asset accounts by a list name? In this example, I created a detail report of the Employee Loans account sorted and subtotaled by employee, as shown in Figure 4.6. You can create this same report for any of your accounts, sorting in a way that improves the detail for your review (see Chapter 9, "Handling Other Current Asset Accounts Correctly").



Dates: All
From
To
Total By: Employee

10:04 AM
12/15/07
Accrual Basis

Rock Castle Construction
Employee Loans Detail
All Transactions

Type	Date	Nu...	Name	Balance
Gregg O. Schneider				
Check	12/01/2007	267	Gregg O. Schneider	62.00
Total Gregg O. Schneider				62.00
TOTAL				62.00

FIGURE 4.6

You can create a custom report to review balances in an Employee Loans account or any other asset account.

To create a detail report of your Other Current Asset accounts (in addition to other types of accounts):

1. Click **Reports**, **Custom Transaction Detail Report**. The Modify Report dialog appears.
2. On the Date Range pane drop-down menu, select **All**.
3. On the Columns pane, select what data you would like to see in the report.
4. Also on the Columns pane, select **Employee** from the Total By drop-down menu.
5. Click the **Filters** tab.
6. The Choose Filter pane already has selected the **Account** filter. On the right, from the Account drop-down menu, select the **Employee Loans** account (or select the specific account for which you want to see detail).
7. Optionally, click the **Header/Footer** tab and provide a unique report title. Click **OK** to create the modified report.

Verify the balances reported here with either the employees or outside source documents.

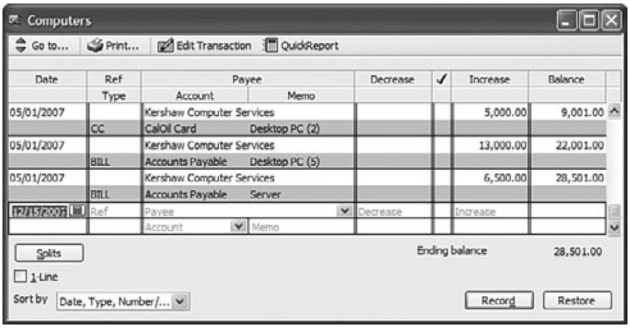
Fixed Assets

Fixed assets are those purchases that have a long-term life and for tax purposes cannot be expensed all at once but instead must be depreciated over the expected life of the asset.

Accountants can advise businesses on how to classify assets. If the numbers have changed from year to year, you might want to review what transactions were posted to make sure they are fixed asset purchases and not expenses that should appear on the Profit & Loss report.

If you have properly recorded a fixed asset purchase to this account category, provide your accountant with the purchase receipt and any supporting purchase documents for their depreciation schedule records.

If you see a change in the totals from one year to the next, you can review the individual transactions in the account register by clicking Banking, Use Register and selecting the account you want to review. Figure 4.7 shows the register for Fixed Assets—Computers. If a transaction was incorrectly posted here, you can edit the transaction by double-clicking the line detail and correcting the assigned account category.



Date	Ref Type	Payee Account	Memo	Decrease	✓	Increase	Balance
05/01/2007	 CC	Kershaw Computer Services CalOil Card	Desktop PC (2)			5,000.00	9,001.00
05/01/2007	 BILL	Kershaw Computer Services Accounts Payable	Desktop PC (5)			13,000.00	22,001.00
05/01/2007	 BILL	Kershaw Computer Services Accounts Payable	Server			6,500.00	28,501.00

Ending balance 28,501.00

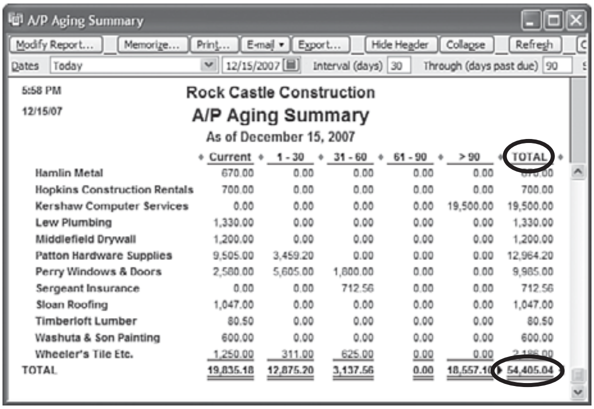
Sort by Date, Type, Number/...

FIGURE 4.7

Use registers for certain accounts to see the transactions that affect the balances.

Accounts Payable

The Accounts Payable balance on the Balance Sheet report should agree with the A/P Aging Summary report total, as shown in Figure 4.8. Accounts Payable reports are available only in accrual basis (see Chapter 11, "Reviewing and Correcting Accounts Payable Errors").



