QAST10

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Companion to PPC's

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Interactive Self-study CPE

Companion to PPC's QuickBooks® Solutions

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To enhance your learning experience, the examination questions are located throughout the course reading materials. Please look for the exam questions following each lesson.

INTRODUCTION

Companion to PPC's QuickBooks® Solutions consists of two interactive self-study CPE courses. These are companion courses to PPC's QuickBooks Solutions® designed by our editors to enhance your understanding of the latest issues in the field. To obtain credit, you must complete the learning process by logging on to our Online Grading System at **OnlineGrading.Thomson.com** or by mailing or faxing your completed **Examination for CPE Credit Answer Sheet** for print grading by **February 28, 2011**. Complete instructions are included below and in the Test Instructions preceding the Examination for CPE Credit Answer Sheet.

Taking the Courses

Each course is divided into lessons. Each lesson addresses an aspect of QuickBooks®. You are asked to read the material and, during the course, to test your comprehension of each of the learning objectives by answering self-study quiz questions. After completing each quiz, you can evaluate your progress by comparing your answers to both the correct and incorrect answers and the reason for each. References are also cited so you can go back to the text where the topic is discussed in detail. Once you are satisfied that you understand the material, **answer the examination questions which follow each lesson**. You may either record your answer choices on the printed **Examination for CPE Credit Answer Sheet** or by logging on to our Online Grading System.

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COMPANION TO PPC'S QUICKBOOKS® SOLUTIONS

COURSE 1

ESTABLISHING A CLIENT ON QUICKBOOKS (QASTG101)

OVERVIEW

COURSE DESCRIPTION:	This interactive self-study course covers the creation of a company's initial records in QuickBooks. Lesson One will test knowledge and understanding of setting up a client in QuickBooks and creating the chart of accounts. Lesson Two discusses the utilization of the sales tax, inventory, and payroll features of QuickBooks.
PUBLICATION/REVISION DATE:	February 2010
RECOMMENDED FOR:	Users of *PPC's QuickBooks® Solutions: A Problem-solving Guide for Accounting Professionals*
PREREQUISITE/ADVANCE PREPARATION:	Basic knowledge of accounting**.**
CPE CREDIT:	4 QAS Hours, 4 Registry Hours Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program and allow QAS CPE credit hours. This course is based on one CPE credit for each 50 minutes of study time in accordance with standards issued by NASBA. Note that some states require 100-minute contact hours for self study. You may also visit the NASBA website at **www.nasba.org** for a listing of states that accept QAS hours.
FIELD OF STUDY:	Specialized Knowledge and Applications
EXPIRATION DATE:	Postmark by **February 28, 2011**
KNOWLEDGE LEVEL:	Basic

Learning Objectives:

Lesson 1—Creating a Company in QuickBooks

Completion of this lesson will enable you to:
- Identify methods for creating a company using the "Easy Step Interview" and manual entry.
- Develop and customize the chart of accounts.

Lesson 2—Establishing Sales Tax, Payroll and Inventory Information

Completion of this lesson will enable you to:
- Utilize sales tax and inventory information.
- Establish and utilize the payroll feature.
- Recognize how historical transactions should be entered into the system, use classes and lists, and define personal and company preferences.

TO COMPLETE THIS LEARNING PROCESS:

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QASTG101 Self-study CPE
36786 Treasury Center
Chicago, IL 60694-6700

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Lesson 1: Creating a Company in Quickbooks

INTRODUCTION

A QuickBooks file contains all of the relevant financial records of a single entity, including its name and address, vendor and customer lists, chart of accounts, employee data, and user preferences. Thus, before QuickBooks can be used to record an entity's financial activities, a company file must be created and set up. If QuickBooks is used to record the transactions of more than one entity, a separate file must be created for each entity. This course discusses the steps needed to create a company file in QuickBooks and customize it for a particular business's needs.

The course discusses the company setup and maintenance process using QuickBooks Pro, Premier, and Premier-Accountant 2010. Consequently, some of the procedures described may differ from those required by earlier versions. Nevertheless, the basic concepts discussed in this course apply to all versions of QuickBooks.

Learning Objectives:

Completion of this lesson will enable you to:

- Identify methods for creating a company using the "Easy Step Interview" and manual entry.
- Develop and customize the chart of accounts.

CREATING A COMPANY

A company can be created in QuickBooks using the "EasyStep Interview" or manually. The "EasyStep Interview" walks users through the process of creating a company by asking a series of questions, and then adapts QuickBooks to suit their business needs. Because it is an automated process that prompts users for the information needed, users less familiar with QuickBooks will find the interview to be the most efficient way to create a company. However, users more familiar with QuickBooks may find that it is faster to skip the "EasyStep Interview" and create the company manually.

Before You Begin

Before creating a company in QuickBooks, some basic information must be gathered. First, the start date must be determined. The start date is not the date on which the user sets up the QuickBooks company. Rather, it is the date chosen as the starting point for financial records in QuickBooks. Typically, the start date will be the last day of a fiscal period (e.g., last day of the month, quarter, or year). Although the QuickBooks materials discuss using a start date that is the first day of a period (month, quarter, or year), it is preferable to choose a start date that is at the end of the previous month, quarter, or year (e.g., December 31st instead of January 1st). If a company uses the first day of the period as the start date, QuickBooks will create uncategorized income and expense accounts to offset the opening balance entries in accounts payable and accounts receivable. If not corrected, the current period revenue and expense accounts, then, will be misstated. If the first day of the period was used as the start date and uncategorized income and expense accounts were created to offset opening balance entries, users should either open the accounts receivable and accounts payable registers and change the setup date to the end of the previous period, or close the uncategorized income and expense accounts to net assets. If the start date occurred in the past, historical records must be entered between the start date and the current date. If the start date is the current date, transactions can be entered prospectively. When choosing a start date, the following questions should be considered:

a. When is the beginning of the company's fiscal year?

b. How close are we to the last day of the fiscal year?

c. What is the most recent date for which an accurate balance sheet and income statement is available?

d. How far back is the client willing to enter historical transactions?

e. How many transactions does the company process per month?

f. Will the client use QuickBooks to track its payroll?

The answers to these questions help a company determine the most appropriate start date. If the decision as to when to implement is being made very close to the end of the company's fiscal year, it probably should finish the current year on its old system. (Otherwise, the company might have to enter an excessive number of historical transactions.) If the company will use QuickBooks to track its payroll, it should consider using the end of a calendar year or quarter as the start date.

Some general information about the company also will be needed during the set up process (e.g., tax identification numbers, historical financial information, vendor data, payroll information, etc.). Thus, before getting started, gather all of the company information that will be needed.

Creating a Company Using the "EasyStep Interview"

To start the "EasyStep Interview," select "Create a new company" in the opening screen or select "New Company" from the "File" menu.

In the first screen, users have the option of starting the interview, converting from Quicken, Peachtree, or Microsoft's Small Business Accounting (now named Microsoft Accounting), or skipping the interview. To start the "EasyStep Interview" click "Start Interview." QuickBooks must be in single-user mode before the "EasyStep Interview" can be used.

The "EasyStep Interview" consists of a series of screens that ask for information about the company. The answers to these questions will be used to set up some of the company's preference and also to customize the "Home Page." (The QuickBooks "Home Page" provides icons for many of the company's most common tasks.) The following topics are covered during the setup:

- *Company Information*—The "EasyStep Interview" asks for basic information about the company, such as name, address, phone number, e-mail address, web address, and federal taxpayer identification number.

- *Industry Type*—QuickBooks asks for the company's industry type. The list includes several industries. If the company's exact industry is not shown, choose one that is similar. Users cannot subsequently change this selection. Once the industry is chosen, QuickBooks gives industry-specific help prompts throughout the rest of the interview. It also automatically chooses the chart of accounts that most fits the company's needs. The suggested chart of accounts can be modified later during the interview; or, it can be customized after the interview is completed.

- *Type of Business Entity*—QuickBooks uses this information to add tax form lines to the "Tax Line" drop-down list in the "Add New Account" or "Edit Account" windows. The form selected can be changed later in the "Company Information" window of the "Company" menu; however, it is difficult to reassociate income and expense accounts with the tax lines on a new tax form.

- *Select First Month of the Company's Fiscal and/or Tax Year.*

- *QuickBooks Administrator*—QuickBooks automatically designates one user as the QuickBooks Administrator. The QuickBooks Administrator has unlimited access to all areas of QuickBooks and assigns passwords and access permissions to other users. The user can create a password for the QuickBooks Administrator in the "Easy Step Interview." The name and password for the QuickBooks administrator can also be set up by selecting "Set Up Users" from the "Company" menu.

- *What do you sell?*—This screen asks if the company sells services, products or both. QuickBooks will then use that information to tailor the rest of the "EasyStep Interview." For example, if the company sells products, they will have the opportunity to set up inventory.

- *Preferences*—The next series of screens ask the user certain basic questions about the company's activities. In these screens the user will document whether they will use QuickBooks to (among other things) sell products online, charge sales tax (QuickBooks will add sales tax-related accounts to the chart of accounts), create estimates, use sales receipts, use statements, use invoices, use progress invoicing, track bills owed, track inventory, accept credit cards, track time, track multiple currencies, or pay employees (QuickBooks will add payroll-related accounts to the chart of accounts). QuickBooks modifies some default answers based on the needs of a typical company in an industry.

- *Chart of Accounts*—As discussed earlier, QuickBooks automatically chooses the chart of accounts that most fits the company's needs based on the type of industry they choose. The suggested chart of accounts can be modified during this section of the interview; however, it can also be customized after the interview is completed.

- *Start Date*—To set up the chart of accounts, QuickBooks needs to know the "Start Date." As noted previously, this decision is critical. To set up the company, the user will have to enter all transactions between the start date and the current date. If that date is too early, hundreds of transactions could be involved. Therefore, entities should carefully consider the implications of which date to use. As noted in paragraph "Before You Begin," QuickBooks materials discuss using a start date that is the first day of a period (month, quarter, or year). In fact, in the EasyStep Interview, one of the options when selecting a start date is "Beginning of this fiscal year." The authors recommend choosing a start date that is at the end of the previous month, quarter, or year (e.g., December 31st instead of January 1st).

- *Bank Accounts*—In the next series of screens, users have the option of adding their bank accounts. The opening balance entered for bank accounts should be the balance shown on the most recent bank statement on or before the start date.

- *Income and Expense Accounts*—This section allows users to review the preset chart of accounts for income and expense accounts and either accept them (they can be edited later) or create their own later.

Although the "EasyStep Interview" is complete at this point, users must perform additional setup tasks. Users should also do the following:

a. *Set up an External Accountant User and Password.*

b. *Set up Users and Passwords.*

c. *Customize the Chart of Accounts to Make It More Useable.*

d. *Link General Ledger Accounts added after Easy Step Interview to lines on income tax forms.*

e. *Turn on "Classes" and Set up the Class List to Track Income and Expenses by Department or Location.*

f. *Set up Items to Capture Both Income and Expenses, If Applicable.*

g. *Set up Other Lists.* QuickBooks refers to groups of names or other information used by the company as lists. Lists include items, customer names and jobs, vendor names, and employee names, among others. Users must create certain lists before QuickBooks can properly track transactions—others can wait. (For example, employee lists must be completed to properly track W-2 information, and vendor lists must be completed to track accounts payable to vendors or issue a 1099 at year-end.)

h. *Set up Customer Types and Custom Fields for Customers, If Needed.* Customer types allow the company to segregate transactions based on the source of revenue. Some customer types include the following: residential, corporate, self-pay, insurance, and Medicare. Some custom fields include the following: city, county, spouse's name, insurance company, referred by, industry code, birthday, email address, and company size.

i. *Set up Payroll.*

j. *Set up Company Preferences.* While the "EasyStep Interview" sets up certain preferences, there are many more preferences that should be set up before entries are made (such as whether to use the cash or accrual basis of accounting, require that general ledger account names be entered before an entry will post, select a closing date, etc.). Read through the preferences and select the ones appropriate to the company.

k. *Set up Other Areas of QuickBooks.*

l. *Enter Opening Balances.* Opening balances are not entered in the "EasyStep Interview" except for bank account balances. Most income and expense account balances are created automatically when historical transactions are entered. (For example, if there is a balance in an expense account, entering the checks or vendor invoices from the beginning of the year to the setup date will build the expense balance and detail through the setup date.) Any accounts with balances on the start date will need to be added.

m. *Enter Historical Transactions.*

n. *Customize Invoices and Forms.*

o. *Create Reports in QuickBooks to Ensure Accounts, Lists, and Classes Have Been Set up Appropriately.*

p. *Follow-up on and Correct Any Errors Created during the Setup.*

Creating a Company Manually

Those familiar with QuickBooks may find it faster to bypass the "EasyStep Interview" and manually create a company. That way, they can enter only the basic information needed to get started and fine-tune the setup later. The following briefly describes the steps needed to manually create a company in QuickBooks.

a. *Define the Company.* Choose "New Company" from the "File" menu and the "EasyStep Interview" window appears. Click "Skip Interview" and the Skip Interview window will appear.

   Follow the onscreen prompts to fill in company information, select the business entity, select the first month of the fiscal and income tax year, and select the industry. Be careful when selecting the income tax form used. QuickBooks uses that information to assign tax-related accounts to tax form lines. While it is not difficult to change the form later, it is difficult to reassociate income and expense accounts with the tax lines on the new tax form. After completing the screens, click "Finish" to save the company file.

b. *Select Preferences.* How QuickBooks looks and acts can be customized to a certain degree by setting preferences for users and for the company. To set preferences, choose "Preferences" from the "Edit" menu. Read through the preferences and select the ones appropriate to the company.

c. *Set up an External Accountant User and Password.*

d. *Set up Users and Passwords.*

e. *Create and Customize the Chart of Accounts.* QuickBooks automatically selects a preset chart of accounts based on the industry specified when the company was created. Before entering transactions, however, review the preset chart of accounts and add or delete accounts so that it accurately represents the business.

f. *Set up Items to Capture Both Income and Expenses, If Applicable.*

g. *Set up the Class List to Track Income and Expenses by Department or Location.*

h. *Set up the Other Lists.* Groups of names or other information used by QuickBooks are referred to as lists. Lists include items, customer names and jobs, vendor names, and employee names, among others. While all lists need not be created immediately, certain lists must be completed before transactions can be tracked properly. (For example, employee lists must be completed to properly track W-2 information, and vendor lists must be completed to track accounts payable to vendors or issue a 1099 at year-end.)

i. *Set up Payroll.*

j. *Set up Other Areas of QuickBooks.*

k. *Enter Opening Balances.* As the company's customers and vendors are entered into QuickBooks lists, opening balances with an "as of date" equal to the start date also need to be entered. When entering the opening balance for each customer, the accounts receivable opening balance is built. When the opening balances for vendors are entered, the accounts payable opening balance is built. However, users should enter the individual invoices and vendor bills making up the outstanding balances at a later point in the setup. The opening balances for other balance sheet accounts will also need to be entered. All opening balances of balance sheet accounts are not determined as of the QuickBooks start date. For example, bank and credit card opening balances are determined as of the last statement date on or before the QuickBooks start date. To enter opening balances manually, select the appropriate list ("Customers & Jobs," "Vendor," or "Chart of Accounts"), choose "New" or "Edit," and enter the opening balance. The "Customers & Jobs" list is the same list as the "Customer:Job" list. In the "Customer Center" it is referred to as the "Customers & Jobs" list and on forms it is referred to as the "Customer:Job" list.

l. *Enter Historical Transactions.*

m. *Customize Invoices and Forms.*

Although it is possible to fine tune a manual setup later, users should do the following before entering new transactions:

- *Create Reports in QuickBooks to Ensure Accounts, Lists, and Classes Have Been Set up Appropriately.*

- *Follow up on and Correct Any Errors Created during the Setup.*

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

1. Before creating a company in QuickBooks, some basic information must be gathered. Which statement applies to entering a start date?

   a. The start date is the date the user sets up the company in QuickBooks.

   b. The start date should be the beginning of the calendar year if using QuickBooks to track payroll.

   c. The start date should typically be the last day of a fiscal year.

2. After the "EasyStep Interview" is complete, users must perform additional setup tasks. These additional tasks do **not** include which of the following?

   a. Setting up company preferences.

   b. Inputting the company's federal taxpayer identification number.

   c. Customer types are setup.

   d. Entering opening balances.

3. Frank is setting up his company in QuickBooks. He owns an auto parts business with three locations. Which of the following would he activate to help him track income and expenses by location and department?

   a. Classes.

   b. Preferences.

   c. Lists.

   d. Income details.

4. Kathy has worked with QuickBooks before and has been asked by a client to set up their company. Which method would Kathy select?

   a. Use the "Easy Step Interview" process because it is easier.

   b. Use the Opening Balances interview.

   c. Set up company manually because it will be faster.

   d. Skip the "Easy Step Interview" and select the "What's Next?" interview.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

1. Before creating a company in QuickBooks, some basic information must be gathered. Which statement applies to entering a start date? **(Page 3)**

    a. The start date is the date the user sets up the company in QuickBooks. [This answer is incorrect. The start date is not the date on which the user sets up the QuickBooks company. Rather, it is the date chosen as the starting point for financial records in QuickBooks.]

    b. The start date should be the beginning of the calendar year if using QuickBooks to track payroll. [This answer is incorrect. If the company will use QuickBooks to track its payroll, it should consider using the end of a calendar year or quarter as the start date.]

    c. The start date should typically be the last day of a fiscal year. [This answer is correct. Typically, the start date will be the last day of a fiscal period, e.g., the last day of the month, quarter, or year. If the start date occurred in the past, historical records must be entered between the start date and the current date. If the start date is the current date, transactions can be entered prospectively.]

2. After the "EasyStep Interview" is complete, users must perform additional set up tasks. These additional tasks do **not** include which of the following? **(Page 5)**

    a. Setting up company preferences. [This answer is incorrect. While the "EasyStep Interview" sets up certain preferences, there are many more preferences that should be set up before entries are made, such as whether to use the cash or accrual basis of accounting, require that general ledger account names be entered before an entry will post, select a closing date, etc. These company preferences should be set up after the "EasyStep Interview" is complete.]

    b. Inputting the company's federal taxpayer identification number. [This answer is correct. The first part of the "EasyStep Interview" is the "General" section. The information required in this section includes "Company Info." The "Company Info" tab asks for basic information about the company, such as name, address, federal taxpayer identification number, the first month of the company's tax and fiscal years, and how many users will have access to the company file.]

    c. Customer types are set up. [This answer is incorrect. Customer types and custom fields for customers are set up after the "EasyStep Interview" is complete. Customer types allow the company to segregate transactions based on the source of revenue and is an additional set up task required by the user.]

    d. Entering opening balances. [This answer is incorrect. Opening balances are not entered in the "EasyStep Interview" except for bank account balances. Most income and expense account balances are created automatically when historical transactions are entered.]

3. Frank is setting up his company in QuickBooks. He owns an auto parts business with three locations. Which of the following would he activate to help him track income and expenses by location and department? **(Page 5)**

    a. Classes. [This answer is correct. One of the uses of "Classes" is to capture income and expenses by location or department. Therefore, many businesses should answer "yes" to this question.]

    b. Preferences. [This answer is incorrect. The "Preferences" tab asks certain basic questions about the company's activities. This is where the company documents whether it will use QuickBooks to (among other things) track inventory, pay employees, and track accounts payable but it does not track income and expenses by location and department. QuickBooks modifies some default answers based on the needs of a typical company in an industry.]

    c. Lists. [This answer is incorrect. Lists are the framework of QuickBooks and are used to fill out most QuickBooks forms. Lists must be completed before transactions can be properly completed. Lists include items, customer names and jobs, vendor names, and employee names, among others.]

d. Income details. [This answer is incorrect. This section asks questions about the income received from the services the company provides and/or the products it sells but does not track income and expenses by location and department.]

4. Kathy has worked with QuickBooks before and has been asked by a client to set up their company. Which method would Kathy select? **(Page 6)**

a. Use the "Easy Step Interview" process because it is easier. [This answer is incorrect. The "EasyStep Interview" walks users through the process of creating a company by asking a series of questions, and then adapts QuickBooks to suit their business needs. Because it is an automated process that prompts users for the information needed, users less familiar with QuickBooks will find the interview to be the most efficient way to create a company. However, users more familiar with QuickBooks may find that it is faster to skip the "EasyStep Interview."]

b. Use the Opening Balances interview. [This answer is incorrect. The Opening Balances Interview is a section of the "EasyStep Interview" and is not how a user would set up a company.]

c. Set up company manually because it will be faster. [This answer is correct. Those familiar with QuickBooks may find it faster to bypass the "EasyStep Interview" and manually create a company. That way, they can enter only the basic information needed to get started and fine-tune the setup later.]

d. Skip the "Easy Step Interview" and select the "What's Next?" interview. [This answer is incorrect. The "What's Next?" interview is the final section of the "EasyStep Interview" and includes help topics and reminds users to create a backup copy of the company, enter historical transactions, set up users and passwords, customize forms, set up 1099 tracking, and sign up for one of the Intuit Payroll Services. No data entry is required.]

CREATING AND CUSTOMIZING THE CHART OF ACCOUNTS

The chart of accounts is the most important QuickBooks list. It is used to track how much money a company has, how much money it owes, how much money is coming in, and how much money is being spent. It is not necessary to have a chart of accounts that provides for every conceivable transaction. Instead, the chart of accounts should include the minimum number of accounts necessary to capture the appropriate financial information and be flexible enough to allow for future growth. The chart of accounts should be designed to include the accounts necessary for financial and income tax reporting.

When they create a company, QuickBooks users may select a predefined chart of accounts for a particular industry, copy a chart of accounts from another company created in QuickBooks, or import a chart of accounts from another source. In any case, the chart of accounts may or may not be sufficient for the entity's needs. It also may be necessary to add, edit, or delete accounts from the chart of accounts for other reasons. The following paragraphs discuss modifying the chart of accounts in QuickBooks.

Should Account Numbers Be Used?

QuickBooks allows users to assign numbers to each account or refer to accounts by account name. While it may be tempting to omit account numbers and use account names only, using account numbers has advantages. As the chart of accounts becomes lengthy, it is easier to locate individual accounts if they are numbered and sorted by account number. Adding numbers also can help identify the type of accounts, thereby speeding up the account selection on various forms. For example, the following series of account numbers may be used:

Category	Account Numbers
Assets	1000–1999
Liabilities	2000–2999
Equity	3000–3999
Revenues	4000–4999
Expenses	5000–5999
Other Income and Expense	6000–6999
Income Tax Expense	7000–7999
or	
Assets	100–199
Liabilities	200–299
Equity	300–399
Revenues	400–499
Expenses	500–599
Other Income and Expense	600–699
Income Tax Expense	700–799
or	
Assets	100.00–199.99
Liabilities	200.00–299.99
Equity	300.00–399.99
Revenues	400.00–499.99
Expenses	500.00–599.99
Other Income and Expense	600.00–699.99
Income Tax Expense	700.00–799.99

QuickBooks limits the length of account names to 31 letters and spaces and the length of account numbers to seven digits.

The account numbers preference can be activated by (a) selecting "Preferences" from the "Edit" menu, (b) selecting the "Accounting" icon that appears on the left of the screen, and (c) checking the "Use account numbers" checkbox on the "Company Preferences" tab. The "Show lowest subaccount only" checkbox also may be activated to hide parent account numbers when a subaccount number is displayed. For example, if account

1501—Parts Inventory is created as a subaccount of account 1500—Inventory, the subaccount description would be displayed as "1500—Inventory: 1501—Parts Inventory" if the "Show lowest subaccount only" preference is not activated and "1501—Parts Inventory" if the preference is activated.

Adding Accounts

Adding an account in QuickBooks is fairly simple. Select "Chart of Accounts" from the "Lists" menu, click the "Account" button on the dialog box that appears, and select "New." An "Add New Account: Choose Account Type" dialog box should appear.

After selecting the account type, click the "Continue" button, and an "Add New Account" dialog box should appear.

Select the type of account that is being added and fill in the requested information. (The "Description" and "Bank Acct. No." information is optional.) Be sure to specify the line of the entity's tax form in which the account balance should be included if tax reports will be printed or QuickBooks data will be transferred to tax return preparation software. The "Tax Line" drop-down menu displays the lines of the tax form that was specified when the company was created. (For example, if Form 1040 was chosen, tax lines for Form 1040 and the schedules and forms typically filed with Form 1040 will be shown.) If the tax form was not specified when the company was created, users can select an income tax form by selecting "Company Information" from the "Company" menu. If the account is a balance sheet account, enter an opening balance based on the account's balance as of the *QuickBooks start date*. All balances are not entered as of the QuickBooks start date. For example, bank and credit card balances are entered as of the last statement dated on or before the QuickBooks start date. If you are not sure of the balance, leave the field blank and enter the information later.

Deleting Accounts

To delete an account from the chart of accounts, select "Chart of Accounts" from the "Lists" menu, highlight the account that is to be deleted, click the "Account" button, and select "Delete." Note that an account may be deleted only if it has not been used. Thus, an account cannot be deleted if it:

- Has items assigned to it.
- Is used in transactions, including memorized transactions.
- Is used by payroll items.
- Has an online message associated with it.
- Has a subaccount. (If the account has subaccounts, either move the subaccounts to another parent account or delete the subaccounts before deleting the parent account.)

Creating Subaccounts

An account may have several subaccounts to help track the business in more detail. For example, the advertising parent account may have subaccounts for television, newspaper, and trade show, and those accounts may have further subaccounts. (QuickBooks supports up to five levels of accounts.) When financial reports are printed, subaccounts are grouped together and a subtotal is shown for the group. The user may want to consider using classes as an alternative to a large chart of accounts with separate subaccounts.

To create a subaccount, create a new account, but check the "Subaccount of" box. Then, choose the new account's parent account from the drop-down list.

The parent and subaccount's types must be the same. For example, if the parent account is an expense account, the subaccount must be an expense account. Also note that the subaccount inherits the active/inactive status of the parent account.

To allow for the most detail in the financial reports, associate tax lines with subaccounts rather than parent accounts. Do not associate tax lines with both the parent account and the subaccount—doing so will cause duplication in the income tax reports. To disassociate a tax line from the parent account, highlight the parent account, click the "Account" button, and select "Edit." Then, choose "unassigned" from the "Tax Line" drop-down menu.

Items, Classes, and Lists

In QuickBooks, only part of the important financial information is captured by the chart of accounts. To keep the chart of accounts from being unwieldy and to improve the speed at which transactions are captured, QuickBooks uses items, classes, and lists to capture specialized information. Properly setting up these features is discussed further in this course.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

5. When using the Chart of Accounts, it is necessary to do which of the following?

   a. Create a list of accounts that provides for every conceivable transaction.

   b. Use the industry specific chart of accounts instead of creating new accounts.

   c. Avoid using account numbers, especially if the chart of accounts is lengthy.

   d. Design the chart of accounts to include the accounts necessary for financial and income tax reporting.

6. Which of the following accurately reflects the procedures for setting up subaccounts on the chart of accounts?

   a. Tax lines should be associated with subaccounts rather than parent accounts.

   b. An account can only have one subaccount.

   c. There is only one level of subaccounts available in QuickBooks.

   d. The parent account and subaccount do not have to be the same type.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

5. When using the Chart of Accounts, it is necessary to do which of the following? **(Page 12)**

    a. Create a list of accounts that provides for every conceivable transaction. [This answer is incorrect. It is not necessary to have a chart of accounts that provides for every conceivable transaction. Instead, the chart of accounts should include the minimum number of accounts necessary to capture the appropriate financial information and be flexible enough to allow for future growth.]

    b. Use the industry specific chart of accounts instead of creating new accounts. [This answer is incorrect. When they create a company, QuickBooks users may select a predefined chart of accounts for a particular industry, copy a chart of accounts from another company created in QuickBooks, or import a chart of accounts from another source. In any case, the chart of accounts may or may not be sufficient for the entity's needs. It also may be necessary to add, edit, or delete accounts from the chart of accounts for other reasons.]

    c. Avoid using account numbers, especially if the chart of accounts is lengthy. [This answer is incorrect. QuickBooks allows users to assign numbers to each account or refer to accounts by account name. While it may be tempting to omit account numbers and use account names only, using account numbers has advantages. As the chart of accounts becomes lengthy, it is easier to locate individual accounts if they are numbered and sorted by account number. Adding numbers also can help identify the type of accounts, thereby speeding up the account selection on various forms.]

    d. Design the chart of accounts to include the accounts necessary for financial and income tax reporting. [This answer is correct. The chart of accounts is the most important QuickBooks list. It is used to track how much money a company has, how much money it owes, how much money is coming in, and how much money is being spent. It is not necessary to have a chart of accounts that provides for every conceivable transaction. Instead, the chart of accounts should include the minimum number of accounts necessary to capture the appropriate financial information and be flexible enough to allow for future growth. The chart of accounts should be designed to include the accounts necessary for financial and income tax reporting.]

6. Which of the following accurately reflects the procedures for setting up subaccounts on the chart of accounts? **(Page 13)**

    a. Tax lines should be associated with subaccounts rather than parent accounts. [This answer is correct. To allow for the most detail in the financial reports, associate tax lines with subaccounts rather than parent accounts. Do not associate tax lines with both the parent account and the subaccount—doing so will cause duplication in the income tax reports. To disassociate a tax line from the parent account, highlight the parent account, click the "Account" button, and select "Edit." Then, choose "unassigned" from the "Tax Line" drop-down menu.]

    b. An account can only have one subaccount. [This answer is incorrect. An account may have several subaccounts to help track the business in more detail. For example, the advertising parent account may have subaccounts for television, newspaper, and trade show, and those accounts may have further subaccounts. When financial reports are printed, subaccounts are grouped together and a subtotal is shown for the group.]

    c. There is only one level of subaccounts available in QuickBooks. [This answer is incorrect. An account may have several subaccounts to help track the business in more detail. QuickBooks supports up to five levels of accounts.]

    d. The parent account and subaccount do not have to be the same type. [This answer is incorrect. The parent and subaccount's types must be the same. For example, if the parent account is an expense account, the subaccount must be an expense account. Also note that the subaccount inherits the active/inactive status of the parent account.]

EXAMINATION FOR CPE CREDIT

Lesson 1 (QASTG101)

Determine the best answer for each question below. Then mark your answer choice on the Examination for CPE Credit Answer Sheet located in the back of this workbook or by logging onto the Online Grading System.

1. What is true regarding the "EasyStep Interview" process?

   a. Quickbooks allows converting data from Peachtree and Quicken.

   b. Many users can be involved in the setup of "EasyStep Interview" at the same time.

   c. "EasyStep Interview" is the only way to get a company set up on Quickbooks.

   d. The "EasyStep Interview" requires the user to enter all applicable data for the company. There are no defaults set.

2. Which of the following is information that must be entered in the initial "EasyStep Interview" when setting up information about the company in Quickbooks?

   a. The company's type of business entity.

   b. Information on users of the system.

   c. Custom fields for customers of the company.

   d. The payroll system of the company.

3. There are additional steps that must be taken after the "EasyStep Interview" is complete. Which of the following is **not** one of those steps?

   a. Input historical information.

   b. Set up payroll.

   c. Input the Company information.

   d. Set up users and passwords.

4. Which of the following is the most important QuickBooks list?

   a. Vendor.

   b. Chart of accounts.

   c. Employee.

   d. Customer.

5. An account can be deleted from the chart of accounts only if:

   a. There are items assigned to it.

   b. The account has not been used.

   c. The account has been used in transactions, including memorized transactions.

   d. It has a subaccount.

6. In QuickBooks, only part of the important financial information is captured by the chart of accounts. To keep the chart of accounts from being unwieldy and to improve the speed at which transactions are captured, QuickBooks uses all **except** which one of the following:

   a. Subaccounts.

   b. Classes.

   c. Lists.

   d. Items.

Lesson 2: Establishing Sales Tax, Payroll and Inventory Information

INTRODUCTION

After a company has been created and the chart of accounts is in good shape, there are a few additional things that may need to be done. These include—

- Setting up budgets.
- Setting up service items.
- Setting up price levels.
- Setting up fixed assets.
- Setting up loans payable.
- Setting up vehicle mileage tracking.
- Setting up sales tax.
- Setting up inventory.
- Adjusting the "Opening Balance Equity" Account.
- Adjusting uncategorized income and expenses.

This lesson discusses setting up and adjusting other areas of QuickBooks.

Learning Objectives:

Completion of this lesson will enable you to:
- Utilize sales tax and inventory information.
- Establish and utilize the payroll feature.
- Recognize how historical transactions should be entered into the system, use classes and lists, and define personal and company preferences.

Setting up Budgets

Companies use budgets as a vital tool in controlling their operations. QuickBooks can prepare reports that compare monthly actual versus budgeted results for each account, job, and class. Only two of these fields can be selected at the same time.

To create a new budget in QuickBooks, select "Planning & Budgeting" and then "Set Up Budgets" from the "Company" menu. If a budget currently exists, the most recent budget will be displayed in the "Set Up Budgets" window. To create a new budget, click the "Create New Budget" button in the upper right hand corner.

Select the year and type of budget to create in the "Create New Budget" window. If a profit and loss budget is created, the user can specify additional criteria of either Customer:Job or Class. When using either of these criteria, the user can build the budget from a lower level of aggregation. (Class tracking must be turned on for the class budget criteria to be available.)

Next, select whether to create the budget from scratch (manually enter the amounts for each account to track) or from previous year's actual data. (QuickBooks automatically enters the monthly totals from the previous year for each account in the budget.)

If creating the budget from scratch, the user must drop in the budgeted amount for each month or an amount for the entire year. The screen will display all the profit and loss accounts in a column. Users will drop in the amounts by account. If the user chooses to budget by customer:job or class, the user will enter separate amounts for each category. For example, if a user with two locations (Downtown and Mall) wants to create separate budgets for each, he or she will make the two location classes and will budget by class. To do so, the user will select a location from the drop-down list. After entering the budgeted amounts for each month or an amount for the entire year for that location, he or she will change the location on the drop-down list and enter amounts for the other location.

To view the amounts budgeted, select "Budgets" ("Budgets & Forecasts" in QuickBooks Premier and Premier-Accountant) from the "Reports" menu and select a report. Then, use the "Budget Report" wizard to select the report layout.

Setting up Service Items

Service items are used to track services a company buys or sells (e.g., design, landscaping, office visit, labor, etc.). Service items display on invoices and can be set up to include the item name, the description, the rate (price), and the account to be credited when an item sells. This allows quicker data entry on invoices. Most companies will invoice their customers for service items (e.g., professional fees, labor, etc.), rather than inventory purchases. To set up a service item, select "Item List" from the "Lists" menu. Select "New" from the "Item" drop-down list. Select "Service" in the "Type" drop-down list. Enter an item name in the "Item Name/Number" field and a description that will be displayed on an invoice or other document in the "Description" field. If there is a standard rate, enter it in the "Rate" field. If the amount varies, leave the "Rate" field blank. Select an account to which this revenue should be attributed from the "Account" drop-down list and enter the three-character sales tax code, if applicable.

Although items are not required on checks, bills, credit card forms, and time tracking forms, when they are used, companies gain access to important financial information. When companies use items to record purchases as well as sales, QuickBooks can print reports that show the income, expenses, and profitability of a particular product, service, or customer:job.

To use the same item name for both income and expenses (i.e., a "two-sided" item), do the following:

- Set up a service item using the same steps as in the previous paragraph.
- Select "This service is used in assemblies or is performed by a subcontractor or partner." QuickBooks will display boxes into which item descriptions are placed for purchase transactions and sales transactions. Enter the cost for the item (if it is purchased) and the expense account that should be used. If a preferred vendor or subcontractor provides the service, enter the vendor's name.
- Select "OK."

Setting up Price Levels

Some companies charge selected customers a discounted or increased price (for example, a company might give a set discount to a high-volume customer or charge a premium if a customer requests a customized product). QuickBooks can automate discount or write-up pricing using the price level feature. If a user documents a price level on a customer's record, QuickBooks will automatically apply the discount or write up to all items when preparing that customer's invoice. Alternatively, when preparing an invoice, users can manually choose a price level by selecting it from the drop-down list next to the rate field.

To set up a price level, select "Price Level List" under the "Lists" menu. (This option will not display unless the "use price levels" option has been enabled. To enable "use price levels," select "Preferences" from the "Edit" menu and then select "Sales & Customers" from the "Preferences" scroll box. Next, select the "Company Preferences" tab. Place a check in the "Use Price levels" box and select "OK.") Select the "Price Level" button and "New." Enter a descriptive name for the item. Choose the price level type. If "Fixed %" is selected, drop in the discount percentage and whether to increase or decrease price. (Continuing the example in the previous paragraph, the user might select a label such as "Special" or "High Volume." Select decrease and enter the applicable discount into the box.)

QuickBooks Premier and Premier-Accountant allow users to enter not only fixed percentage premiums and discounts that apply to the entire invoice, but also per item price levels. Therefore, a preferred customer might be charged a discounted price of $50 per unit for product A (which is regularly priced at $60 per unit), $28 for product B (which is regularly priced at $30 per unit), and $15 for Product C (which is the regular price for the item) on the same invoice.

To create a per item price level, create an item for each product or service. Enter the standard price or rate on the item screen. Select "Price Level List" from the "Lists" menu. Select the "Price Level" button and "New." Enter the name of the price level and place a check mark next to the applicable item. Enter the percentage premium or discount and click the "Adjust" button.

QuickBooks can automatically apply price levels to specific customers. To do so, users must add the price level designation to each customer's record. Go to the "Customer Center" by clicking "Customer Center" on the toolbar. Select the customer in the "Customers & Jobs" list and click the "Edit Customer" button. Click the "Additional Info" tab and select the appropriate price level from the "Price Level" drop-down list.

Setting up Fixed Assets

QuickBooks Pro, Premier, and Premier-Accountant include a Fixed Assets Tracker feature, and QuickBooks Premier-Accountant includes a Fixed Assets Manager feature. When combined, the two features create robust fixed asset software.

Setting up Loans Payable

QuickBooks Pro, Premier, and Premier-Accountant include a Loan Manager feature. This feature records the key information about new or existing loans. Users can make payments in Loan Manager that automatically determine the principal and interest breakdown. Loan Manager tracks payments, and it can handle extra payments and loans with balloon payments. Loan Manager can also create what-if scenarios using existing or hypothetical loans so that the user can properly evaluate alternatives.

Setting up Vehicle Mileage Tracking

Companies frequently need to track the mileage incurred by their vehicles. Some instances when it is important to track mileage include situations when the company's vehicles—

- Incur mileage that is reimbursable from customers.
- Are used by employees partly for business and partly for personal purposes. The Internal Revenue Code requires employers to track the usage of company-owned vehicles by employees. If a vehicle is used partly for business and partly for personal purposes, the employer is required to allocate the value of the personal use as additional compensation to the employee.
- Are leased. Most vehicle leases designate a maximum number of miles that can be used over the lease term without incurring additional charges. Therefore, it is important for companies to track how close the vehicles are to reaching this limit.

QuickBooks includes a vehicle-mileage-tracking feature. Companies manually tracking mileage for one of the previously noted purposes might find this feature to be more efficient and more effective. (This feature cannot be used to reimburse employees or vendors for mileage. It also does not track specific vehicle expenses such as gas or tolls.)

To access the vehicle-mileage-tracking feature, do the following:

- Select "Enter Vehicle Mileage" from the "Company" menu.
- Enter the information about the vehicle, trip, customer or job, class, and notes, as appropriate. (To select a vehicle, use the drop-down arrow on the right of the "Vehicle" box or click on the "Vehicle List" button.

This feature does not link to the "Fixed Asset Item" list. Therefore, vehicles must be entered separately. If the vehicle is not listed, select "Add New.") Users can either enter the odometer start and end readings and have QuickBooks calculate the total miles, or users can enter the total miles themselves.

