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QuickBooks 2013: The Missing Manual

by Bonnie Biafore

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Part Two: **Bookkeeping**

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The Missing Credits

ABOUT THE AUTHOR

Bonnie Biafore has always been fascinated with math in its practical and more esoteric forms. As an engineer and project manager, she's thorough and steadfastly attentive to detail but redeems herself by using her sick sense of humor to transform these drool-inducing subjects into entertaining reading. She writes about personal finance, investing, accounting, and project management. Her *NAIC Stock Selection Handbook* and *Successful Project Management* won major awards from the Society of Technical Communication and APEX Awards for Publication Excellence (but the raves she receives from beginning investors mean much more to her).

Bonnie is also the author of O'Reilly's *Microsoft Project 2010: The Missing Manual*, *Personal Finance: The Missing Manual*, *Quicken 2009: The Missing Manual*, and *Online Investing Hacks*. She writes a monthly column called "WebWatch" for *Better Investing* magazine and is a regular contributor to *www.interest.com*. Applying her humor to another genre, she has published a novel, *Fresh Squeezed*, a crime comedy. As a consultant, she manages projects for clients, provides training, and wins accolades for her ability to herd cats.

When not chained to her computer, she hikes and cycles in the mountains, walks her dogs, takes aerial dance classes, and cooks gourmet meals. You can learn more at Bonnie's website, *www.bonniebiafore.com*, or email her at *bonnie.biafore@gmail.com*.

ABOUT THE CREATIVE TEAM

Dawn Mann (editor) is associate editor for the Missing Manual series. When not reading about QuickBooks, she beads, plays soccer, and causes trouble. Email: *dawn@oreilly.com*.

Melanie Yarbrough (production editor) lives, works, and does pretty much everything else in Cambridge, MA. When she's not ushering books through production, she's writing and baking up whatever she can imagine. Email: *myarbrough@oreilly.com*.

Brad White (technical reviewer) is COO of Real World Training and has been teaching and consulting on QuickBooks since 1998. When he isn't fixing someone else's computer problems, he enjoys listening to audio books, eating sushi, and thinking about golfing. Website: *www.QuickBooksTraining.com*.

Michael Cobb (technical reviewer) is an Information Designer with Real World Training and enjoys paying way too much for tech gadgetry, cooking insanely spicy food, and traveling to exotic lands like California. Email: *michael_cobb@realworldtraining.com*.

Nan Reinhardt (proofreader) lives in the Midwest, where she enjoys summer weekends at the lake, boating, swimming, and reading voraciously. Nan is not only a freelance copyeditor and proofreader, but she's also a published romance novelist. Check out her work at *www.nanreinhardt.com*. Email: *nanleigh1@gmail.com*.

Ron Strauss (indexer) lives and works in Northern California. He moonlights as a classically trained violist. Email: *rstrauss@mchsi.com*.

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I also want to thank the technical reviewers, Brad White and Michael Cobb, whose encyclopedic knowledge of QuickBooks was a much appreciated gift. And, as always, I thank my agent, Neil Salkind, for helping me turn my writing into a second career.

—*Bonnie Biafore*

THE MISSING MANUAL SERIES

Missing Manuals are witty, superbly written guides to computer products that don't come with printed manuals (which is just about all of them). Each book features a handcrafted index and cross-references to specific pages (not just chapters). Recent and upcoming titles include:

Access 2010: The Missing Manual by Matthew MacDonald

Adobe Edge Preview 7: The Missing Manual by Chris Grover

Buying a Home: The Missing Manual by Nancy Conner

Creating a Website: The Missing Manual, Third Edition, by Matthew MacDonald

CSS: The Missing Manual, Second Edition, by David Sawyer McFarland

David Pogue's Digital Photography: The Missing Manual by David Pogue

Dreamweaver CS6: The Missing Manual by David Sawyer McFarland

Droid 2: The Missing Manual by Preston Gralla

Droid X2: The Missing Manual by Preston Gralla

Excel 2010: The Missing Manual by Matthew MacDonald

FileMaker Pro 12: The Missing Manual by Susan Prosser and Stuart Gripman

Flash CS6: The Missing Manual by Chris Grover

Galaxy S II: The Missing Manual by Preston Gralla

Galaxy Tab: The Missing Manual by Preston Gralla

Google+: The Missing Manual by Kevin Purdy

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iMovie '11 & iDVD: The Missing Manual by David Pogue and Aaron Miller

iPad: The Missing Manual, Fourth Edition by J.D. Biersdorfer

iPhone: The Missing Manual, Fifth Edition by David Pogue

iPhone App Development: The Missing Manual by Craig Hockenberry

iPhoto '11: The Missing Manual by David Pogue and Lesa Snider

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Motorola Xoom: The Missing Manual by Preston Gralla