5:58 PM
12/15/07

Rock Castle Construction
A/P Aging Summary
As of December 15, 2007

	Current	1 - 30	31 - 60	61 - 90	> 90	TOTAL
Hamlin Metal	670.00	0.00	0.00	0.00	0.00	670.00
Hopkins Construction Rentals	700.00	0.00	0.00	0.00	0.00	700.00
Kershaw Computer Services	0.00	0.00	0.00	0.00	19,500.00	19,500.00
Lew Plumbing	1,330.00	0.00	0.00	0.00	0.00	1,330.00
Middlefield Drywall	1,200.00	0.00	0.00	0.00	0.00	1,200.00
Patton Hardware Supplies	9,505.00	3,459.20	0.00	0.00	0.00	12,964.20
Perry Windows & Doors	2,580.00	5,605.00	1,800.00	0.00	0.00	9,985.00
Sergeant Insurance	0.00	0.00	712.56	0.00	0.00	712.56
Sloan Roofing	1,047.00	0.00	0.00	0.00	0.00	1,047.00
Timberloft Lumber	80.50	0.00	0.00	0.00	0.00	80.50
Washuta & Son Painting	600.00	0.00	0.00	0.00	0.00	600.00
Wheeler's Tile Etc.	1,250.00	311.00	625.00	0.00	0.00	2,186.00
TOTAL	19,835.18	12,875.20	3,137.56	0.00	18,557.10	54,405.04

FIGURE 4.8

The A/P Aging Summary report total should agree with your Balance Sheet Accounts Payable balance.

To create the A/P Aging Summary or Detail report, click Reports, Vendors & Payables and select the A/P Aging Summary or Detail report. QuickBooks reports only Accounts Payable on an accrual basis (see Chapter 11).

Credit Cards

Your Credit Card account balance should reconcile with those balances from your credit card statement(s). You might have to adjust your Balance Sheet report date to match your credit card vendor's statement date. Now might be a good time to request that your credit card company provide you with a statement cut-off at the end of a month.

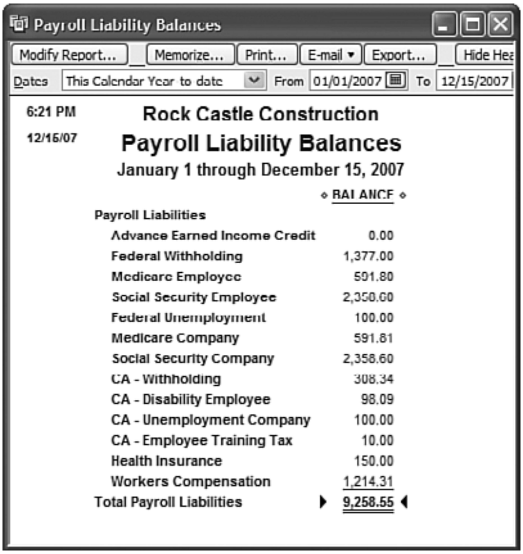
Digging Deeper

Did you know that you can download credit card transactions directly into your QuickBooks data? To find out more, click Banking, Online Banking, Participating Financial Institutions to see whether your credit card vendor participates.

Payroll Liabilities

The Payroll Liabilities balance on the Balance Sheet report should agree with your Payroll Liability Balances report total. Be careful with the dates here. If you have unpaid back payroll taxes, you might want to select a date range of All for this report. In Figure 4.9, I used This Calendar Year-to-Date as the date range (see Chapter 14, "Reviewing and Correcting Payroll Errors").

To create the Payroll Liability Balances report, click Reports, Employees & Payroll and select the Payroll Liability Balances report. Totals on this report should match your Balance Sheet report for the payroll liabilities account.



Dates This Calendar Year to date From 01/01/2007 To 12/15/2007

6:21 PM

12/16/07

Rock Castle Construction

Payroll Liability Balances

January 1 through December 15, 2007

	◆ BALANCE ◆
Payroll Liabilities	
Advance Earned Income Credit	0.00
Federal Withholding	1,377.00
Medicare Employee	591.80
Social Security Employee	2,358.60
Federal Unemployment	100.00
Medicare Company	591.81
Social Security Company	2,358.60
CA - Withholding	308.34
CA - Disability Employee	98.09
CA - Unemployment Company	100.00
CA - Employee Training Tax	10.00
Health Insurance	150.00
Workers Compensation	1,214.31
Total Payroll Liabilities	9,258.55

FIGURE 4.9

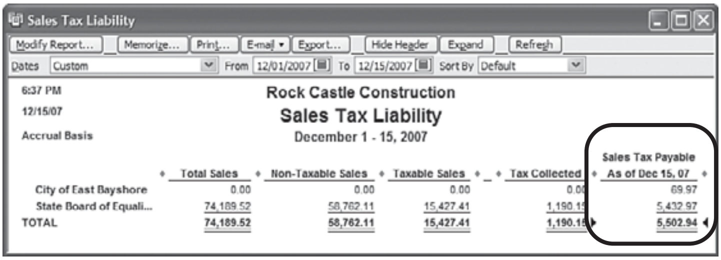
The Payroll Liability Balances report total should agree with the same total on the Balance Sheet report.