- If the item is reimbursable from customers, select the "Billable" box and enter the Customer:job. Select "Mileage" from the "Item" drop-down list. Users will need to set up a "Mileage Item" on the first use of the Vehicle Mileage Tracker. "Mileage" will be used as an explanation on the invoice. Mileage can either be a "Service" or an "Other Charge" item. Users should make it an "Other Charge" item because the setup box provides an opportunity to designate the item as reimbursable.

If the item is set up as an "Other Charge" item, users can enter the information that will be displayed on purchase and sales forms.

Some companies charge customers when they use vehicles for a customer's benefit. Companies might charge their customers the actual cost of using a vehicle (a difficult thing to track), use a specific rate per mile, or use a specific rate per mile plus a mark-up factor. Companies choosing to use a specific rate per mile frequently use the standard rate established by the Internal Revenue Service. Rather than having to enter this rate for every invoice, QuickBooks allows users to enter the rate only once. To enter a standard rate, users should do the following:

- Select the "Mileage Rates" button at the top of the "Enter Vehicle Mileage" screen.
- Enter the date in the "Effective Date" column and the applicable rate in the "Rate" column and select "Close."

The rate will be used until a new rate is entered into the feature.

When billing a customer for mileage that has been recorded in the vehicle mileage tracker, do the following:

- Select "Create Invoices" from the "Customers" menu. (Alternatively, users can go to the "Customer Center" by clicking "Customer Center" on the toolbar, selecting "New Transactions" and then "Invoices.")
- Enter the applicable "Customer:Job" and "Class," if applicable.
- Click the "Add Time/Costs" button. (If a customer has outstanding billable time and/or costs, a "Billable Time/Costs" box will pop up when that customer is selected. The user can choose to select the outstanding billable time and costs or exclude outstanding billable time and costs.)
- On the "Mileage" tab, select the charge or charges for mileage incurred by the client and click "OK."
- QuickBooks will display the charge on the invoice. If the rate does not display, users can enter it.
- Select "Save and Close."

Setting up Sales Tax Information

If the company tracks sales tax, QuickBooks users should complete the following procedures to set up sales tax information:

- Turn on sales tax preferences.
- Create sales tax items and sales tax groups.
- Create sales tax codes.
- Set up the opening balance for the sales tax payable account.

Sales Tax Preferences. QuickBooks users that collect sales tax from their customers should select "Yes" as the answer to the question "Do you charge sales tax?" in the "EasyStep Interview."

If the QuickBooks sales tax feature is not turned on during the "EasyStep Interview," users can turn on sales taxes by selecting "Preferences" from the "Edit" menu and then selecting "Sales Tax" from the "Preferences" scroll box.

Users then should answer "Yes" to the question "Do You Charge Sales Tax?" in the "Company Preferences" tab. Even if the sales tax feature is turned on in the "EasyStep Interview," users also should specify the following sales tax information in the "Company Preferences" tab:

- *When Do You Owe Sales Tax?* QuickBooks users should specify whether sales taxes are owed to the taxing agency as of the invoice date (accrual basis) or upon receipt of the customer's payment (cash basis). Setting up the incorrect payment basis is a common error in QuickBooks.

- *Assign Sales Tax Codes.* QuickBooks users should select a default sales tax code for both taxable and nontaxable sales. Sales tax codes track why a transaction (or part of a transaction) is taxable or nontaxable. If the sales tax feature was turned on in the "EasyStep Interview," QuickBooks automatically creates a three-character code for nontaxable items (Non) and a three-character code for taxable items (Tax). Additional codes can be added to be more descriptive (for example, users that report nontaxable sales to out-of-state customers could create a three-character sales tax code such as "Out" to identify those sales as being out-of-state.) QuickBooks automatically specifies the tax code in the "Customer Tax Code" field of each sales form and in the "Tax Code" field for each customer. Users can change the sales tax code for a particular sale by selecting a different sales tax code from the "Customer Tax Code" drop-down list in an invoice or cash receipt sales form.

- *When Do You Pay Sales Tax?* QuickBooks users should specify whether sales taxes should be paid to the taxing agency monthly, quarterly, or annually.

- *Set Up Sales Tax Item.* QuickBooks users should select the most commonly used sales tax item or group from the drop-down list. If the sales tax feature was turned on in the "EasyStep Interview," QuickBooks automatically creates a sales tax item for "out of state" sales. However, users must enter any additional sales tax items or groups. QuickBooks automatically specifies the name of the selected sales tax item or group in the "Tax" field of each sales form and in the "Tax Item" field for each customer. Users can change the sales tax item for a particular sale by selecting a different sales tax item or group from the "Tax" drop-down list in an invoice or cash receipt sales form.

- *Identify Taxable Amounts as "T" for "Taxable" When Printing Checkbox.* Users should clear the checkbox if they do not want QuickBooks to print a "T" beside each taxable item on printed invoices or cash sale receipts. (QuickBooks always displays the "T" on the user's computer screen, even if the checkbox is cleared.)

Sales Tax Items and Groups. Sales tax items are used to calculate taxes collected at a specified rate and paid to a single tax agency. QuickBooks automatically sets up a sales tax item in the "Item List" for any sales tax item name set up in conjunction with the setup of sales tax preferences. If the sales tax feature was turned on in the "EasyStep Interview," QuickBooks also automatically sets up an "Out of State" sales tax item for out-of-state sales that are exempt from sales tax. QuickBooks users that collect sales tax at more than one rate or that remit sales taxes to more than one agency must set up a separate sales tax item for each tax collected for each agency. QuickBooks users should set up any additional sales tax items as follows:

- Select "Item List" from the "Lists" menu.

- Select "New" after clicking on the "Item" menu button.

- Select "Sales Tax Item" from the "Type" drop-down list in the "New Item" window. (If "Sales Tax Item" is not an available option, the QuickBooks sales tax feature is not enabled. Users must turn on the sales tax feature.)

- Enter the "Sales Tax Name" for the sales tax item, as well as an optional description for sales tax forms, the tax rate percentage, and the tax agency.

Sales tax groups are used to calculate taxes for multiple tax items collected as a group but remitted and reported separately. It may not be necessary to set up sales tax groups for sales taxes collections that are a combination of separate sales taxes if the taxes are remitted to the same agency. Customers may be charged a combination of various local taxes and a state tax. Using sales tax groups allows QuickBooks users to track each tax separately but print only the total sales tax on sales forms. For example, a sales tax group could be used to collect taxes using a combined tax rate for a city, county, and state. To set up a sales tax group, QuickBooks users should:

- Set up a sales tax item for each tax included in the group.
- Select "Item List" from the "Lists" menu and select "New" after clicking on the "Item" menu button.
- Select "Sales Tax Group" from the "Type" drop-down list in the "New Item" window.
- Enter the "Group Name/Number" for the sales tax group, as well as an optional description for sales tax forms, and the "Tax Item" for each sales tax included in the group.

When sales tax groups are used, QuickBooks calculates each individual sales tax item included in the group and then totals the individual taxes to compute the total tax. QuickBooks rounds each individual tax amount to the nearest cent. Consequently, the total for the sales tax group may differ slightly from the total obtained by combining the individual tax rates and applying the combined rate to the sale.

Sales Tax Codes. While sales tax items are used to calculate taxes collected at a specified rate and paid to a single tax agency, sales tax codes are used to identify why a transaction (or part of a transaction) is taxable or nontaxable. As a rule, nontaxable sales figures need to be reported to taxing authorities by different classifications, for instance, sales to out-of-state customers or sales to resellers. Users can create an individual sales tax code for each reason a sale would be considered nontaxable. They also can create sales tax codes for each taxable reason. Sales tax codes can then be assigned to customers and items so that each time the customer or item is entered on a sales form, the sale will be properly classified. QuickBooks users should set up additional sales tax codes as follows:

- Select "Sales Tax Code List" from the "Lists" menu. (If the "Sales Tax Code List" is not included, the QuickBooks sales tax feature is not enabled. Users must turn on the sales tax feature.)
- Select "New" after clicking on the "Sales Tax Code" menu button.
- Enter a descriptive three-character sales tax code.
- Enter a description explaining why the item is taxable or nontaxable.
- Select whether the code should be taxable or nontaxable.

In order to track taxable and nontaxable sales, QuickBooks users should set up separate sales tax codes for each type of taxable and nontaxable sale. The sales figures recorded for each code can be viewed on the "Sales Tax Revenue Summary" report.

Setting up the Opening Sales Tax Payable Balance. QuickBooks automatically creates a "Sales Tax Payable" account if the sales tax feature is turned on. Users should enter any sales tax owed as of the date they begin using QuickBooks. QuickBooks users can enter historical sales transactions when setting up QuickBooks. When historical sales transactions are entered, QuickBooks automatically calculates the opening sales tax payable balance as of the start date. If historical transactions are not entered, QuickBooks users can record the opening balance in the sales tax payable account via a journal entry as follows:

- Select "Make General Journal Entries" from the "Company" menu.
- Enter the date the company began using QuickBooks in the "Date" field.
- Enter a number in the "Entry No." field to identify the journal entry.
- Select "Sales Tax Payable" from the drop-down list in the "Account" column.
- Enter the amount of sales tax due as of the QuickBooks start date in the "Credit" column. (Enter an amount in the "Debit" column if the company pays sales tax in advance or if a credit is due the company.)

- Select the name of the applicable tax agency from the drop-down list in the "Name" column.
- Enter separate sales tax payable lines for each tax agency to which taxes are due.
- In a new line of the journal entry, select "Opening Bal Equity" from the drop-down list in the "Account" column. QuickBooks automatically calculates the debit amount.

Setting up Inventory

When setting up a company with inventory, users may wonder whether it is appropriate to track inventory in QuickBooks. The choice of whether to maintain a company's inventory in QuickBooks generally depends on the answers to the following questions:

- Are inventory sales an essential part of the company's daily activities?
- Did the company purchase the inventory for resale?
- Does the company add any labor or repackaging that increases the value of inventory purchased?
- Does the company order inventory for a specific job or maintain a supply for future jobs?
- Will the inventory be counted?
- Are inventory items unique (for example, custom windows)?
- Does the company manufacture any of the inventory?
- Does the company plan to use a point-of-sale system to update its inventory?
- Can the company track the inventory value using the average cost method?

If inventory sales are an essential part of the company's daily activities, the inventory was purchased (versus being on consignment or manufactured by the company), the company has not increased the value of the purchased inventory, the company keeps a supply of items on hand for future jobs, and the inventory will be counted, a company might be able to use QuickBooks to track its inventory. Companies generally will not use QuickBooks to track inventory if each item is unique, the company manufactures any portion of the inventory, the company needs to value its inventory using the FIFO or LIFO method, or the company plans to use a point-of-sale system to update its inventory quantities (unless the company plans to purchase QuickBooks Point of Sale). If a company does not use the inventory feature, it might still use QuickBooks to track the sale of items. To do so, the user would create a noninventory part. A noninventory part is not counted, and the quantity on hand is not tracked by QuickBooks. It can be especially helpful to create "two-sided" noninventory part items when the company buys materials for a particular job and wants to track profitability by customer:job. For example, if Contractor A buys custom windows for the Jones house remodel, it can create a noninventory part that tracks both the purchase and sale of the windows. Contractor A can create a report of the profit and loss by customer:job to determine job profitability.

If the user determines that it is appropriate to use QuickBooks to track inventory, he or she should complete the following procedures to set up inventory:

- Turn on inventory preferences.
- Set up inventory items.
- Set up inventory groups or assembly items.
- Set up inventory accounts.
- Set up opening balances for inventory.

Turning on Inventory Preferences. QuickBooks users that want to track inventory using QuickBooks should select "Yes" as the answer to the question "Do you want to track inventory?" in the "EasyStep Interview." (QuickBooks users will not see this question in the "EasyStep Interview" if they selected "Services only" in the "What do you sell?" screen.) If the inventory feature is not turned on during the "EasyStep Interview," users can turn on the inventory feature by selecting "Preferences" from the "Edit" menu and then selecting "Items & Inventory" from the "Preferences" scroll box. Checking the "Inventory and purchase orders are active" box in the "Company Preferences" tab then turns on the QuickBooks inventory feature. When the inventory feature is turned on, QuickBooks users also should specify the following inventory information in the "Company Preferences" tab:

- *Warn if Insufficient Inventory to Sell.* This warning occurs if the QuickBooks user tries to sell more quantities of an item than are currently in stock. (Even though QuickBooks provides an insufficient inventory warning, it still allows users to sell more items than are in stock.) If the "Enable Sales Orders" preference is turned on in the "Sales and Customer" preference, (only available in QuickBooks Premier and Premier-Accountant) the QuickBooks user can also be warned if the number of items to be sold plus the number of items already entered on sales orders (but not yet taken out of inventory) is more than the quantity on hand. QuickBooks users can choose not to receive this warning by deleting the check in the applicable box in the "Company Preferences" tab.

- *Warn About Duplicate Purchase Order Numbers.* This warning occurs if the QuickBooks user tries to record a purchase order that has the same number as a previous purchase order. QuickBooks users can choose not to receive this warning by deleting the check in the applicable box in the "Company Preferences" tab.

- *Unit of Measure.* QuickBooks users can also specify a unit of measure. When the unit of measure preference is enabled, users can display what unit of measure is used when calculating quantities, prices, rates, and costs. For example, an accounting firm can enter a unit of measure of hours. If the accounting firm sells their services by both the hour and the day, they should enable multiple units of measures per item.

Setting up Inventory Items. QuickBooks users should set up inventory part items for each product that is bought from a vendor, kept in inventory, and sold to a customer. Users can set up inventory part items as follows (QuickBooks users cannot set up inventory items if the inventory feature is not turned on.):

a. Select "Item List" from the "Lists" menu.

b. Select "New" from the "Item" menu button.

c. Select "Inventory Part" from the "Type" drop-down list. (If "Inventory Part" is not included in the list, the QuickBooks inventory feature is not turned on. Users must check the "Inventory and purchase orders are active" box.)

d. Enter the "Item Name/Number." (QuickBooks includes all item names/numbers in the item drop-down lists on purchase orders and sales forms.)

e. If applicable, check the "Subitem of" box and enter the related item. Parent items should be created before subitems. Parent items can be set up for general types of inventory items, and subitems can be set up for the specific items sold. For example, "men's clothing" could be set up as a parent item, and "shirts," "pants," "jackets," and "ties" could be set up as subitems. Subitems also could be set up to distinguish different colors or sales prices for a parent item. Subitems must be the same item type (i.e., "Inventory Part") as the parent item. The only additional information QuickBooks users need to enter for parent items is the "Income Account." The other information (e.g., cost, sales price, and quantity) is unnecessary since parent items are not purchased or sold.

f. Enter a "Manufacturer's Part Number" as part of the item description to help with reordering.

g. Enter the Unit of Measure. If the Unit of Measure preference was turned on, the user can specify the unit of measure.

h. Enter the following in the "Purchase Information" fields:

   (1) *Description.* QuickBooks prints this information on purchase orders, checks, bills, and item receipts.

   (2) *Cost.* Enter the expected cost of the item. The actual cost can be entered when the item is purchased.

   (3) *COGS Account.* QuickBooks defaults to "Cost of Goods Sold."

   (4) *Preferred Vendor.* This information is optional.

i. Enter the following in the "Sales Information" fields:

   (1) *Description.* QuickBooks prints this information on sales forms.

   (2) *Sales Price.* Leave this field blank if the sale price for the item varies.

   (3) *Tax Code.* Specify the appropriate tax code. This field is not displayed if the sales tax feature is not turned on.

   (4) *Income Account.* Select an income account from the drop-down list. An income account must be selected when setting up an item. If an item is linked to an incorrect income account, QuickBooks users can fix the error by editing the item and linking it to the correct account. QuickBooks automatically posts subsequent transactions to the new account and also allows users to specify whether existing transactions should be posted to the new account.

j. Enter the following in the "Inventory Information" fields:

   (1) *Asset Account.* QuickBooks defaults to "Inventory Asset."

   (2) *Reorder Point.* QuickBooks reminds users (via the "Reminders" window) to reorder the inventory item at this point. This information also is included in the stock status report.

   (3) *On Hand.* Enter the quantity on hand as of the QuickBooks start date if the inventory item is already in stock as of that date. Enter the current quantity on hand if a noninventory part or other charge item is being converted to an inventory part at a subsequent date. Otherwise, leave this field blank.

   (4) *Total Value.* If amounts are entered in the "On Hand" and "Cost" fields, QuickBooks automatically calculates the "Total Value" as the quantity on hand multiplied by the cost. QuickBooks users should change the value if it is incorrect. (For example, quantities on hand may have been purchased at a different cost than the expected future cost of the item.) The amount should equal the inventory item's value as of the QuickBooks start date if the item is already in stock as of that date. Enter the inventory item's current value if a noninventory part or other charge item is being converted to an inventory part at a subsequent date. Otherwise, leave this field blank.

   (5) *As of.* Enter the QuickBooks start date for inventory items on hand as of that date. If a noninventory or other charge item is being converted to an inventory part at a subsequent date, the date must be after the date of the last transaction that uses the item.

k. Enter any unique inventory information (such as size or color) by clicking the "Custom Fields" button.

QuickBooks users should set up an inventory part item for each type of product that is bought from a vendor, held in inventory, and sold to a customer (particularly if products have different values). QuickBooks users cannot delete an inventory part item or change it to a different type of item after the item is used unless all transactions associated with the item are deleted (which should *not* be done). Therefore, QuickBooks users should determine that the inventory feature is appropriate for their business before setting up inventory items.

Setting up Inventory Groups or Assemblies. One of the purposes of QuickBooks is to reduce the time users spend performing repetitive tasks. QuickBooks allows users to create inventory groups to save time when creating purchase orders and sales invoices. A drawback of inventory groups is that they do not easily track inventory items assembled or partly assembled by the user (also known as pre-built items). QuickBooks Premier, Premier-Accountant, and Premier-Manufacturing & Wholesale include an inventory assembly feature that allows users to keep track of the number of assemblies, subassemblies, and separate components maintained in inventory. Like inventory groups, the inventory assembly feature also allows users to save time entering purchase orders and sales invoices. [QuickBooks still does not track inventory through the manufacturing process (raw material, work in process, and finished goods). Therefore, it still lacks the flexibility most manufacturers need.] The following paragraphs discuss the differences between the two features and provides guidance on setting them up.

Inventory Groups. Inventory groups allow users to collect a set of inventory items that are frequently sold together and make them one item for the purpose of entering information on a purchase order or sales invoice. The items can be a combination of different item types, such as inventory and service items. For example, if a glass company creates and installs custom mirrors, it might create inventory groups for some standard sizes that include the glass, backing, frame, hanging brackets, and labor. When the sales invoice is created, the user only has to enter the inventory group (instead of each of its components), thereby saving time. The invoice can either be printed with individual items or as a group—depending on how much detail the customer needs. The price of a group is the sum of the prices of the individual items. (To make the group price different than the sum of the prices of individual items, a user will need to include a discount or an additional charge item in the group.)

When a sale is invoiced, the quantity on hand of each item included in the group is adjusted in inventory. QuickBooks does not maintain inventory at the group level. In the above example, each of the components of the mirror would be relieved, but a mirror would not be created and tracked in inventory.

After creating pre-built items, QuickBooks users should enter the items into inventory as follows:

- Select "Vendors," "Inventory Activities," and "Adjust Qty/Value on Hand" from the menu bar.
- Enter the number of pre-built items in the "Qty Difference" column of the "Adjust Quantity/Value on Hand" window. QuickBooks automatically adjusts the number in the "New Qty" column.
- Remove the number of original inventory part items used to create the assemblies items by entering negative amounts in the "Qty Difference" column for the applicable items. QuickBooks automatically adjusts the numbers in the "New Qty" column.
- Select the "Inventory Adjustment" account from the "Adjustment Account" drop-down list. QuickBooks automatically adjusts the "Inventory Asset" account. However, users must select the "Inventory Adjustment" account or another applicable account as the offsetting account for any inventory adjustment. The cost of an assembly being entered into inventory may exceed the cost of the original inventory part items being removed from inventory because the cost of the assembly includes miscellaneous noninventory items. In that case, users should select the account to which the noninventory items were originally charged as the "Adjustment Account." "Opening Bal Equity" should not be selected as the "Adjustment Account."

Some QuickBooks users set up the component parts for assembly items as inventory part items but do not adjust inventory for use of the components. In that case, the inventory balances for the component parts are overstated and should be adjusted for the amount of components used in the assembly of pre-built items.

Inventory Assemblies. QuickBooks Premier, Premier-Accountant, and Premier-Manufacturing & Wholesale allow users to create inventory subassemblies and assemblies. When a user builds an assembly, an assembled unit is automatically added to the quantity on hand and its component parts (inventory items or other assembly items) are automatically deducted from the quantity on hand. By using assembly items, a user knows how many assembled and component items are in stock. For example, if a store assembles wheelbarrows, it will purchase wooden handles, wheels, a central bin, nuts, and bolts. These components will be entered as inventory items. When a wheelbarrow is assembled, the appropriate quantity of each component will be relieved from inventory, and a new inventory part—a wheelbarrow—will be created. While the inventory assembly feature may be helpful, QuickBooks users cannot delete an inventory assembly part item (or any of the individual components included in the assembly) after the item is used unless all transactions associated with the item are deleted. Since that generally is undesirable, QuickBooks users should determine that this inventory feature is appropriate for their business before setting up inventory assembly items.

Unlike inventory groups, inventory assemblies cannot include service items. (However, assembly items can be included with service items in an inventory group.) Some additional differences between the two features include the following:

- Users can print only the assembly name, not the component parts, on sales forms. Group component parts can be printed separately on sales forms.
- Users can print reports with information about assembly items, but they cannot print reports about groups.
- One sales tax code applies to an entire assembly, whereas separate sales tax codes can be applied to items in a group.
- An entire assembly must be designated as taxable or nontaxable, whereas a group can include both taxable and nontaxable items.
- The inventory assembly item can be any price the user specifies.

Setting up Inventory Accounts. QuickBooks users should set up the following general ledger accounts when the inventory feature is turned on:

- *Inventory Asset.* QuickBooks automatically creates this account as an "Other Current Asset" account "Type" when users set up their first inventory item.
- *Sales.* QuickBooks often creates this account during the "EasyStep Interview." If not, users can create the account by selecting "Chart of Accounts" from the "Lists" menu and then selecting "New" from the "Account" menu. "Income" should be selected as the account "Type" in the "Add New Account: Choose Account Type" window. The "Sales" account also can be created when users set up their first inventory item by adding "Sales" as a new account when entering information in the "Income Account" field. QuickBooks users can set up multiple sales income accounts, depending on the amount of detail needed on profit and loss statements.
- *Cost of Goods Sold.* QuickBooks automatically creates this account as a "Cost of Goods Sold" account "Type" when users set up their first inventory item. The "Cost of Goods Sold" account is listed between income and expense accounts in the chart of accounts.

QuickBooks users can set up subaccounts for any of the preceding accounts.

Setting up Opening Balances for Inventory. QuickBooks users can enter the quantity and value of inventory items on hand as of the QuickBooks start date when creating inventory part items. That information automatically posts to the "Inventory Asset" account, with an offsetting credit to opening balance equity. (If no quantity, or the wrong quantity, is entered, select "Item" from the "Lists" menu. Highlight the particular inventory item on the "Item List." Select "Adjust Quantity/Value on Hand" from the "Activities" drop-down list. Highlight the inventory item and enter the needed changes.)

QuickBooks users should enter purchase orders for any inventory items on order as of the date QuickBooks is set up.

Adjusting the "Opening Balance Equity" Account

A company may already have assets and liabilities as of the QuickBooks start date. When those opening balances are entered, QuickBooks records the offset amount to the "Opening Balance Equity" account, except for accounts receivable and accounts payable. (The "Opening Balance Equity" account is created automatically to ensure the balance sheet accounts stay in balance.) Since QuickBooks offsets most opening balance sheet amounts against the "Opening Balance Equity" account, other equity accounts have zero balances as of the QuickBooks start date.

If the company has set up other equity accounts to track owner's equity, the balance from "Opening Balance Equity" will need to be transferred to those accounts in order to track the owner's capital investment (i.e., common stock, paid-in capital, and retained earnings). The only purpose of the "Opening Balance Equity" account is to offset most beginning balance sheet balances as of the QuickBooks start date.

However, before transferring the "Opening Balance Equity" account to other equity accounts, the balance should be verified. The only amounts that should be posted to "Opening Balance Equity" relate to the setup of balance sheet accounts as of the QuickBooks start date. Any other amounts resulting from other transactions should be reclassified by making journal entries. The adjusted balance in the "Opening Balance Equity" account should equal the total equity amount in the client's balance sheet immediately preceding the QuickBooks start date.

If the "Opening Balance Equity" account is correct, transfer the balance by displaying the chart of accounts and double clicking on the "Opening Balance Equity" account. Enter the amount to be transferred in the decrease column and the name of the account into which the amount is to be transferred in the account field.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

7. Brian has completed the set up of the company and the chart of accounts, which of the following is **not** included in adjusting other areas of QuickBooks?

   a. Set up fixed assets.

   b. Set up budgets.

   c. Adjust uncategorized income and expenses.

   d. Input the company's tax id number.

8. Jake uses QuickBooks Premier and has a customer that he needs to bill for several items. The customer gets his standard discount on one of those items, but the other items are at regular pricing. Can Jake prepare one invoice? Why or why not?

   a. Yes, because users can enter fixed % discounts and per item price levels on the same invoice.

   b. No, because the discount is applied at the customer level so a separate invoice is necessary.

9. Sandy's business has one location but sells products throughout the country. Which one of the following does she **not** need to enter in QuickBooks in order to accurately track sales tax?

   a. Set up an "Out of State" sales item for out of state sales that are exempt from sales tax.

   b. Activate the sales tax feature during the easy step interview.

   c. Set up separate sales tax items for each tax collected for each agency.

   d. Set up separate sales tax items for each type of zero-rate sale.

10. A company might decide to track inventory using QuickBooks if it answers "yes" to which of the following questions:

    a. Each item sold is unique.

    b. The company manufactures a portion of the item.

    c. The company keeps a supply of items on hand.

    d. The company values its inventory using the FIFO or LIFO method.

11. A drawback of using inventory groups is:

    a. They do not allow users to collect inventory items together and make them one item.

    b. The invoice can only be printed showing the inventory group and not the individual items included in the group.

    c. It takes longer to invoice clients.

    d. They do not easily track inventory items assembled or partly assembled by the user.

12. Which of the following statements regarding "Opening Balance Equity" is inaccurate?

    a. The only purpose for the "Opening Balance Equity" account is to offset most beginning balance sheet balances as of the QuickBooks start date.

    b. The "Opening Balance Equity" account must be activated by the user.

    c. The only amounts that should be posted to "Opening Balance Equity" relate to the setup of balance sheet accounts as of the QuickBooks start date.

    d. Other equity accounts have zero balances as of the QuickBooks start date.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

7. Brian has completed the set up of the company and the chart of accounts, which of the following is **not** included in adjusting other areas of QuickBooks? **(Page 19)**

    a. Set up fixed assets. [This answer is incorrect. After a company has been created and the chart of accounts is in good shape, there are a few additional things that may need to be done, such as setting up fixed assets.]

    b. Set up budgets. [This answer is incorrect. After a company has been created and the chart of accounts is in good shape, there are a few additional things that may need to be done, such as setting up budgets.]

    c. Adjust uncategorized income and expenses. [This answer is incorrect. After a company has been created and the chart of accounts is in good shape, there are a few additional things that may need to be done, such as adjusting uncategorized income and expenses.]

    d. Input the company's tax id number. [This answer is correct. The company's tax id number is entered under the "Company Info" section.]

8. Jake uses QuickBooks Premier and has a customer that he needs to bill for several items. The customer gets his standard discount on one of those items, but the other items are at regular pricing. Can Jake prepare one invoice? Why or why not? **(Page 21)**

    a. Yes, because users can enter fixed % discounts and per item price levels on the same invoice. [This answer is correct. QuickBooks can automate discount or write-up pricing using the price level feature. If a user documents a price level on a customer's record, QuickBooks will automatically apply the discount or write up to all items when preparing that customer's invoice. Alternatively, when preparing an invoice, users can manually choose a price level by selecting it from the drop-down list next to the rate field.]

    b. No, because the discount is applied at the customer level so a separate invoice is necessary. [This answer is incorrect. The price level feature allows QuickBooks users to automate discount or write-up pricing.]

9. Sandy's business has one location but sells products throughout the country. Which one of the following does she **not** need to enter in QuickBooks in order to accurately track sales tax? **(Page 23)**

    a. Set up an "Out of State" sales item for out-of-state sales that are exempt from sales tax. [This answer is correct. If QuickBooks has not automatically set up an "Out of State" sales tax item, users can set up a zero-rate sales tax item. However, "Out of State" (or any other descriptive name to distinguish nontaxable sales) should be entered in the "Tax Name" field and 0.0% should be entered in the "Tax Rate" field. The "Tax Agency" field can remain blank since the tax rate is 0.0%. Out-of-state sales and goods sold to wholesalers or other resellers for resale are two common examples of nontaxable sales.]

    b. Activate the sales tax feature during the "EasyStep Interview." [This answer is incorrect. If the sales tax feature was turned on in the "EasyStep Interview," QuickBooks also automatically sets up an "Out of State" sales tax item for out-of-state sales that are exempt from sales tax.]

    c. Set up separate sales tax items for each tax collected for each agency. [This answer is incorrect. QuickBooks users that collect sales tax at more than one rate or that remit sales taxes to more than one agency must set up a separate sales tax item for each tax collected for each agency.]

    d. Set up separate sales tax items for each type of zero-rate sale. [This answer is incorrect. QuickBooks users should set up separate sales tax items for each type of zero-rate sale.]

10. A company might decide to track inventory using QuickBooks if it answers "yes" to which of the following questions: **(Page 25)**

    a. Each item sold is unique. [This answer is incorrect. QuickBooks should not be used to track one-of-a-kind items that must be tracked by serial numbers or other unique identification since the system does not track inventory on a detailed basis.]

    b. The company manufactures a portion of the item. [This answer is incorrect. QuickBooks Basic and QuickBooks Pro cannot track inventory items for which a company buys materials or parts and *assembles* into a product to sell. In addition, QuickBooks does not track inventories of items that a company keeps on hand and then consumes in the course of its business but does not sell (e.g., office supplies).]

    c. The company keeps a supply of items on hand. [This answer is correct. If inventory sales are an essential part of the company's daily activities, the inventory was purchased (versus being on consignment or manufactured by the company), the company has not increased the value of the purchased inventory, the company keeps a supply of items on hand for future jobs, and the inventory will be counted, a company might be able to use QuickBooks to track its inventory because QuickBooks has the capability to manage inventory in these cases.]

    d. The company values its inventory using the FIFO or LIFO method. [This answer is incorrect. Companies generally will not use QuickBooks to track inventory if each item is unique, the company manufactures any portion of the inventory, the company needs to value its inventory using the FIFO or LIFO method, or the company plans to use a point-of-sale system to update its inventory quantities since QuickBooks does not handle these instances well.]

11. A drawback of using inventory groups is: **(Page 27)**

    a. They do not allow users to collect inventory items together and make them one item. [This answer is incorrect. Inventory groups allow users to collect a set of inventory items that are frequently sold together and make them one item for the purpose of entering information on a purchase order or sales invoice. The items can be a combination of different item types, such as inventory and service items.]

    b. The invoice can only be printed showing the inventory group and not the individual items included in the group. [This answer is incorrect. When the sales invoice is created, the user only has to enter the inventory group (instead of each of its components), thereby saving time. The invoice can either be printed with individual items or as a group—depending on how much detail the customer needs.]

    c. It takes longer to invoice clients. [This answer is incorrect. One of the purposes of QuickBooks is to reduce the time users spend performing repetitive tasks. QuickBooks allows users to create inventory groups to save time when creating purchase orders and sales invoices.]

    d. They do not easily track inventory items assembled or partly assembled by the user. [This answer is correct. A drawback of inventory groups is that they do not easily track inventory items assembled or partly assembled by the user (also known as pre-built items). QuickBooks does not track inventory through the manufacturing process and lacks the flexibility that most manufacturers need.]

12. Which of the following statements regarding "Opening Balance Equity" is inaccurate? **(Page 29)**

    a. The only purpose for the "Opening Balance Equity" account is to offset most beginning balance sheet balances as of the QuickBooks start date. [This answer is incorrect. The only purpose of the "Opening Balance Equity" account is to offset most beginning balance sheet balances as of the QuickBooks start date since the account is created automatically to ensure that the balance sheet accounts stay in balance.]

    b. The "Opening Balance Equity" account must be activated by the user. [This answer is correct. A company may already have assets and liabilities as of the QuickBooks start date. When those opening balances are entered, QuickBooks records the offset amount to the "Opening Balance

Equity" account, except for accounts receivable and accounts payable. The "Opening Balance Equity" account is created automatically to ensure the balance sheet accounts stay in balance.]

c. The only amounts that should be posted to "Opening Balance Equity" relate to the setup of balance sheet accounts as of the QuickBooks start date. [This answer is incorrect. The only amounts that should be posted to "Opening Balance Equity" relate to the setup of balance sheet accounts as of the QuickBooks start date. Any other amounts resulting from other transactions should be reclassified by making journal entries. The adjusted balance in the "Opening Balance Equity" account should equal the total equity amount in the client's balance sheet immediately preceding the QuickBooks start date.]

d. Other equity accounts have zero balances as of the QuickBooks start date. [This answer is incorrect. Since QuickBooks offsets most opening balance sheet amounts against the "Opening Balance Equity" account, other equity accounts have zero balances as of the QuickBooks start date. If the company has set up other equity accounts to track owner's equity, the balance from "Opening Balance Equity" will need to be transferred to those accounts in order to track the owner's capital investment (i.e., common stock, paid-in capital, and retained earnings).]

PAYROLL SETUP

Payroll Options

The following paragraphs discuss the general procedures for setting up a company's payroll. One of the first decisions companies using QuickBooks have to make is how to process payroll. Companies using QuickBooks have several options for payroll processing:

a. Use the QuickBooks payroll feature while subscribing to one of the Intuit Payroll Services.

b. Process payroll manually.

c. Contract with third-party payroll services.

Practitioners should understand each of the preceding options so that they can help their QuickBooks clients assess which option best fits their needs. The following paragraphs discuss advantages and disadvantages associated with each method of payroll processing.

QuickBooks Payroll Feature. The QuickBooks payroll feature can be used to:

- Maintain employee information.
- Calculate wages for both salaried and hourly employees.
- Calculate nontaxable deductions.
- Track sick and vacation time.
- Accumulate payroll liabilities.
- Create checks to pay employees and payroll liabilities.
- Calculate year-to-date totals and print the applicable totals on Forms 940, Schedule A (Form 940), 941, Schedule B (Form 941), 944, 945-A, W-2, and W-3.

  QuickBooks users who subscribe to one of the Intuit payroll services will also need the most recent payroll update. QuickBooks users that subscribe to the QuickBooks Enhanced Payroll or Enhanced Payroll for Accountants Payroll Service can also have their state forms automatically completed.
- Use time data entered into electronic timesheets (Timer) to process payroll (via QuickBooks Pro, Premier, and Premier-Accountant).

The primary limitation of the QuickBooks payroll feature is that it generally does not calculate federal or state payroll taxes or include payroll tax forms unless the user subscribes to one of the Intuit Payroll Services. Users that do not subscribe to one of the services must calculate and enter payroll taxes manually for each paycheck each pay period and prepare payroll tax forms manually.

Intuit offers several payroll services—QuickBooks Basic Payroll, QuickBooks Enhanced Payroll, QuickBooks Enhanced Payroll for Accountants, QuickBooks Assisted Payroll, Intuit Online Payroll, and Payroll for QuickBooks Online. All of the Intuit payroll services require a currently supported version of QuickBooks. QuickBooks Standard Payroll is no longer available for new payroll subscribers. It is still available to existing QuickBooks Standard customers. However, Intuit recommends that they consider whether QuickBooks Basic or Enhanced is a better product to meet their needs. Later paragraphs include a discussion on recommending an appropriate payroll option to clients. The major differences between the services are as follows:

- *QuickBooks Basic Payroll.* With this service, the user maintains the payroll function in-house. It is recommended for small businesses with 1–3 employees. No tax forms are included with this service.

- *QuickBooks Enhanced Payroll.* The user also maintains the payroll function in-house with this service. However, it includes more advanced features including federal and state payroll tax forms, net-to-gross calculations, and workers compensation tracking and reporting.

- *QuickBooks Enhanced Payroll for Accountants.* This service is designed for practitioners who process payroll for multiple clients. Practitioners can process payroll for up to 50 clients under one subscription. Users can also perform after-the-fact payroll. It also includes the advanced features including federal and state payroll tax forms, net-to-gross calculations, and workers compensation tracking and reporting.

- *QuickBooks Assisted Payroll.* With this service, the user outsources portions of the payroll function to Intuit.

- *Payroll for QuickBooks Online.* Payroll for QuickBooks Online works within QuickBooks Online Edition and users can calculate wages, deductions and federal withholdings, and prepare Forms 940, 941, 944, W-2, and W-3. Direct deposit is available with Payroll for QuickBooks Online.

- *Intuit Online Payroll.* Intuit Online Payroll is a payroll-only solution; it integrates with QuickBooks and QuickBooks Online. Intuit Online Payroll users can calculate wages, deductions and federal withholdings and prepare Forms 940, 941, 944, W-2, and W-3. Direct deposit is available with online payroll.

The primary advantage of subscribing to one of the payroll services integrated with QuickBooks is that they calculate payroll taxes using the most current federal and state tax information. The services also generate current payroll tax forms for their subscribers. Users that do not subscribe to one of the Intuit Payroll Services may calculate and enter payroll tax deductions manually for each paycheck each pay period. Subscribers to Intuit Payroll Services should turn on the QuickBooks payroll feature and set up payroll.

The QuickBooks Basic Payroll, QuickBooks Enhanced Payroll, and QuickBooks Enhanced Payroll for Accountants payroll services allow subscribers to download updated federal and state payroll tax tables via the internet throughout the year as tax regulations change. QuickBooks then uses the downloaded tables to calculate payroll taxes automatically. To ensure current information is used each pay period, subscribers should go online to obtain current payroll updates each time they pay employees. Subscribers should select "Get Payroll Updates" from the "Employees" menu in QuickBooks, and then click on "Update" to download the current payroll update. Payroll updates provide current tax tables, tax regulations, and payroll tax forms. QuickBooks Basic does not include payroll tax forms.

In addition to calculating payroll taxes, the QuickBooks Standard Payroll, QuickBooks Enhanced Payroll, and QuickBooks Enhanced Payroll for Accountants payroll services also allow subscribers to generate the most current versions of federal payroll tax forms.

QuickBooks allows practitioners and other users to process payroll for one to three companies with separate federal identification numbers using a single QuickBooks Basic Payroll or QuickBooks Enhanced Payroll subscription per registered copy of QuickBooks. Practitioners who process payroll for more than three companies with separate federal identification numbers should subscribe to the QuickBooks Enhanced Payroll for Accountants payroll service. This service allows them to process payroll for 1–50 companies with a single subscription. Practitioners can set up a subscription to process payroll for multiple companies using one copy of QuickBooks as follows:

- Open the company file to be added by selecting "Open Company" from the "File" menu.

- Select "Payroll" and then "Use My Existing Payroll Service" from the "Employees" menu.

- Follow the onscreen instructions. The user must already have an existing subscription to one of the payroll services.

Payrolls for multiple companies can be processed using a single QuickBooks Basic Payroll or QuickBooks Enhanced Payroll subscription; however, the direct deposit service requires a separate subscription for each company using direct deposit. Practitioners subscribing to the QuickBooks Enhanced Payroll for Accountants payroll service can process direct deposit for multiple companies with a single direct deposit subscription.

To subscribe to QuickBooks Basic, Enhanced, or Assisted Payroll, users should choose "Payroll" and then "Order Payroll Service" from the "Employees" menu. This will open the QuickBooks Payroll website. Select the option that best fits the company's needs and follow the on-screen prompts. All of the Intuit Payroll Services require a currently supported version of QuickBooks. Some features require QuickBooks 2007 or later. The QuickBooks Basic or Enhanced Payroll applications may be completed online; however, to subscribe to QuickBooks Assisted users must contact Intuit.

Assisted Payroll Service subscribers should contact Intuit at (866) 820-6378 to receive a PIN number. The entire sign-up process can take two to four weeks to process the required application and forms. However, new subscribers can use QuickBooks to automatically calculate payroll taxes for up to 60 days while completing the process. One of the primary advantages to using the Assisted Payroll rather than another outside payroll service is that all payroll transactions are automatically posted in QuickBooks. QuickBooks users that use third-party payroll services must manually post all payroll transactions to QuickBooks.

Manual Payroll Processing. QuickBooks users can decide not to utilize the QuickBooks payroll feature to calculate payroll using one of the Intuit Payroll Services, but still use QuickBooks to enter and maintain payroll information calculated manually. To activate the QuickBooks payroll features without signing up for one of the services, users should type "manual payroll" in the help screen, then click on the link. Users of QuickBooks 2008 should choose "Payroll" and then "Learn about Payroll Options" from the "Employees" menu. This will open the QuickBooks Payroll website.

Click "Learn more" following the sentence "Information on how to enter payroll information into QuickBooks if you don't use QuickBooks Payroll" and then click the "Click here to enable manual paycheck entry in QuickBooks" link. This will enable the user to manually enter payroll taxes into the "Preview paycheck" window.

QuickBooks users that choose to calculate payroll taxes manually rather than subscribing to one of the Intuit Payroll Services should obtain current tax tables (including tables for midyear tax changes) and wage limits (on taxes such as FICA and FUTA) from the IRS and applicable state and local tax agencies. Each pay period, QuickBooks inserts a tax amount of zero for each federal and state payroll tax item. Users must replace the zero tax amounts with the manually calculated amounts for each employee each pay period. Since federal, state, and local payroll tax information can change at various times throughout the year, users should routinely contact the applicable tax agencies for any changes.

Even QuickBooks users who do not utilize the QuickBooks payroll feature should set up payroll expense accounts and subaccounts, as well as payroll liability accounts, in the chart of accounts. When QuickBooks is used to process payroll, payroll amounts are posted automatically to the general ledger payroll accounts. However, when users prepare payroll outside QuickBooks, the payroll information for each pay period must be summarized and recorded in the general ledger via journal entries.

Third-party Payroll Services. Businesses using QuickBooks may decide to use practitioners or third-party payroll services to process payroll rather than using the QuickBooks payroll feature manually or signing up for one of the Intuit Payroll Services. QuickBooks users contracting with a third party to process payroll should not use the QuickBooks payroll feature. If the payroll feature is turned off, QuickBooks users still should set up and maintain employees on the "Employee List" to track the checks written to each employee. When the payroll feature is turned off, the "Employee List" maintains only basic employee information, such as name, address, phone number, social security number, email address, employee type, and hire and release dates, as well as any custom information defined by the employer. In addition, QuickBooks users not using the payroll feature should set up payroll expense and liability accounts and subaccounts, as previously discussed.

Recommending An Appropriate Payroll Option. Clients often ask their practitioners for a recommendation on which payroll option is right for their business. The previous paragraphs discuss the basic differences between each of the payroll options. However, practitioners can provide a valuable service, if, in addition to understanding the differences, they can also recommend the right solution to their clients. The right payroll option will depend on several factors, including, the client's level of sophistication, the level of control they want, the complexity of their payroll benefits, and the number of employees. A thorough evaluation of the client's needs should be made.

QuickBooks Payroll Setup

When a company is created, the full set of payroll features is enabled if users answer "Yes" to the question "Do you have employees?" and check the box "We have W-2 employees" in the "EasyStep Interview." If the company has no employees or QuickBooks will not be used to track payroll, users should answer "No" to the question. To manually turn off or turn on the payroll features, choose "Preferences" from the "Edit" menu and select the "Payroll & Employees" icon that appears on the left of the "Preferences" screen. On the "Company Preferences" tab, click "Full payroll" to enable all the payroll features or "No payroll" to turn off all payroll features in QuickBooks. If the company will use the Intuit Payroll Services Complete Payroll option, click "Complete Payroll Customers."

If the QuickBooks "full payroll" feature is selected, the following tasks will need to be completed to set up payroll (The amount of time it takes to complete each task varies according to the size of company and the payroll service option chosen.):

a. Gather the necessary information.

b. Sign up for a payroll service or choose to process payroll manually.

c. Use the Payroll Setup Interview to:

    - Enter payroll items (including liability payment schedule frequency).
    - Enter employee information.
    - Enter year-to-date payroll amounts.

d. Specify payroll preferences.

e. Set up payroll schedules.

f. Review Payroll Data

Gather the Necessary Information. Payroll setup is easier if all of the information needed is on hand before the setup process begins.

Sign Up For A Payroll Service or Choose to Process Payroll Manually. Employers must decide whether they want to process payroll manually or sign up for one of Intuit's payroll services.

Payroll Setup Interview. To start the "Payroll Setup Interview," select "Payroll Setup" from the "Employee" menu. (In order to start the "Payroll Setup Interview," users must have already signed up for one of the payroll services or have enabled manual paycheck entry.) Follow the onscreen prompts to:

- Enter payroll items (including liability payment schedule frequency).
- Enter employee information.
- Enter year-to-date payroll amounts.

The following paragraphs explain what information should be entered into the Interview and also describes how to enter the information manually.

<u>Enter Payroll Items.</u> QuickBooks expresses all payroll transactions—whether they are paychecks, payroll tax payments, or adjustments—in terms of payroll items. It uses those payroll items to track individual paycheck amounts and accumulated year-to-date wages and tax amounts for each employee. There are payroll items for:

- Compensation.
- Benefits.
- Taxes.

- Other additions and deductions.
- Employer-paid expenses.

Users should follow the onscreen prompts to set up payroll items such as salary, hourly wage, insurance and retirement benefits, etc. Users should also set up scheduled tax payments when prompted. Users can edit existing payroll items or create additional payroll items manually by selecting "Payroll Item List" from the "Lists" menu, clicking the "Payroll Item" button, choosing "Edit" or "New," and following the onscreen prompts. Users can set up scheduled tax payments manually by selecting "Payroll Taxes and Liabilities" and then "Edit Payment Due Dates/ Methods" from the "Employees" menu.

Enter Employee Information. Information about each employee must be entered before payrolls can be processed. All employees who were paid during the current calendar year should be added, even if the company does not currently employ them. Such employee information includes the employee's name, address, social security number, etc., and the employee's pay rate and pay frequency. Employee information is entered as follows:

a. *Define Employee Defaults.* When a new employee is added to QuickBooks, certain payroll information appears in the input screen by default. That information may then be accepted or changed before the employee is entered. If several employees will be entered, it may be desirable to modify the default information that appears so that minimal changes will be needed as employees are added. The following information can be set up as employee defaults:

   (1) Salary or wage payroll items (with or without rates).

   (2) Payroll schedule.

   (3) Pay frequency.

   (4) Class (if applicable).

   (5) Whether to use time data to create checks.

   (6) Additions, deductions, and company contributions that appear on paychecks.

   (7) Whether employees are covered by a qualified pension plan.

   (8) Taxes—federal, state, and other/local.

   (9) Sick and vacation time.

   To define the employee defaults manually, click "Employee Center" on the toolbar, then click "Change New Employee Default Settings" from the "Manage Employee Information" button. Enter the appropriate information common to most employees and click "OK" to record the employee default setup.

b. *Add Employees to the "Employee List."* Each employee's name and payroll information must be entered before payroll can be processed. To do so manually, click "Employee Center" on the toolbar and click the "New Employee" button (or click the "Edit Employee" button to change the information of an employee who has already been entered). Then, provide the following information:

   (1) Personal Info Tab—

      - *Personal*—Enter the employee's name as it should appear on his or her W-2 form and as it should appear on checks (if different), social security number, gender (if required for the employee's state), and date of birth.
      - *Address and Contact*—The information entered in these fields can be exported and used in a form letter.

- *Additional Info*—Enter employee account number or employee I.D. Click "Define Fields" to add custom fields that track employee information such as spouse's name and date of last raise.

(2) Payroll and Compensation Info Tab—By design, most of the requested information has been filled in using the default information entered in step a. If any of the information is incorrect for a particular employee, simply change it on this screen.

(3) Employment Info Tab—Enter the employee's hire date and his or her release date if he or she is no longer on the payroll. Specify whether he or she is a regular employee, statutory employee, an officer, or an owner.

(4) Workers Compensation Tab—Enter the employee's default workers compensation code. If the employee is exempt from workers compensation, choose "Exempt." Tracking workers compensation is a feature of the QuickBooks Enhanced Payroll and QuickBooks Enhanced Payroll for Accountants payroll services. Users must subscribe to one of these services to track workers compensation costs, classification codes, and rates. This tab is not displayed if the workers compensation feature is not turned on. Subscribers to one of those services must set up this feature by using the "Workers Compensation Setup" wizard.

<u>Enter Year-to-date Payroll Amounts.</u> If a client issued paychecks between January 1 and the QuickBooks start date, this historical information must be entered. This information is necessary in order to ensure correct year-to-date amounts on checks and in order to prepare W-2s, IRS Forms 940, 941, 943, and 944, and any required state and local withholding tax forms. Summaries of wages, taxes, other additions and deductions, and company contribution amounts for each current or former employee who was paid between January 1 of the current year and the start date will need to be entered as well as summaries of year-to-date payments of payroll taxes and other liabilities. Before setting up year-to-date amounts for employees, payroll information for each employee must be set up as previously discussed.

The following year-to-date payroll information can be entered manually as follows:

a. *Employee YTD Information.* To manually enter year-to-date amounts, choose "Payroll Setup" from the "Employees" menu. Click through the steps to "5. Year-to-date Payrolls." All previous steps must be completed before year-to-date amounts can be entered. Follow the onscreen instructions to enter the year-to-date information.

   In QuickBooks 2009 and earlier versions, users should click through the steps to "5. Payroll History" to manually enter year-to-date amounts.

   The user will enter summaries of wages, taxes, other additions/deductions, and company contribution amounts for each employee paid during the current calendar year from January 1 through the start date. The information will be entered by paycheck. QuickBooks will post the historical paycheck amounts by quarter to the "Employee summary information"—generally a requirement for tax reporting.

b. *Prior Payments.* After finishing the year-to-date amounts for all employees, payroll liability payments the company has made from the beginning of the calendar year through the QuickBooks setup date need to be entered. If no payments for payroll taxes or other liabilities have been paid during the calendar year, skip this step—this step is only needed if payroll liabilities were paid. Do not include payments for expenses (for example, salaries, bonuses, or hourly wages) paid directly to employees.

Set Up Payroll Schedules. Payroll schedules can be set up enabling users to pay their employees more efficiently. The user sets up schedules defining how often they pay their employees (weekly, bi-weekly, semi-monthly, etc.), the paycheck dates, and the payroll run dates. After payroll schedules are set up they display in the "Payroll Center."

To set up a new payroll schedule, users should select "Add or Edit Payroll Schedules" from the "Employees" menu. In the "Payroll Schedule List" window select the "Payroll Schedule" button and click "New." Enter a name for the payroll schedule (e.g. weekly, bi-weekly, etc.), specify how often employees assigned to this schedule should be paid from the drop-down box, specify the pay period end date, and the date that should appear on the paycheck. The following illustrates the "New Payroll Schedule" window set up for a biweekly schedule.

After payroll schedules are set up, they should be assigned to the appropriate employees. A payroll schedule can be assigned to all employees in the "Employee Defaults" window. To do so, click "Employee Center" on the toolbar, then click "Change New Employee Default Settings" from the "Manage Employee Information" button. In the "Employee Defaults" window, select the payroll schedule that should be assigned to all employees from the "Payroll Schedule" drop-down box. To assign a payroll schedule to one employee, click "Employee Center" on the toolbar and click the "New Employee" button (or click the "Edit Employee" button if the employee has already been entered). On the "Payroll and Compensation Info" tab, select the payroll schedule that should be assigned to that employee from the "Payroll Schedule" drop-down box. The "Pay Frequency" field will be updated automatically, grayed out, and cannot be changed in this screen.

To run a scheduled payroll, click "Employee Center" on the toolbar and select the "Payroll" tab to open the "Payroll Center." In the "Pay Employees" portion of the "Payroll Center" select the pay schedule to be run, and click the "Start Schedule Payroll" button. Edit the information in the "Enter Payroll Information" window for each employee. Information can be changed in the "Preview Paycheck" window by placing a checkmark beside the employee's name and clicking on his or her name. Once all the information is correct in the "Enter Payroll Information" window, click "Continue." Edit the information in the "Review and Create Paychecks" window if necessary and click the "Create Paychecks" button.

Review Payroll Data. The final step of the payroll setup process is to review the data entered. Because QuickBooks will base new payroll transactions on the data, it is important to ensure that all data was entered accurately. There are several ways to check the accuracy of the payroll data.

a. *Payroll Item Listing.* The "Payroll Item Listing" report shows the name, type, expense account, liability account, tax tracking, and annual limit (if any) of each payroll item. Thus, it can be used to check payroll item setup. From the "Reports" menu, choose "Employees & Payroll" and then "Payroll Item Listing."

b. *Payroll Checkup.* "Payroll Checkup" is a diagnostic tool within QuickBooks that helps QuickBooks Basic Payroll, QuickBooks Enhanced Payroll Plus, and QuickBooks Enhanced Payroll Plus for Accountants payroll service subscribers verify current setup by scanning payroll data for any discrepancies. (When the taxability of a payroll item is changed, year-to-date information is entered, or the user subscribes to the Assisted Payroll Service, a prompt appears recommending that the "Payroll Checkup" be run to verify new or modified entries against the current payroll setup.) To run "Payroll Checkup," choose "My Payroll Service" and then "Run Payroll Checkup" from the "Employees" menu item. (Users must subscribe to one of the payroll services to run the payroll checkup.) After the checkup has been run, a "Payroll Checkup Results" HTML page will appear displaying the results and the possible solutions to discrepancies. The page may be printed and included in the company records by clicking "Print This Log."

c. *Other Payroll Reports.* To check the accuracy of the payroll setup process, several payroll reports can be printed and compared to the data entered. For example, the "Employee List" includes the names of all employees entered in the payroll system at any time during the current calendar year. Also, a "Payroll Summary" report and an "Employee Earnings Summary" report can be printed and their amounts compared to those on the company's year-to-date payroll records. Finally, compare the company's current payroll liabilities per QuickBooks to the company's prior payroll reports.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

13. Fred processes payroll for 15 companies. To which QuickBooks payroll service should Fred subscribe?

    a. QuickBooks Basic Payroll.

    b. QuickBooks Enhanced Payroll for Accountants.

    c. QuickBooks Enhanced Payroll.

    d. QuickBooks payroll feature.

14. Abby's company, ABK Services, used QuickBooks Enhanced Payroll Plus for Accountants to generate the payroll for the company. She is needing to verify the current setup of the company within the payroll system by examining the payroll data for any inconsistencies. Which function within her payroll system will help her achieve this goal?

    a. Payroll Item Listing.

    b. Payroll Checkup.

    c. Employee list.

    d. Payroll Summary Report.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

13. Fred processes payroll for 15 companies. To which QuickBooks payroll service should Fred subscribe? **(Page 37)**

    a. QuickBooks Basic Payroll. [This answer is incorrect. QuickBooks allows practitioners and other users to process payroll for one to three companies with separate federal identification numbers using a single QuickBooks Basic Payroll or QuickBooks Enhanced Payroll subscription per registered copy of QuickBooks.]

    b. QuickBooks Enhanced Payroll for Accountants. [This answer is correct. Practitioners who process payroll for more than three companies with separate federal identification numbers should subscribe to the QuickBooks Enhanced Payroll for Accountants payroll service. This service allows them to process payroll for 1–50 companies with a single subscription.]

    c. QuickBooks Enhanced Payroll. [This answer is incorrect. QuickBooks allows practitioners and other users to process payroll for one to three companies with separate federal identification numbers using a single QuickBooks Basic Payroll or QuickBooks Enhanced Payroll subscription per registered copy of QuickBooks.]

    d. QuickBooks payroll feature. [This answer is incorrect. The primary limitation of the QuickBooks payroll feature is that it generally does not calculate federal or state payroll taxes unless the user subscribes to one of the Intuit payroll services. Users that do not subscribe to one of the services must calculate and enter payroll taxes manually for each paycheck each pay period.]

14. Abby's company, ABK Services, used QuickBooks Enhanced Payroll Plus for Accountants to generate the payroll for the company. She is needing to verify the current setup of the company within the payroll system by examining the payroll data for any inconsistencies. Which function within her payroll system will help her achieve this goal? **(Page 42)**

    a. Payroll Item Listing. [This answer is incorrect. The "Payroll Item Listing" report shows the name, type, expense account, liability account, tax tracking, and annual limit (if any) of each payroll item. Thus, it can be used to check payroll item setup.]

    b. Payroll Checkup. [This answer is correct. "Payroll Checkup" is a diagnostic tool within QuickBooks that helps QuickBooks Basic Payroll, QuickBooks Enhanced Payroll Plus, and QuickBooks Enhanced Payroll Plus for Accountants payroll service subscribers verify current setup by scanning payroll data for any discrepancies. When the taxability of a payroll item is changed, year-to-date information is entered, or the user subscribes to the Assisted Payroll Service, a prompt appears recommending that the "Payroll Checkup" be run to verify new or modified entries against the current payroll setup.]

    c. Employee list. [This answer is incorrect. The "Employee List" includes the names of all employees entered in the payroll system at any time during the current calendar year. It is a payroll report that can be used to check the accuracy of the payroll setup process.]

    d. Payroll Summary Report. [This answer is incorrect. A "Payroll Summary" report can be printed and amounts compared to those on the company's year-to-date payroll records.]

ENTERING HISTORICAL TRANSACTIONS

The financial records in QuickBooks are not accurate until all of the transactions that occurred between the start date and the current date have been entered. In some cases, it also may be necessary to enter some transactions that occurred before the start date. For example, uncleared bank transactions at the start date must be entered. The opening balance of a bank account is the balance as of the last bank statement, not the balance as of the start date. To roll forward that opening balance to the balance as of the start date, uncleared transactions must be recorded. Users should enter individual customer and vendor invoices outstanding as of the start date rather than a single amount due for the outstanding balance.

The order in which historical transactions are entered is important. For example, bank account transactions should be entered last because accounts payable, accounts receivable, and payroll all may affect the bank account. (Thus, many of the cash transactions will be recorded when payables, receivables, and payroll are recorded.) Generally, if transactions are related, enter them in the order they occur. For example, a customer payment must be entered after the invoice to that customer has been recorded (otherwise QuickBooks will be unable to apply the payment). Historical transactions should be entered in the following order:

- Past purchases and accounts payable.
- Past sales and accounts receivable.
- Bank transactions.

Enter accounts payable and accounts receivable transactions using the actual transaction dates on which they occurred.

Past Purchases and Accounts Payable

Accounts payable transactions can be entered before or after accounts receivable. However, to put reimbursable expenses from bills on historical invoices, it is a good idea to enter accounts payable transactions first. For example, if the user wants to bill a customer for an expense and track the reimbursable expense as income, the expense needs to be entered first. After past purchases and accounts payable have been entered from the start date to the QuickBooks setup date, the following data will be accurate:

- Records of billed expenses during the period.
- Records of quantities and costs of inventory items purchased during the period (if inventory quantities are being tracked).
- Vendor balances as of the QuickBooks setup date.
- Records of which historical bills are unpaid.

To enter accounts payable transactions, users will need copies of invoices received from vendors between the start date and the QuickBooks setup date and records of payments to vendors made during that period. The information should be entered as follows:

a. *Vendor Invoices and Credits.* Select "Vendors" from the menu bar and choose "Enter Bills." Then, enter each bill received from a vendor between the start date and the QuickBooks setup date. Assign amounts to the correct expense accounts or enter the quantities and costs of items received. If the invoice represents a vendor credit rather than a bill, indicate that fact before the transaction is entered by selecting the "Credit" button rather than the "Bill" button.

b. *Payments.* Select "Vendors" from the menu bar and choose "Pay Bills." Then, record each bill payment made between the start date and the QuickBooks setup date. If the payment was made by credit card, select credit card. If the payment was made by check, select check. (If the past payment was made by check, be sure to uncheck the "To Be Printed" box so QuickBooks will not reprint the check.) QuickBooks allows users to assign check numbers to checks generated in the "Pay Bills" window. If payment was made by online bank payment, select "Online Bank Pmt." (only available if the company is set up for online bill payment).

QuickBooks "Vendor Center" The "Vendor Center" stores the information about the company's vendors, including contact information and transactions. QuickBooks users can add new vendors, edit a vendor's information, and add, view, or print vendor transactions. Users can access the "Enter Bills" and "Pay Bills" windows from the "Vendor Center."

Past Sales and Accounts Receivable

Past sales and accounts receivable transactions occurring between the start date and the QuickBooks setup date must be entered so that the period's sales records will be complete. Past sales and accounts receivable transactions must be entered so that customer balances and the sales tax liability as of the QuickBooks setup date are accurate.

To enter sales and accounts receivable transactions, users will need records showing cash and credit sales made, credit memos written, payments received, and sales tax payments made between the start date and setup date. The information should be entered as follows:

a. *Invoices.* Select "Create Invoices" from the "Customers" menu bar to enter each invoice written between the start date and the QuickBooks setup date. Enter items in the "Item" field so QuickBooks can track the sales income in the correct accounts. Items may need to be added to the "Item List" as invoices are entered.

b. *Statement Charges.* Many companies bill customers on a regular basis, for example accounting firms. These professional service firms usually issue monthly statements for their time. Any statements issued between the start date and the QuickBooks setup date must be entered. From the "Customers" menu bar select "Enter Statement Charges."

c. *Cash Sales.* If sales are not tracked by customer/job or by service/products and sales tax is not collected, users may simply enter cash sales as a deposit into the checking account. However, if users track cash sales by customer/job or by service and/or products, they will need to enter the sale in the "Enter Sales Receipts" window. Select "Customers" from the menu bar and "Enter Sales Receipts" to enter the quantities of each item sold for which payment was received at the time of sale. The first time the "Enter Sales Receipts" and the "Receive Payments" windows are used the user will need to complete a "Payment Interview." The user answers several questions on how they would like to receive payments and QuickBooks gives recommendations of their services based on those answers. The payment can either be posted directly to a bank account or grouped with "other undeposited funds," depending on how it was actually deposited. The deposit posted to the bank account should represent the actual deposit made (otherwise, it will be difficult to reconcile the bank account).

d. *Returns.* Enter sales returns by selecting "Customers" from the menu bar and "Create Credit Memos/Refunds."

e. *Payments Received from Customers.* Customer payments received between the start date and setup date (other than cash sales entered in step c.) should be entered by selecting "Customers" from the menu bar and "Receive Payments." The first time the "Enter Sales Receipts" and the "Receive Payments" windows are used the user will need to complete a "Payment Interview." The user answers several questions on how they would like to receive payments and QuickBooks gives recommendations of their services based on those answers. Apply the payment to the appropriate invoice making sure the "Date" field shows the payment date. The payment can either be posted directly to a bank account or grouped with "other undeposited funds" depending on how it was actually deposited. Since the user is entering historical payments, the payments have probably already been deposited into the bank account; therefore, they can be posted directly to the bank account. The deposit posted to the bank account should represent the actual deposit made (otherwise, it will be difficult to reconcile the bank account).

f. *Deposits of Payments.* If payments received from customers are posted to "undeposited funds," this additional step is needed to actually deposit the funds into the bank account. Select "Make Deposits" from the "Banking" menu and select all customer payments (whether for invoices or cash sales) deposited on one date. (For example, select all deposits made on 4/12/10, then, after those deposits are recorded, select all deposits made on another deposit date.) In the "Make Deposits" window, the "Date" field should show the deposit date.

g. *Payments of Sales Tax.* Record sales tax payments remitted by the company to taxing authorities between the start date and setup date by selecting "Vendors" from the menu bar, "Sales Tax," and then "Pay Sales Tax." (If the "Pay Sales Tax" window does not show the amounts owed as of the QuickBooks start date, enter the liability amounts before entering the payments.)

h. *Purchase Orders.* If inventory is tracked and purchase orders are used, any purchase orders issued since the QuickBooks start date that have not been received in full must be entered. Doing so enables QuickBooks to update inventory balances and the inventory asset account automatically when inventory items subsequently are received against those purchase orders. Purchase orders received in full between the start date and the setup date need not be entered. In the "Create Purchase Orders" window from the "Vendor" menu, enter the quantity on order for each item.

Bank Transactions

Many of the bank transactions occurring between the start date and setup date are recorded when accounts payable, accounts receivable, and payroll transactions are entered. For example, when past purchases and accounts payable were recorded, checks written to vendors during the period were recorded. Similarly, deposits of customer payments on accounts receivable and for cash sales were recorded when past sales and accounts receivable were recorded and payments for payroll and payroll tax liabilities were recorded when payroll activity was recorded.

Consequently, before entering any bank activity, users should determine what QuickBooks has already posted in the bank account. That can be done fairly easily by looking in the QuickBooks bank account register. (Select "Banking" from the menu bar then "Use Register.") Transactions in the register are in order by date but can be re-sorted using the "Sort by" drop-down list.

Additional bank transactions between the start date and QuickBooks setup date that may need to be recorded at this point generally include checks written that are not related to the payroll or purchases/accounts payable cycles, deposits that were not recorded when accounts receivable activity was recorded, bank fees and other charges, and bank transfers. Those items should be recorded as follows:

a. *Checks.* Record previously unrecorded checks by selecting "Banking" from the menu bar and "Write Checks." Be careful not to duplicate bill payments or payroll checks already entered in QuickBooks.

b. *Deposits.* Choose "Banking" from the menu bar and "Make Deposits" to enter all remaining deposits made between the start date and the QuickBooks setup date. Again, be careful not to duplicate sales deposits that were entered previously.

c. *Fees and Transfers.* Bank fees and transfers between bank accounts can be entered in the bank register. To open the bank register, select "Banking" from the menu bar and "Use Register." Alternatively, funds can be transferred between bank accounts by selecting "Banking" from the menu bar and "Transfer Funds."

If the bank account opening balance was entered using a bank statement balance as of a date prior to the start date, it is likely there are uncleared checks and deposits between the bank statement date and start date that have not been entered. For example, assume a company is setting up its records in QuickBooks on January 12, 2010, and is using a QuickBooks start date of December 31, 2009. Assume further that the opening balance entered for the bank account was taken from the most recent bank information available—a bank statement dated December 15, 2009. The setup process described in the preceding paragraphs would have adjusted the opening balance for the bank activity from the start date to the setup date (i.e., from December 31, 2009, to January 12, 2010), but would not have adjusted it for items occurring between the bank statement date (December 15, 2009) and the start date

(December 31, 2009) or transactions occurring prior to the bank statement date not clearing the bank as of the statement date. Consequently, those transactions still must be entered for the bank account balance to be correct as of the setup date. To enter such transactions, select "Banking" from the menu bar, choose "Write Checks," and enter the transaction information as discussed in the preceding paragraph. When recording the transactions, however, be sure to assign activity affecting revenues and expenses to retained earnings rather than an income or expense account since the transactions occurred in the prior period. This is accomplished by selecting "Retained Earnings" from the account drop-down list. Users can use the "QuickZoom" feature for retained earnings to view details of the retained earnings account balance from reports or the chart of accounts. Users can see the automatic closing entries created by QuickBooks, as well as other posted transactions.

Reconcile the Bank Account. After entering all transactions from the start date to the QuickBooks setup date and from the bank statement date to the start date, it is important to reconcile the current QuickBooks bank balance to the most recent bank statement to ensure that all bank activity has been recorded.

USING CLASSES AND LISTS

Classes

What Are Classes? QuickBooks allows users to create classes to classify income and expenses by department, business office or location, separate properties owned, or any other meaningful breakdown of a business. Because users can generate reports by class, the use of classes may be better than creating a large chart of accounts with separate subaccounts for each group. For example—

- A contractor might create a class for residential work and another class for commercial work and assign each transaction to one of those classes. Then, at the end of an accounting period, the contractor could create separate reports for the residential and commercial parts of the business.
- A retail company could use classes to track income and expenses at each store location or to track income and expenses for each product line or department (e.g., garden, hardware, tools).
- A restaurant could use classes to track income and expenses by restaurant location, profit centers (e.g., restaurant and bakery), or type of business (e.g., catering and restaurant).

Creating Classes. Before classes can be created and used, the preference to use classes must be enabled. To do so, choose "Preferences" from the "Edit" menu, and select the "Accounting" icon from the list of icons that appear on the left side of the "Preferences" window. Then, check the "Use class tracking" box in the "Company Preferences" tab. After the preference is enabled, create classes by choosing "Class List" from the "Lists" menu, selecting "New" from the "Class" button, and entering the class name. (If it is a subclass, check the box indicating it is a subclass and select the parent class.) Using classes is fairly straightforward—simply specify the appropriate class each time a transaction is entered in QuickBooks. QuickBooks also has a preference that reminds users to include a class when booking transactions. This preference can be turned on by selecting "Preferences" under the "Edit" menu. Then, check the "Prompt to assign classes" box under the "Accounting" icon on the "Company Preferences" tab.

Lists

What Are Lists? Lists are the framework of QuickBooks and are used to fill out most QuickBooks forms. For example, to create an invoice, choose the name of one of the customers from the "Customer:Job List" and QuickBooks enters all the information on the form. This saves time, prevents typing errors, and ensures transactions are entered consistently. There are two different types of lists in QuickBooks: "QuickBooks Centers" and "List Windows." Available QuickBooks "List Windows" include the following:

- Chart of Accounts List—Shows all general ledger accounts.
- Item List—Defines the company's products and services.
- Fixed Asset Item List—Tracks fixed assets and keeps information (i.e., cost, depreciation, serial number, acquisition date, and disposal date) about them in one place.

- U/M Set List—Shows the unit of measure sets. Users must turn on this preference.
- Price Level List—Tracks price levels assigned to an item.
- Billing Rate Level List—Tracks the billing rate levels stored.
- Sales Tax Code List—Tracks the sales tax codes assigned to items and/or customers. (The Sales Tax Code List is not available unless the sales tax feature is activated.)
- Payroll Item List—Keeps track of payroll information. (The Payroll Item List is not available unless the QuickBooks payroll feature is activated.)
- Class List—Helps keep track of revenues and expenses by departments, locations, or other criteria. (The Class List is not available unless the class tracking feature is turned on.)
- Workers Comp List—Tracks workers compensation codes.
- Other Names List—Keeps track of a list of names that do not fall into other categories. A limitation of QuickBooks is that a person can only appear on one list. When a person fits into more than one category, a unique name must be created for each list. The company should devise a consistent way of identifying individuals who fit multiple lists (e.g., when employees receive reimbursement checks, users might add the designation "-R" after the employees' names).
- Customer and Vendor Profile Lists—Include several sublists such as customer type, vendor type, terms, etc.
- Templates—Contain the various templates that can be used to generate invoices and statements.
- Memorized Transaction List—Recalls frequently entered transactions that users have memorized for future use.

Available "QuickBooks Centers" include the following:

- Customer Center—Includes the Customers & Jobs list which keeps track of customer contact information. (The "Customers & Jobs" list is the same as the "Customer:Job" list.)
- Vendor Center—Includes the Vendors list which manages vendor contact information.
- Employee Center—Includes the Employee list which keeps track of employee contact information.

Creating Lists. Lists are easy to set up in QuickBooks, but some, such as the chart of accounts, item, and class lists, require careful planning. An entry may be added to a list either ahead of time or while actually working on a transaction. For example, to invoice a customer, the customer may be added to the "Customers & Jobs List" before the invoice is created, or the invoice may be created first, with the customer information added to the list when QuickBooks prompts the user to do so.

The way a list is set up or edited depends upon the list type. To add a new entry to a "List Window," select "Lists" from the menu bar and choose the list to which the entry is to be added. Click the button in the bottom-left corner of the list window that appears (in the "Item List" window the button is labeled "Item," in the "Chart of Account List" window the button is labeled "Account," etc.), click "New," and fill in the requested information.

The "List Windows" also allow users to edit existing list information by clicking on the button in the bottom-left corner of the list window and selecting "Edit."

To add a new entry to a "QuickBooks Center" list, click the appropriate Center button on the toolbar to open the "QuickBooks Center." Click the button in the top-left corner of the "QuickBooks Center" (in the "Vendor Center" the button is labeled "New Vendor") and fill in the requested information. The "QuickBooks Centers" also allow users to edit existing list information by clicking the appropriate center button on the toolbar and clicking the "Edit" button. (In the "Customer Center" the button is labeled "Edit Customer.")

Organizing Lists. When a company is first set up in QuickBooks, each list may have only a few entries. As QuickBooks is used, however, some lists may grow to hundreds of entries. For example, each time a check is written to a new vendor, the "Vendor List" grows by adding the new vendor to the list. In such cases, it may be necessary to organize the lists to use them more efficiently. For example, entries on a list can be made inactive. Therefore, the entry does not appear on any drop-down lists in activities but it is still in the system. Display the appropriate list, right-click the entry, and choose "Make Inactive."

Another way to organize a list is to move the entries. By default, all list entries appear in alphabetical order. (If account numbers are used, the chart of accounts is sorted numerically by default.) To organize a list differently, display the list to be reorganized, move the mouse pointer so that it touches the small diamond in front of the entry to move, and, while holding down the mouse button, drag the entry up, down, left, or right to its new location. To move an entry with all of its subentries, drag the main (parent) entry. To make a subentry a main entry, drag it to the left. To make a main entry a subentry, drag it to the right.

DEFINING PREFERENCES

QuickBooks provides more than 100 preference options, allowing users to customize how the software looks and acts and to specify the functions that are available. Thus, to a certain degree, QuickBooks can be set up to meet the unique needs of the company and the personal work styles of the users. To define preferences, choose "Edit" from the menu bar and "Preferences." Icons for the various areas for which preferences may be established appear on the left of the "Preferences" window.

Note that each preference area has tabs for "My Preferences" and "Company Preferences." "Company Preferences" apply to all users of the application and can be made only by the QuickBooks Administrator and while in single-user mode. "My Preferences" apply only to the individual user who sets them. ("My Preferences" are not available for all areas.)

To change "Company Preferences," all users except the administrator must be logged off and QuickBooks must be set to single-user mode. All preferences can be returned to their default settings by clicking the default button in the "Preferences" dialog box. Most preferences are self-explanatory; however, many have an impact on other areas of QuickBooks. The following paragraphs discuss the first three preferences and provide guidance for selecting them.

Accounting

In the "Accounting" preferences dialog box, the following may be set:

- *Use Account Numbers.* Selecting this option may make it easier to locate individual accounts when there are numerous accounts and to identify the type of account. When this option is selected, account numbers will be used in addition to account names.
- *Show Lowest Subaccount Only.* This option allows the user to see only the subaccount (not both the parent account and subaccount) when making transaction entries. This may be useful since the field display length is limited and otherwise would require the user to scroll through the field to view the entire account number or name.
- *Require Accounts.* This option prevents a transaction from being recorded without assigning it to an account. If this preference is not selected, unassigned transactions will be posted to the "Uncategorized Expenses" or "Uncategorized Income" accounts.
- *Use Class Tracking.* This option allows users to group items and transactions for reporting (including department, location, or business type). Reporting by class may be better for the user than creating a large chart of accounts with separate subaccounts. The user can also choose to be prompted to assign a class.
- *Automatically Assign General Journal Entry Number.* When this option is activated, QuickBooks assigns a number to a general journal entry. If the box is unchecked, the journal entry number will be blank and must be manually entered.

- *Warn When Posting a Transaction to Retained Earnings.* When this option is activated, QuickBooks displays a warning when the user tries to post to the Retained Earnings account.

- *Date Warnings.* When these options are activated, QuickBooks displays a warning when the user tries to post a transaction a certain number of days before or after the current date.

- *Closing Date.* This option allows the administrator to set a password-protected closing date. When this is set, QuickBooks requires the password to make any changes to periods that have been closed.

Bills

In the "Bills" preference dialog box, the user can specify the date bills are due and warn about duplicate bill numbers. The QuickBooks user also can determine whether to automatically use discounts and credits.

Checking

In the "Checking" preferences dialog box, the user can tell QuickBooks to initially place the cursor at the payee field when checks are being written. Thus, the payee will be the first item entered when a check is written or a bill is paid. Other "Checking" preferences include printing account names on check vouchers, warnings about duplicate check numbers, changing the check date to the print date, and activating autofill of the payee account number. QuickBooks also allows the user to set default accounts for several forms in the "Checking" preferences dialog box, including "Write Checks," "Pay Bills," "Pay Sales Tax," etc. QuickBooks automatically opens the form with the default account chosen.

FINALIZING THE QUICKBOOKS SETUP

It is far easier to make changes to the company setup on the setup date than waiting to do so after QuickBooks has been used for a while. Consequently, it is important to review the company information immediately after it has been set up to determine whether changes need to be made. To help review the accuracy of the information entered, print the following reports:

a. *Balance Sheet*—Compare the QuickBooks balance sheet report to the company's balance sheet as of the setup date.

b. *Profit and Loss*—If the setup date is not the beginning of the company's fiscal year, compare the QuickBooks profit and loss report as of the setup date to the company's income statement as of the setup date.

c. *Open Invoices*—Compare the QuickBooks open invoices report to the company's accounts receivable detail as of the setup date.

d. *Unpaid Bills Detail*—Compare the QuickBooks unpaid bills detail report to the company's accounts payable detail as of the setup date.

e. *Inventory Valuation Detail*—Compare the QuickBooks inventory valuation detail to the company's inventory information as of the setup date.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

15. The order in which historical transactions are entered is important. Which of the following contains the correct order?

    a. Past purchases and accounts payable; past sales and accounts receivable; bank transactions.

    b. Bank transactions; past purchases and accounts payable; past sales and accounts receivable.

    c. Past sales and accounts receivable; bank transactions; past purchases and accounts receivable.

    d. Bank transactions; past sales and accounts receivable; past purchases and accounts payable.

16. Allen is entering the historical sales and accounts receivable transactions that occurred between the start date and the QuickBooks setup date. Which of the following records does he **not** need in order to input this information?

    a. Records of sales tax payments made.

    b. Records of credit memos written.

    c. Records of cash and credit sales made.

    d. Records of payments to vendors.

17. Kelly is setting up her company in QuickBooks on January 15, 2010 and is using a QuickBooks start date of December 31, 2009. Kelly entered the bank statement balance as of December 15, 2009. What does Kelly need to do for the bank account balance to be accurate as of the setup date?

    a. Enter only transactions since December 31, 2009.

    b. Do not enter any transactions because QuickBooks will have automatically adjusted the bank account balance during the "EasyStep Interview" process.

    c. Enter the transactions that occurred after December 15, 2009 and transactions that had been written prior to the bank statement date and had not cleared by December 15, 2009.

    d. Only enter transactions starting January 15, 2010.

18. Derek is a contractor and needs to track his commercial work separately from his residential contracts. Which feature in QuickBooks can Derek utilize to create separate reports for the two areas of his business?

    a. Lists.

    b. Classes.

    c. Items.

    d. Preferences.

19. There are many lists available in QuickBooks. Which of the following does **not** require careful planning before set up?

    a. Chart of accounts.

    b. Item list.

    c. Customer list.

    d. Class list.

20. Richard is setting up his company, Window Washers, Inc. on QuickBooks. The accounts payable department has asked for the cursor to be placed in the payee field when they go to the screen for writing checks so they do not have to reposition their cursor every time they write a check. In which preference dialog box would Richard need to make this change?

    a. Desktop View.

    b. Service Connection.

    c. Finance Charge.

    d. Checking.