Sales Tax Payable

The Sales Tax Payable balance on the Balance Sheet report should agree with the Sales Tax Liability report balance. You might need to change the Sales Tax Payable report date to match that of your Balance Sheet. Caution: If you have set up your Sales Tax Preference as Cash Basis, you cannot compare this balance to an Accural Basis Balance Sheet report (see Chapter 12, "Reviewing and Correcting Sales Tax Errors").

To create the Sales Tax Liability report, click Reports, Vendors & Payables and select Sales Tax Liability report.

Make sure the To date matches that of the Balance Sheet report date. The total, shown in Figure 4.10, should match the Sales Tax Payable total on your Balance Sheet report.



Dates Custom From 12/01/2007 To 12/15/2007 Sort By Default

6:37 PM
12/15/07
Accrual Basis

Rock Castle Construction
Sales Tax Liability
December 1 - 15, 2007

	Total Sales	Non-Taxable Sales	Taxable Sales	Tax Collected	Sales Tax Payable As of Dec 15, 07
City of East Bayshore	0.00	0.00	0.00	0.0	69.97
State Board of Equali...	74,189.52	58,762.11	15,427.41	1,190.1	5,432.97
TOTAL	74,189.52	58,762.11	15,427.41	1,190.1	5,502.94

FIGURE 4.10

The Sales Tax Liability report total should match the Sales Tax Payable balance on your Balance Sheet report.

Other Current Liabilities and Long-Term Liabilities

Any other accounts that you might have in the Other Current Liabilities and Long-Term Liabilities account types should be compared with outside documents from your lending institutions.

Equity

Equity accounts differ for each company. These account balances should be reviewed by your accountant and might have tax adjustments made to them at year-end or tax time. Note: If you have an account called Open Bal Equity with a balance, this account should have a zero balance after the data file setup is completed (see Chapter 13, “Reviewing and Correcting the Opening Balance Equity Account”).

The reports discussed in this chapter do not make up an exhaustive, end-all list for reviewing your Balance Sheet, but they are a great start to reviewing your own data or your client’s data.

Additional Data Reviews

You can review some additional reports that add value to those discussed already. I discuss them in the remainder of this chapter, in no particular order.

Payroll Summary Total and Payroll Expense Total

It is important to compare your Payroll Summary report (if you are using QuickBooks to produce your employee’s paychecks) to the payroll expenses listed on your Profit & Loss Standard report. If you are using some outside payroll service, you also want to compare its total payroll expenses to your Profit & Loss reported payroll expenses (see Chapter 14).

Follow these steps to create the Payroll Summary and Profit & Loss Standard reports:

1. Click **Reports**, **Employees & Payroll** and select the **Payroll Summary** report.
2. On the report dialog that opens, select the **Dates** drop-down menu and choose **This Calendar Year-to-Date** (because payroll is reported by the calendar year).
3. Click **Reports**, **Company & Financial** and select the **Profit & Loss Standard** report.
4. On the report dialog that opens, select the **Dates** drop-down menu and choose **This Fiscal Year-to-Date** if your business is a calendar year company, or select **Custom** and create the report for the same dates as the Payroll Summary report (because payroll is reported by the calendar year).

Compare your Payroll Expense account(s) totals on your Profit & Loss report to your Payroll Summary report totals. Identify those items, such as gross wages, and company paid payroll taxes on the Payroll Summary report that are costs to your business; this total should be what you have reported on your Profit & Loss report for payroll expenses.

Sales by Item Summary Compared to Total Income

Chapter 3, “Reviewing and Correcting Item List Errors,” provides details on how the QuickBooks customer invoice requires the use of items. Therefore, another important review to perform is to generate a report showing Total Sales by Item and compare this total to the income that is recorded on your Profit & Loss report for the same report date range. Remember, you are reviewing these reports in accrual basis.