21. Gary has finished the QuickBooks set up and would like to review the company information to see if any changes are needed. Which of the following is **not** a report he should review?

    a. Balance Sheet.

    b. Item List.

    c. Profit and Loss.

    d. Open Invoices.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

15. The order in which historical transactions are entered is important. Which of the following contains the correct order? **(Page 45)**

    a. Past purchases and accounts payable; past sales and accounts receivable; bank transactions. [This answer is correct. Generally, if transactions are related, enter them in the order they occur. For example, a customer payment must be entered after the invoice to that customer has been recorded, otherwise, QuickBooks will be unable to apply the payment.]

    b. Bank transactions; past purchases and accounts receivable; past sales and accounts payable. [This answer is incorrect. Not only should bank transactions be entered last, this answer choice incorrectly matches past purchases with accounts receivable and past sales with accounts payable.]

    c. Past sales and accounts receivable; bank transactions; past purchases and accounts receivable. [This answer is incorrect. Past sales and accounts receivable transactions occurring between the start date and the QuickBooks setup date must be entered so that the period's sales records will be complete. Past sales and accounts receivable transactions must be entered so that customer balances and the sales tax liability as of the QuickBooks setup date are accurate.]

    d. Bank transactions; past sales and accounts receivable; past purchases and accounts payable. [This answer is incorrect. Bank transactions should be entered last because transactions occurring between the start date and setup date are recorded when accounts payable, accounts receivable, and payroll transactions are entered.]

16. Allen is entering the historical sales and accounts receivable transactions that occurred between the start date and the QuickBooks setup date. Which of the following records does he **not** need in order to input this information? **(Page 46)**

    a. Records of sales tax payments made. [This answer is incorrect. To enter sales and accounts receivable transactions, users will need records showing sales tax payments made between the start date and setup date so that the sales tax liability as of the set up date is accurate.]

    b. Records of credit memos written. [This answer is incorrect. To enter sales and accounts receivable transactions, users will need records showing credit memos written between the start date and setup date so that a period's sales records will be complete.]

    c. Records of cash and credit sales made. [This answer is incorrect. To enter sales and accounts receivable transactions, users will need records showing cash and credit sales made between the start date and setup date so that customer balances as of the QuickBooks setup date are accurate.]

    d. Records of payments to vendors. [This answer is correct. Payments to vendors would not be included because they are related to purchases and accounts payable. This information is not related to historical sales or accounts receivable transactions.]

17. Kelly is setting up her company in QuickBooks on January 15, 2010 and is using a QuickBooks start date of December 31, 2009. Kelly entered the bank statement balance as of December 15, 2009. What does Kelly need to do for the bank account balance to be accurate as of the setup date? **(Page 47)**

    a. Enter only transactions since December 31, 2009. [This answer is incorrect. This method would eliminate the prior year's historical transactions and the account balance would be wrong.]

    b. Do not enter any transactions because QuickBooks will have automatically adjusted the bank account balance during the "EasyStep Interview" process. [This answer is incorrect. The setup process would have adjusted the opening balance for the bank activity from the start date to the setup date, but would not have adjusted it for items occurring between the bank statement date (December 15, 2009) and the start date (December 31, 2009) or transactions occurring prior to the bank statement date not clearing the bank as of the statement date. Consequently, those transactions still must be entered for the bank account balance to be correct as of the setup date.]

c. Enter the transactions that occurred after December 15, 2009 and transactions that had been written prior to the bank statement date and had not cleared by December 15, 2009. [This answer is correct. If the bank account opening balance was entered using a bank statement balance as of a date prior to the start date, it is likely there are uncleared checks and deposits between the bank statement date and start date that have not been entered.]

d. Only enter transactions starting January 15, 2010. [This answer is incorrect. This method would not include transactions that had occurred prior to January 15th.]

18. Derek is a contractor and needs to track his commercial work separately from his residential contracts. Which feature in QuickBooks can Derek utilize to create separate reports for the two areas of his business? **(Page 48)**

a. Lists. [This answer is incorrect. Lists are the framework of QuickBooks and are used to fill out most QuickBooks forms. There are two different types of lists in QuickBooks: "QuickBooks Centers" and "List Windows."]

b. Classes. [This answer is correct. QuickBooks allows users to create classes to classify income and expenses by department, business office or location, separate properties owned, or any other meaningful breakdown of a business. Because users can generate reports by class, the use of classes may be better than creating a large chart of accounts with separate subaccounts for each group.]

c. Items. [This answer is incorrect. Service items are used to track services a company buys or sells (e.g., design, landscaping, office visit, labor, etc.). Service items display on invoices and can be set up to include the item name, the description, the rate (price), and the account to be credited when an item sells.]

d. Preferences. [This answer is incorrect. Preference options allow users to customize how the software looks and acts and to specify the functions that are available.]

19. There are many lists available in QuickBooks. Which of the following does **not** require careful planning before set up? **(Page 49)**

a. Chart of accounts. [This answer is incorrect. The chart of accounts is easy to set up in QuickBooks, but it should be done after careful consideration since it shows all the general ledger accounts. The general ledger needs to be thought through and constructed to include the accounts necessary for financial and income tax reporting.]

b. Item list. [This answer is incorrect. Lists are easy to set up in QuickBooks, but the item list requires careful planning since it defines the company's products and services.]

c. Customer list. [This answer is correct. An entry may be added to the customer list while actually working on a transaction. For example, to invoice a customer, the customer may be added to the "Customers & Jobs List" before the invoice is created, or the invoice may be created first, with the customer information added to the list when QuickBooks prompts the user to do so.]

d. Class list. [This answer is incorrect. The class list helps keep track of revenues and expenses by departments, location or other criteria. Its assembly involves preparation to maximize its functionality.]

20. Richard is setting up his company, Window Washers, Inc. on QuickBooks. The accounts payable department has asked for the cursor to be placed in the payee field when they go to the screen for writing checks so they do not have to reposition their cursor every time they write a check. In which preference dialog box would Richard need to make this change? **(Page 51)**

a. Desktop View. [This answer is incorrect. Whether or not to show the home page when opening a company file and how the desktop is shown can be changed in the "Desktop View" "My Preferences" dialog box. Users can also change the QuickBooks color scheme, add sound, etc., that will be used when they log onto their computers on the "My Preference" dialog box. These do not impact other company users of QuickBooks. The "Company Preferences" dialog box can be used to customize the Home page. Users can select the features they wish to appear on the Home page.]

b. Service Connection. [This answer is incorrect. In the "Service Connection" preference dialog box, users can specify how they log in to QuickBooks services. There are two choices: "Automatically connect without asking for a password" or "Always ask for a password before connecting." The checkbox "Allow background downloading of service messages" may be checked to automatically download service updates.]

c. Finance Charge. [This answer is incorrect. In the "Finance Charge" preferences dialog box, the user can make changes to the way the company assesses finance charges. The user can specify the interest rate to charge, the minimum finance charge, the grace period allowed before finance charges are imposed, the account to which the finance charge should be recorded, when QuickBooks should begin calculating finance charges, and whether to assess finance charges on finance charges.]

d. Checking. [This answer is correct. In the "Checking" preferences dialog box, the user can tell QuickBooks to initially place the cursor at the payee field when checks are being written. Thus, the payee will be the first item entered when a check is written or a bill is paid. Other "Checking" preferences include printing account names on check vouchers, warnings about duplicate check numbers, changing the check date to the print date, and activating autofill of the payee account number. QuickBooks allows the user to set default accounts for several forms in the "Checking" preferences dialog box, including "Write Checks," "Pay Bills," "Pay Sales Tax," etc. QuickBooks automatically opens the form with the default account chosen.]

21. Gary has finished the QuickBooks set up and would like to review the company information to see if any changes are needed. Which of the following is **not** a report he should review? **(Page 51)**

a. Balance Sheet. [This answer is incorrect. The balance sheet is one of the reports that should be reviewed to compare the QuickBooks balance sheet report to the company's balance sheet as of the set up date.]

b. Item List. [This answer is correct. It is far easier to make changes to the company setup on the setup date than waiting to do so after QuickBooks has been used for a while. Consequently, it is important to review the company information immediately after it has been set up to determine whether changes need to be made. To review the accuracy of the information entered, print the following reports: Balance Sheet, Profit and Loss, Open Invoices, Unpaid Bills Detail, and Inventory Valuation Detail. The item list is not one of the recommended reports to review.]

c. Profit and Loss. [This answer is incorrect. The Profit and Loss report is a report that should be reviewed for accuracy of the setup process. If the setup date is not the beginning of the company's fiscal year, compare the QuickBooks profit and loss report as of the setup date to the company's income statement as of the setup date.]

d. Open Invoices. [This answer is incorrect. Compare the QuickBooks open invoices report to the company's accounts receivable detail as of the setup date. This report is recommended to be run in the finalization of QuickBook's setup.]

EXAMINATION FOR CPE CREDIT

Lesson 2 (QASTG101)

Determine the best answer for each question below. Then mark your answer choice on the Examination for CPE Credit Answer Sheet located in the back of this workbook or by logging onto the Online Grading System.

7. Sam has several locations of his dry cleaning business. He wants to prepare a budget for each location. He should choose which of the following to create separate budgets for each location within his company?

   a. Budget by customer: job.

   b. Budget by price level.

   c. Budget by profit and loss accounts.

   d. Budget by class.

8. Which of the following most accurately reflects the capabilities of QuickBooks when setting up price levels?

   a. QuickBooks cannot automate discount or write-up pricing using the price level feature.

   b. Users cannot enter fixed percentage premiums and discounts.

   c. Users cannot manually choose a price level when preparing an invoice.

   d. QuickBooks can automatically apply price levels to specific customers.

9. Connie owns a catering business and wants to charge clients for vehicle mileage. Which is the best method she can use to include mileage charges on her invoices?

   a. Enter the rate directly into the client's invoice.

   b. Use a specific rate per mile selecting the "Mileage Rates" button under the "Enter Vehicle Mileage" screen.

   c. Include the percentage of actual auto expense used on behalf of the client.

   d. QuickBooks does not allow mileage tracking as an item so charges must be calculated manually.

10. If sales tax was not set up during the "Easy Step Interview," which steps can be taken to activate the sales tax feature?

    a. Select "Preferences" under the "Edit" menu and answer "Yes" to the question "Do You Charge Sales Tax?" in the "Company Preferences" tab.

    b. Select "Sales Tax Liability" under the "Reports" menu and answer "Yes" to the question "Do You Charge Sales Tax?" in the "Company Preferences" tab.

    c. Choose "Sales Tax Item" from the "List" menu and answer "Yes" to the question "Do You Charge Sales Tax?" in the "Company Preferences" tab.

    d. Go to the "Company" menu and choose "Set Up Sales Tax" and answer "Yes" to the question "Do You Charge Sales Tax?" in the "Company Preferences" tab.

11. A "Sales Tax Payable" account:

    a. Is automatically created by QuickBooks if the sales tax feature is turned on.

    b. Must always be created manually by the user.

    c. Is automatically created by QuickBooks, but only if the user completes the "EasyStep Interview."

    d. When historical sales transactions are entered, the user must enter the opening sales tax payable balance manually.

12. Which of the following is **not** a field when entering "Purchasing Information" in the inventory feature?

    a. Tax Code.

    b. Description.

    c. Cost.

    d. Preferred Vendor.

13. Which of the following general ledger accounts should **not** be set up when the inventory feature is turned on:

    a. Inventory asset.

    b. Sales.

    c. Cost of goods sold.

    d. Tax codes.

14. If a user does not subscribe to one of the Intuit Payroll Services, the QuickBooks payroll feature cannot:

    a. Maintain employee information.

    b. Accumulate payroll liabilities.

    c. Calculate state payroll taxes.

    d. Calculate nontax deductions.

15. Karen is a practitioner whose clients frequently ask her which QuickBooks payroll option to use. Which of the following is **not** a question Karen needs to ask the clients in helping them determine the appropriate payroll option?

    a. How much control does the client want?

    b. Which bank handles payroll for the client?

    c. How complex are the company's payroll benefits?

    d. How many employees do they have?

16. If the QuickBooks "full payroll" feature is selected, which of the following tasks will **not** be needed to set up payroll?

    a. Review payroll data.

    b. Specify payroll preferences.

    c. Use the Payroll Setup Interview to enter employee information.

    d. Generate payroll tax forms.

17. Stephanie is working on entering historical items when setting up QuickBooks for the company. Stephanie's company bills expenses, such as travel, from her consultants to her clients. When working on setting up her accounts payable, which should she enter first?

    a. Historical accounts receivable transactions.

    b. Historical accounts payable transactions.

    c. Current unpaid bills.

    d. Balances with vendors as of the setup date.

18. Stella wants to find the contact information on ABC Company. She sent a check to ABC Company in the past but it is not one of her vendors. Where can she easily find the contact information for ABC Company?

    a. Go to "Lists" and click on "Other Names" list.

    b. Go to "Lists" and click on "Vendors" list.

    c. Go to "Lists" and click on "Customer:Job" list.

    d. Go to "Lists" and click on "Checks" list.

19. Sandy, the administrator of her company's QuickBooks program, asks all users to log off. Which activity is Sandy most likely to perform?

    a. Create financial reports.

    b. Change "Company Preferences."

    c. Create and print transactions and forms.

    d. Set up a new vendor.

20. Palm Tree Suites has been having problems with invoices being posted twice in QuickBooks. Is the system able to notify the user when a duplicate bill number is being posted into the system?

    a. Yes, in the "Checking" preference dialog box.

    b. Yes, in the "Bills" preference dialog box.

    c. Yes, in the "Accounting" preference dialog box.

    d. No, the system is not able to alert the user.

GLOSSARY

Administrator: QuickBooks automatically designates one user as the QuickBooks Administrator. The QuickBooks Administrator has unlimited access to all areas of QuickBooks and assigns passwords and access permissions to other users.

Chart Of Accounts: QuickBooks automatically chooses the chart of accounts that most fits the company's needs. The suggested chart of accounts can be kept or a new one can be created.

Classes: QuickBooks allows users to create classes to classify income and expenses by department, business office or location, separate properties owned, or any other meaningful breakdown of a business.

Company Preferences: QuickBooks provides more than 100 preference options, allowing users to customize how the software looks and acts and to specify the functions that are available.

EasyStep Interview: The "EasyStep Interview" walks users through the process of creating a company by asking a series of questions, and then adapts QuickBooks to suit their business needs.

Intuit Payroll Services: Intuit offers five payroll services—QuickBooks Standard Payroll, QuickBooks Enhanced Payroll, QuickBooks Enhanced Payroll for Accountants, QuickBooks Assisted Payroll, and Intuit Payroll Services Complete Payroll

Lists: Lists are the framework of QuickBooks and are used to fill out most QuickBooks forms.

Payroll Setup Interview: The QuickBooks Payroll Setup Interview includes the steps to enter payroll history, verify wages, and reconcile taxes.

Price Levels: A user documents a price level on a customer's record, and QuickBooks will automatically apply the discount or write up to all items when preparing that customer's invoice.

Sales Tax Item: Sales tax items are used to calculate taxes collected at a specified rate and paid to a single tax agency.

Sales Tax Liability: The "Sales Tax Liability" report summarizes total sales, nontaxable sales, taxable sales, and the amount due for each sales tax agency.

Sales Tax Payable: QuickBooks tracks all sales tax collections and payments in the "Sales Tax Payable" account.

Start Date: The start date is not the date on which the user sets up the QuickBooks company. Rather, it is the date chosen as the starting point for financial records in QuickBooks. Typically, the start date will be the last day of a fiscal period (e.g., last day of the month, quarter, or year).

Subaccounts: An account may have several subaccounts to help track the business in more detail.

INDEX

COMPANION TO PPC'S QUICKBOOKS® SOLUTIONS

COURSE 2

WORKING WITH AND REPORTING ON THE CLIENT'S QUICKBOOKS DATA (QASTG102)

OVERVIEW

COURSE DESCRIPTION: This interactive self-study course provides specific guidance to practitioners who provide accounting services involving their clients' QuickBooks data. It explains how to support clients using different versions of QuickBooks and how to access client data. It explains how to analyze and adjust the data, including tips for monthly monitoring of financial statement accounts and performing a year-end close with QuickBooks. For those practitioners who prepare financial statements using QuickBooks data, the course explains how to generate and customize QuickBooks financial reports from within QuickBooks, and how to export financial reports to Excel. The course also provides guidance on importing QuickBooks data into the practitioner's write-up software.

PUBLICATION/REVISION DATE: February 2010

RECOMMENDED FOR: Users of *PPC's QuickBooks® Solutions*

PREREQUISITE/ADVANCE PREPARATION: Basic knowledge of QuickBooks®

CPE CREDIT: 4 QAS Hours, 4 Registry Hours

Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program and allow QAS CPE credit hours. This course is based on one CPE credit for each 50 minutes of study time in accordance with standards issued by NASBA. Note that some states require 100-minute contact hours for self study. You may also visit the NASBA website at **www.nasba.org** for a listing of states that accept QAS hours.

FIELD OF STUDY: Specialized Knowledge and Applications

EXPIRATION DATE: Postmark by **February 28, 2011**

KNOWLEDGE LEVEL: Basic

Learning Objectives:

Lesson 1—Working With and Reporting on the Client's QuickBooks Data

Completion of this lesson will enable you to:
- Identify ways to access client data, use accountant's copy, and manage QuickBooks files.
- Determine methods to monitor client's financial statements, maintain balance sheet accounts using Fixed Asset Manager and Loan Manager, and adjust year-end reports.

Lesson 2—Preparing Reports from the Client's QuickBooks Data

Completion of this lesson will enable you to:
- Determine the financial reporting capability within QuickBooks, including budget reports and Cash Flow Projector.
- Identify ways to customize financial reports utilizing Financial Statement Designer.

TO COMPLETE THIS LEARNING PROCESS:

Send your completed **Examination for CPE Credit Answer Sheet, Course Evaluation,** and payment to:

Thomson Reuters
Tax & Accounting—R&G
QASTG102 Self-study CPE
36786 Treasury Center
Chicago, IL 60694-6700

See the test instructions included with the course materials for more information.

ADMINISTRATIVE POLICIES:

For information regarding refunds and complaint resolutions, dial (800) 431-9025 for Customer Service and your questions or concerns will be promptly addressed.

Lesson 1: Working With and Reporting on the Client's QuickBooks Data

INTRODUCTION

This lesson provides specific guidance to practitioners who provide accounting services involving their clients' QuickBooks data. It explains how to support clients using different versions of QuickBooks and how to access client data. It explains how to analyze and adjust the data, including tips for monthly monitoring of financial statement accounts and performing a year-end close with QuickBooks using the Client Data Review feature and applying analytical procedures.

Learning Objectives:

Completion of this lesson will enable you to:

- Identify ways to access client data, use accountant's copy, and manage QuickBooks files.
- Determine methods to monitor client's financial statements, maintain balance sheet accounts using Fixed Asset Manager and Loan Manager, and adjust year-end reports.

HOW TO ACCESS CLIENT DATA

Supporting Clients Using Different Versions of QuickBooks

Practitioners often find themselves supporting clients using different versions of QuickBooks. That creates numerous problems since older versions of QuickBooks do not have the same features and capabilities as the current version. Ideally, practitioners should recommend that their clients upgrade to the most current version or, at a minimum, a currently supported version of QuickBooks. Realistically, however, many clients choose not to upgrade from older versions. In that case, practitioners can choose to:

- Keep several versions of QuickBooks loaded on their computers.

- Install the most current versions of QuickBooks on their computers.

Keeping several versions of QuickBooks loaded on their computers allows practitioners to read clients' QuickBooks files (regardless of the version used by the client) without updating the files to the current version of QuickBooks. However, this method uses up valuable space on the practitioner's hard drive. In addition, many practitioners find it cumbersome to manage multiple versions of QuickBooks on their hard drives and may require installation on more than one computer. In addition, the practitioner may have trouble opening the client's file using the correct version of QuickBooks if the practitioner does not know which version of QuickBooks the client used to create the file. In addition, maintaining multiple versions of QuickBooks can create problems with online updates since practitioners cannot determine which directory is being updated.

Rather than maintaining multiple versions of QuickBooks on their computers, many practitioners choose to keep only the most current version of QuickBooks (Pro) (Premier) (Premier-Accountant) on their computer. Version 2010 (as well as other recent versions) can read or convert files created in any older version of QuickBooks for Windows. QuickBooks must update the client's file to the current version of QuickBooks to read a file from an older version. That process can take several minutes or several hours, depending on the size of the file. However, the primary disadvantage to updating a client's file to a newer version is that the file can no longer be read with the older version of QuickBooks. Thus, the client will not be able to read the updated file. Furthermore, since QuickBooks cannot save the data in the older version's format, a practitioner cannot convert a data file from an old version, work with it, and then save it in the older version's format. Since it is difficult to support so many different versions of QuickBooks, many practitioners insist that all of their QuickBooks clients upgrade to the newest version of the software. The practitioner can send out a letter to their clients asking them to update their software and explaining the benefits of the new version.

If practitioners choose to install only the most current version of QuickBooks on their computers, they must keep in mind that transactions created with features not available in the installed variety may be viewed, but not edited. For example, a transaction created using a feature available in QuickBooks Premier, but not QuickBooks Pro, could be viewed with QuickBooks Pro but not edited. For that reason, practitioners who work with company files created with different varieties of QuickBooks generally install the most feature-rich variety available—QuickBooks Premier or Premier-Accountant. QuickBooks Premier-Accountant, which is designed specifically for professional accountants, contains Simple Start, QuickBooks Pro, Premier, and all of the industry-specific editions of Premier. Therefore, practitioners can support clients with any of these varieties using their Premier-Accountant version. (They must be the same version year.) QuickBooks Premier-Accountant includes the same features and reports of each industry- or variety-specific edition. Therefore, practitioners can view the same screens as their client which helps when troubleshooting their problems. By seeing what their clients are seeing, practitioners can help them better understand how to effectively use their edition of QuickBooks. Practitioners can toggle between other varieties of QuickBooks with Premier-Accountant by selecting "Toggle to Another Edition" from the "File" menu, selecting the variety, and selecting "Toggle." QuickBooks closes Premier-Accountant and reopens with the variety that was selected with the same client file. To toggle back to Premier-Accountant, follow the same procedures and select "Accountant Edition-Home."

The following paragraphs provide guidance on upgrading and converting client files created in:

- Older versions of QuickBooks for Windows.
- QuickBooks for Macintosh.
- Quicken for Windows and Macintosh.

Converting Older Versions of QuickBooks for Windows Files. Version 2010 of QuickBooks can convert files created in Versions 5.0, 6.0, 99, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, and 2009 of QuickBooks for Windows directly without using additional software. Practitioners can convert a client's file created in one of those versions simply by opening the file in the current version of QuickBooks. QuickBooks displays a message alerting practitioners that the file needs to be updated.

If the user clicks the "I understand that my company file will be updated to this new version of QuickBooks" checkbox, QuickBooks assists the user in backing up a copy of the file before automatically updating the file. Each client's file created using an older version must be converted separately.

Converting QuickBooks for Mac Files. Practitioners can convert a client's file created in QuickBooks for Mac 2007 or later to a QuickBooks for Windows 2007 or later file. To convert the Mac file users should perform the following steps:

- Insert a Windows-formatted disk in the Mac computer.
- Back up the Mac file to the Windows disk by selecting "Backup to QuickBooks for Windows" from the "File" menu.
- Enter the file name using the ".qbb" extension in the "QuickBooks Backup" window.
- Select the applicable drive for the Windows disk in the "Location" field.
- Save the Mac file to the Windows disk.
- Install QuickBooks 2007 or later (if it has not been installed already).
- Insert the Windows disk with the Mac file in the computer.
- Select "Open or Restore Company" from the "File" menu in QuickBooks 2007 or later.
- Click "Restore a backup copy" in the "Open or Restore Company" window.
- Click "Next" and select "Local backup" in the next window.

- Select the Mac backup file, and click "Open."
- Choose the folder to restore to in the "Restore To" window and click "Save."

Practitioners should also be aware that QuickBooks for Windows Versions 2002 and later can be converted to QuickBooks for Mac 2007 or later. Also, QuickBooks for Mac 2007 or later allows Mac data to be shared with QuickBooks for Windows. For further guidance refer to **www.quickbooks.com**.

Converting Quicken Files. QuickBooks can convert files created in Quicken for Windows directly without using additional software. To convert a client's file, practitioners should perform the following steps:

- Prepare Quicken data for conversion. (See QuickBooks "Help.")
- Close the company that is currently open.
- Start the "EasyStep Interview," as discussed in paragraph [OLDREF]. Click on the "Convert Data" drop-down button, and select "Quicken."
- Select the Quicken file to be converted in the "Convert a Quicken File" window and click "Open."
- Enter the new QuickBooks file name and click "OK."
- Follow the onscreen prompts.

To convert data to QuickBooks from older versions of Quicken or Quicken for Macintosh, refer to the "Quicken Conversion Instructions" at **http://support.quickbooks.intuit.com/support/helpcenter/pdf_files/qb_pdf.aspx**.

Maintenance Releases and Other Updates. Intuit periodically provides free maintenance releases to fix problems in existing versions of QuickBooks. Practitioners can verify which version and release they are using by simultaneously pressing the "Ctrl" and "1" keys to display the "Product Information" window while in QuickBooks. Each maintenance release is cumulative and includes the enhancements made in each prior release. Consequently, practitioners should encourage their clients to maintain the most current QuickBooks maintenance release on their computers. In addition to maintenance releases, Intuit periodically provides free updates that add new features or services to existing versions of QuickBooks. Updates also may provide QuickBooks users current information about a relevant topic. QuickBooks users can access the most current maintenance releases and updates online.

<u>Online Maintenance Releases and Updates.</u> QuickBooks users can download maintenance releases and updates from the internet either automatically or immediately. QuickBooks transparently downloads automatic updates to the user's computer at times when the user's internet connection is not being used heavily. Automatic updates allow users to close QuickBooks or disconnect from the internet even if QuickBooks is downloading files. If a download is interrupted, QuickBooks automatically resumes the download when the user reestablishes an internet connection, even if QuickBooks is not running. In contrast, immediate updates allow users to specify when downloading occurs. Although QuickBooks comes configured for automatic updates, users can choose whether they want automatic or immediate updates by selecting "Update QuickBooks" from the "Help" menu.

Users can turn off the automatic update feature by clicking on the "Options" tab. However, Intuit recommends that users leave the automatic update feature turned on. Even if the automatic update feature is turned on, users can choose to download selected updates immediately. Users who want automatic updates should click on the "Options" tab to select the updates they want QuickBooks to download automatically. For example, users may want service messages to download automatically, while controlling when other updates are downloaded. QuickBooks users also can specify whether they want to share downloads.

QuickBooks users can download updates immediately by clicking on the "Update Now" button in the "Update QuickBooks/Overview" tab. Users then can select which updates to download by clicking the checkbox next to the update name in the "Update QuickBooks/Update Now" tab. Users can view a description of an update by clicking on the text in the "Updates" column. After selecting the updates, users should click the "Get Updates" button.

QuickBooks displays the date and time of the download in the "Last Checked" column and the status of the download in the "Status" column. Users can click the text in the "Status" column for more details about the download. Users can cancel an update in progress by clicking the "Stop Updates" button. QuickBooks then resumes the download the next time the user clicks "Get Updates" if the update selections are not changed. QuickBooks users generally should back up their data files by selecting "Save Copy or Backup" from the "File" menu before downloading updates.

QuickBooks automatically warns users who do not have the automatic update feature turned on if they have not updated QuickBooks during the month. The warning message advises users that Intuit recommends using the update service once per month, and asks users whether they would like to update QuickBooks. If users answer yes, QuickBooks downloads the latest updates.

QuickBooks automatically installs most updates after downloading them from Intuit's server to the user's computer. However, QuickBooks requires users to exit the program before it installs maintenance releases (as well as a few other types of updates). After downloading a maintenance release, QuickBooks will display a message the next time the user exits QuickBooks. If the user clicks "Install Now," QuickBooks installs the update. If the user clicks "Install Later," QuickBooks closes without installing the update. QuickBooks displays the same message the next time the user exits QuickBooks. Users generally should back up their QuickBooks files before installing updates.

Practitioners with more than one version of QuickBooks installed on their computers may continue to receive a download message even after installing an update. That is because QuickBooks attempts to update the last version installed on the user's computer. For example, if the user installed Version 2010 and later installed Version 2009, QuickBooks may attempt to download an update for Version 2010 to Version 2009. Practitioners should verify that they have the most recent release for each version by pressing "Ctrl" and "1" simultaneously in each version. Current information regarding the most recent release for each version can be obtained from Intuit's website at **http://support.quickbooks.intuit.com/support/productupdates.aspx**. If each version of QuickBooks has been updated for the most recent release, practitioners can open the Windows Explorer and locate the QuickBooks folder for the company file displaying the erroneous installation message. Practitioners then can delete the "Inet" folder located under that QuickBooks folder to remove the message.

Users must have access to the internet to receive maintenance releases and free updates. Therefore, QuickBooks may not be appropriate for users without access to the internet. Refer to Intuit's website at **http://support.quickbooks.intuit.com/support/productupdates.aspx** for information about downloading the maintenance releases and free updates manually.

Sharing Downloaded Updates. Users in a multi-user environment can choose whether to share downloads in the "Update QuickBooks/Options" tab. To share downloads, each user must have a unique copy of QuickBooks Pro, Premier, or Premier-Accountant and each user's computer must be configured to share files across the network. In addition, each user must:

- Open the shared company data file.
- Select "Update QuickBooks" from the "Help" menu.
- Click the "Options" tab at the top of the "Update QuickBooks" window.
- Click "Yes" for the "Shared Download" option and click "Save."

After each user completes the preceding steps, downloaded updates will apply to each user's copy of QuickBooks. QuickBooks downloads the updates to the location of the shared company data file. After one user installs a maintenance release, QuickBooks displays a message as each other user exits QuickBooks.

Transmitting QuickBooks Data

Many practitioners go to their clients' offices to review and update QuickBooks data files. That method of working with clients' files does not require files to be transmitted back and forth between practitioners and clients. In addition, a client that has QuickBooks Pro, Premier, or Premier-Accountant for multiple users can set up the practitioner as a user and allow the practitioner to update files at the client's office while other client users continue their work. The client should set the practitioner up as an external accountant user. However, the practitioner may need to perform some activities that are allowed only in single-user mode (such as accessing the Client Data Review feature). In addition, some reports the practitioner needs to create may run slowly in multi-user mode.

Many practitioners prefer to work with QuickBooks data in their own offices rather than at the client's office. In those cases, clients may transmit their QuickBooks data to practitioners via:

- Hard copies.
- Computer disks, CD-ROM, Zip drives, or other media.
- Email.
- Remote access software.

Many practitioners choose not to adjust their clients' QuickBooks files. Those practitioners only use their clients' QuickBooks data to perform traditional write-up services using the practitioners' own write-up software. In those cases, clients often submit their QuickBooks data to practitioners via hard copies, computer disks, CD-ROM, Zip drives, or other media. Submitting data files on media rather than as hard copies obviously has many advantages. The primary advantage is that transmitting the QuickBooks files on disks, CD, Zip drives, or other media allows practitioners to correct the files directly on the media. Transmitting QuickBooks files electronically via email or remote access software rather than on media further simplifies the process since the files can be transferred at any time without making arrangements for physical transfer of the media. As discussed in the following paragraphs, practitioners have several options for working with QuickBooks data files transmitted via media or electronically.

Transmitting Files on Computer Disks, CD-ROM, Zip Drive, or Other Media or Via Email. Practitioners have the following options for working with QuickBooks files transmitted on computer disks, CD-ROM, Zip drive, or other media or via email:

- The client can send the practitioner the accountant's copy of the QuickBooks data file for the practitioner to review and adjust and send back to the client.
- The client can send the practitioner a portable company file of the QuickBooks data file for the practitioner to review and adjust and send *a report of journal entries to be posted* back to the client.
- The client can send the practitioner a portable company file of the QuickBooks data file for the practitioner to *review and adjust and send* back to the client.

Clients may send the practitioner the accountant's copy of the QuickBooks data file on computer disk, CD-ROM, Zip drive, or other media or via email. The practitioner can add and edit transactions in a prior period directly to the accountant's copy while the client continues to process transactions in the current period using the original data file. After adjusting the accountant's copy, the practitioner can export the changes to a new file. The client then can import those changes into the original data file. The primary advantage of using the accountant's copy is that it allows clients to continue processing transactions in their QuickBooks data files while practitioners review and adjust the clients' files.

In certain limited circumstances, practitioners who prefer not to work with the accountant's copy might ask their clients to send a portable company file of their QuickBooks data files. They can send the files on disk, CD-ROM, Zip drive, or other media or via email. A portable company file is a compact version of the company file, which allows easier transmission of the file via e-mail. Clients can create a portable company file by choosing "Save Copy or Backup" from the "File" menu and then choosing "Portable Company File" in the "Save Copy or Backup" window. The portable company file is saved with a .QBM extension. Practitioners can open the file by choosing "Open or Restore Company" from the "File" menu and choosing "Restore a Portable File" in the "Open or Restore Company" window. The file is converted to a regular company file, with a .QBW extension. When the portable company file is opened, the practitioner can choose to overwrite an existing company file or create a new one. In order to work with the portable company file, the practitioner will need the administrator password, which gives them access to all areas of QuickBooks (or have the client set them up as an external accountant user). Practitioners can review the data, make the necessary adjusting journal entries to the portable company file, and send the client a hard copy report listing the journal entries. The client would enter the journal entries on the original file. This method might be useful if the practitioner maintains the depreciation schedule or makes other period-end entries for the client. A disadvantage of this method is that the practitioner must depend on the client to post the adjusting journal entries, and the practitioner must verify that the previous period's journal entries were posted correctly the next time the client sends a portable company file to the practitioner. Frequently, clients either fail to make the adjustments or make them incorrectly.

The practitioner can generate a report showing posted journal entries by selecting "Accountant & Taxes," and then "Journal" from the "Reports" menu. The report can be modified to print only journal entries for a specified period by clicking on the "Modify Report" button and the "Filters" tab. Select "Transaction Type" from the "Filter" drop-down list, and select "Journal" from the "Transaction Type" drop-down list. (If practitioners enter their initials or names in the "Memo" field when creating journal entries, they can further filter the "Journal" report by selecting "Modify Report" button and the "Filters" tab. Then select "Memo" from the "Filter" drop-down list and enter their initials or name in the "Memo" field. That allows practitioners to distinguish their journal entries from journal entries that may have been created by clients during the same period.)

Practitioners who do not want to work with the accountant's copy or to rely on clients to post adjusting journal entries may ask clients to send them a portable company file of the QuickBooks data file. Those practitioners can then open the portable company file, make adjustments directly to the file, and return a portable company file of the adjusted files to the client. The client can then open the portable company file by selecting "Open or Restore Company" from the "File" menu, then choosing "Restore a Portable File" in the "Open or Restore Company" window. The new company file will overwrite the data file that is on the hard drive. Practitioners who directly adjust clients' files should use the same version of QuickBooks that the client is using. Even though a practitioner using a current version of QuickBooks can convert an older version of a client's QuickBooks file to the current version, the client's older version of QuickBooks cannot read the updated file. Even if a practitioner uses the same version of QuickBooks as the client, the client loses any transactions posted to a data file while it is being updated by the practitioner since the client's data file is overwritten when the client opens the practitioner's adjusted portable company file. Consequently, those transactions have to be re-entered in the client's updated file. Alternatively, practitioners may want to recommend that their QuickBooks clients not enter any new transactions in their company files while the practitioner is updating the files. Depending on the time required to review and update the files, that may not be practical, however.

Remote Access Software. Perhaps the most efficient and effective way for a practitioner to work with the client's data off-site is to use remote access software. With remote access software, the practitioner can make adjustments directly to the client's QuickBooks data file. Remote access software enables the practitioner to connect with the client's stand-alone personal computer or local area network. The three types of remote access software discussed in this section are as follows:

- Remote access software supported by a nonQuickBooks vendor.
- QuickBooks Remote Access.
- QuickBooks Online.

Software (such as "Go to Assist," "pcAnywhere" and "LapLink") allows the practitioner to dial in to the client's personal computer and make changes to the client's data files as if the practitioner was actually at the client's computer. Dialing in to the client's computer generally is easier than dialing in to the client's network. However, the process can be quite slow and the client cannot use the "host" computer while the practitioner is controlling it via the remote access software. If the client owns QuickBooks Pro, Premier, or Premier-Accountant for multi-users and the client's data file is in multi-user mode, practitioners can use the "Dial-Up Networking" feature of Windows 7, Vista or XP to log on to the client's network and access the client's QuickBooks file as an additional user. The client should set the practitioner up as an external accountant user.

Using remote access software offers many benefits to practitioners. Practitioners using such software can adjust clients' QuickBooks data files, as well as provide technical support and training. However, remote access software features vary significantly from product to product. Practitioners should compare features carefully when selecting remote access software. Performance during file transfers and remote control sessions is a significant consideration when selecting remote access software. Computer magazines frequently review remote access software and provide information about performance, ease of use, and cost/benefit issues.

QuickBooks Premier and Premier-Accountant offer QuickBooks Remote Access. QuickBooks Remote Access allows a QuickBooks Premier or Premier-Accountant user to access a client's QuickBooks file via the internet and view and make adjustments directly to the client's company data files. Since the practitioner is actually using the client's version of QuickBooks, the practitioner will not have access to features unique to Premier or Premier-Accountant unless the client uses that version. To sign up for QuickBooks Remote Access in QuickBooks Premier-Accountant, follow these instructions:

a. Choose "Remote Access" from the "Accountant" menu and sign up for the service.

b. Install and run "WebEx Client." (The client will also need to install "WebEx Client.")

c. Log in with the email and password given during the sign up and click "Start Meeting" on the "Meeting" tab.

d. The practitioner can either invite their client by email or instruct the client to the website to log in with their name and the support number by clicking the "Invite" button in the "QuickBooks Meeting" window. (First time users will be instructed to download "WebEx Client.")

e. Once the client has joined the session, the practitioner can use the command buttons in the "QuickBooks Meeting" window on the left side of the screen. The practitioner may request permission to view or control the client's QuickBooks remotely. (Controlling QuickBooks will allow the practitioner to make changes while the client views the process. Viewing QuickBooks allows the client to control QuickBooks while the practitioner watches. These options may assist in the training of client personnel.)

f. The client will click "OK" to grant permission ("Do not require permission again during this session" may be checked to avoid additional approval during this session).

g. Once the client has granted permission, the practitioner will receive a "WebEx Remote Support Console" window that is minimized. Select the application to share in the window and begin using QuickBooks.

Either the practitioner or the client may end the session at any time by clicking the "End Support Session" button. QuickBooks Remote Access also allows chatting and file transferring between the practitioner and the client.

QuickBooks Online

QuickBooks Online Basic and Online Plus are internet-based accounting programs that run on Intuit's web servers and can be accessed by the client or by the practitioner (if given permission) from any location that has an internet connection and a web browser. QuickBooks Online Basic and Online Plus are not the same programs as the desktop-based QuickBooks, however. The practitioner can only use them if the client has selected that software.

QuickBooks Online Basic is most effective for small businesses with simple accounting needs. Its features are limited to checking accounts, credit cards, accounts receivable and payable, emailing invoices, accepting online payments, and automated recurring billing. QuickBooks Online Plus supports time tracking and payroll.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

1. Identify which statement is **not** a reason a practitioner would require a client to upgrade to the newest version of QuickBooks.

   a. QuickBooks must update the client's file to the current version of QuickBooks to read a file.

   b. Data the practitioner enters cannot be saved in the client's older version.

   c. It is difficult to support many different versions of QuickBooks.

   d. Older versions of QuickBooks cannot be read by the newest version.

2. Sarah's company, TimeZone Applications, use QuickBooks. Sarah wants to make sure that the most recent version of the software is being utilized, but does not want the downloads to interrupt her employees as they are working. What is the best method that Sarah should employ to set up her downloads from the internet to update her QuickBooks system?

   a. Immediate.

   b. Scheduled.

   c. Automatic.

   d. Manual.

3. Karen uses QuickBooks in a multi-user office, and her colleague has downloaded the latest update. In order for Karen to share the download, she must do all **except** which one of the following?

   a. Have her computer configured to share files across the network.

   b. Have a unique copy of QuickBooks Pro, Premier or Premier-Accountant.

   c. Open the shared company data file.

   d. Have access to the internet.

4. Sam's client needs to transmit his QuickBooks files for Sam to review and adjust the previous quarter, but the client wants to be able to continue working in QuickBooks. What method should Sam recommend to his client?

   a. Send a portable company file via Zip drive.

   b. Send the accountant's copy of QuickBooks via email.

   c. Schedule time for Sam to come to the client's office.

   d. Send the accountant's copy of QuickBooks via computer disk so Sam can edit payroll entries.

5. Perhaps the most efficient and effective way for a practitioner to work with a client's data off-site is to:

   a. Use accountant's copy of QuickBooks.

   b. Have the client send a backup copy of its QuickBooks data files on disk or CD to the practitioner to work with.

   c. Use remote access software.

   d. Send a portable company file via email.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

1. Identify which statement is **not** a reason a practitioner would require a client to upgrade to the newest version of QuickBooks. **(Page 69)**

   a. QuickBooks must update the client's file to the current version of QuickBooks to read a file. [This answer is incorrect. QuickBooks must update the client's file to the current version of QuickBooks to read a file and is a reason a client would benefit from upgrade to a newer version. If an upgrade to the newest version is not done, it can be cumbersome to manage multiple versions of QuickBooks on their hard drive.]

   b. Data the practitioner enters cannot be saved in the client's older version. [This answer is incorrect. Data the practitioner enters cannot be saved in the client's older version and is one of the reasons a practitioner would encourage the client to upgrade.]

   c. It is difficult to support many different versions of QuickBooks. [This answer is incorrect. It is difficult to support many different versions of QuickBooks. Many practitioners choose to keep only the most current version of QuickBooks on their computer.]

   d. Older versions of QuickBooks cannot be read by the newest version. [This answer is correct. Older versions of QuickBooks cannot be read by the newest version. The newest version can read the older versions, but the client's file must be updated in order to do so. Once this is done, the client will not be able to read the file in the old version.]

2. Sarah's company, TimeZone Applications, use QuickBooks. Sarah wants to make sure that the most recent version of the software is being utilized, but does not want the downloads to interrupt her employees as they are working. What is the best method that Sarah should employ to set up her downloads from the internet to update her QuickBooks system? **(Page 71)**

   a. Immediate [This answer is correct. Immediate updates allow users to specify when downloading occurs. For example, if a user wants to check for downloads available, the user clicks the "Update Now" button and then selects which updates to download.]

   b. Scheduled. [This answer is incorrect. QuickBooks does not provide a selection by this name.]

   c. Automatic. [This answer is incorrect. The automatic updates allow users to close QuickBooks or disconnect from the internet even if QuickBooks is downloading files. Users who want automatic updates can use the "Options" tab select the updates they want QuickBooks to download automatically. Some users may want service messages to download automatically, while selecting when to release other updates.]

   d. Manual. [This answer is incorrect. QuickBooks does not provide a selection by this name.]

3. Karen uses QuickBooks in a multi-user office, and her colleague has downloaded the latest update. In order for Karen to share the download, she must do all **except** which one of the following? **(Page 72)**

   a. Have her computer configured to share files across the network. [This answer is incorrect. Karen must have her computer configured to share files across the network. She can only access a download through a network server.]

   b. Have a unique copy of QuickBooks Pro, Premier or Premier-Accountant. [This answer is incorrect. It is necessary that Karen have a unique copy of QuickBooks Pro, Premier or Premier-Accountant. Each user in a multi-user environment must have a copy installed on their computer.]

   c. Open the shared company data file. [This answer is incorrect. Opening the shared company data file is the first step to process the download.]

   d. Have access to the internet. [This answer is correct. Because the colleague made the download, Karen does not need internet access to incorporate the updates into her QuickBooks program.]

4. Sam's client needs to transmit his QuickBooks files for Sam to review and adjust the previous quarter, but the client wants to be able to continue working in QuickBooks. What method should Sam recommend to his client? **(Page 73)**

   a. Send a portable company file via Zip drive. [This answer is incorrect. A portable company file allows the practitioner to review and adjust the data; however, Sam would need to send a report of journal entries to be posted back to the client.]

   b. Send the accountant's copy of QuickBooks via email. [This answer is correct. Using the accountant's copy allows Sam's client to continue working in QuickBooks. Sending via email will allow Sam to access the data immediately.]

   c. Schedule time for Sam to come to the client's office. [This answer is incorrect. Although some practitioners prefer to work at the client's office, in this scenario, working at the client's office does not meet the objective of the client and is an inefficient use of Sam's time.]

   d. Send the accountant's copy of QuickBooks via computer disk so Sam can edit payroll entries. [This answer is incorrect. Practitioners cannot use the accountant's copy to edit or delete payroll items or add new items to the payroll item list.]

5. Perhaps the most efficient and effective way for a practitioner to work with a client's data off-site is to: **(Page 74)**

   a. Use accountant's copy of QuickBooks. [This answer is incorrect. Although the client can send an accountant's copy to the practitioner, this is not the method that allows direct and immediate access to the client's data.]

   b. Have the client send a backup copy of its QuickBooks data files on disk or CD to the practitioner to work with. [This answer is incorrect. Using disks or CDs requires the physical transfer of media; this is not the method that allows direct and immediate access to the client's data.]

   c. Use remote access software. [This answer is correct. With remote access, the practitioner can make adjustments directly to the client's QuickBooks data file. Remote access software enables the practitioner to connect with the client's local area network or stand-alone personal computer.]

   d. Send a portable company file via email. [This answer is incorrect. The portable company file only allows the practitioner to review data and make adjusting journal entries and then send the client a hard copy report listing the journal entries.]

Using the Accountant's Copy

As previously noted, QuickBooks allows users to create an accountant's copy of the company's data files, allowing the practitioner to review and adjust prior period data while the client continues to process transactions in the original file for the current period. In QuickBooks Premier-Accountant practitioners can open their client's previous year's QuickBooks data files as well as the current year's data files using the accountant's copy feature and make changes. The client will be able to import the changes back into their previous year's data file even though the practitioner used a newer version of QuickBooks. The client sets the dividing date that determines when the practitioner can edit transactions in an accountant's copy. After adjusting the accountant's copy, the practitioner can export the changes to a new file and the client can then import the practitioner's changes into the original data file. With an accountant's copy, a practitioner can—

- Add new accounts to the chart of accounts and edit existing account names and numbers.
- Delete existing accounts from the chart of accounts.
- Record and memorize general journal entries. (Although the memorized transaction will not get back to the client.)
- Post general journal transactions to account registers.
- Adjust inventory quantities and values.
- Create, adjust, and print Forms 940, 941, 944, and W-2. (However, changes cannot be exported back to the client.)
- Print 1099 forms.
- Create new reports.
- Memorize reports. (Although the memorized report will not go back to the client. Memorized reports can be exported from the memorized report list.)
- Add new items to the item list and to do notes list.
- Edit account and tax information for existing items.
- View existing lists and transactions.
- View employees' year-to-date payroll setup transactions.
- Temporarily change preferences while working with the accountant's copy.
- Post journal entries for assets created using the Fixed Asset Manager.
- Add, delete, or edit most transactions dated on or before the dividing date.
- Reconcile bank accounts in any period that ends before the dividing date. (If the practitioner changes the reconcile status of a transaction in the register, the change will go back to the client.) Practitioners should warn their clients against reconciling their bank accounts after providing the accountant's copy as when the accountant's changes are imported into their data file the bank reconciliation activity will be removed. However, transactions added to complete the bank reconciliation will still be there. If they try to reconcile, QuickBooks will warn them that their changes will be lost after importing accountant changes.
- Access the Client Data Review feature.

The accountant's copy has its limitations, however. Practitioners may *not* perform the following activities using the accountant's copy:

- Enter or memorize transactions other than general journal entries or account register postings after the dividing date.
- Reconcile bank accounts in any period that ends after the dividing date. (The practitioner can reconcile periods ending after the dividing date if it helps with their work, but those changes will not be sent back to the client.)
- Use the "Adjust payroll liabilities" feature.
- Edit or delete existing payroll items.
- Add new items to the payroll item list.
- Delete existing inventory part items.
- Change a noninventory part to an inventory part.
- Merge newly created inventory part items with existing inventory part items.
- Export changes made to Forms 940, 941, 944, and W-2.
- Export changes to 1099 preferences back to the client's original file.
- Delete, inactivate, or rename existing items.
- Delete existing list entries or make list entries inactive.
- Edit or delete existing transactions dated after the dividing date.
- Enter or edit employees' year-to-date payroll setup transactions.
- Export changes to preferences back to the client's original file.
- Synchronize detailed fixed asset manager information.

In the accountant's copy only fields with a highlighted background will go back to the client. Fields with a white background will not. Also, some windows have buttons or fields that are disabled because they will not go back to the client. Practitioners wishing to perform one of the preceding activities should consider working with a portable company file.

Creating an Accountant's Copy. Clients can create an accountant's copy and send a link to the practitioner by opening their company file and selecting "Accountant's Copy" and then "Send to Accountant" from the "File" menu. (Premier-Accountant users should select "Accountant's Copy," then "Client Activities," and then "Send Accountant" from the "File" menu.) In the "Accountant's Copy: Dividing Date" window, select the date to divide the transactions. For example, if the practitioner is making prior period adjustments, enter the last day of the previous fiscal year. The dividing date separates the company file into two parts. The client can continue to work on transactions after that date, while the practitioner can work on transactions on or before that date. After selecting the dividing date, the client should enter the information for sending the file (i.e. practitioner's e-mail address, client's name, and their e-mail address) in the "Send Accountant's Copy" window. In the next screen, the client should enter a password and any notes to the practitioner and click "Send." QuickBooks displays a message that an accountant's copy has been uploaded to the Intuit Accountant's Copy File Transfer Server. The practitioner will receive an e-mail with a link where they can download the accountant's copy. QuickBooks also displays "(Accountant's Changes Pending)" in the title bar of the QuickBooks program window. The client cannot create a new accountant's copy if an existing accountant's copy exists.

Clients can still save an accountant's copy to their hard drive or other media and transmit the accountant's copy to the practitioner. To do so, they should select "Accountant's Copy" and then "Save File" from the "File" menu. (Premier-Accountant users should select "Accountant's Copy." Then "Client Activities" and then "Save File" from the "File" menu. Click "Accountant's Copy" in the "Save Accountant's Copy" window.) After selecting the dividing date, the client should verify that the file name in the "Save Accountant's Copy to" window has a ".qbx" extension. The "Save as type" should be "QuickBooks Accountant's Copy Transfer Files (*.qbx)." After clicking "Save," QuickBooks displays a message that an accountant's copy transfer file has been created successfully. QuickBooks also displays "(Accountant's Changes Pending)" in the title bar of the QuickBooks program window. The client then can transmit the accountant's copy to the practitioner. The client cannot create a new accountant's copy if an existing Accountant's copy exists.

A client that unintentionally creates an accountant's copy can cancel the copy by selecting "Accountant's Copy" and then "Remove Restrictions" from the "File" menu. (Premier-Accountant users should select "Accountant's Copy" then "Client Activities" and then "Remove Restrictions.") QuickBooks then displays a message.

Working with an Accountant's Copy. If the practitioner receives an e-mail from their client with a link to the accountant's copy that has been uploaded to the Intuit Accountant's Copy File Transfer Server they should click the link and save the file. (They should not open the file from this screen.) After saving the file, the practitioner can then open the file. They will need to enter the password the client provided to access the accountant's copy.

If the practitioner receives the accountant's copy directly from the client, the practitioner can open the file by selecting "Accountant's Copy" and then "Open & Convert Transfer File" from the "File" menu. QuickBooks 2009 and later does not allow the practitioner to open and convert an accountant's copy file without selecting "Accountant's Copy" and then "Open & Convert Transfer File" from the "File" menu.

After selecting "Open & Convert Accountant's Copy Transfer File," the first two screens describe the accountant's copy process. The practitioner should enter the location and file name of the client's QuickBooks file in the "Open Accountant's Copy Transfer File" window. The file name should have a ".qbx" extension, and the file type should be "Accountant Transfer File (*.qbx)." After clicking "Open," and entering the client provided password, QuickBooks displays a message.

QuickBooks then opens the "Save as Accountant's Copy" window. The file name in that window should have a ".qba" extension and the "Save as type" should be "QuickBooks Accountant's Copy Files (*.qba)." After clicking "Save," QuickBooks displays a message.

Practitioners should make a note of the dividing date as they can only edit transactions dated on or before that date. The client will be able to work on transactions after that dividing date. After clicking "OK," QuickBooks displays "(Acct Copy, Div Date mm/dd/yyyy)" in the title bar of the QuickBooks program window. The practitioner enters changes to the client's QuickBooks data in this file. The practitioner can reopen the file at a later date by selecting "Open or Restore Company" from the "File" menu. As a general rule, practitioners can make changes to most transactions that are dated on or before the dividing date. In the accountant's copy only fields with a highlighted background will go back to the client. Fields with a white background will not. Also, some windows have buttons or fields that are disabled because they will not go back to the client.

Creating an Export File. After adjusting the client's data, the practitioner should create an export file to give to the client. While the accountant's copy of the client's file is open, the practitioner should select "Accountant's Copy" and then "View/Export Changes for Client" from the "File" menu. Review the changes and add a note to the client in the "View/Export Changes for Client" window. Click the "Print" button to print a copy of the changes. After reviewing and printing the changes, select "Create Change File for Client." The practitioner then should enter the file name and location in the "Save Accountant Change File to" window and click "Save." The file name must have an ".qby" extension. QuickBooks displays a message after the file is saved. The practitioner then can transfer the export file to the client.

Importing Changes. After receiving the adjusted accountant's copy file from the practitioner, the client should open the original company file and select "Accountant's Copy" and then "Import Accountant's Changes" from the "File" menu. (Premier-Accountant users should select "Accountant's Copy," then "Client Activities" and then "Import Accountant's Changes.") QuickBooks then opens the "Import Accountant's Changes" window. The client should enter the location and file name of the practitioner's changes and click "Open." (The file name should have a ".qby" extension.) The client should review the changes and add a note to the accountant (optional) in the "Incorporate Accountant's Changes" window. Click the "Print" button to print a copy of the changes. After reviewing and printing the changes, select "Incorporate Accountant's Changes." QuickBooks will prompt the user to backup their file. After the file is saved, QuickBooks will display the import results. In this window, any warnings will be marked with a yellow triangle and the import results can be printed. After closing this window, QuickBooks will prompt the user to set or update their closing date and password to prevent changes to the prior period.

Client Restrictions. Clients can continue to process transactions dated after the dividing date using the original copy of their QuickBooks files while practitioners review and adjust transactions dated on or before the dividing date with the accountant's copy. Clients can create, edit, and delete transactions, as well as add new entries to lists and edit existing list entries in the current period. However, QuickBooks displays a warning if a client attempts to delete a list entry while an accountant's copy of the file exists.

In addition, clients cannot reorganize lists while an accountant's copy exists. For example, the client cannot change the subitem status of an account created before the existing accountant's copy was created. Clients also cannot rename existing accounts or items while an accountant's copy exists.

Managing QuickBooks Files

Backing up Files. Practitioners should recommend that their clients back up their QuickBooks company files each time they close the files or at least on a daily basis. If the client's hard drive has more than one drive, the files can be backed up onto a different drive from the one the client uses to work on the files. Alternatively, the client can back up the files onto a floppy disk, a server, a CD, zipdrive, or online. If the company data file is large, it may be better for the client to back up the file to a server or "Zip" or "Jaz" drive rather than multiple floppy disks since floppy disks are more likely to become damaged. In addition, the client should consider making a monthly backup copy that is stored offsite. Likewise, both the client and the practitioner should make a backup copy of the file at the end of the client's fiscal year.

QuickBooks users can back up files or schedule a backup by selecting "Save Copy or Backup" from the "File" menu. This will open the "Backup Wizard." Select "Backup Copy" in the "Save Copy or Backup" window and click "Next," then select "Local backup." Click the "Options" button to change backup settings. In the "Backup Options" window, the user can determine the backup name and location, add the date and time of the backup, limit the number of saved on-demand backup copies per folder, enable the reminder to back up when closing, and enable the option to verify that the company data is not corrupted. After closing the "Backup Options" window click "Next." In the next window the user can also determine whether to save right now, right now and schedule future backups, or only schedule future backups. QuickBooks compresses the company data into a compact file and displays a message that the data has been backed up successfully. If a backup file with the same file name and location already exists, QuickBooks asks users if they want to replace the existing file. Best practices do not recommend replacing the existing backup file. If something goes wrong during the backup process, the user may need to restore the existing backup file. After the current backup is completed successfully, users then can delete any old backup file.

Restoring Files. Practitioners or their clients may need to restore a backup copy of a QuickBooks data file if:

- The working data needs to be loaded on another computer.
- The working data needs to return to the condition it was in at an earlier time.
- The working data is corrupted.
- The computer's hard drive has malfunctioned.

Since backup copies of QuickBooks data files are in a compressed format, QuickBooks users must use the "Restore" command rather than the Windows file manager "Copy" command to restore backup data onto a computer's hard drive. When using the "Restore" command, QuickBooks users must be in the single-user mode.

When restoring a backup copy of a file, QuickBooks users should:

- Close any open QuickBooks company file.
- If the backup copy is on media, insert the media in the computer's appropriate drive. (Insert the first media if the backup copy is on more than one media.)
- Select "Open or Restore Company" from the "File" menu.
- Click on "Restore a backup copy" in the "Open or Restore Company" window and click "Next."
- Select the method it was backed up in the next window and click "Next."
- Enter the location and file name of the backup copy of the file and click "Open." (The file name should have a ".qbb" extension.)
- Enter the new file name and folder in the "Save Company File as" window and click "Save." (The file name should have a ".qbw" extension.) If an existing company file has the same name in the specified folder, QuickBooks asks users whether the user wants to replace the existing file. QuickBooks erases the existing file from the computer's hard drive and replaces it with the file being restored if the user clicks "Yes." If the existing file is overwritten, it cannot be retrieved. Consequently, the authors recommend clicking "No" and entering a different name for the file being restored.

After completing the preceding steps, QuickBooks displays a message if the data has been restored successfully. QuickBooks will not restore a corrupted backup data file. (In that case, the QuickBooks user should contact a QuickBooks technical support representative.) In addition, QuickBooks may be unable to restore a backup data file from damaged media. In that case, the user can attempt to copy the backup file to the computer's hard drive and restore the file from that location.

An older version of QuickBooks for Windows cannot be used to restore a backup file created in a later version of QuickBooks for Windows. Likewise, QuickBooks for Windows might not be able to restore a backup file created in QuickBooks for Macintosh and cannot restore a file created in Quicken.

If the client's working data is corrupted, the QuickBooks user should call a QuickBooks technical support representative at (888) 320-7276. The QuickBooks representative may tell the user to run the "Verify Data" and "Rebuild Data" utilities to recover corrupted transactions. The "Verify Data" utility identifies data errors, while the "Rebuild Data" utility corrects the errors. To check for file errors, QuickBooks users should close all open windows and select "Utilities" and then "Verify Data" from the "File" menu. If the "Verify Data" utility identifies corrupted transactions in the company data file, users then may run the "Rebuild Data" utility. However, Intuit does not recommend running the "Rebuild Data" utility unless instructed to do so by a technical support representative. Running the utility can create more problems with the data file and make recovering the data more difficult. Users must back up the company file before running the "Rebuild Data" utility. Users can run the utility by selecting "Utilities" and then "Rebuild Data" from the "File" menu. After running the "Rebuild Data" utility, users should run the "Verify Data" utility again to determine that QuickBooks has detected no problems with the data. If the "Rebuild Data" utility does not work or if there is no backup file, the QuickBooks data recovery service can attempt to recover a corrupted data file. However, Intuit charges a fee for the service and recommends allowing 10 days for the data recovery process. To identify corrupted data files as soon as possible, the authors recommend that QuickBooks users periodically run the "Verify Data" utility, such as on a weekly basis.

Cleaning Up Data. The clean up data feature summarizes QuickBooks transactions dated on or before a specified date. The clean up feature also slightly reduces the file size by removing any inactive list items not used after the date through which the data is cleaned up. Practitioners may want to help their clients determine whether data from prior fiscal years should be cleaned up. Data from the preceding fiscal year should not be cleaned up until after the practitioner has made all necessary adjustments to that data and the client has filed all required payroll, sales tax, income tax, and 1099 forms for the specified date. Practitioners may want to advise clients to clean up a company data file if:

- The file is so large that it uses too much space on the client's hard drive.

- The file includes a large number of unused items.
- Transaction details are no longer needed.

Cleaning up data deletes detail transactions dated on or before a specified date and replaces them with transactions summarized by month. However, QuickBooks only deletes and summarizes those transactions that do not affect transactions dated after the specified date. For example, QuickBooks deletes the details (such as customer name and items sold) related to invoices that have been paid in full as of the specified date but retains the details of unpaid invoices as of that date. That allows the client to apply payments after the specified date to the invoices. The following are examples of transactions that QuickBooks does not remove:

- Unpaid or partially paid invoices.
- Undeposited customer payments.
- Unpaid bills.
- Unused credit memos.
- Unreconciled transactions in a bank or credit card account.
- Checks, invoices, sales receipts, or credit memos that are checked "To be printed" or "To be emailed."
- Transactions that include taxable items.
- Estimates not marked with a job status of "Closed."
- Time data not marked "billed" or "not billable" or with a job status of "Closed."

Account registers continue to list transactions not deleted by QuickBooks. However, QuickBooks summarizes deleted transactions by month and identifies the summary transactions as "GENJRNL" transactions in the "Type" field of the account registers. The registers generally list one "GENJRNL" transaction amount for each month of deleted transactions. Some inventory transactions will be removed. Once QuickBooks finds one that cannot be removed, QuickBooks will create an inventory adjustment reflecting the average cost of items on that date. The payroll liability account includes one adjustment transaction for each payroll item. QuickBooks users cannot edit "GENJRNL" summary transactions.

QuickBooks users can continue to generate financial reports on an accrual basis that include removed data. Financial reports can be generated for the removed data time period since QuickBooks retains account balances for the summarized transactions. For example, users can create profit and loss reports that include both current year data and prior year removed data. However, a user cannot "zoom" in on a prior year amount to view the detail transactions that comprise the balance. Likewise, users cannot generate transaction detail reports or cash basis reports for removed data since QuickBooks deleted the transaction details. For example, users cannot create reports that list balances for individual vendors or customers after data has been removed. However, QuickBooks retains information about sales tax vendors and taxable items and allows users to create sales tax reports even if the transactions occurred during the time period that data was removed. QuickBooks users that need to view the details of a transaction or generate transaction detail reports after data has been removed can restore a backup file of the data before it was cleaned up.

Practitioners should advise their clients to generate financial reports (such as the balance sheet and profit and loss reports), as well as any other critical reports, before cleaning up data. That allows clients to compare amounts before and after cleaning up the data. After generating the desired reports, QuickBooks users should perform the following steps to clean up a data file:

- Select "Close All" from the "Window" menu.
- Select "Utilities" and then "Clean Up Company Data" from the "File" menu.

- Select "Remove transactions as of a specific date" from the "Clean Up Company Data" window, enter the date to remove closed transactions, and click "Next." (The option to "Remove ALL transactions" will delete all transactions from the company file. Use this option only when starting a new company to retain lists, preferences, and service subscriptions.)

- Check the box for any unused transaction and list items that should be deleted in the next two windows. (This step is optional.)

- Click "Begin Cleanup."

After clicking "Begin Cleanup," QuickBooks displays a message stating that a backup copy of the file must be made before cleaning up the data file. (The backup file name should have a ".qbb" extension.)

The backup file allows users to view transaction details after the data is cleaned up. QuickBooks requires users to make a backup copy of the file since data cannot be "unremoved" after QuickBooks removes it.

The time required to clean up a data file can vary from a few minutes to several hours, depending on the size of the file, the computer's speed, and the amount of the computer's memory. Users cannot perform other activities in QuickBooks while data is being cleaned up. Consequently, users may want to wait until the end of the day to clean up data and let the clean up function run overnight.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

6. QuickBooks allows users to create an accountant's copy of the company's data files. With the accountant's copy, a practitioner can:

   a. Create, adjust and print Forms 940, 941, 944 and W-2.

   b. Delete, inactivate, or rename existing items.

   c. Modify a noninventory part and make it an inventory part.

   d. Synchronize detailed fixed asset manager information.

7. The correct procedure for Premier-Accountant users to create an accountant's copy is which of the following:

   a. Select "Accountant and Taxes" from the "Report" menu, select "Client Activities" and then "Send to Accountant."

   b. Select "Accountant's Copy" from the "File" menu, select "Client Activities" and then "Send to Accountant."

   c. Select "Accountant's Copy" from the "File" menu and then select "Send to Accountant."

   d. Select "Accountant's Copy" from the "Company" menu, select "Client Activities" and then "Send to Accountant."

8. Which of the following statements regarding backing up files in QuickBooks is most accurate?

   a. Clients should back up their QuickBooks company files each time they close the files or at least on a daily basis.

   b. QuickBooks users must back up their files manually.

   c. QuickBooks users should elect to replace the existing backup file during the backup process.

   d. Clients with a large amount of data should backup using a CD.

9. Listed below are some procedures which may or may not be included in the process to restore a backup copy of a file. From the procedures listed, select which one(s) to include in the restore process:

   I. Close any open QuickBooks company file.

   II. Establish multi-user mode.

   III. Select "Restore a backup copy" from the "File" menu.

   a. II. and III.

   b. III.

   c. I.

   d. I. and III.

10. Cleaning up data on QuickBooks results in all **except** which of the following?

    a. Users cannot generate transaction detail reports for removed data.

    b. Users can no longer generate financial reports on an accrual basis that include removed data.

    c. Users can create sales tax reports for transactions that occurred during the time period that data was removed.

    d. Users cannot create reports that list balances for individual vendors or customers after data has been removed.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

6. QuickBooks allows users to create an accountant's copy of the company's data files. With the accountant's copy, a practitioner can: **(Page 80)**

   a. Create, adjust and print Forms 940, 941, 944 and W-2. [This answer is correct. This function can be performed, although the changes cannot be exported back to the client.]

   b. Delete, inactivate, or rename existing items. [This answer is incorrect. This function is not available.]

   c. Modify a noninventory part and make it an inventory part. [This answer is incorrect. When using an accountant's copy the user is not able to change a noninventory part to an inventory part. The user would need to be live on the QuickBooks system to complete this transaction.]

   d. Synchronize detailed fixed asset manager information. [This answer is incorrect. Synchronizing detailed fixed asset manager is not a function that can be performed when using the accountant's copy.]

7. The correct procedure for Premier-Accountant users to create an accountant's copy is which of the following? **(Page 81)**

   a. Select "Accountant and Taxes" from the "Report" menu, select "Client Activities" and then "Send to Accountant." [This answer is incorrect. The accountant's copy is not available through the "Report" menu.]

   b. Select "Accountant's Copy" from the "File" menu, select "Client Activities" and then "Send to Accountant." [This answer is correct. This is the correct procedure using the QuickBooks Premier-Accountant version. By using this procedure, clients can create an accountant's copy to send to their practitioner.]

   c. Select "Accountant's Copy" from the "File" menu and then select "Send to Accountant." [This answer is incorrect. The "Client Activities" option must be selected before "Send to Accountant."]

   d. Select "Accountant's Copy" from the "Company" menu, select "Client Activities" and then "Send to Accountant." [This answer is incorrect. The accountant's copy is not available through the "Company" menu.]

8. Which of the following statements regarding backing up files in QuickBooks is most accurate? **(Page 83)**

   a. Clients should back up their QuickBooks company files each time they close the files or at least on a daily basis. [This answer is correct. The recommended procedure to avoid losing data is to back up the QuickBooks company files each time the client closes the files or at least on a daily basis to maintain an accurate and timely backup of all information.]

   b. QuickBooks users must back up their files manually. [This answer is incorrect. QuickBooks provides the option to schedule future, automatic backups.]

   c. QuickBooks users should elect to replace the existing backup file during the backup process. [This answer is incorrect. The existing backup file should not be removed until the successful completion of the backup process.]

   d. Clients with a large amount of data should backup using a CD. [This answer is incorrect. The client with a large amount of data should backup to a server or "Zip" or "Jaz" drive.]

9. Listed below are some procedures which may or may not be included in the process to restore a backup copy of a file. From the procedures listed, select which one(s) to include in the restore process: **(Page 84)**

    I. Close any open QuickBooks company file.

    II. Establish multi-user mode.

    III. Select "Restore a backup copy" from the "File" menu.

    a. II. and III. [This answer is incorrect. Restoration can only occur in single-user mode and the "Open or Restore Company" option must be selected from the "File" menu first.]

    b. III. [This answer is incorrect. The "Restore a backup copy" function is not directly available from the "File" menu.]

    c. I. [This answer is correct. All company files must be closed in order for QuickBooks to restore a file.]

    d. I. and III. [This answer is incorrect. Only one of the procedures listed is included in the file restoration process.]

10. Cleaning up data on QuickBooks results in all **except** which of the following? **(Page 85)**

    a. Users cannot generate transaction detail reports for removed data. [This answer is incorrect. Cleaning up data deletes detailed transactions dated on or before a specified date and replaces them with transactions summarized by month.]

    b. Users can no longer generate financial reports on an accrual basis that include removed data. [This answer is correct. Financial reports can be generated for the removed data time period since QuickBooks retains account balances for the summarized transactions.]

    c. Users can create sales tax reports for transactions that occurred during the time period that data was removed. [This answer is incorrect. QuickBooks retains information about sales tax vendors and taxable items and allows users to create sales tax reports even if the transactions occurred during the time period that data was removed.]

    d. Users cannot create reports that list balances for individual vendors or customers after data has been removed. [This answer is incorrect. Users cannot generate transaction detail reports or cash basis reports for removed data since QuickBooks deleted the transaction details.]

HOW TO ANALYZE AND ADJUST QUICKBOOKS FINANCIAL DATA

Maintaining an Audit Trail

The audit trail report in QuickBooks is one of the most useful tools practitioners can use when reviewing client's data files. The report lists all QuickBooks transactions for a specified time period and indicates the time and date each transaction was entered or last modified and by whom. The report also indicates whether transactions were changed or deleted during the specified time period and shows changed transactions both before and after the change. The report identifies changed transactions with the label "Previous Transaction." Practitioners can compare the details of a transaction labeled as "Previous Transaction" with the details of the corresponding "Current Transaction" to determine what details were changed. The report identifies deleted transactions with the label "Deleted Transaction." Practitioners can generate the audit trail report by selecting "Accountant & Taxes" and then "Audit Trail" from the "Reports" menu. Practitioners then can double-click on a transaction to view the details of the transaction. However, the report does not allow users to double-click on deleted transactions or the previous versions of changed transactions.

To enhance the usefulness of the audit trail report, practitioners may want to add a "P.O. #" column to view purchase order numbers. Columns can be added or deleted by clicking the "Modify Report" button and the "Display" tab on the audit trail report and then checking (or unchecking) the applicable columns in the "Columns" drop-down list in the "Modify Report" window.

Maintaining audit trail information may increase the size of a client's company file and cause QuickBooks to use more disk space and run more slowly. Consequently, clients may want to remove the audit trail information by cleaning up a data file. Clients should never clean up the company file for the current fiscal year before the practitioner reviews and adjusts that information, however, since audit trail information is automatically removed by the clean up feature.

Monthly Monitoring of Financial Statement Accounts

Many practitioners review and adjust their clients' QuickBooks data files on a monthly basis. Other practitioners actually post routine transactions (such as purchases and sales) to their clients' QuickBooks files using source documents provided by the clients. The following paragraphs provide guidance on reviewing and adjusting clients' QuickBooks files rather than posting routine transactions.

Although the types of transactions encountered may vary with each client, the basic steps necessary to review the transactions generally do not vary significantly from client to client or from period to period. First, the practitioner should verify that the client has reconciled any bank statements and credit card statements for the preceding month. Alternatively, the practitioner may reconcile such statements. Next, the practitioner should record any recurring journal entries (such as depreciation expense and interest expense). Using the QuickBooks Premier-Accountant edition, the practitioner should review the client's general ledger or review the "Working Trial Balance."

Working Trial Balance. After recording any recurring journal entries, the practitioner should review the client's trial balance. QuickBooks Premier-Accountant includes a "Working Trial Balance" window. This window presents the client's data in a columnar format and allows the practitioner to review balances, drill down to the source detail, make adjusting entries, enter workpaper references, and print the data from within the window.

Practitioners can open the "Working Trial Balance" window by selecting "Working Trial Balance" from the "Accountant" menu. (The "Working Trial Balance" can also be accessed through the "Client Data Review" feature.)

a. *Selected Period*. Practitioners can specify the period by selecting a period (such as "Last Month," "This fiscal quarter," or "Last fiscal year") from the drop-down list. Alternatively, practitioners can enter the beginning and ending dates for the period in the "From" and "To" fields.

b. *Basis*. Practitioners should verify that the appropriate accounting basis is selected.

c. *Account*. The account column lists all of the accounts in the same order as they appear in the chart of accounts. Practitioners can edit an account by double-clicking on the account name, which opens the "Edit Account" window.

d. *Beginning Balance*. The beginning balance column shows the beginning balance for each account. Practitioners can "QuickZoom" on any amount to view the "Transactions by Account" report for that account as of the "From" date. Practitioners also can "QuickZoom" on the "Total" amount at the bottom of the beginning balance column to view the "Transactions by Account" report for all accounts as of the "From" date.

e. *Transactions*. The transactions column lists all transactions made between the "From" date and the "To" date. Practitioners can "QuickZoom" on any amount to view the "Transaction Detail by Account" report for that account for the selected period. Practitioners also can "QuickZoom" on the "Total" amount at the bottom of the transactions column to view the "Transaction Detail by Account" report for all accounts for the selected period. Practitioners should scan the transactions posted to each account to detect unusual entries.

f. *Adjustments*. The adjustments column lists all adjusting journal entries made between the "From" date and the "To" date. Practitioners can "QuickZoom" on any amount to view the "Transaction Detail by Account" report for that account for the selected period. Practitioners also can "QuickZoom" on the "Total" amount at the bottom of the adjustments column to view the "Adjusting Journal Entries" report for all accounts for the selected period.

g. *Ending Balance*. The ending balance column shows the ending balance for each account. Practitioners can "QuickZoom" on any amount to view the "Transactions by Account" report for that account as of the "To" date. Practitioners also can "QuickZoom" on the "Total" amount at the bottom of the ending balance column to view the "Transactions by Account" report for all accounts as of the "To" date. The practitioner should scan the ending balances to detect unexpected ending balances.

h. *Workpaper Reference*. Practitioners can click in the workpaper reference column for any account and type a reference. The reference is saved with the account until it is changed or deleted from the "Working Trial Balance" window.

i. *Net Income*. The net income for the selected period is shown in the bottom right corner of the window.

j. *"Only show accounts with transaction activity" checkbox*. Practitioners can click the checkbox if they only want to see accounts that had transaction activity for the selected period. The checkbox can be cleared to view all accounts.

k. *Make Adjustments*. Clicking on the "Make Adjustments" button opens the "Make General Journal Entries" window, in which practitioners can make adjusting entries.

l. *Print*. Practitioners can print the working trial balance by clicking on the "Print" button.

General Ledger. If practitioners do not have QuickBooks Premier-Accountant, they should review the client's general ledger by selecting "Accountant & Taxes" and then "General Ledger" from the "Reports" menu. The general ledger lists the beginning and ending balances, as well as the transaction activity for each account, for the specified time period. The practitioner should scan the ending balances and the transactions posted to each general ledger account to detect unusual entries or unexpected ending balances.

Some common "red flags" that may indicate a problem in a specific account include the following:

- *Debit versus Credit Balance.* Some accounts typically have debit balances (assets and expenses) and others have credit balances (liability, equity, and revenues). If an account has an unexpected debit or credit balance, the practitioner should investigate the reason.

- *Debit versus Credit Postings.* Some accounts typically have debit postings (expenses) and others have credit postings (revenues). If credit entries are posted to an expense account or debit entries are posted to a revenue account, further investigation may be warranted.

- *Unusually Large or Small Amounts.* Most accounts have a normal range of transaction amounts. Unusually large or small amounts may indicate transaction posting errors.

- *Unexpected Posting Source.* Some accounts primarily consist of postings from specified "types" within QuickBooks. For example, postings to accounts receivable generally are from "invoice" and "payment" types. If postings are from other "types," the transactions may have been posted incorrectly.

- *Beginning and End of Period Balances.* Balance sheet account balances often are comparable from one period to the next. If the ending balance for an account differs significantly from the balance at the beginning of the period, the transactions posted to that account may need to be investigated.

- *Absence of an Entry.* Many accounts have journal entries posted to them each month. The practitioner may need to investigate if a journal entry posting is missing.

The practitioner should prepare journal entries to correct any errors (such as miscodings or missed entries) detected in the general ledger review.

In addition to reviewing the general ledger or the "Working Trial Balance" for "red flags," practitioners also may want to perform the following steps on a monthly basis:

- Agree ending general ledger cash balances to ending bank reconciliation balances.

- Agree ending general ledger credit card liability balances to ending credit card statement reconciliations.

- Agree the ending accounts receivable general ledger balance to the total of the "A/R Aging Summary" report (under "Customers & Receivables" in the "Reports" menu).

- Agree the ending accounts payable general ledger balance to the total of the "A/P Aging Summary" report (under "Vendors & Payables" in the "Reports" menu).

- Reconcile any significant differences between total monthly sales posted to the general ledger and the "Sales by Customer Summary" report (under "Sales" in the "Reports" menu) for the month.

- Agree the ending general ledger balances for payroll liability accounts to the "Payroll Liability Balances" report (under "Employees & Payroll" in the "Reports" menu).

- Agree the ending sales tax payable general ledger balance to the "Sales Tax Liability" report (under "Vendors & Payables" in the "Reports" menu).

- Adjust uncategorized income and expense accounts.

In addition to reviewing general ledger balances and activity or the "Working Trial Balance," practitioners also may want to review a standard trial balance by selecting "Accountant & Taxes" and then "Trial Balance" from the "Reports" menu. The trial balance lists the ending balances of all accounts in debit and credit columns.

Detail Account Analysis. In addition to the general ledger and trial balance, QuickBooks provides practitioners with numerous other reports for performing detail account analysis. The audit trail report lists detail information (such as who posted a transaction and when) about each transaction posted during a specified period. The report also identifies changed and deleted transactions. When researching detail account information, practitioners also may want to review the following QuickBooks reports:

- *Closing Date Exception Report.* This report is available in QuickBooks Premier and Premier-Accountant. The report lists detail transactions entered or modified after the closing date and is almost identical to the audit trail report.

- *Transaction Detail by Account.* This report lists the account activity and ending balance for each general ledger account with activity during the specified time period. It does not list accounts with no activity during the specified period.

- *Journal.* This report lists transactions chronologically for the specified period. The debits and credits for each affected account are listed separately for each transaction in the report. The report may be customized and filtered to help identify changes to prior-period balances. (Set the transaction dates as dates *on or before* the prior period ending date. Click the "Modify Report" button and the "Display" tab. Select "Entered/Last Modified" from the "Columns" list. Click the "Filters" tab, select "Entered/Modified" from the "Filter" list, and specify the "Entered/Modified" dates *after* the prior period ending date.)