Follow these steps to create the Sales by Item Summary and Profit & Loss reports:

1. Click **Reports**, **Sales** and choose the **Sales by Item Summary** report.
2. On the Report dialog that opens, select the **Dates** drop-down menu and choose **This Fiscal Year-to-Date**. Compare the totals on this Sales by Item Summary report to the Profit & Loss report created in the next couple of steps.
3. Click **Reports**, **Company & Financial** and choose the **Profit & Loss Standard** report.
4. On the report dialog that opens, select the **Dates** drop-down menu and choose **This Fiscal Year-to-Date**.

The report totals from the Sales by Item Summary and Profit & Loss report total income should agree with each other. Note: If you report customer discounts as a negative income line item, you might need to add this total back in (see Chapter 3).

Net Income or (Loss) Agrees with Balance Sheet

QuickBooks automatically records Net Income or (Loss) to the Balance Sheet, but I still mention it because it is an important review to do, particularly at tax time.

1. Click **Reports**, **Company & Financial** and select the **Profit & Loss Standard** report.
2. On the Report dialog that opens, select the Date range of **This Fiscal Year-to-Date**.

Compare the Net Income (Loss) figure from the Profit & Loss report to the same figure in the equity section of the Balance Sheet report, making sure the reports are being prepared with the same accrual or cash basis. I've always seen these numbers match; however, if the numbers do not match, you want to verify data by clicking on File, Utilities and selecting Verify Data. If data integrity issues are reported, you can contact QuickBooks Technical Support for assistance at www.quickbooks.com/support.

Reconcile Discrepancies Account

More recent versions of QuickBooks now record any bank reconciliation discrepancies to an expense account automatically created by QuickBooks. (Earlier versions of QuickBooks used the Open Bal Equity account for these adjustments.) If an account named "Reconcile Discrepancies" appears at all on your Profit & Loss report, this account should have a zero balance. If it does not, you need to review why the bank account was reconciled with an adjustment (see Chapter 6). To remove a balance in this account, create a journal entry reassigning the expense to another account.

Cash Basis Balance Sheet Has Accounts Receivable or Payable

The problem of a cash basis Balance Sheet report having an accounts receivable or payable balance is perhaps more for the accounting professional than the business owner to review. The nature of accounts receivable and payable means that these accounts should have no balance when you're creating a Balance Sheet in a cash basis. There are, however, some reasons why this can happen:

- A/R or A/P transactions posting to other Balance Sheet accounts
- Inventory items on an invoice or credit memo
- Transfers between Balance Sheet accounts
- Unapplied A/R customer receipts or vendor A/P payments
- Payments applied to future-dated A/R or A/P invoices
- Preferences that contradict each other; for example, if you selected Cash Basis as your Summary Reports basis preference but Accrual Basis as your Sales Tax preference
- Data corruption; verify your data by clicking File, Utilities and selecting Verify Data

Create a transaction detail report to help you find these transactions:

1. Click **Reports**, **Company & Financial** and choose the **Balance Sheet Standard** report.
2. If your report is not currently prepared in cash basis (see top left of the report), click the **Modify Report** button on the report dialog. The Display tab is opened automatically.
3. Select **Cash** for the report basis.
4. Click **OK** to return to the report.
5. Double-click the **Accounts Receivable** or **Accounts Payable** amount in question. QuickBooks creates the Transaction by Account report.
6. Click the **Modify Report** button on the top of the report.
7. For the **Report Date Range**, remove the **From date** and leave the **To date**.
8. Click the **Advanced** button on the lower right and select the radial button in the Open Balance/Aging pane for **Report Date**.
9. Click the **Filters** tab.
10. From the Choose Filters pane, scroll down to select **Paid Status** and choose the **Open** option for Paid Status.
11. Click **OK** to create the modified Transaction by Account report.

This report now shows you the individual transactions that make up an unexpected balance in either Accounts Receivable or Payable on a Cash Basis Balance Sheet. Compare the transaction types listed on the report with the reasons they might appear as detailed earlier in this chapter. Knowing the transaction type will help you select the proper account(s) to correct.

Digging Deeper

Did you know that you can download a report template from the QuickBooks website that you can import into your data or your clients' data to provide this detail and other useful reports? See Chapter 16, "Reporting Tips and Tricks."

Go to www.quickbooksgroup.com. On the left, select QB Library. Then from the QB Library menu dialog, select Reports. QuickBooks provides a long list of reports available for you to download and import into your file or your clients' QuickBooks data files.

If you are a business owner, having completed this review of your data, you are now prepared with specific questions, and you can go to the specific chapter where you will find more detailed information. You have also gathered specific questions for your accountant and can request her advice on the methods you should use to make changes to your data.

If you are an accounting professional, you have easily identified areas of a client's file that might need more review. Refer to the appropriate chapter to find many useful step-by-step guidelines for troubleshooting and correcting any problems.

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