- *Transaction List by Date.* This report lists transactions chronologically for the specified time period. The report summarizes each transaction into one line item on the report. Each account affected by the transaction is not listed separately.

- *Voided/Deleted Transactions Summary.* This report lists transactions that were voided, deleted, or unvoided during a specified period.

Practitioners can generate the preceding reports by selecting "Accountant & Taxes" from the "Reports" menu. Practitioners also can see the history of certain transactions by opening the applicable account register (by double-clicking on the account in the chart of accounts), clicking on the selected transaction, and selecting "Transaction History" from the "Edit" menu. The "Transaction History" window displays transactions that are linked to the selected transaction. If a particular transaction cannot be located in an account register, practitioners can select "Find" from the "Edit" menu to locate the transaction.

Uncategorized Income and Expenses. QuickBooks allows users to process transactions without assigning general ledger accounts to them if the "Require accounts" preference is not turned on. QuickBooks automatically posts all transactions processed without an account to the "Uncategorized Income" or "Uncategorized Expenses" accounts. Practitioners should review the "Uncategorized Income" and "Uncategorized Expenses" accounts each month and transfer amounts from those accounts to the appropriate general ledger accounts. Practitioners can review the accounts by selecting "Chart of Accounts" from the "Lists" menu and double-clicking on the "Uncategorized Income" and "Uncategorized Expenses" accounts. Practitioners then should enter the applicable date range for the resulting "Account QuickReport" and click the "Refresh" button. Practitioners then can determine the account(s) to which the amounts in the report should have been posted by double-clicking on the amounts to view the details of the transactions.

QuickBooks automatically creates the "Uncategorized Income" and "Uncategorized Expenses" accounts when a user sets up a company file and enters an opening accounts receivable balance for a customer or an opening accounts payable balance for a vendor. (However, best practices indicate that users should not enter outstanding balances at that point. Instead, they should enter the individual invoices that make up the outstanding balances when they enter other historical transactions[OLDREF].) Those balances represent receivables and payables as of the QuickBooks start date. If the QuickBooks start date is the first day of the client's current fiscal year (or the last day of the client's prior fiscal year), the receivables and payables represent transactions generated in the prior fiscal year. In that case, the practitioner should reclassify the related uncategorized income and expense amounts to the QuickBooks opening balance equity account. If the QuickBooks start date is in the client's current fiscal year, the receivables and payables may represent transactions generated in the current fiscal year as well as in the prior fiscal year. In that case, the practitioner should reclassify the related uncategorized income and expense amounts to the appropriate current year income and expense accounts or opening balance equity, depending on when the related transaction was generated. Practitioners can identify the uncategorized income and expense amounts related to opening accounts receivable and accounts payable balances as follows:

- Double-click on the "Uncategorized Income" and "Uncategorized Expenses" accounts in the chart of accounts.

- Select "All" from the "Dates" drop-down list in the resulting "Account QuickReport" for the "Uncategorized Income" and "Uncategorized Expenses" accounts.

- Locate transactions identified with "Opening bal" in the "Memo" column of the "Account QuickReport." Alternatively, filter the report by clicking the "Modify Report" button and the "Filters" tab. Select "Memo" from the "Filter" drop-down list, and enter "Opening bal" in the "Memo" field.

Practitioners should need to perform the preceding steps only in the first fiscal year that a client uses QuickBooks.

"Ask My Accountant" Account. QuickBooks users must assign an account to a transaction if the "Require accounts" preference is checked. QuickBooks automatically creates an "Ask My Accountant" expense account. Practitioners should instruct their QuickBooks clients to assign transactions to the "Ask My Accountant" account when they are unsure which account to assign. The practitioner then can review the transactions posted to the "Ask My Accountant" account and assign those transactions to the correct accounts.

Journal Entries. Practitioners can adjust their clients' QuickBooks files in a number of ways (such as creating journal entries, posting transactions directly to account registers, or modifying source documents), depending on the practitioner's level of access to the client's file. Practitioners can use the accountant's copy to record journal entries and post transactions to account registers as well as create new transactions or modify existing transactions dated on or before a dividing date set by the client. To provide the best audit trail of the practitioner's adjustments to the client's files, the authors generally recommend that practitioners create journal entries rather than posting transactions to account registers or modifying source documents. Practitioners can create journal entries by selecting "Make General Journal Entries" from the "Accountant" or "Company" menu. Alternatively, practitioners can create journal entries by clicking on the "Make Adjustments" button in the "Working Trial Balance" window or create journal entries from within the Client Data Review feature. Practitioners may want to enter their initials or "CPA" or some other information to identify their journal entries in the "Memo" field of the "Make General Journal Entries" window.

Practitioners also should enter a number in the "Entry No." field of the "Make General Journal Entries" window to identify the journal entry. Practitioners also should encourage their clients to enter journal entry numbers to facilitate tracking of journal entries. One common numbering system is to assign each journal entry a four-digit number. The first two digits of the number signify the month the entry was made. The last two digits signify the numerical order of the entry. For example, the seventh entry in March would be numbered 03-07. QuickBooks automatically numbers journal entries if "Automatically assign general journal entry number" in the "Accounting" preference is selected.

Practitioners may want to "memorize" recurring journal entries in QuickBooks. For example, a practitioner who records depreciation expense on a monthly basis may want to memorize the journal entry as follows:

- Create the journal entry as discussed in the preceding paragraph. (The contents of certain fields in the "Make General Journal Entries" window, such as the amounts, may change each time the transaction is posted. In that case, practitioners should leave those fields blank and enter the missing information each time QuickBooks recalls the journal entry.)

- Before exiting the journal entry, select "Memorize General Journal" from the "Edit" menu.

- Enter the illustrated information in the "Memorize Transaction" window to specify when and how QuickBooks should record the journal entry in subsequent accounting periods. (Select the "Remind Me" option if the contents of certain journal entry fields are blank because they change each time the transaction is posted.) Click "OK."

- Click the "Save & Close" button in the "Make General Journal Entries" window. (Click the "Clear" button before closing the window if the journal entry is being entered only for subsequent use.)

On the day that a memorized journal entry is to be entered automatically, QuickBooks displays a message that allows the user to click either "Now" or "Later" to automatically enter the memorized transaction. If the user clicks "Now," QuickBooks enters the journal entry and displays a message that QuickBooks has automatically entered the memorized transaction. On the day that a QuickBooks user is to be reminded of a memorized journal entry, QuickBooks includes "Memorized Transactions Due" on the user's "Reminders" list. Users then can access any memorized journal entries as follows:

- Select "Memorized Transaction List" from the "Lists" menu.

- Select the journal entry to be recorded and click the "Enter Transaction" button. This opens the applicable "Make General Journal Entries" window.

- Enter missing information in any blank fields or make any necessary changes to fields in the "Make General Journal Entries" window.

- Save the journal entry.

Practitioners can reschedule a memorized journal entry by selecting the applicable entry in the "Memorized Transaction List," clicking the "Memorized Transaction" button, and then clicking "Edit." This opens the "Schedule Memorized Transaction" window. Practitioners can change how and when the memorized journal entry is posted by changing the information in that window. Practitioners can generate a report that lists detail information about each memorized transaction by selecting "List" and then "Memorized Transaction Listing" from the "Reports" menu.

Practitioners can print copies of journal entries for clients by clicking on the "Print" icon in the toolbar of the "Make General Journal Entries" window. Practitioners can generate a report of journal entries by creating and filtering the "Custom Transaction Detail Report" as follows:

- Select "Custom Transaction Detail Report" from the "Reports" menu.

- Click the "Filters" tab, and select "Transaction Type" from the "Filter" drop-down list.

- Select "Journal" from the "Transaction Type" drop-down list, and click "OK" on the "Modify Report" window.

- Enter the applicable dates or time period in the "Custom Transaction Detail Report" window, and click "Refresh."

- Double-click on any transaction to view the "Make General Journal Entries" window for that transaction. (If the transaction originates as a balance sheet transaction, QuickBooks displays the account register for the selected balance sheet account. Users can double-click on the transaction in the account register to view the "Make General Journal Entries" window for the transaction.)

Practitioners who only want to review or print the journal entries that they have created can filter the "Custom Transaction Detail Report" by "Memo" or "Number" if they have used those fields in the "Make General Journal Entries" window to identify their journal entries. Practitioners can click the "Print" button on the "Custom Transaction Detail Report" to print a list of the journal entries they created. Practitioners can retain the list for their own records and also give a copy to their clients. Some clients may use such a list to actually post the practitioner's journal entries to their QuickBooks data files. Practitioners also may give their clients a filtered "Journal" report that lists the journal entries created by the practitioner. In addition, practitioners can print a single journal entry by clicking the selected transaction in the "Custom Transaction Detail Report" and then selecting "Transaction Journal" from the "Reports" menu. (Alternatively, practitioners can depress "Ctrl" and "Y" on the keyboard rather than selecting "Transaction Journal" after clicking the selected transaction in the "Custom Transaction Detail Report.")

Practitioners can locate transactions created by journal entries by selecting "Find" from the "Edit" menu, clicking on the "Advanced" tab, and then selecting "Transaction Type" from the "Filter" drop-down list and "Journal" from the "Transaction Type" drop-down list. After clicking "Find," the window displays all general journal transactions. Practitioners then can double-click on a transaction to view the "Make General Journal Entries" window for the transaction. Alternatively, practitioners can locate a particular journal entry transaction by double-clicking on an affected account in the chart of accounts to open the account register. Practitioners then can scroll through the register to find transactions identified as "GENJRNL" in the "Type" column and double-click on a selected "GENJRNL" transaction to view the "Make General Journal Entries" window for the transaction.

When creating journal entries that affect accounts receivable, accounts payable, or sales tax payable accounts, practitioners should be aware that:

- QuickBooks requires users to specify (a) the customer name associated with an accounts receivable entry and (b) the vendor name associated with an accounts payable or sales tax payable entry. (Users may set up dummy customers or vendors.)

- QuickBooks does not allow users to post more than one entry to accounts receivable or accounts payable in a single journal entry. Postings to multiple receivable and payable accounts must be entered in separate journal entries.

- Journal entry postings to accounts receivable affect customer statements but postings to accounts payable do not affect 1099 forms.

- Journal entry postings to the sales tax payable account affect the liability amounts in the "Sales Tax Liability" report and in the "Pay Sales Tax" window.

Practitioners should be aware that creating a journal entry updates the affected general ledger accounts but does not update all related details for certain accounts in QuickBooks. Consequently, practitioners may not want to adjust some accounts via journal entries. For example, journal entries that adjust the following general ledger accounts do not update the related account details in QuickBooks:

- *Inventory.* A journal entry that adjusts the inventory asset general ledger account balance does not update the inventory details in QuickBooks. Consequently, the general ledger inventory balance may not agree to the amounts in the QuickBooks inventory valuation reports. Practitioners generally should adjust inventory values by selecting "Inventory Activities" and then "Adjust Quantity/Value on Hand" from the "Vendors" menu.

- *Payroll Liabilities.* A journal entry that adjusts a payroll liability general ledger account balance does not update the payroll liability details in QuickBooks. (QuickBooks even provides users a warning message to that effect when posting a journal entry to a payroll liability account.) Consequently, the general ledger payroll liability balances may not agree to the amounts in the QuickBooks "Payroll Liability Balances" report. Practitioners generally should adjust payroll liabilities by selecting "Payroll Taxes and Liabilities" and then "Adjust Payroll Liabilities" from the "Employees" menu.

Client Data Review Feature. The Client Data Review (CDR) feature streamlines the tasks involved in analyzing and adjusting a client's QuickBooks data. Practitioners can use the CDR feature to drill down into their client's data and troubleshoot problems.

From within the CDR Center the practitioner can perform the following tasks:

- Troubleshoot Prior Account Balances.

- Reclassify Transactions.

- Open Working Trial Balance.

- Review List Changes.

- Perform cleanup tasks on various accounts including, Accounts Receivable, Accounts Payable, Sales Tax, Inventory, and Payroll.

- Perform Bank Reconciliations.

- Set closing date and passwords.

- Review QuickBooks preferences.

Many of the tools used to perform the above tasks are unique to the CDR center. Those tools are indicated by a CDR tool icon.

Review Analytics. Many small businesses fail because they never realize where the problem is. It is imperative that small business owners keep track of their business, and actively monitor who their top customer is, what is open account receivables, what is in inventory etc. In addition, because effective cash management is crucial to the success of most small businesses, analyzing key ratios can assist the practitioner in identifying relationships and individual items that appear unusual. While all this information is available in QuickBooks it may take several reports to get to this information. A valuable service that practitioners can provide to their clients is applying analytical procedures in order to answer these questions and identify items that appear unusual.

There are three basic types of analytical procedures:

- Trend Analysis.
- Reasonableness Tests.
- Ratio Analysis

Company Snapshot. A tool available in QuickBooks 2009 and later is the "Company Snapshot". The "Company Snapshot" window displays critical company information, including an Income and Expenses trend graph that graphically shows income compared to expenses. Users can also view account balances, customers who owe money, and vendors to pay.

Report Center. Another area of QuickBooks practitioners might find helpful when performing analytics is the "Report Center." Practitioners can access all QuickBooks reports from within the "Report Center."

Tips for Maintaining Certain Balance Sheet Accounts

Practitioners often find that their clients have problems setting up and maintaining the following balance sheet accounts in QuickBooks:

- Fixed assets and accumulated depreciation.
- Loans and notes payable.
- Opening balance equity.

Practitioners may want to help clients create the preceding balance sheet accounts in QuickBooks to ensure that they are set up correctly. Consequently, the following paragraphs provide detail guidance for setting up those accounts. Regardless of who creates the accounts, practitioners should review the transactions and ending balances for the accounts on a periodic basis.

Fixed Assets. Companies must make the following decisions relating to fixed assets when setting up their QuickBooks file:

- *Decision One.* What account names and level of detail will be used in the financial statements?
- *Decision Two.* Will the company use QuickBooks, a dedicated fixed asset software package, or Excel to track its fixed assets?

Although these are very different decisions, the results impact the general ledger accounts that must be set up to record the fixed assets.

Decision One—Financial Statement Presentation. The preferred level of disclosure in the financial statements is the ultimate determinant of how much detail must be gathered in QuickBooks. (For example, if the financial statements disclose the categories of fixed assets, QuickBooks must at least have accounts that gather the category information.) If applicable, companies might want to set up a parent account called "Property and Equipment," use subaccounts for each category (e.g., "Machinery and Equipment," "Vehicles," or "Furniture and Fixtures") and accumulated depreciation, and use sub-subaccounts for either additional category levels or individual assets.

While financial statement presentations vary, the term "Property and Equipment" or "Property, Plant, and Equipment," if applicable, appears to be more in favor currently than "Fixed Assets." The following are some example financial statement presentations used by companies:

Property and Equipment, net of accumulated depreciation and amortization of $32,481

Property and Equipment
  Less: Accumulated Depreciation

Fixed Assets
  Machinery and Equipment
  Tractors
  Vehicles
  Less: Accumulated Depreciation

Property and equipment
  Machinery and equipment
  Vehicles
  Furniture and fixtures
  Leasehold improvements
  Less: accumulated depreciation and amortization

<u>Decision Two—Whether to Use QuickBooks to Track Fixed Assets.</u> As noted, companies must decide whether they will use QuickBooks to track their fixed assets. The authors believe that companies already using a dedicated fixed assets package generally will not use QuickBooks to track fixed assets when they adopt QuickBooks as their accounting software. The authors believe that users who have invested the time to understand a fixed asset package will find QuickBooks has too few features.

<u>Companies That Use Another Software to Track Fixed Assets.</u> If a company uses a dedicated fixed assets software package or Excel to track information about fixed assets, practitioners may want to advise them to set up a single "Fixed Assets" or "Property and Equipment" parent account with subaccounts for fixed asset groups (e.g., "Machinery and Equipment," "Land," and "Buildings and Improvements") and a single subaccount for accumulated depreciation. In those cases, it is not necessary to set up account balances for individual fixed assets in QuickBooks.

Companies that use other software to track their fixed assets also do not have to capture the individual details of asset purchases and sales in QuickBooks. Instead, transactions will be booked at the subaccount level. For example, the company will increase the "Vehicle" subaccount for the cost of an automobile purchased, not a separate subaccount for the automobile.

These users will book depreciation periodically based on the information generated in either the dedicated fixed asset software or Excel. The entry will be to the single "Accumulated Depreciation" subaccount.

Companies must set up the parent and subaccounts for fixed assets owned as of the start date. QuickBooks automatically creates a "Depreciation Expense" account when users accept the preset chart of accounts for their industry in the "EasyStep Interview."

<u>Companies That Use QuickBooks to Track Fixed Assets.</u> If the company decides to use QuickBooks to track information about fixed assets, it can either track very detailed or basic information depending on the version of QuickBooks used and personal preference.

QuickBooks includes a Fixed Asset Tracker feature. This feature allows companies to create "Fixed Asset Items" that record very detailed purchase and sales information about the assets. The captured information can be used by the Fixed Asset Manager feature in QuickBooks Premier-Accountant to calculate and record depreciation.

Fixed asset items are similar to other items in QuickBooks. Entering the detail about an asset into an "Item" or "Fixed Asset Item" does not create a transaction in the general ledger. (Analogously, when a user enters information about an employee into the "Employee List" the employee is merely set up to be used in a future transaction—a paycheck is not automatically created.) This can be confusing because the "Fixed Asset Item" screen contains cells to record the vendor, cost, and fixed asset account for the asset.

Fixed Asset Tracker users can record fixed asset purchases in either one or two steps. The one-step method is to create a transaction using "Enter Bills," "Write Checks," "Enter Credit Card Charges," or "Create Purchase Orders" and enter the detailed information about the asset on the "Item" tab. The two-step method is to first enter the detail about the asset on either the "Item" or "Fixed Asset Item List," then enter the transaction using "Enter Bills," "Write Checks," "Enter Credit Card Charges," or "Create Purchase Orders" and pull in the previously created asset information on the "Item" tab when creating the transaction.

Depreciation Expense. Practitioners frequently help their clients calculate the depreciation expense for the period needed for the financial statements and the tax return. As noted previously, Premier-Accountant includes a Fixed Asset Manager that will calculate a client's depreciation if the Fixed Asset Tracker feature is used. Alternatively, practitioners can help a client calculate and book depreciation without using the Fixed Asset Manager.

<u>Recording Depreciation Using the QuickBooks Fixed Asset Manager.</u> Fixed Asset Tracker does not calculate depreciation. However, QuickBooks Premier-Accountant includes a Fixed Asset Manager feature that calculates depreciation using the data entered into Fixed Asset Tracker. Fixed Asset Manager allows practitioners to take a client's data file, add additional assets, do the depreciation calculations using Fixed Asset Manager and the data from the client's Fixed Asset Tracker list, and return the updated file to the client.

Fixed Asset Manager offers the following six depreciation bases: Book, State, Federal, Other, AMT, and ACE. It offers many different depreciation methods, e.g., straight-line, ACRS, MACRS, sum of the years' digits, and declining balance methods. It provides many options for how to view the information and prepares extensive reports about the information.

To use Fixed Asset Manager, the practitioner should obtain a client's data file and install it on the computer. The practitioner should open QuickBooks Premier-Accountant and select "Manage Fixed Assets" from the "Accountant" menu. If it is the first time the Fixed Asset Manager has been used with that company, QuickBooks will display a dialog box asking whether to create a new client, transfer a prior year client, reconnect Accountant's Review Copy, or restore a current year client.

The Fixed Asset Manager has its own menu. Among the menu items unique to this feature is the "QuickBooks" menu. This is the menu that is used to control most of the activities in the feature. The options include:

- Update Assets from QuickBooks.
- Save Assets to QuickBooks.
- Asset Synchronization Options.
- Post Journal Entry to QuickBooks.
- Display Journal Entry List.

Practitioners can also display the detailed schedules for individual assets by highlighting a particular asset on the "Schedule" tab and clicking the "Assets" tab. When an asset is added, users must select the applicable general ledger accounts from the pull-down lists in the "General Ledger" section of the worksheet. The three accounts that the user must select are the "Asset account," "Accumulated depr/amort," and "Depr/amort expense."

In the lower half of the detailed schedule for each asset, select a "Depreciation method." Best practices indicate selecting "ST LINE Tangible Property" (straight line). Enter the useful life in the "Recovery period (YY/MM)" field and select the "Convention" you want to use for recording depreciation expense in the year of the purchase. QuickBooks will complete the "Prior Depreciation" field. This is the amount that should be the balance in accumulated depreciation for that fixed asset through the end of the prior year.

For fixed assets recorded and depreciated prior to using Fixed Asset Manager, Best practices indicate that the user review, calculate, and adjust accumulated depreciation as of the latest year-end prior to implementing Fixed Asset Manager. In Fixed Asset Manager, after completing the setup of each asset, total the "Prior Depreciation" for each fixed asset. The sum of "Prior Depreciation" for each fixed asset should match the amount of accumulated depreciation in QuickBooks at the end of the prior year. If it does not, the user should adjust accumulated depreciation in QuickBooks to that amount so that Fixed Asset Manager can generate balanced journal entries. If the amounts do not match, the journal entry from Fixed Asset Manager will be out of balance by the difference between accumulated depreciation in QuickBooks and the amount of accumulated depreciation that Fixed Asset Manager thinks should be in QuickBooks.

When it is time to create the journal entry, practitioners select "Post Journal Entry to QuickBooks" from the "QuickBooks" menu. QuickBooks displays the "Post to QuickBooks General Journal" screen. Practitioners must select the applicable date through which depreciation should be calculated by entering the date in the "Depreciation through date" cell. Fixed Asset Manager automatically enters the current balances for the depreciation expense and accumulated depreciation general ledger accounts in the "Balances Fixed Asset Mgr" and "Balances QuickBooks" columns. The "Balances Fixed Asset Mgr" cell includes the current period depreciation while the "Balances QuickBooks" cell includes the amount before the current depreciation is calculated. The net amount is displayed in the "Journal Entry Debit" or "Journal Entry Credit" column. (Users can choose to view these items either in summary or by asset.) Fixed Asset Manager also displays a memo describing the transaction. Before accepting the transaction, it is important for users to make sure the appropriate depreciation basis is displayed in the "Basis to Post" cell at the bottom of the screen.

To post the entry, the user clicks the "Post Entry to QuickBooks" button. Fixed Asset Manager displays a screen informing the user that depreciation has been posted to the company's QuickBooks general journal. The practitioner then transmits the revised data file to the client.

<u>Recording Depreciation Without Using the QuickBooks Fixed Asset Manager.</u> Even without using the Fixed Asset Manager, accountants frequently record depreciation on fixed assets for their clients. After calculating the depreciation amount, practitioners should record a journal entry that debits the "Depreciation Expense" account and credits the "Accumulated Depreciation" subaccount for the applicable fixed asset. Alternatively, practitioners can record depreciation directly in the account register for the applicable accumulated depreciation subaccount. In that case, the depreciation amount should be entered in the "Decrease" column and the "Depreciation Expense" account should be selected from the "Account" drop-down list. Practitioners may want to set up depreciation journal entries as memorized transactions.

Many small to medium-sized companies use depreciation methods and useful lives prescribed by tax laws even if they maintain their general ledgers on the GAAP basis of accounting. They do so because (a) it avoids the need to maintain separate depreciation schedules for book and tax purposes and (b) the results often are not significantly different than those achieved using GAAP depreciation methods and lives. However, if the tax depreciation amount differs significantly from the GAAP depreciation amount, practitioners should adjust the amount when preparing GAAP financial statements.

Practitioners should allocate annual depreciation expense to interim periods. The allocation to interim periods generally is made on a straight-line basis. Thus, if a one-month period were being processed, one twelfth of the annual depreciation expense would be recorded. Similarly, if processing were done on a quarterly basis, one fourth of the annual expense would be recorded. Practitioners should adjust the monthly or quarterly depreciation expense calculation for fixed asset additions, disposals, and other changes during the year. However, as a time-saver, some practitioners do not adjust for those items until year-end. While it may save time, waiting until year-end to adjust depreciation expense for asset additions and disposals is appropriate only if the effect of the adjustment is immaterial.

Loans and Notes Payable. Users set up liability accounts for loans and notes payable as of the QuickBooks start date by adding new accounts in the chart of accounts.

- Select "Chart of Accounts" from the "Lists" menu.
- Click the "Account" button in the "Chart of Accounts" window and select "New."

- For long-term loans, select "Long Term Liability" from the "Other Account Types" drop-down list in the "Add New Account: Choose Account Type" window. Select "Other Current Liability" for short-term loans (i.e., loans that will be paid off in one year or less).
- Enter the lender's name in the "Account Name" field.
- Enter optional loan information in the "Description" and "Account No." fields.
- Click on the "Enter Opening Balances" button and enter the unpaid balance of the loan as of the QuickBooks start date in the "Opening Balance" field. (Leave the field blank if the loan was obtained after the QuickBooks start date.)
- Enter the QuickBooks start date in the "As of" field. (Enter the date the loan was obtained in the "As of" field if the loan was obtained after the QuickBooks start date.)
- Click "OK."
- Set up an "Interest Expense" account if the user did not accept the QuickBooks preset chart of accounts for their industry in the "EasyStep Interview."

When setting up a new loan or note obtained after the QuickBooks start date, users should create the liability account as discussed in the preceding paragraph. Users then should record the loan proceeds by selecting "Make Deposits" from the "Banking" menu. The name of the applicable loan or note payable account should be selected from the drop-down list in the "From Account" field.

<u>Using the Loan Manager to Set up and Track Loan Payments.</u> The QuickBooks Loan Manager feature helps users track the loans set up in QuickBooks based on information in the "Long-term Liability" and "Other Current Liability" accounts. This feature does the following:

- Allows users to view all the loans in one place.
- Tracks and reminds users of upcoming payments.
- Calculates and maintains amortization schedules for each loan (including loans with extra and balloon payments).
- Splits loan payments between principal, interest, and escrow amounts.
- Prepares what-if scenarios using existing or hypothetical loans so that users can determine whether they should renegotiate their debt.

To use Loan Manager, perform the following steps:

- Enter the loan information using the steps discussed previously.
- Select "Loan Manager" from the "Banking" menu.
- Select the "Add a Loan" button on the "Loan List."
- The Loan Manager will display an "Add Loan" wizard. Select the "Account Name," "Lender," "Payment Account," "Interest Expense Account," and "Fee/Charges Expense Account" from the drop-down lists. Enter the loan information when prompted and click on the "Finish" button.
- The Loan Manager displays the loan details on the "Loan List" for the loan that is highlighted. Review the information on the "Summary" tab to ensure the details are accurate.

When paying loans that are included in the Loan Manager, users should do the following:

- Select "Loan Manager" from the "Banking" menu.

- Select the "Set Up Payment" button on the "Loan List."

- The Loan Manager will display a "Set Up Payment" screen showing the information for a regular loan payment. If, instead, the payment is an extra payment, select that alternative from "The payment is" drop-down list.

- Select a "Payment Method" from the "I want to" drop-down list. The choices are "Write a check" or "Enter a bill."

While the payment feature can be very helpful in ensuring that the client's liability balances are not materially understated (as they can be if the client applies the entire payment to principal instead of splitting it between principal and interest), clients have to remember to use the feature. Practitioners should be aware that QuickBooks users frequently forget that they are not supposed to use the "Write Checks" menu when making every payment. Therefore, practitioners should consider reviewing the loan transactions to ensure that the payments were properly generated. To review the transactions, select "Vendors & Payables" from the "Reports" menu. Then, select "Transaction List by Vendor." Make sure the report is for the proper period. Loan payments generated through the Loan Manager will show the payment number in the "Memo" field.

Loan Manager also allows users to create what-if scenarios to properly manage their current loans and to evaluate hypothetical loans. With it, users can evaluate two new loans or calculate the impact of the following what-if scenarios:

- What if I change my payment amount?

- What if I change my interest rate?

- How much will I pay with a new loan?

- What if I refinance my loan?

To access the what-if scenarios wizard, select the "What If Scenarios" button on the "Loan List" screen. Select the applicable scenario, and enter the requested information.

In addition to loans and note payable, practitioners should determine whether their clients have any lines of credit. A line of credit that exists as of the QuickBooks start date should be set up following the procedures previously discussed.

Opening Balance Equity. The "Opening Balance Equity" account probably is one of the most misunderstood accounts in QuickBooks. QuickBooks automatically creates this account the first time a user enters an opening balance for a balance sheet account. QuickBooks then automatically posts the offsetting entry to the opening balance for each asset and liability account to the "Opening Balance Equity" account. Since the only purpose of the "Opening Balance Equity" account is to offset beginning balance sheet balances as of the QuickBooks start date, practitioners should:

- Verify that the only amounts posted to "Opening Balance Equity" relate to the setup of balance sheet accounts as of the QuickBooks start date. Reclassify any amounts resulting from other transactions.

- Verify that the adjusted balance in the "Opening Balance Equity" account equals the total equity amount in the client's balance sheet immediately preceding the QuickBooks start date.

- Transfer the balance in the "Opening Balance Equity" account to the applicable equity accounts (such as retained earnings, proprietor's capital, or partners' capital).

Practitioners can transfer the balance in the "Opening Balance Equity" account to the applicable equity accounts via a journal entry or by double-clicking on the "Opening Balance Equity" account in the chart of accounts to record the transfer directly in the "Opening Balance Equity" account register.

Users should not post transactions to the "Opening Balance Equity" account. However, QuickBooks automatically posts unresolved bank statement and credit card reconciliation differences to the "Opening Balance Equity" account. In addition, many clients post other transactions to the "Opening Balance Equity" account since they do not understand that the only purpose of that account is to offset beginning balance sheet balances as of the QuickBooks start date. Consequently, practitioners should advise their clients not to post any transaction to "Opening Balance Equity." In addition, practitioners should review that account each accounting period to verify that its balance is zero. If the balance is not zero, practitioners should review the detail transactions posted to the account and transfer the transaction amounts to the appropriate accounts.

Performing a Year-end Close with QuickBooks

Adjusting Year-end Balances. When closing the books at the end of a client's fiscal year, practitioners should perform many of the same procedures for monthly reviews (such as reconciling bank statements and credit card statements and transferring uncategorized income and expense balances). In addition, practitioners should perform the following procedures when adjusting QuickBooks files at the end of a client's fiscal year:

- *Adjust Inventory.* Practitioners should adjust inventory quantities in QuickBooks to agree to physical inventory counts. In addition, practitioners should adjust the balance in the "Inventory Asset" account to lower of cost or market if necessary.

- *Adjust the Allowance for Doubtful Accounts.* QuickBooks instructs users to record bad debt expense by (a) selecting "Receive Payments" from the "Customers" menu, (b) selecting the customer's name from the drop-down list in the "Received From" field of the "Receive Payments" window, (c) leaving the amount field at 0.00, (d) highlighting the uncollectible outstanding invoice or statement charge, (e) clicking the "Discounts & Credits" button, (f) entering the bad debt amount in the "Amount of Discount" field in the "Discount and Credits" window, and (g) selecting the "Bad Debt Expense" account from the "Discount Account" drop-down list. That procedure debits "Bad Debt Expense" and credits "Accounts Receivable." (That procedure also adjusts the affected customer invoice or statement but does not adjust any sales tax liability related to the uncollectible receivable.) Since GAAP financial statements should be prepared using the allowance method of accounting for bad debts, the direct charge-off method recommended by QuickBooks only should be used if it does not result in a material difference from the allowance method.

  Under the allowance method, receivables that have not been specifically identified as uncollectible but that are estimated to be uncollectible should be reserved using an allowance for doubtful accounts. Practitioners often estimate uncollectible accounts using (a) the percentage of sales method, (b) the aging method, or (c) a weighted average method. Any receivables subsequently identified as uncollectible should be written off against the allowance for doubtful accounts. At the end of the client's fiscal year, the practitioner should (a) compute bad debt expense, accounts receivable, and allowance for doubtful accounts balances using the allowance method; (b) review the client's postings to the "Bad Debt Expense" account using the direct charge-off method; and (c) compare the results. If necessary, the practitioner should record a journal entry to adjust the "Bad Debt Expense," "Allowance for Doubtful Accounts," and "Accounts Receivable" accounts.

- *Adjust Gains or Losses on Fixed Asset Sales.* Practitioners should verify that fixed asset sales are recorded correctly. Many clients erroneously credit a fixed asset gain/loss account or miscellaneous income account for the entire amount of the sales proceeds when recording a fixed asset sale. In that case, the practitioner should record a journal entry to (a) credit the fixed asset's original cost, (b) debit accumulated depreciation, and (c) debit or credit the gain/loss account.

- *Capitalize and Amortize Prepaid Assets.* Clients often pay certain expenditures in advance, such as property and casualty insurance, property taxes, and advertising. Expenditures that benefit more than one year should be recorded as prepaid assets when paid and amortized over the appropriate period covered by the expenditure. Clients often record such disbursements as expenses when paid. If material, practitioners should capitalize prepaid assets by recording a journal entry that debits a prepaid assets account and credits the applicable expense accounts. In addition, practitioners should amortize prepaid assets by recording a journal entry that debits the applicable expense accounts and credits the prepaid assets account.

- *Calculate and Record Depreciation.* Practitioners should calculate and record depreciation on fixed assets.

- *Record Interest Expense.* Practitioners should record interest expense on loans and notes payable.

- *Adjust Marketable Securities to Fair Value.* Generally accepted accounting principles require marketable debt and equity securities to be recorded at fair value if they are available for sale or held for trading purposes. Consequently, practitioners should determine the fair value of such securities as of the client's balance sheet date and record a journal entry to adjust the value of the securities. The journal entry should debit or credit the investment asset account for the increase or decrease in value. For available-for-sale securities, the offsetting amount should be recorded in other comprehensive income (unless a decline in value is considered to be other than temporary, in which case the offsetting amount should be recorded in current period income or expense). For trading securities, the offsetting amount should be recorded in current period income or expense. As a practical matter, practitioners for most small to medium-sized companies only adjust marketable debt or equity securities to fair value at year-end. Adjustments generally are not made during interim periods unless significant changes in fair value occur.

- *Adjust Uncategorized Income and Expenses.* Practitioners should transfer amounts from the "Uncategorized Income" and "Uncategorized Expenses" accounts to the appropriate general ledger accounts.

- *Adjust Opening Balance Equity.* Practitioners should transfer the balance in the "Opening Balance Equity" account to the applicable equity accounts.

The preceding items represent the most common journal entries that practitioners generally need to record at year-end for their QuickBooks clients. However, practitioners should review other general ledger accounts and perform detail account analysis.

Automatic Year-end Adjustments. QuickBooks automatically records certain year-end adjustments based on the month specified in the "First month in your fiscal year" field in the "Company Information" window. (Practitioners can verify that the correct month is specified in that window by selecting "Company Information" from the "Company" menu.) On the first day of the new fiscal year, QuickBooks:

- Zeroes out all income and expense accounts so that the new fiscal year begins with zero net income.

- Posts all income and expense balances to the "Retained Earnings" account (which QuickBooks automatically creates during the setup of the company).

Since QuickBooks does not record the preceding adjustments until the first day of the client's new fiscal year, the adjustments do not affect account balances in the preceding fiscal year. As practitioners continue to adjust the client's QuickBooks file for the preceding fiscal year, QuickBooks continues to post all income and expense transactions recorded with a date in the preceding fiscal year to retained earnings in the new fiscal year. Although the QuickBooks adjustments do not affect the ending retained earnings balance for the year being closed, they affect the beginning retained earnings balance for the subsequent fiscal year. Consequently, practitioners should review the beginning retained earnings balance in QuickBooks to verify that it agrees to the ending retained earnings balance from the prior fiscal year. In addition, practitioners may need to transfer the balance in the retained earnings account to a more appropriate equity account (such as proprietor's capital or partners' capital) if the client is not a corporation. The discussion beginning in the following paragraph provides additional guidance on adjusting retained earnings in QuickBooks.

Retained Earnings. Practitioners may need to adjust the balance in the "Retained Earnings" account for a number of reasons. For example:

- Clients may have posted transactions to a prior fiscal year erroneously. Consequently, the beginning retained earnings balance in QuickBooks may not agree to the ending retained earnings balance from the prior closed fiscal year.

- The prior year income and expense balances that QuickBooks automatically posts to the "Retained Earnings" account may need to be transferred to another equity account.

Practitioners can determine whether the balance in the "Retained Earnings" account needs to be adjusted by generating the "Balance Sheet" and "Profit & Loss" reports in QuickBooks. Those reports can be generated by selecting "Company & Financial" from the "Reports" menu. The "Balance Sheet" report should be generated as of the first day of the client's current fiscal year. The "Profit & Loss" report should be generated for the period from the QuickBooks start date to the last day of the client's preceding fiscal year. The "Retained Earnings" balance on the "Balance Sheet" report should equal the "Net Income" amount on the cumulative "Profit & Loss" report. If the amounts do not match, practitioners should verify that the difference results from transferring amounts from the "Retained Earnings" account to other equity accounts. Practitioners can generate a report to review adjustments to the "Retained Earnings" account by selecting "Accountant & Taxes" and then "Transaction List by Date" from the "Reports" menu. That report should be generated for the same time period as the "Profit & Loss" report (i.e., from the QuickBooks start date to the last day of the client's preceding fiscal year). Practitioners also should filter the report by clicking the "Modify Report" button and the "Filter" tab. Select "Account" from the "Filter" drop-down list, select "Multiple accounts" from the "Account" drop-down list, and then select "Retained Earnings."

Practitioners can adjust the balance in the "Retained Earnings" account by recording a journal entry or posting a transaction to the account register of another affected equity account. QuickBooks does not provide an account register for the "Retained Earnings" account since it is a special automatically created account that QuickBooks uses only for report purposes. QuickBooks posts all income and expense transactions recorded with a date in a previous fiscal year to retained earnings in the current fiscal year. Although the QuickBooks adjustments do not affect the ending retained earnings balance for a closed year, they affect the beginning retained earnings balance for the current fiscal year. QuickBooks users can view postings (both automatic closing entries and manual entries) to the "Retained Earnings" account by using the "QuickZoom" feature in reports or from the "Chart of Accounts" list. When users double-click on the "Retained Earnings" amount in a report, the "Transactions by Account" for the "Retained Earnings" account displays all transactions for the "Retained Earnings" account for the selected period. Alternatively, users can select "Chart of Accounts" from the "Lists" menu, highlight the "Retained Earnings" account, and select "QuickReport" from the "Reports" drop-down list. The QuickReport displays all transactions for the "Retained Earnings" account for the selected period.

Restricting Access to Prior-period Data. Unlike other accounting software, QuickBooks does not require users to close their books at the end of a fiscal year. Consequently, users can continue posting transactions to a fiscal year even after the practitioner has recorded all adjustments for the year and prepared financial statements. However, practitioners can request that users protect that data in QuickBooks by performing the following procedures:

- Set the closing date and password protect it.
- Set up permissions that restrict access to the data.

Detecting Changes in Prior Year Data. QuickBooks allows users to set a closing date, select a password, and set up access permissions, but practitioners still should verify that the beginning balances for each balance sheet account equal the adjusted ending balances from prior years. The following methods may be used to detect changes in prior year balances:

- *Audit Trail Report.*
- *Closing Date Exception Report.* (QuickBooks Premier and Premier-Accountant only.)
- *Journal Report.*
- *Opening Balance Equity.*
- *Retained Earnings.*

Backing up QuickBooks Files. Both the client and the practitioner should make a backup copy of the client's QuickBooks file after all adjustments have been posted at the end of the fiscal year. In addition, practitioners should file and archive hardcopy documents related to the file.

Cleaning up Prior Year Data. QuickBooks allows users to clean up their prior year data. The clean up data feature deletes detail transactions dated on or before a specified date and replaces them with transactions summarized by month. Although current fiscal year data should not be removed, practitioners can help their clients determine whether to clean up data from prior fiscal years. Data from the preceding fiscal year should not be removed until after the practitioner has made all necessary adjustments to that data and the client has filed all required payroll, sales tax, income tax, and 1099 forms for the specified date. QuickBooks requires users to make a backup copy of their files before cleaning up data.

Document Management

Today CPA firms cannot ignore the fact that the business world is growing more and more paperless. Going paperless really means going digital by converting data to digital formats. For many firms, managing documents using Windows Explorer and network directories is becoming increasingly more difficult. For effective document management, a majority of CPA firms today might consider a dedicated document management system that can promote standardization of the firm's document naming conventions and document archival. In QuickBooks 2010, Intuit introduced an integrated document management service for QuickBooks users. In addition, QuickBooks users can use SmartVault which transforms QuickBooks into a paperless system.

QuickBooks 2010. QuickBooks 2010 includes an integrated document management service for QuickBooks users. As well as allowing the user to attach their documents to QuickBooks records they can also keep all of their uploaded documents in a central location. To learn more about the QuickBooks Document management service and to sign up, select "Document Management" and "Learn About Document Management" from the "Company" menu and click on the "Sign Me Up" button. There are several packages available, from the free version with 100MB of storage to the premium version ($29.95/mo) with 5GB storage.

SmartVault. SmartVault transforms QuickBooks into a paperless system and allows users to attach documents from a variety of sources, including electronic, email, fax, and paper, to QuickBooks. All documents, bills, statements, contracts, reports, email, and notes are always available from within QuickBooks and also can be accessed via the internet. SmartVault integrates with QuickBooks and also allows the user to access their documents via the internet. SmartVault supports QuickBooks 2006 through 2010.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

11. Jackie has recorded journal entries in her client's company data. She uses the Premier Accountant edition of QuickBooks. Which report should she use to review balances, drill down to the source detail and make adjusting entries?

    a. Adjusted Journal Entries.

    b. General Ledger.

    c. Audit Trail.

    d. Working Trial Balance.

12. When creating journal entries that affect accounts receivable, accounts payable or sales tax payable accounts, practitioners should know that all **except** which one of the following is accurate?

    a. Journal entry postings to the sales tax payable account affect the liability amounts in "Sales Tax Liability" report and in the "Pay Sales Tax" window.

    b. Postings to multiple receivable and payable accounts can be made in a single journal entry.

    c. Journal entry postings to accounts receivable affect customer statements.

    d. Journal entry postings to accounts payable do not affect 1099 forms.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

11. Jackie has recorded journal entries in her client's company data. She uses the Premier Accountant edition of QuickBooks. Which report should she use to review balances, drill down to the source detail and make adjusting entries? **(Page 91)**

    a. Adjusted Journal Entries. [This answer is incorrect. The adjustments column of the working trial balance lists all adjusting journal entries made between the "From" date and the "To" date. This is an element of the working trial balance report, but not the correct answer.]

    b. General Ledger. [This answer is incorrect. This report lists the beginning and ending balances, as well as the transaction activity for each account, for the specified time period. This report would be used if the practitioner did not have the Premier-Accountant edition.]

    c. Audit Trail. [This answer is incorrect. This report lists all QuickBooks transactions for a specified time period and indicates the time and date each transaction was entered or modified and by whom.]

    d. Working Trial Balance. [This answer is correct. This window presents the client's data in a columnar format and allows the practitioner to review balances, drill down to the source detail and make adjusting entries.]

12. When creating journal entries that affect accounts receivable, accounts payable or sales tax payable accounts, practitioners should know that all **except** which one of the following is accurate? **(Page 96)**

    a. Journal entry postings to the sales tax payable account affect the liability amounts in "Sales Tax Liability" report and in the "Pay Sales Tax" window. [This answer is incorrect. This statement accurately reflects how journal entry postings affect the liability amounts in both the "Sales Tax Liability" report and the "Pay Sales Tax" window.]

    b. Postings to multiple receivable and payable accounts can be made in a single journal entry. [This answer is correct. QuickBooks does not allow users to post more than one entry to accounts receivable or accounts payable in a single journal entry.]

    c. Journal entry postings to accounts receivable affect customer statements. [This answer is incorrect. This statement accurately reflects how journal entry postings to accounts receivable affect customer statements.]

    d. Journal entry postings to accounts payable do not affect 1099 forms. [This answer is incorrect. Although journal entry postings to accounts receivable affect customer statements, Journal entry postings to accounts payable do not affect 1099 forms.]

EXAMINATION FOR CPE CREDIT

Lesson 1 (QASTG102)

Determine the best answer for each question below. Then mark your answer choice on the Examination for CPE Credit Answer Sheet located in the back of this workbook or by logging onto the Online Grading System.

1. John is a professional accountant with numerous clients who send him their financial data from their different versions of QuickBooks programs. In addition, John often helps his clients by troubleshooting issues they are having with their QuickBooks. Which version of QuickBooks will enable John to support his clients **most** effectively?

   a. QuickBooks Pro.

   b. QuickBooks Pro for Contractors.

   c. QuickBooks Premier-Accountant.

   d. QuickBooks Premier.

2. Martha is starting work on her client's QuickBooks data and has requested that the client forward the information to her, so that she can work with the data at her office, instead of on-site. The client would be able transmit the QuickBooks data to Martha in all the following methods, **except**:

   a. Computer disks or CD-ROM.

   b. Hard copy.

   c. Email.

   d. Shared disk files.

3. Which of the following statements is least accurate?

   a. Practitioners using remote access software can adjust clients' QuickBooks data files.

   b. Practitioners using remote access software can provide technical support and training.

   c. Remote access software features are consistent from product to product.

   d. Performance during file transfers and remote control sessions is a significant consideration when selecting remote access software.

4. QuickBooks allows users to create an accountant's copy of the company's data files, which the practitioner may review and adjust while the client continues to process transactions in the original file. With an accountant's copy, a practitioner can perform all the following tasks **except:**

   a. Generate new reports.

   b. Modify inventory quantities and values.

   c. Merge newly created inventory part items with existing inventory part items.

   d. While working with the accountant's copy, make temporary changes to preferences.

5. Diana's accountant has adjusted her company file and she is ready to import the changes into her QuickBooks file. Upon opening the file, the extension should read:

   a. .qby

   b. .csv

   c. .qbw

   d. .pdf

6. The clean up data feature is most accurately described as:

   a. A QuickBooks feature that stores transaction details that are no longer needed.

   b. A QuickBooks feature that condenses QuickBooks transactions dated on or before a specified date.

   c. A QuickBooks feature that expands the amount of data stored on the hard drive.

   d. A QuickBooks feature that greatly reduces the file size by removing any inactive list items not used after the date through which the data is cleaned up.

7. Calvin is reviewing his client's data in QuickBooks. He has already reviewed the general ledger and trial balance. To further research detail account information, which report should he open?

   a. Balance Sheet Detail.

   b. Profit and Loss Detail.

   c. Transaction History Detail.

   d. Transaction Detail by Account.

8. The correct method to adjust inventory values to update the inventory details in QuickBooks is to perform which of the following?

   a. From the "Vendors" menu, select "Inventory Activities" and then "Adjust Quantity/Value on Hand."

   b. Select "Make General Journal Entries" from the "Company" menu.

   c. Create a journal entry to adjust the inventory asset general ledger account balance.

   d. Select "Adjust Inventory" from the "Vendors" menu.

9. Within the Premier-Accountant version of Quickbooks, the Fixed Asset Manager allows a practitioner to analyze depreciation expense in numerous ways. How many different types of depreciation bases are available for the practitioner to view?

   a. 3.

   b. 5.

   c. 6.

   d. 8.

10. When an asset is added to the Schedule of Assets in Fixed Asset Manager, users must select the applicable general ledger accounts. Identify which of the following is **not** one of the accounts:

    a. Accumulated depreciation/amortization.

    b. Asset description.

    c. Depreciation/amortization expense.

    d. Asset account.

11. Gabrielle's client is having cash flow problems and has the opportunity to refinance his company's business loan. Gabrielle can quickly evaluate the new loan terms by using which QuickBooks feature?

    a. Cash Flow Projector.

    b. Fixed Asset Manager.

    c. Financial Statement Designer.

    d. Loan Manager.

12. Name three methods to detect changes in prior year balances within QuickBooks.

    a. Closing Date Exception Report, Transaction Account Detail, General Ledger.

    b. Audit Trail Report, Journal Report, Opening Balance Equity.

    c. Retained Earnings, Balance Sheet Detail, Profit and Loss Detail.

    d. Balance Sheet Previous Year Comparison, Profit and Loss Previous Year Comparison, Opening Balance Equity.

Lesson 2: Preparing Reports from the Client's QuickBooks Data

INTRODUCTION

For those practitioners who prepare financial statements using QuickBooks data, this lesson explains how to generate and customize QuickBooks financial reports, from within QuickBooks as well as with Financial Statement Designer (included with QuickBooks Premier-Accountant 2008 and earlier), and also how to export financial reports to Excel. This lesson also provides guidance on importing QuickBooks data into the practitioner's write-up software.

Learning Objectives:

Completion of this lesson will enable you to:
- Determine the financial reporting capability within QuickBooks, including budget reports and Cash Flow Projector.
- Identify ways to customize financial reports utilizing Financial Statement Designer.

HOW TO PREPARE FINANCIAL STATEMENTS USING QUICKBOOKS DATA

Generating QuickBooks Financial Reports

Balance Sheet Reports. Practitioners can generate the following balance sheet reports by selecting "Company & Financial" from the "Reports" menu:

- *Balance Sheet Standard.* This report presents a company's balance sheet accounts as of a specified date.
- *Balance Sheet Detail.* This report presents the beginning balance for each balance sheet account as of the beginning of the specified period, detail transactions posted during that period, and the ending account balance as of the end of the specified period.
- *Balance Sheet Summary.* This report summarizes the "Balance Sheet Standard" report by presenting a total for each balance sheet account type (i.e., bank, accounts receivable, other current assets, etc.) rather than a total for each individual account.
- *Balance Sheet Prev Year Comparison.* This report presents a company's balance sheet as of a specified date and as of the same date one year earlier. It also includes columns for the dollar change and the percentage change for each amount.
- *Net Worth Graph.* This option generates a bar graph that summarizes total assets, total liabilities, and total net worth as of a specified date. Users can zoom in on any bar in the graph to generate a pie chart that summarizes the same information as of the selected date.

Practitioners should be aware that the preceding balance sheet reports present the balance for the "Undeposited Funds" account as an other current asset rather than as cash. Practitioners should reclassify the "Undeposited Funds" amount to cash for financial reporting purposes. However, QuickBooks does not allow report line items to be merged, deleted, or moved. Consequently, practitioners who want to use the QuickBooks balance sheet reports must record a journal entry to transfer the "Undeposited Funds" balance to a bank account balance. When the client subsequently deposits the cash, QuickBooks debits the bank account balance and credits the "Undeposited Funds" account. Since that results in an overstatement of the bank account balance and an understatement of "Undeposited Funds," the journal entry should be reversed after generating the QuickBooks financial reports for the period. (QuickBooks Premier and Premier-Accountant can create an auto-reversing journal entry. Reversing an entry creates a new entry, dated the first day of the following month. To create a reversing entry, click the "Reverse" button when booking the original entry.)

Practitioners also should be aware that the QuickBooks balance sheet reports do not display the current portion of long-term debt separately as a current liability as required by GAAP. Practitioners should reclassify the debt amount due within one year as an "Other Current Liability" for financial reporting purposes. However, since QuickBooks does not allow report line items to be merged or moved, practitioners who want to use the QuickBooks balance sheet reports must record a journal entry to transfer the current portion of the long-term liability balance to an "Other Current Liability" balance. The reclassification journal entry should be reversed after generating the QuickBooks financial reports for the period so that subsequent loan payments can be posted to only one liability account. (QuickBooks Premier and Premier-Accountant can create an auto-reversing journal entry. Reversing an entry creates a new entry, dated the first day of the following month. To create a reversing entry, click the "Reverse" button when booking the original entry.)

Income Statement Reports. Practitioners can generate the following income statement reports by selecting "Company & Financial" from the "Reports" menu:

- *Profit & Loss Standard.* This report summarizes a company's income and expenses for a specified period and reports net income for the period.

- *Profit & Loss Detail.* This report presents the transactions posted to each income and expense account during a specified period.

- *Profit & Loss YTD Comparison.* This report summarizes a company's income and expenses for a specified period and for the fiscal year through the end of that period.

- *Profit & Loss Prev Year Comparison.* This report summarizes a company's income and expenses for a specified period and for the same period one year earlier. It also includes columns for the dollar change and the percentage change for each amount.

- *Income & Expense Graph.* This option includes a bar graph that summarizes income and expenses for a specified period. It also includes a pie chart that breaks down total income for the period by account and a pie chart that breaks down total expenses for the period by account. Users can zoom in on any bar in the bar graph to generate a pie chart that summarizes income and expense only for the selected period. Likewise, users can zoom in on any account in the pie charts to generate a graph of that account for the time period.

If the numbers on a profit and loss report look wrong, practitioners should check the following:

- *Report Dates.* Practitioners can specify the report period by selecting a period (such as "This month-to-date," "This fiscal quarter," or "Last fiscal year") from the "Dates" drop-down list. Alternatively, practitioners can enter the beginning and ending dates for the report period in the "From" and "To" fields. Practitioners also can change report dates by clicking the "Modify Report" button and the "Display" tab.

- *Report Basis.* Practitioners should verify that the report is generated using the correct accounting basis (i.e., accrual or cash).

- *Report Filters.* QuickBooks allows practitioners to filter reports in a variety of ways. Report results may be distorted if a report includes a filter that the practitioner is unaware of. Practitioners can check for report filters by generating a "Profit & Loss Standard" report without any filters and comparing the results of that report to the report that appears incorrect.

- *Items.* If income appears to be understated, practitioners should verify that items such as services and inventory parts are set up to post to income accounts rather than asset or liability accounts.

In addition to the income statement reports, practitioners also can generate the following reports by selecting "Company & Financial" from the "Reports" menu.

- *Profit & Loss by Job*

- *Profit & Loss by Class*

- *Profit & Loss Unclassified*
- *Income by Customer Summary*
- *Income by Customer Detail*
- *Expenses by Vendor Summary*
- *Expenses by Vendor Detail*

Best practices indicate that the preceding reports generally are more useful to clients than to practitioners.

Statement of Retained Earnings or Changes in Stockholders' Equity. When presenting GAAP financial statements, FASB ASC 250-10-50-9 (formerly APB Opinion No. 9) requires changes in retained earnings to be disclosed whenever an income statement is presented. In addition, FASB ASC 505-10-50-2 (formerly APB Opinion No. 12) requires companies to disclose changes in the separate accounts comprising stockholders' equity (including changes in the number of shares of equity securities) when they present both a balance sheet and income statement. When there are no changes in stockholders' equity accounts other than retained earnings, disclosure of changes in retained earnings usually is accomplished by one of the following methods:

- A combined statement of income and retained earnings.
- A separate statement of retained earnings.
- Presentation in the stockholders' equity section of the balance sheet.

When changes occur in stockholders' equity accounts other than retained earnings, most companies disclose the changes in a statement of changes in stockholders' equity.

When preparing a complete set of GAAP financial statements, practitioners should be aware that QuickBooks cannot generate a combined statement of income and retained earnings, a separate statement of retained earnings, or a statement of changes in stockholders' equity. However, that may not be a problem if current period earnings represents the only change in stockholders' equity since QuickBooks presents retained earnings in the stockholders' equity section of its balance sheet reports.

Statement of Comprehensive Income. FASB ASC 220-10-45-3 (formerly SFAS No. 130, *Reporting Comprehensive Income*), requires comprehensive income and its components to be reported when a company presents a full set of financial statements that report financial position, results of operations, and cash flows. Comprehensive income refers to net income plus other comprehensive income (i.e., certain revenues, expenses, gains, and losses that are reported as separate components of stockholders' equity rather than in net income). Under current accounting literature, other comprehensive income includes:

- Unrealized gains and losses on debt and equity securities classified as available-for-sale marketable securities.
- Amounts recognized in other comprehensive income for debt securities classified as available for sale and held-to-maturity related to an other-than-temporary impairment.
- Gains or losses related to pension or other postretirement benefits.
- Prior service costs or credits related to pension or other postretirement benefits.
- Transition assets or obligations related to pension or other postretirement benefits.
- Foreign currency translation adjustments and gains and losses from certain foreign currency transactions.
- The effective portion of the gain or loss on derivative instruments designated as cash flow hedging instruments (including qualifying foreign currency cash flow hedges).

Practitioners should be aware that QuickBooks cannot generate financial statements that present comprehensive income. However, that may not be a problem when preparing financial statements for most QuickBooks clients. Practitioners may find that comprehensive income reporting requirements generally are not applicable to QuickBooks clients since they typically do not have any items of other comprehensive income (except for those clients with marketable debt or equity securities accounted for as available for sale).

Statement of Cash Flows. Practitioners can generate a "Statement of Cash Flows" report and a "Cash Flow Forecast" report by selecting "Company & Financial" from the "Reports" menu. Best practices indicate that the "Cash Flow Forecast" report generally is more useful to clients than to practitioners. However, the "Statement of Cash Flows" report may be *somewhat* helpful to practitioners who present a full set of GAAP financial statements for their clients. The report presents changes in the client's cash during a specified period and shows cash received and cash paid for operating, investing, and financing activities. The format of the QuickBooks report looks like it meets the requirements of FASB ASC 230 (formerly SFAS No. 95, *Statement of Cash Flows*), for presenting a statement of cash flows using the indirect method. However, the details of the report do not meet many of the requirements of GAAP. The following list represents some of the deficiencies of the QuickBooks statement of cash flows report:

- The report does not adjust net income for noncash items such as depreciation, gains/losses on asset sales, and deferred income taxes.
- Although the report adjusts net income for changes in operating current assets and liabilities (such as accounts receivable and accounts payable), it does not present noncash entries to current operating assets and liabilities as separate adjustments to net income. A common example of a noncash transaction that affects a current operating asset is a provision for bad debts.
- GAAP generally requires cash flows from investing and financing activities to be reported on a gross rather than a net basis. However, the QuickBooks statement of cash flows report generally presents such cash flows on a net basis.
- The report reflects transfers from one equity account to another equity account as gross financing activities even though the company's cash did not change as a result of the transfer.
- The report reflects postings to accumulated depreciation during the period as an investing activity rather than reflecting the associated depreciation expense as an adjustment to net income.
- The report presents postings to the "Opening Balance Equity" account as financing activities. Such balances should be transferred to the appropriate accounts before generating the statement of cash flows report.
- GAAP requires the ending cash balance on the statement of cash flows to equal the balance sheet amount for cash. However, the amounts on the two QuickBooks reports may not be equal if all cash receipts have not been deposited. Undeposited cash receipts are included in the cash balance in the statement of cash flows report but not in the balance sheet balance for cash. (The QuickBooks balance sheet reports present the balance in the "Undeposited Funds" account as an other current asset rather than as cash. However, if the practitioner has made the journal entry to transfer the "Undeposited Funds" balance to a bank account balance, the ending cash balance on the statement of cash flows should equal the balance sheet for cash.)
- The report does not include a supplemental schedule of noncash investing and financing activities, as required by GAAP.

Practitioners can solve some of the problems listed in the preceding paragraph by customizing the statement of cash flows report. Practitioners can customize the report by (a) selecting "Preferences" from the "Edit" menu, (b) selecting "Reports & Graphs" from the scroll box, (c) selecting the "Company Preferences" tab, and (d) clicking the "Classify Cash" button. (Alternatively, practitioners can access this preference simply by clicking the "Classify

Cash" button on the statement of cash flows report.) As indicated in the illustrated excerpt of the default settings in the "Classify Cash" window, QuickBooks users can:

- Check a different column to associate a balance sheet account with a different section of the statement of cash flows report. However, users cannot remove a check mark associated with a balance sheet account.

- Add or remove a check mark associated with an income or expense account. However, this action only should be taken for income or expense accounts that track *only* noncash transactions (such as depreciation expense). Users should not add or remove check marks associated with income or expense accounts that track cash transactions.

Practitioners can classify noncash income and expense amounts (such as depreciation expense, gains/losses on asset sales, and bad debt expense) correctly in the QuickBooks statement of cash flows report by checking the "Operating" column for the applicable account in the "Classify Cash" window. For example, practitioners can classify depreciation expense correctly by checking the "Operating" column for "Depreciation Expense" in the "Classify Cash" window. The statement of cash flows report then correctly reflects depreciation expense as an adjustment to net income. However, the report continues to reflect other postings to the "Accumulated Depreciation" account as separate investing activities. For example, the debit to "Accumulated Depreciation" resulting from the sale of a fixed asset is reflected as a separate investing activity.

Customizing the statement of cash flows report certainly does not solve most of the problems listed. Consequently, practitioners generally should not use the QuickBooks statement of cash flows report as part of a basic set of financial statements. However, practitioners may choose to generate and customize the report as a starting point for preparing a statement of cash flows in accordance with GAAP.

Budgets. Users can generate the following reports by selecting "Reports" and then "Budgets" ("Budgets & Forecasts" in QuickBooks Premier and Premier-Accountant) from the menu bar:

- *Budget Overview.* This report shows budget-only information.

- *Budget vs. Actual.* This report shows, for each month, the actual amounts, budget amounts, and dollar and percentage differences between actual and budget amounts.

- *Profit and Loss Budget Performance.* This report shows the current month actual and budget amounts and the year-to-date actual and budget amounts.

- *Budget vs. Actual Graph.* This report displays income statement budget vs. actual amounts in graph form.

To create a budget, select "Company," "Planning and Budgeting," and then "Set Up Budgets" from the menu bar. Next, select the year and type of budget to create. If a "profit and loss" budget is chosen, additional budget criteria can be selected to allow further detailed budgeting by Customer:Job (funding source) or class. QuickBooks then will ask whether users want to create the budget from scratch or from the previous year's actual data. If "Create Budget from Scratch" is selected, a blank budget will appear and users must manually enter all budget amounts. If "Create budget from previous year's actual data" is chosen, last year's monthly amounts will be copied to the budget. In either case, amounts may be adjusted after the budget is created.

To adjust budget amounts, users may simply select the appropriate account and month and type the new amount. Subsequent months may be entered similarly, or by choosing a monthly amount and—

- Clicking the "Copy Across" button to enter the same amount for the account for all months after the month currently selected.

- Clicking the "Adjust Row Amounts" button to increase or decrease each monthly amount by a specified percentage or dollar amount beginning with a specified month. Note that if the user selects "Currently selected month" as the starting point, an option to enable compounding appears. If that box is checked, each monthly adjustment will be based on the previous month's balance (e.g., 100 increased 10% each month compounded would be 100, 110, 121, 133.10, etc.; or 100 increased $10 each month compounded would be 100, 110, 120, 130, etc.). If compounding is not enabled, each monthly adjustment will be based on the balance currently entered for that month.

Forecasts. Users of QuickBooks Premier and Premier-Accountant may use QuickBooks to prepare forecasts as well as budgets. In fact, forecasts and budgets in QuickBooks are very similar. However, users may prefer to create a forecast rather than a budget if they need to analyze various "what if" scenarios. For example, a company may wish to create a budget based on expected results and compare actual results to the budget as the year progresses. In addition, a user may want to prepare a forecast to see what future financial results might look like if certain transactions or events occur (for example, a new loan is approved and operations are expanded, a store location is closed, etc.). When forecasts are created, the following reports are available:

- *Forecast Overview.* This report shows forecast amounts by month.
- *Forecast vs. Actual.* This report shows, for each month, actual results, forecasted amounts, and the dollar and percentage differences between actual and forecasted amounts.

The procedures for creating and editing forecasts are similar to those for creating and editing budgets.

Cash Flow Projector. The Cash Flow Projector feature allows clients to project their cash inflows and outflows for the following six-week period. The Cash Flow Projector makes it easy to project cash flow by using current and historical information from QuickBooks. Making adjustments in the Cash Flow Projector does not change the information in the financial statement accounts.

The Cash Flow Projector is a wizard into which the user enters (or QuickBooks imports) the following types of information:

- Beginning cash balances.
- Expected cash receipts.
- Future cash disbursements that are not included in the Accounts Payable system. (The Cash Flow Projector calls these items "Expenses.")
- Future cash disbursements included in Accounts Payable. (The Cash Flow Projector calls these items "Accounts Payable.")

The unique nature of each is discussed in the following paragraphs.

<u>Beginning Cash Balances.</u> Users can select which cash accounts to use for the projection. Generally, companies include the main cash account or accounts used to receive payments, pay loans, pay notes, and pay business expenses. Users can reduce the beginning cash balance for cash reserves or adjust it up or down for cash that will be received or disbursed on the day the projection is prepared.

<u>Expected Cash Receipts.</u> Users can designate whether they want to project cash receipts manually or automatically. Users that choose to have QuickBooks automatically enter cash receipts also must choose what calculation method QuickBooks will use to determine those amounts.

QuickBooks looks back to the designated six-week period and either duplicates it or calculates average cash receipts. Users can choose one of the following periods of comparison: the last six weeks, an average of the last six weeks, a weighted average of the last six weeks, the same six week period last year, or an average of the same six week period last year. Best practices indicate that users try several of these methods until they reach an amount that appears realistic for the period. (When the cash receipts appear realistic overall but a particular period appears unrealistic, the user can enter the appropriate amount in the period.) When an unusual cash receipt is expected to occur in the next six weeks, users can enter an adjustment for the item.

<u>Future Cash Disbursements That Are Not Included in the Accounts Payable System—"Expenses."</u> The Cash Flow Projector differentiates between accounts payable and expenses. Accounts payable are bills the user enters and

tracks in QuickBooks using the "Enter Bills" feature. Cash disbursements that the user makes in QuickBooks but does not track in the "Enter Bills" feature are considered expenses. These disbursements might include loan payments, credit card payments, payroll, cost of goods sold, and some memorized transactions (such as guaranteed payments to owners or recurring expenses drafted out of the checking account). These amounts can be entered either individually or in the aggregate. Obviously, the more detail included, the more information users will have when analyzing the cash flow projection.

Users can enter an adjustment for anticipated cash disbursements that are outside the norm.

Future Cash Disbursements Included in Accounts Payable—"Accounts Payable." The "Accounts Payable" window uses the company's QuickBooks information to display all the bills currently in the system. Therefore, it is very important that users enter all the bills currently on hand. If an anticipated bill has not been received, the user can enter that amount in the "Adjustment" field.

The Cash Flow Projector uses a bill's "Due Date" as the date the disbursement will be made. If needed, users can manually change this date to improve the accuracy of the projection.

Using the Cash Flow Projector. To use the Cash Flow Projector, do the following:

- Select "Planning & Budgeting" and then "Cash Flow Projector" from the "Company" menu.
- QuickBooks will display the "Welcome" menu of the Cash Flow Projector wizard. Click the "Next" button.
- QuickBooks will display the "Beginning Balance" screen. Place a check mark beside the cash accounts that will be used in the analysis. Enter adjustments for cash reserves and cash that will be received or disbursed on the day the analysis is prepared. Click the "Next" button.
- QuickBooks will display the "Cash Receipts" screen. Choose a projection method from the drop-down list in the "Choose a projection method" box. (Users can choose to manually or automatically enter the information. QuickBooks offers several methods of identifying comparable cash receipts. These methods can result in very different estimates of cash receipts. Therefore, the authors recommend that users try more than one of the methods and select the one that appears the most representative for the period. If an individual period is not considered representative, enter the revised number.) Enter adjustments for unusual cash receipts expected to occur in the next six weeks. Click the "Next" button.
- QuickBooks will display the "Expenses" screen. Enter cash disbursements that will occur over the next six weeks, but that are not included on the "Enter Bills" list. (The amounts can be entered individually or in the aggregate.) Click the "Next" button.
- QuickBooks will display the "Accounts Payable" screen. Ensure that all bills on hand have been entered in the "Enter Bills" feature. If anticipated bills have not been received, enter them in the "Adjustment" field. Click the "Finish Projection" button.
- QuickBooks will display the projection. Review the projection, and revise it as necessary. Users can print, save as a .pdf file, or close the projection.

Other Financial Reports. Practitioners can generate the following financial reports by selecting "Accountant & Taxes" from the "Reports" menu:

- *Trial Balance.* This report presents the balance in each account as of a specified date, with separate columns for accounts with debit balances and those with credit balances.
- *General Ledger.* This report presents the beginning balance, account activity, and the ending balance for each account for a specified time period. QuickBooks does not allow users to summarize the "General Ledger" report by hiding transaction details. However, practitioners can generate a "General Ledger" report for an individual account by (a) clicking the "Modify Report" button and the "Filters" tab in the "General Ledger" report; (b) selecting "Multiple Accounts" from the "Account" drop-down list in the "Modify Report"

window; (c) selecting the applicable account from the "Select Accounts" window; (d) clicking "OK"; (e) clicking the "Display" tab; (f) clicking the "Advanced" button; and (g) selecting the "In Use" option in the "Advanced Options" window.

- *Transaction Detail by Account.* This report presents the activity in each account, as well as a subtotal of activity for each account, for a specified period. It does not present beginning and ending balances.

- *Journal.* This report lists each transaction that occurred during a specified period, with separate line items for each affected account and separate columns for debit and credit amounts.

- *Transaction List by Date.* This report chronologically lists each transaction that occurred during a specified period, with only one line item and one total amount listed for each transaction.

If the "General Ledger" report or the "Transaction Detail by Account" report is generated for a period that spans multiple fiscal years, the report only reflects income and expense transactions for the last fiscal year of the report. (Any prior year income and expense amounts are rolled into retained earnings.) Practitioners can change the report dates so that income and expense transactions are listed for each fiscal year by selecting "All" from the "Dates" drop-down list. Alternatively, practitioners can change the "Transaction Detail by Account" report by selecting "Income Statement" from the "Total By" drop-down list. That option is not available in the "General Ledger" report.

Accrual versus Cash Basis Reports. QuickBooks allows users to generate reports using either the accrual basis or the cash basis. The primary difference between accrual basis and cash basis reports in QuickBooks is that accrual basis reports present income and expenses based on the dates of the related invoices and bills while cash basis reports present income and expenses based on the dates cash actually is received or paid. (Regardless of the basis selected, QuickBooks reports present credit card charges on the accrual basis.) When generating QuickBooks reports, practitioners should verify that the appropriate accounting basis is selected for the report. Practitioners can check or change the accounting basis of most individual reports by clicking the "Modify Report" button in the report window and selecting either accrual or cash as the report basis. The accounting basis is specified on the report itself. However, a practitioner can also specify the basis in the report title by changing the report header or footer content. The standard QuickBooks report titles generally are accrual titles. Consequently, practitioners should change the titles of cash basis reports to titles such as "Statement of Assets, Liabilities, and Equity—Cash Basis" or "Statement of Revenues and Expenses—Cash Basis."

Practitioners can select or change the accounting basis for summary reports by (a) selecting "Preferences" from the "Edit" menu, (b) selecting "Reports & Graphs" from the scroll box, (c) selecting the "Company Preferences" tab, and (d) selecting either "Accrual" or "Cash" as the "Summary Reports Basis." Summary reports summarize transaction amounts rather than listing each transaction. Selecting a preference for summary reports does not affect reports that list individual transactions, such as the following financial reports:

- Profit & Loss Detail

- Income by Customer Detail

- Expenses by Vendor Detail

- Balance Sheet Detail

- General Ledger

- Transaction Detail by Account

QuickBooks automatically generates transaction detail reports, such as the preceding reports, on an accrual basis even if the cash basis preference is selected for summary reports. However, practitioners can change the basis for individual transaction detail reports to the cash basis. However, the change must be made each time the report is generated. QuickBooks automatically defaults to the accrual basis for transaction detail reports. Practitioners who routinely generate cash basis transaction detail reports should consider memorizing such reports for future use.

Accrual basis transaction detail reports present a single amount for each transaction, while cash basis transaction detail reports present two amount columns (an "Original Amount" and a "Paid Amount" column) for each transaction. The amounts in the "Original Amount" column generally represent an invoice amount for a sales transaction or a bill amount for a purchase transaction. The amounts in the "Paid Amount" column represent the amounts actually received or paid. The amounts in cash basis transaction reports are fairly straightforward for income and expense transactions. However, the amounts can be difficult to understand when a transaction involves balance sheet accounts. For example, assume that a client sells an inventory item that costs $50 to a customer on June 30 and receives a $75 payment for the full sales price on July 15. Balances in cash basis transaction reports for June 30 will reflect the $50 decrease to the inventory asset with an offsetting $50 increase to accounts receivable. (As illustrated by this example, cash basis transaction reports may reflect accrual accounts, such as accounts receivable. However, the accrual balances do not necessarily represent the actual amount due. In this example, the actual amount due of $75 will be reflected as the accounts receivable amount in an accrual basis transaction report. However, only $50 is reflected in the cash basis transaction report.) Balances in cash basis transaction reports for July 15 will reflect a $50 increase in cost of goods sold and a corresponding $50 decrease to accounts receivable (thus zeroing out the accounts receivable balance). Balances in cash basis transaction reports for July 15 also will reflect $75 of sales income (offset by a $75 temporary increase to accounts receivable) and a $75 increase to undeposited funds or cash (offset by a $75 decrease to accounts receivable). In addition to inventory items, practitioners should be aware that sales taxes also may result in accrual balances on cash basis transaction reports if the "Owe Sales Tax" preference is set to "As of invoice date."

When generating cash basis reports using cleaned up data, practitioners should be aware that the report amounts may not be accurate since cleaning up data deletes detail transactions that are needed to determine whether transactions are collected or paid. Cleaning up data replaces detail transactions dated on or before a specified date with transactions summarized by month.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

13. In order to produce financial reports that meet GAAP standards, adjustments need to be made to which QuickBooks balance sheet accounts?

    I. Undeposited Funds.

    II. Accounts Receivable.

    III. Current Portion of Long Term Debt.

    IV. Accounts Payable.

    a. I. and III.

    b. II. and III.

    c. I. and IV.

    d. IV.

14. Stacey's company is in the last fiscal quarter of the current year and Stacey needs to produce a profit and loss report for the fourth quarter of the previous fiscal year. She can use all **except** which of the following methods?

    a. Enter the beginning and ending dates for the report period in the "From" and "To" fields.

    b. Click on "Modify Report" and the "Display" tab.

    c. Select "Last Fiscal Quarter to Date" from the "Dates" drop-down list.

15. Which is the most accurate statement about the QuickBooks statement of cash flows report?

    a. The QuickBooks statement of cash flows report presents cash flows from investing and financing activities on a gross basis.

    b. The report reflects postings to accumulated depreciation during the period as an investing activity rather than reflecting the associated depreciation expense as an adjustment to net income.

    c. The report adjusts net income for noncash items such as depreciation, gains/losses on asset sales, and deferred income taxes.

    d. The report includes a supplemental schedule of noncash investing and financing activities.

16. Ethan wants to project his company's cash inflow and outflow for the coming six-week period. He wants to use QuickBooks Cash Flow Projector. He will find it by doing which of the following:

    a. From the "Reports" menu, select "Budgets & Forecasts" and then "Cash Flow Projector."

    b. From the "Company" menu, select "Budgets & Forecasts" and then "Cash Flow Projector."

    c. From the "Company" menu, select "Planning & Budgeting" and then "Cash Flow Projector."

    d. From the "Reports" menu, select "Company & Financial" and then "Cash Flow Projector."

17. All of the following reports can be generated by selecting "Accountant & Taxes" from the "Reports" menu, **except** for:

    a. Profit & Loss Detail.

    b. General Ledger.

    c. Transaction Detail by Account.

    d. Transaction List by Date.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

13. In order to produce financial reports that meet GAAP standards, adjustments need to be made to which QuickBooks balance sheet accounts? **(Page 115)**

    I. Undeposited Funds.

    II. Accounts Receivable.

    III. Current Portion of Long Term Debt.

    IV. Accounts Payable.

    a. I. and III. [This answer is correct. Undeposited funds and current portion of long term debt must be reclassified in order to produce accurate financial statements.]

    b. II. and III. [This answer is incorrect. Only one of the balance sheet accounts listed in the answer choice is accurately reflected in QuickBooks financial statements.]

    c. I. and IV. [This answer is incorrect. Only one of the balance sheet accounts listed in the answer choice is accurately reflected in QuickBooks financial statements.]

    d. IV. [This answer is incorrect. Accounts payable is accurately reflected in QuickBooks financial statements.]

14. Stacey's company is in the last fiscal quarter of the current year and Stacey needs to produce a profit and loss report for the fourth quarter of the previous fiscal year. She can use all **except** which of the following methods? **(Page 116)**

    a. Enter the beginning and ending dates for the report period in the "From" and "To" fields. [This answer is incorrect. This method will result in an accurate time period.]

    b. Click on "Modify Report" and the "Display" tab. [This answer is incorrect. This is a correct method of establishing a report time period.]

    c. Select "Last Fiscal Quarter to Date" from the "Dates" drop-down list. [This answer is correct. This selection will result in a time period that does not report the information from the fourth quarter of the previous fiscal year, but this would give information from the current fiscal year.]

15. Which is the most accurate statement about the QuickBooks statement of cash flows report? **(Page 118)**

    a. The QuickBooks statement of cash flows report presents cash flows from investing and financing activities on a gross basis. [This answer is incorrect. The QuickBooks statement presents cash flows from investing and financing activities on a net basis, not on gross basis.]

    b. The report reflects postings to accumulated depreciation during the period as an investing activity rather than reflecting the associated depreciation expense as an adjustment to net income. [This answer is correct. This is an accurate statement. A FASB ASC 230 deficiency arises because QuickBooks reflects postings to accumulated depreciation as an investing activity.]

    c. The report adjusts net income for noncash items such as depreciation, gains/losses on asset sales, and deferred income taxes. [This answer is incorrect. The report does not adjust net income for noncash items.]

    d. The report includes a supplemental schedule of noncash investing and financing activities [This answer is incorrect. The report does not include a supplemental schedule as required by FASB ASC 230. This is a deficiency of the QuickBooks statement of cash flows report.]

16. Ethan wants to project his company's cash inflow and outflow for the coming six-week period. He wants to use QuickBooks Cash Flow Projector. He will find it by doing which of the following? **(Page 121)**

    a. From the "Reports" menu, select "Budgets & Forecasts" and then "Cash Flow Projector." [This answer is incorrect. The "Cash Flow Projector" is not accessed through the "Reports" menu.]

    b. From the "Company" menu, select "Budgets & Forecasts" and then "Cash Flow Projector." [This answer is incorrect. Using "Budgets & Forecasts" is not the proper selection to access "Cash Flow Projector."]

    c. From the "Company" menu, select "Planning & Budgeting" and then "Cash Flow Projector." [This answer is correct. This answer choice reflects the correct key strokes to prepare a projection of Cash Flow.]

    d. From the "Reports" menu, select "Company & Financial" and then "Cash Flow Projector." [This answer is incorrect. The "Cash Flow Projector" is not accessed through the "Reports" menu.]

17. All of the following reports can be generated by selecting "Accountant & Taxes" from the "Reports" menu, **except** for: **(Page 121)**

    a. Profit & Loss Detail. [This answer is correct. The Profit & Loss Detail report is accessed from the "Reports" menu, then "Company & Financial."]

    b. General Ledger. [This answer is incorrect. This report is found on the "Accountant & Taxes" section of the "Reports" menu.]

    c. Transaction Detail by Account. [This answer is incorrect. This report is found on the "Accountant & Taxes" section of the "Reports" menu.]

    d. Transaction List by Date. [This answer is incorrect. This report is found on the "Accountant & Taxes" section of the "Reports" menu.]

Customizing QuickBooks Financial Reports

Formatting QuickBooks Reports. Practitioners can change the format of individual QuickBooks reports by clicking the "Modify Report" button and either the "Fonts & Numbers" tab or the "Header/Footer" tab in the report window. As illustrated by the following "Modify Report" windows, practitioners can specify the format for:

- *Negative Numbers.* Choices include presenting negative numbers in red, in parentheses, or with a leading or trailing minus sign.

- *All Numbers.* Choices include presenting numbers in multiples of 1000, with or without cents, and not presenting zero amounts.

- *Fonts.* Font choices include font type, font style such as bold or italics, size, color, and effects such as underline or strikeout. Different fonts can be selected for different report elements such as report title, column labels, and report totals. After selecting the fonts for a particular report element, QuickBooks gives users the opportunity to apply the fonts to all related report elements.

- *Header and Footer Content.* Header information can include company name, report title, subtitle, date prepared, time prepared, and report basis. Footer information can include page number and a customized extra footer line. Users can choose whether to print headers on pages after the first page and whether to print a footer on the first page. Users also can decide where to display headers and footers on the page.

Practitioners also can change fonts by pointing to a particular report element and right-clicking the mouse. This allows users to make the same font selections that are available from the "Modify Report" window. Practitioners also can hide report headers so that they do not display on the computer screen by clicking the "Hide Header" button in the report window. Practitioners can display hidden headers by clicking the "Show Header" button. The hide header feature does not affect printed reports. QuickBooks always prints headers on the first page of printed reports. Practitioners always can change their reports back to the standard QuickBooks format by clicking the "Revert" button in the "Modify Report" window.

The QuickBooks Administrator (or External Accountant user) can set up format preferences for all QuickBooks reports by (a) selecting "Preferences" from the "Edit" menu, (b) selecting "Reports & Graphs" from the scroll box, (c) selecting the "Company Preferences" tab, and (d) clicking the "Format" button. The QuickBooks Administrator (or External Accountant user) also can use the same "Company Preferences" tab to specify whether QuickBooks reports display accounts by name only, description only, or name and description. However, QuickBooks does not have a format preference that allows reports to hide or display account numbers. If the "Use account numbers" accounting preference is turned on, users cannot prevent QuickBooks from displaying account numbers beside account names on reports. (However, reports do not display account numbers if account names are not displayed. For example, the user could choose to use account descriptions, rather than account names, for reporting and effectively eliminate account numbers from the report.) The QuickBooks Administrator (or External Accountant user) can turn the "Use account numbers" preference on or off by using the "Company Preferences" tab for "Accounting." Turning off the "Use account numbers" preference does not delete existing account numbers; it merely hides them from reports. Practitioners using the accountant's copy may want to temporarily turn off the "Use account numbers" preference while generating QuickBooks financial reports.

Filtering QuickBooks Reports. Practitioners can change the scope of a QuickBooks report by clicking the "Modify Report" button and the "Filters" tab on the report window. If a report includes more information than needed, filtering allows the practitioner to exclude transactions and balances not meeting selected criteria. Practitioners can apply filters individually or in combination with each other. Some of the filters that may be of most use to practitioners are the account, amount, date, and transaction type filters. Filters must be applied to individual reports. They cannot be set up as a preference for all QuickBooks reports, as discussed in the preceding paragraph.

Collapsing and Expanding QuickBooks Reports. Practitioners can hide subaccounts from many QuickBooks reports by clicking the "Collapse" button in the report window. When the collapse feature is selected, reports display only parent accounts. The subaccount amounts are summarized and included in the amounts displayed for the related parent accounts. Practitioners can display hidden subaccounts by clicking the "Expand" button in the report window. The collapse feature cannot be set up as a preference for all QuickBooks reports. It must be applied to individual reports. However, the collapse feature is not available for transaction detail reports.

QuickBooks Premier-Accountant has reporting features that make it easier for users to see just the information about transactions that they use. Eight reports automatically condense into one-line summaries. For example, if a customer is invoiced for materials, labor, and shipping on one invoice, the condensed version of "Profit & Loss Detail" report would show only one line for the transaction, instead of three lines. (The user can click the "Expand" button to show additional detail.)

Condensed reports now display for the following reports:

- General Ledger
- Transaction Detail by Ledger
- Balance Sheet Detail
- Profit & Loss Detail
- Income Tax Detail
- Audit Trail
- Transaction Journal
- Journal Report

Certain QuickBooks Premier-Accountant reports also display the debit and credit columns instead of just the amount. These reports include the following:

- General Ledger
- Trial Balance
- Balance Sheet Detail
- Profit & Loss Detail
- Transaction Detail by Account
- Transaction Journal

Grouping and Subtotaling QuickBooks Reports. Practitioners can group report data and display subtotals for each group in a QuickBooks summary report by selecting the desired grouping from the "Columns" drop-down list in the report window. QuickBooks displays a separate column and subtotal for the selected grouping. For example, a practitioner can select "Quarter" from the "Columns" drop-down list of a "Profit & Loss" standard report for the fiscal year. QuickBooks then groups the fiscal year data by quarter and displays a column and subtotals for each quarter. QuickBooks allows users to group by numerous time periods (i.e., by day, week, two week, four week, half month, month, quarter, and year). Practitioners also can group and subtotal summary reports by numerous other groupings (such as customer, vendor, item type, etc.). The same groupings are not available for all reports.

Practitioners can group report data and display subtotals in the "Transaction Detail by Account" report by selecting the desired grouping from the "Total By" drop-down list. The "Total By" feature groups and subtotals report data vertically rather than horizontally in separate columns. QuickBooks allows users to group the "Transaction Detail by Account" report by numerous periods and other groupings, as discussed in the previous paragraph. In addition, practitioners can summarize the "Transaction Detail by Account" report by balance sheet accounts (with separate subtotals for account type, assets, liabilities, equity, and the sum of liabilities and equity) or income statement accounts (with separate subtotals for all income and all expenses).

Other Customizing Options. Practitioners can click the "Modify Report" button in report windows to access other report customization options. The options available in the "Modify Report" window vary between reports. One option that practitioners may find helpful in summary reports is the "Other Columns" option. This allows users to add the following columns to QuickBooks reports:

- Previous Period, $ Change, % Change
- Previous Year, $ Change, % Change
- Year-to-date, % of YTD
- % of Income
- % of Expenses
- % of Row
- % of Column

A similar option that practitioners may find useful in transaction detail reports is the "Columns" option. This provides users a list of columns that can be added to or deleted from the selected report. Columns available on most transaction detail reports include: transaction number, type, entered/last modified date, last modified by, date, number, purchase order number, name, source name, memo, ship date, delivery date, FOB, via, terms, due date, billed date, paid through, item, item description, social security number/tax identification, payroll item, income subject to tax, wage base, wage base (tips), account, class, sales representative, cleared, billing status, split, print, paid, payment method, aging, open balance, quantity, sales price, debit, credit, original amount, paid amount, and balance.

Other reporting options that practitioners may find particularly useful are the "advanced options" for rows, columns, and reporting calendar. Practitioners can access these options by clicking the "Modify Report" button in the report window and then clicking the "Advanced" button in the "Modify Report" window. However, these options only are available for summary reports. They are not available for transaction detail reports. As illustrated by the "Advanced Options" window, practitioners can choose to display rows and columns for active accounts (only those accounts with activity during the specified time period), all accounts, or only non-zero accounts (accounts with activity and with ending balances not equal to zero). In addition, practitioners can choose fiscal year, calendar year, or income tax year as the reporting calendar. The primary benefit of the reporting calendar option is that QuickBooks includes dates in the "Dates" drop-down list based on the option selected. For example, if "Calendar Year" is selected for the "Reporting Calendar" option, QuickBooks lists dates based on the calendar year (such as "This Calendar Quarter," "This Calendar Year," and "Last Calendar Year") in the "Dates" drop-down list in the report window. If "Income Tax Year" is selected, QuickBooks lists dates based on the income tax year (such as "This Tax Year," "This Tax Year-to-date," and "Last Tax Year"). QuickBooks automatically defaults to the "Fiscal Year" option.

Practitioners can resize columns in QuickBooks reports by dragging the diamond at the right of the column title to the right to make a column wider and to the left to make a column narrower. When printing reports, practitioners also can fit more columns on a page by selecting from among the following options:

- Click the "Print" button in the report window and check the "Fit report to ____ page(s) wide" box on the "Settings" tab of the "Print Reports" window. This option enables QuickBooks to fit wide reports on a single page or a specified number of pages.
- Click the "Print" button in the report window and select "Landscape" as the print orientation on the "Setting" tab of the "Print Reports" window.
- Decrease column widths, as previously discussed.

Practitioners can control some page breaks in QuickBooks reports by clicking the "Print" button in the report window and checking either or both of the following options in the "Settings" tab of the "Print Reports" window:

- *Smart Page Breaks (Widow/Orphan Control).* This option allows users to prevent bad page breaks caused by printing a few lines from the beginning of a grouping at the bottom of a page or printing a few lines from the end of a grouping at the top of a page.
- *Page Break after Each Major Grouping.* This option starts each major report grouping on a new page. Practitioners may find this option helpful if they want to print a balance sheet report with the "Assets" grouping on a separate page from the "Liabilities and Equity" grouping. QuickBooks does not offer this option for some summary reports.

Although the preceding options are available, practitioners cannot set user-defined page breaks in QuickBooks reports.

Memorizing Reports. After customizing QuickBooks financial reports, practitioners can memorize the customized reports for future use. QuickBooks allows users to memorize and then organize reports into groups by user, time of the month to print, or any other useful grouping. The user can use "Batch Report Printing" to print all of the grouped reports at the same time. Memorizing reports allows QuickBooks to save the practitioner's changes to the standard report settings without saving the actual report data. (Practitioners can export reports to an Excel spreadsheet to save the actual report data.) To memorize a customized report, practitioners should click the "Memorize" button in the report window and then enter the report title in the "Memorize Report" window. To generate a previously memorized report, practitioners should select "Memorized Reports" from the "Reports" menu and then select the applicable report. To print a memorized group of reports, practitioners should (a) select "Process Multiple Reports" from the "Reports" menu, (b) click on the group to be printed, and (c) click the "Print" button in the "Process Multiple Reports" window. Practitioners who want to save modifications to a previously memorized report should click the "Memorize" button in the report window.

If "Replace" is selected, QuickBooks saves the modified report using the same name as the previously memorized report. If "New" is selected, the practitioner should enter a new name for the report in the next "Memorize Report" window. The name should not be the same as the name of the previously memorized report if the practitioner wants to save both reports. Practitioners also can rename an existing memorized report by (a) selecting "Memorized Reports" and "Memorized Report List" from the "Reports" menu, (b) selecting the report to be renamed, (c) selecting "Edit" from the "Memorized Report" button, and (d) entering the new report name.

Although memorizing reports can be quite useful, practitioners should be aware of the following limitations when using memorized reports:

- Practitioners can memorize reports when using the accountant's review copy; however, they will not be sent back to the client. Memorized reports can be exported from the memorized reports list.
- QuickBooks does not retain changes to column widths in certain memorized reports (e.g., the "Profit & Loss Standard," "Balance Sheet Standard," and "Statement of Cash Flows" reports).
- Memorized reports may be lost when converting from one version of QuickBooks to another version.

Adding Reports to the Icon Bar. Users that frequently generate a particular report can add the report to their QuickBooks Icon bar to facilitate accessing the report. To add a report to their Icon bar, users should:

- Open the applicable report.
- Select "Add 'Report Name' to Icon Bar" from the "View" menu.
- Enter the report name and description to be used on the Icon bar in the "Add Window to Icon Bar" window. Choose an Icon, and click "OK."
- Close the selected report.

Users then can place the cursor over the "Reports" icon on the Icon bar to open the report. This may be particularly convenient when accessing a frequently used memorized report.

Exporting QuickBooks Reports to Excel

Due to the difficulty in manipulating data in QuickBooks financial reports, many practitioners export QuickBooks reports to Excel spreadsheets. To export reports, practitioners must use:

- QuickBooks Pro, Premier, or Premier-Accountant.
- Excel 2000 or a later version.

Unfortunately, practitioners cannot customize the exported reports in Excel and import the changes back to QuickBooks. The Intuit Statement Writer, an optional Excel add-in, connects the QuickBooks data to Excel and keeps the financial statements synchronized with changes in QuickBooks.

Exporting Reports. Practitioners can export reports to Excel simply by clicking the "Export" button in the report window. QuickBooks then displays the "Export Report" window. Practitioners can choose whether to export to a comma separated values (.csv) file, create a new Excel workbook, or update an existing workbook. When updating an existing workbook, users can chose whether to use an existing worksheet or create a new worksheet. If the "Export QuickBooks Report to an existing Excel workbook" option is selected, practitioners should click the "Browse" button to select the applicable Excel workbook file. Regardless of which option is selected, practitioners can click the "Advanced" tab to select from among the options listed.

If the "Advanced" report formatting options are not deselected, Excel spreadsheets automatically retain the formatting (i.e., fonts, colors, column spacing, and row height) from QuickBooks reports. For example, QuickBooks automatically inserts empty columns between columns in Excel spreadsheets to preserve the column spacing of QuickBooks reports. Practitioners can deselect the "Space between columns" option to remove the empty columns in Excel spreadsheets. Other "Advanced" options that practitioners may be interested in are the "Auto Outline" and "Auto Filtering" Excel features.

When practitioners click the "Export" button in the "Export Report" window, QuickBooks automatically opens Excel and exports the following report information:

- Report headers and footers.
- Row and column labels.
- Report data.
- Formulas.

When QuickBooks exports data to a new Excel spreadsheet, Excel automatically creates three blank worksheets in the new workbook. The QuickBooks data is exported to "Sheet 1." QuickBooks will overwrite existing sheets when QuickBooks exports data to update an existing workbook if the user chooses to use an existing worksheet in the workbook. If the user chooses to create a new worksheet in the workbook, QuickBooks data is exported to the last worksheet in the workbook. If report data is missing after being exported to Excel, practitioners should verify that they are viewing the appropriate worksheet. If only the bottom part of a report is missing, the report should be exported again. More than likely, the "Escape" key was pressed before QuickBooks finished sending the report data to Excel.

Customizing Excel Spreadsheets. Practitioners can customize the data in Excel spreadsheets in a variety of ways, including the following:

- *Filtering Data.* Practitioners can filter the QuickBooks data in Excel spreadsheets by selecting the "Auto Filtering" Excel feature in the "Export Report—Advanced" tab before exporting a QuickBooks report to Excel. That option inserts a drop-down list to the right of each column title in the Excel spreadsheet. Practitioners then can filter the data in the Excel columns by clicking on one of the drop-down lists and selecting from among numerous filtering options. However, the options only allow financial data to be filtered using numeric criteria (such as "top 10" numbers, "bottom #" numbers, numbers "greater than," numbers "less than or equal to," etc.).

- *Collapsing and Expanding Data.* Practitioners can collapse or expand the QuickBooks data in Excel spreadsheets by selecting the "Auto Outline" Excel feature in the "Export Report—Advanced" tab before exporting a QuickBooks report to Excel. That option inserts outline symbols to the left of the first column or in the top row in the Excel spreadsheet. Practitioners then can collapse groups of data in the spreadsheet by clicking the "minus" symbol or expand groups of data by clicking the "plus" symbol.

- *Modifying Headers and Footers.* Excel does not display report headers and footers on the computer screen. They only appear when the spreadsheet is printed. Practitioners can modify the headers and footers in Excel by selecting "Header and Footer" from Excel's "View" menu. (In Microsoft Excel 2007, select "Header & Footer" from the "Text" menu on the "Insert" tab.)

- *Centering Headers.* If a report header is centered in QuickBooks but not in the Excel spreadsheet, practitioners should select the "Send header to Page Setup in Excel" printing option in the "Export Report—Advanced" tab to center the report header in Excel.

- *Deleting Space between Columns.* QuickBooks automatically inserts empty columns between columns in Excel spreadsheets. Practitioners can remove the empty columns in Excel spreadsheets by deselecting the "Space between columns" report formatting option in the "Export Report—Advanced" tab before exporting a QuickBooks report to Excel.

- *Changing the Format of Percentages.* Other than the "Sales Tax Liability" report, QuickBooks reports automatically display percentages with only one decimal point (e.g., 59.1%). However, QuickBooks exports report percentages to Excel using two decimal points. Consequently, slight rounding differences may result when comparing percentages in the original QuickBooks reports to percentages in Excel spreadsheets. For consistency, practitioners can change the percentages in Excel to one decimal point by (a) selecting the cells that contain percentages, (b) selecting "Cells" from the "Format" menu, (c) selecting "Percentage" from the "Category" list in the "Numbers" tab, and (d) changing the number of decimal places to "1." (In Microsoft Excel 2007, (a) select the cell that contains the percentage, (b) select "Format" and then "Format Cells" from the "Cells" menu on the Home tab, (c) select "Percentage" from the Category list in the "Numbers" tab, and (d) change the number of decimal places to "1.")

Excel allows practitioners to modify QuickBooks report data in numerous other ways that are beyond the scope of this course.

Exporting QuickBooks Report Templates between Company Files

Report templates are report settings (not actual data) that QuickBooks Premier and Premier-Accountant users have created. Practitioners can create report templates for financial reporting and share them with their clients or between company files. The practitioner can export either a single report or a group of reports. Report templates eliminate the need for the practitioner to create the same report in several company files.

Intuit Statement Writer

Generally, in QuickBooks, if practitioners wish to present quality GAAP financial statements with QuickBooks data, they have to export the data into another program due to the difficulty of manipulating data. The Intuit Statement Writer (ISW) is accessed from within QuickBooks Premier-Accountant 2009 or later and runs inside Microsoft Excel. ISW is an Excel add-in that connects the QuickBooks data to Excel and allows the practitioner to use Excel features to customize financial statements, including balance sheets, income statements, and budget to actual statements. In addition, practitioners can create supporting documents, including compilation accountant's reports, title pages, and accompanying notes.

Since the ISW runs inside Microsoft Excel as an add-in, practitioners can customize the data using Excel tools. But, unlike exporting reports to Excel, the ISW keeps statements synchronized with changes in QuickBooks.

The file created in ISW is a .qsm file, but practitioners may wish to export the financial statement to an Excel (.xls file). The exported file would then be able to be viewed as an ordinary Excel worksheet. However, this Excel worksheet would only contain the data and text, it would not link to QuickBooks.

ISW also has a "Supporting Document" feature that can be used to design title pages, accompanying notes, or review accountant's compilation reports or auditor reports. It works inside Microsoft Word and has all of the

Microsoft Word editing and formatting functions. The "Supporting Document" feature comes with several predesigned templates that practitioners can choose from or they can create supporting documents from scratch. In addition, they can add documents created outside of ISW.

The financial statements and supporting documents in the ISW are not included in the QuickBooks backup routine. This information is located in a subfolder. Practitioners should create a process for manually backing up their client's financial statements and supporting documents.

Using QuickBooks Data with Write-up Software

Many practitioners find the data in their clients' QuickBooks files to be so inaccurate that it is easier for them to enter the data into their write-up software than to correct the data in QuickBooks. After entering and adjusting the data, practitioners then can use their write-up software to produce financial statements. Unfortunately, many practitioners enter the QuickBooks data manually since it may not be easily imported into their particular write-up software packages. In that case, practitioners may want to consider the following alternatives to manually entering data into their write-up software:

- Consider using write-up software that allows practitioners to directly import QuickBooks transactions.
- Consider using "bridging" software that imports QuickBooks transactions into write-up software.
- Consider creating an IIF (Intuit Interchange Format) or ASCII file to export QuickBooks data to write-up software.

The following paragraphs discuss each of the preceding options.

Importing Directly to Write-up Software. The following write-up software packages allow practitioners to directly import QuickBooks transactions:

- *Accounting Relief (Windows).* For more information, contact Accountants World at (888) 999-1366 or at **www.accountantsworld.com**.
- *Client Ledger System.* For more information, contact Financial MicroSystems, Inc. at (800) 487-0677 or at **www.clientledgersystem.com**.
- *Write-Up CS.* For more information, contact Thomson Reuters at (800) 968-8900 or at **cs.thomsonreuters.com**.
- *Xpert Write-Up for Windows.* For more information, contact Micronetics International at (561) 995-1477 or at **www.axpert.com**.
- *Intacct.* For more information, contact Intacct at (877) 437-7765 or at **www.intacct.com**.

Practitioners may import unadjusted QuickBooks transactions into the preceding write-up software packages, or they may choose to adjust the data in QuickBooks before importing it to the write-up software.

Bridging Software. Practitioners who do not use write-up software that directly imports QuickBooks transactions may want to use bridging software to import the transactions. *Bridging* software typically imports the QuickBooks transactions and then exports those transactions to a file that can be read by the specified write-up program. A program specifically designed to export QuickBooks accounting data (but not necessarily to write-up software) is "OfficeQ." This software exports QuickBooks accounting data to files that can be manipulated by practitioners. For more information, contact DataBlox, Inc. at (509) 892-3552 or at **www.datablox.com**.

Creating .IIF and ASCII Files. As a last resort for exporting QuickBooks data to write-up software, practitioners with significant programming expertise may consider creating an .iif (Intuit Interchange Format) or ASCII file. Practitioners can obtain more information about .iif files from Intuit's website at **http://quickbooks.intuit.com**. Practitioners can create ASCII files from QuickBooks reports by (a) clicking the "Print" button in the report window, (b) selecting the "Print to: File" option in the "Settings" tab of the "Print Reports" window, and (c) selecting "ASCII text file" from the "File" drop-down list. To obtain detail transactions for exporting, practitioners may want to create the ASCII file from the "Transaction Detail by Account" report.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

18. Connie is preparing financial statements for her client and needs to include a customized line to notate that the report is for management use only. She should do the following:

    a. Click on "Modify Reports" from the "Reports" menu; then select "Header/Footer."

    b. Click on "Memorize Reports" from the "Reports" menu; then select "Header/Footer."

    c. Click on "Export Report"; then select "Header/Footer."

19. Practitioners can hide subaccounts by using the "Collapse" button in the report window. Which of the following statements regarding the "Collapse" feature is accurate?

    a. The collapse feature is available for transaction detail reports.

    b. The collapse feature only allows parent accounts to be displayed.

    c. The collapse feature can be set up as a preference for all QuickBooks reports.

    d. The collapse feature details subaccount totals displayed in parent accounts.

20. Which feature within QuickBooks allows the practitioner to store changes to a saved report, but not save the actual report data?

    a. Export Report.

    b. Memorize Report.

21. Dana is exporting a report from QuickBooks to an Excel spreadsheet. If she wants to collapse the data shown in the spreadsheet, she should select which "Advanced" option?

    a. Auto Filtering.

    b. Auto Outline.

    c. Auto Fit.

    d. Format Cells.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

18. Connie is preparing financial statements for her client and needs to include a customized line to notate that the report is for management use only. She should do the following: **(Page 129)**

    a. Click on "Modify Reports" from the "Reports" menu; then select "Header/Footer." [This answer is correct. With this selection, footer information can include page number and a customized footer line.]

    b. Click on "Memorize Reports" from the "Reports" menu; then select "Header/Footer." [This answer is incorrect. The "Memorize Report" selection allows for a report format to be saved for future use. It is not the correct way to insert a footer.]

    c. Click on "Export Report"; then select "Header/Footer." [This answer is incorrect. Exporting a report will send it to Excel where the report can be further customized, but this is not the direct procedure to add a footer to a report.]

19. Practitioners can hide subaccounts by using the "Collapse" button in the report window. Which of the following statements regarding the "Collapse" feature is accurate? **(Page 129)**

    a. The collapse feature is available for transaction detail reports. [This answer is incorrect. The collapse feature is not available for transaction detail reports because QuickBooks does not contain this capability in the "Collapse" feature.]

    b. The collapse feature only allows parent accounts to be displayed. [This answer is correct. This answer choice is factual, the collapse feature only allows parent accounts to be displayed. This is the advantage of the collapse feature.]

    c. The collapse feature can be set up as a preference for all QuickBooks reports. [This answer is incorrect. This statement is not accurate; the collapse feature can only be applied to individual reports.]

    d. The collapse feature details subaccount totals displayed in parent accounts. [This answer is incorrect. The collapse feature summarizes subaccount totals displays them in parent accounts it does not detail the accounts. This is the primary function of the "Collapse" feature.]

20. Which feature within QuickBooks allows the practitioner to store changes to a saved report, but not save the actual report data? **(Page 132)**

    a. Export Report. [This answer is incorrect. This function sends the report to Excel but does not organize or collapse accounts within reports within QuickBooks.]

    b. Memorize Report. [This answer is correct. Memorizing reports allows QuickBooks to save the practitioner's changes to a standard report without saving the actual report data. The practitioner can then export the reports to an Excel spreadsheet to manipulate and save the actual report data.]

21. Dana is exporting a report from QuickBooks to an Excel spreadsheet. If she wants to collapse the data shown in the spreadsheet, she should select which "Advanced" option? **(Page 133)**

    a. Auto Filtering. [This answer is incorrect. This option inserts a drop-down list beside each column title which allows the data in the columns to be filtered using numeric criteria.]

    b. Auto Outline. [This answer is correct. Practitioners can collapse or expand the QuickBooks data in Excel spreadsheets by selecting the "Auto Outline" Excel feature in the "Export Report—Advanced" tab before exporting a report to Excel. That option inserts outline symbols to the left of the first column or in the top row in the Excel spreadsheet. Practitioners then can collapse groups of date in the spreadsheet by clicking the "minus" symbol or expand groups of data by clicking the "plus" symbol.]

    c. Auto Fit. [This answer is incorrect. This option sets column width to display all data.]

    d. Format Cells. [This answer is incorrect. This option is available in Excel, but not as an option within QuickBooks.]

EXAMINATION FOR CPE CREDIT

Lesson 2 (QASTG102)

Determine the best answer for each question below. Then mark your answer choice on the Examination for CPE Credit Answer Sheet located in the back of this workbook or by logging onto the Online Grading System.

13. A practitioner can generate which of the following income statement reports by selecting "Company and Financial" from the "Reports" menu?

    I. Profit & Loss Detail.

    II. Income & Expense Graph.

    III. Profit & Loss Budget Performance.

    IV. General Ledger

    a. I. and IV.

    b. II. and III.

    c. I. and II.

    d. III. and IV.

14. QuickBooks generates which one of the following statements?

    a. A statement of cash flows.

    b. A combined statement of income and retained earnings.

    c. A separate statement of retained earnings.

    d. A statement of changes in stockholders' equity.

15. Howard is preparing next year's budget. To access the budgeting function in QuickBooks, he should:

    a. Select the "Budget Overview" option from the "Reports" menu.

    b. Select the "Planning & Budgeting" option from the "Company" menu.

    c. Select the "Budget vs. Actual Graph" option from the "Reports" menu.

    d. Select the "Profit and Loss Budget Performance" option from the "Company" menu.

16. Which of the following statements describes the function of the Cash Flow Projector most accurately?

    a. The Cash Flow Projector allows clients to project cash flow for the next 12 months.

    b. The Cash Flow Projector's adjustments will change the information in the financial statement accounts.

    c. The Cash Flow Projector is accessed through the "Budgeting" selection from the "Report" menu.

    d. By using current and historical information from QuickBooks, cash flow can be projected easily using the cash flow projector.

17. When a preference to produce summary reports on the cash or accrual basis is selected, which of the following reports would be affected?

    a. Profit and Loss Detail.

    b. General Ledger.

    c. Balance Sheet.

    d. Transaction Detail by Account.

18. Barbara is preparing an accounts receivable aging report. She does not want the Memo column to appear in the report. Which tool in QuickBooks should she use to eliminate that column?

    a. Filters.

    b. Collapse.

    c. Headers and Footers.

    d. Auto Fit.

19. By clicking on "Export" in the "Export Report" window, QuickBooks will automatically open Excel and export report information. Which of the following pieces of report information is **omitted** from the export?

    a. Formulas.

    b. Row and column labels.

    c. Report modifications.

    d. Report headers and footers.

20. Michael is wanting to produce GAAP financial statements for his client so that the client can apply for a loan at a bank. The client currently keeps their financial information in QuickBooks Premier Accountant. Which of the following programs would allow Michael to utilize Excel and customize the financial statements?

    a. Client Ledger System.

    b. Xpert Write-Up for Windows.

    c. Inacct.

    d. Intuit Statement Writer.

GLOSSARY

Audit Trail Report: The report lists all QuickBooks transactions for a specified time period and indicates the time and date each transaction was entered or last modified and by whom. The report also indicates whether transactions were changed or deleted during the specified time period and shows changed transactions both before and after the change. The report identifies changed transactions with the label "Previous Transaction." Practitioners can compare the details of a transaction labeled as "Previous Transaction" with the details of the corresponding "Current Transaction" to determine what details were changed. The report identifies deleted transactions with the label "Deleted Transaction."

Cash Flow Projector: The cash flow projector feature allows clients to project their cash inflows and outflows for the following six-week period. The cash flow projector makes it easy to project cash flow by using current and historical information from QuickBooks. Making adjustments in the cash flow projector does not change the information in the financial statement accounts.

Clean Up Data Feature: The Clean Up Data Feature summarizes QuickBooks transactions dated on or before a specified date. The clean up feature also slightly reduces the file size by removing any inactive list items not used after the date through which the data is cleaned up.

Export Report: Practitioners can export reports to Excel simply by clicking the "Export" button in the report window. QuickBooks then displays the 'Export Report" window.

File Extension .qby: While the accountant's copy of the client's file is open, the practitioner should select "Accountant's Copy" and then "View/Export Changes for Client" from the "File" menu. Review the changes and add a note to the client in the "View/Export Changes for Client" window. Click the "Print" button to print a copy of the changes. After reviewing and printing the changes, select "Export." The practitioner then should enter the file name and location in the "Save Accountant Change File to" window and click "Save." The file name must have an .qby extension.

Filters: Practitioners can locate transactions created by journal entries by selecting "Find" from the "Edit" menu, clicking on the "Advanced" tab, and then selecting "Transaction Type" from the "Filter" drop-down list and "Journal" from the "Transaction Type" drop-down list. After clicking "Find," the window displays all general journal transactions. Practitioners then can double-click on a transaction to view the "Make General Journal Entries" window for the transaction.

Fixed Asset Manager: QuickBooks Premier-Accountant includes a Fixed Asset Manager feature that calculates depreciation using the data entered into Fixed Asset Tracker. Fixed Asset Manager allows practitioners to take a client's data file, add additional assets, do the depreciation calculations using Fixed Asset Manager and the data from the client's Fixed Asset Tracker list, and return the updated file to the client.

Intuit Statement Writer: An Excel add-in that connects the QuickBooks data to Excel and allows the practitioner to use Excel features to customize financial statements, including balance sheets, income statements, and budget to actual statements. In addition, practitioners can create supporting documents, including compilation accountant's reports, title pages, and accompanying notes.

Inventory Part Items: Using inventory part items will update quantities on hand, cost of goods sold, and inventory values automatically when the items are entered on an invoice or statement charge.

Journal Report: This report lists transactions chronologically for the specified period. The debits and credits for each affected account are listed separately for each transaction in the report. The report may be customized and filtered to help identify changes to prior-period balances.

Loan Manager: The QuickBooks Loan Manager feature helps users track the loans set up in QuickBooks based on information in the "Long-term Liability" and "Other Current Liability" accounts.

Opening Balance Equity: QuickBooks automatically creates this account the first time a user enters an opening balance for a balance sheet account. QuickBooks then automatically posts the offsetting entry to the opening balance for each asset and liability account to the Opening Balance Equity account. The only purpose of the "Opening Balance Equity" account is to offset beginning balance sheet balances as of the QuickBooks start date.

Planning and Budgeting: To create a budget, select "Company," "Planning and Budgeting," and then "Set Up Budgets" from the menu bar.

QB Premier Accountant: QuickBooks Premier-Accountant, which is designed specifically for professional accountants, contains Simple Start, QuickBooks Pro, Premier, and the industry-specific editions of Premier. Therefore, practitioners can support clients with any of these varieties using their Premier-Accountant version.

Remote Access Software: Transmitting QuickBooks files electronically via email or remote access software rather than on media (i.e. CD's, jump drives, etc.) further simplifies the process of submitting the client files to the accountant since the files can be transferred at any time without making arrangements for physical transfer of the media.

Transaction Detail by Account: This report lists the account activity and ending balance for each general ledger account with activity during the specified time period. It does not list accounts with no activity during the specified period.

Vendors Menu: A journal entry that adjusts the inventory asset general ledger account balance does not update the inventory details in QuickBooks. Consequently, the general ledger inventory balance may not agree to the amounts in the QuickBooks inventory valuation reports. Practitioners generally should adjust inventory values by selecting "Inventory Activities" and then "Adjust Quantity/Value on Hand" from the "Vendors menu."

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TESTING INSTRUCTIONS FOR EXAMINATION FOR CPE CREDIT

Companion to PPC's QuickBooks® Solutions—Course 1—Establishing A Client On QuickBooks (QASTG101)

1. Following these instructions is information regarding the location of the **CPE CREDIT EXAMINATION QUESTIONS** and an **EXAMINATION FOR CPE CREDIT ANSWER SHEET**. You may use the answer sheet to complete the examination consisting of multiple choice questions.

   ONLINE GRADING. Log onto our Online Grading Center at **OnlineGrading.Thomson.com** to receive instant CPE credit. Click the purchase link and a list of exams will appear. Search for an exam using wildcards. Payment for the exam is accepted over a secure site using your credit card. Once you purchase an exam, you may take the exam three times. On the third unsuccessful attempt, the system will request another payment. Once you successfully score 70% on an exam, you may print your completion certificate from the site. The site will retain your exam completion history. If you lose your certificate, you may return to the site and reprint your certificate.

   PRINT GRADING. If you prefer, you may mail or fax your completed answer sheet to the address or number below. In the print product, the answer sheets are bound with the course materials. Answer sheets may be printed from electronic products. The answer sheets are identified with the course acronym. Please ensure you use the correct answer sheet. Indicate the best answer to the exam questions by completely filling in the circle for the correct answer. The bubbled answer should correspond with the correct answer letter at the top of the circle's column and with the question number.

   Send your completed **Examination for CPE Credit Answer Sheet, Course Evaluation,** and payment to:

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   Chicago, IL 60694-6700

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2. If you change your answer, remove your previous mark completely. Any stray marks on the answer sheet may be misinterpreted.

3. Copies of the answer sheet are acceptable. However, each answer sheet must be accompanied by a payment of $79. Discounts apply for 3 or more courses submitted for grading at the same time by a single participant. If you complete three courses, the price for grading all three is $225 (a 5% discount on all three courses). If you complete four courses, the price for grading all four is $284 (a 10% discount on all four courses). Finally, if you complete five courses, the price for grading all five is $336 (a 15% discount on all five courses or more).

4. To receive CPE credit, completed answer sheets must be postmarked by **February 28, 2011**. CPE credit will be given for examination scores of 70% or higher. An express grading service is available for an **additional $24.95** per examination. Course results will be faxed to you by 5 p.m. CST of the business day following receipt of your examination for CPE Credit Answer Sheet.

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6. Please direct any questions or comments to our Customer Service department at (800) 431-9025.

EXAMINATION FOR CPE CREDIT

To enhance your learning experience, examination questions are located immediately following each lesson. Each set of examination questions can be located on the page numbers listed below. The course is designed so the participant reads the course materials, answers a series of self-study questions, and evaluates progress by comparing answers to both the correct and incorrect answers and the reasons for each. At the end of each lesson, the participant then answers the examination questions and records answers to the examination questions on either the printed **EXAMINATION FOR CPE CREDIT ANSWER SHEET** or by logging onto the Online Grading System. The **EXAMINATION FOR CPE CREDIT ANSWER SHEET** and **SELF-STUDY COURSE EVALUATION FORM** for each course are located at the end of all course materials.

EXAMINATION FOR CPE CREDIT ANSWER SHEET

Companion to PPC's QuickBooks® Solutions—Course 1—Establishing A Client On QuickBooks (QASTG101)

Price $79

First Name: ______________________

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Firm Name: ______________________

Firm Address: ______________________

City: ______________________ State /ZIP: ______________________

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Firm Fax No.: ______________________

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Express Grading Requested: ☐ Add $24.95

Signature: ______________________

Credit Card Number: ______________________ Expiration Date: ______________________

Birth Month: ______________________ Licensing State: ______________________

ANSWERS:

Please indicate your answer by filling in the appropriate circle as shown: Fill in like this ● not like this ⊘ ⊗ ✓.

	a	b	c	d		a	b	c	d		a	b	c	d		a	b	c	d
1.	○	○	○	○	6.	○	○	○	○	11.	○	○	○	○	16.	○	○	○	○
2.	○	○	○	○	7.	○	○	○	○	12.	○	○	○	○	17.	○	○	○	○
3.	○	○	○	○	8.	○	○	○	○	13.	○	○	○	○	18.	○	○	○	○
4.	○	○	○	○	9.	○	○	○	○	14.	○	○	○	○	19.	○	○	○	○
5.	○	○	○	○	10.	○	○	○	○	15.	○	○	○	○	20.	○	○	○	○

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Self-study Course Evaluation

Please Print Legibly—Thank you for your feedback!

Course Title: Companion to PPC's QuickBooks® Solutions—Course 1—Establishing a Client on QuickBooks Course Acronym: QASTG101

Your Name (optional): ____________________ Date: ____________

Email: ____________________

Please indicate your answers by filling in the appropriate circle as shown:
Fill in like this ● not like this ⃠ ⊗ ✓.

Satisfaction Level:	Low (1) . . . to . . . High (10)									
	1	2	3	4	5	6	7	8	9	10
1. Rate the appropriateness of the materials for your experience level:	○	○	○	○	○	○	○	○	○	○
2. How would you rate the examination related to the course material?	○	○	○	○	○	○	○	○	○	○
3. Does the examination consist of clear and unambiguous questions and statements?	○	○	○	○	○	○	○	○	○	○
4. Were the stated learning objectives met?	○	○	○	○	○	○	○	○	○	○
5. Were the course materials accurate and useful?	○	○	○	○	○	○	○	○	○	○
6. Were the course materials relevant and did they contribute to the achievement of the learning objectives?	○	○	○	○	○	○	○	○	○	○
7. Was the time allotted to the learning activity appropriate?	○	○	○	○	○	○	○	○	○	○
8. If applicable, was the technological equipment appropriate?	○	○	○	○	○	○	○	○	○	○
9. If applicable, were handout or advance preparation materials and prerequisites satisfactory?	○	○	○	○	○	○	○	○	○	○
10. If applicable, how well did the audio/visuals contribute to the program?	○	○	○	○	○	○	○	○	○	○

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Additional Comments:

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TESTING INSTRUCTIONS FOR EXAMINATION FOR CPE CREDIT

Companion to PPC's QuickBooks® Solutions—Course 2—Working With and Reporting on the Client's QuickBooks Data (QASTG102)

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EXAMINATION FOR CPE CREDIT ANSWER SHEET

Companion to PPC's QuickBooks® Solutions—Course 2—Working With and Reporting on the Client's QuickBooks Data (QASTG102)

Price $79

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Signature: ______________________________

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Birth Month: ______________________________ Licensing State: ______________

ANSWERS:

Please indicate your answer by filling in the appropriate circle as shown: Fill in like this not like this .

	a	b	c	d		a	b	c	d		a	b	c	d		a	b	c	d
1.	○	○	○	○	6.	○	○	○	○	11.	○	○	○	○	16.	○	○	○	○
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Expiration Date: February 28, 2011

Self-study Course Evaluation

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Course Title: Companion to PPC's QuickBooks® Solutions—Course 2—Working With and Reporting on the Client's QuickBooks Data

Course Acronym: QASTG102

Your Name (optional): ____________________ Date: ____________

Email: ____________________

Please indicate your answers by filling in the appropriate circle as shown:
Fill in like this ● not like this ⃠ ⊗ ✓.

Satisfaction Level:	1	2	3	4	5	6	7	8	9	10
	Low (1) . . . to . . . High (10)									
1. Rate the appropriateness of the materials for your experience level:	○	○	○	○	○	○	○	○	○	○
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9. If applicable, were handout or advance preparation materials and prerequisites satisfactory?	○	○	○	○	○	○	○	○	○	○
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4. Do you work in a Corporate (C), Professional Accounting (PA), Legal (L), or Government (G) setting? ________
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