Netbooks: The Missing Manual by J.D. Biersdorfer

NOOK Tablet: The Missing Manual by Preston Gralla

Office 2010: The Missing Manual by Nancy Connor, Chris Grover, and Matthew MacDonald

Office 2011 for Macintosh: The Missing Manual by Chris Grover

Personal Investing: The Missing Manual by Bonnie Biafore

Photoshop CS6: The Missing Manual by Lesa Snider

Photoshop Elements 10: The Missing Manual by Barbara Brundage

PHP & MySQL: The Missing Manual by Brett McLaughlin

Switching to the Mac: The Missing Manual, Mountain Lion Edition by David Pogue

Windows 7: The Missing Manual by David Pogue

Windows 8: The Missing Manual by David Pogue

Your Body: The Missing Manual by Matthew MacDonald

Your Brain: The Missing Manual by Matthew MacDonald

Your Money: The Missing Manual by J.D. Roth

For a full list of all Missing Manuals in print, go to *www.missingmanuals.com/library.html*.

Introduction

Thousands of small companies and nonprofit organizations turn to QuickBooks to keep their finances on track. And over the years, Intuit has introduced various editions of the program to satisfy the needs of different types of companies. Back when milk was simply milk, you either used QuickBooks or you didn't. But now, when you can choose milk from soybeans and rice as well as cows, and with five different levels of fat, it's no surprise that QuickBooks comes in a variety of editions (which, in some cases, are dramatically different from their siblings), as well as six industry-specific editions. From the smallest of sole proprietorships to burgeoning enterprises, one of these editions is likely to meet your organization's needs *and* budget.

QuickBooks isn't hard to learn. Many of the features that you're familiar with from other programs work the same way in QuickBooks—windows, dialog boxes, drop-down lists, and keyboard shortcuts, to name a few. And with each new version, Intuit has added enhancements and new features to make your workflow smoother and faster. The challenge is knowing what to do according to accounting rules, and how to do it in QuickBooks. This book teaches you how to use QuickBooks and explains the accounting concepts behind what you're doing.

What's New in QuickBooks 2013

Despite the fluctuating size of the tax code, accounting and bookkeeping practices don't change much each year. The changes in QuickBooks 2013 are mostly small tweaks and subtle improvements, but some of them might be just what you've been waiting for:

- QuickBooks 2013 sports a **brand-new look** that simplifies the interface, removes clutter, and presents features and options in a much more organized and consistent way. The new color scheme is designed to help you focus on the task at hand: Navigation areas like the top and left icon bars are darker and monochromatic with silver icons so they recede into the background while the areas where you do your work stand out; blue, green, and yellow icons represent other features that relate to the work you do; the button that's clicked when you press Enter is also blue so it's easy to identify. Font sizes also vary to reinforce the hierarchy of information. The rows in transaction windows' tables are taller and overall spacing is more ample to make data easier to read. One downside to this new look is that windows take up more space on your screen—but the feature described in the next bullet point can help with that.

NOTE The changes to the user interface are bound to generate a swell of feedback. Don't be surprised if you see tweaks to the interface when Intuit distributes intermediate releases of the software.

- **Supermax view** (page 38) enlarges a single window, such as Create Invoices, to fill the entire QuickBooks window. It also minimizes the window's *ribbon* (described later in this list) so you can see more data, such as more lines in an invoice table.
- QuickBooks Centers (Vendor, Customer, Employee—and Inventory if you use QuickBooks Premier and Enterprise) now include **tabs for transactions, contacts, to-dos, and notes** (page 75). When you choose a name in a center—for example, a customer in the Customer Center—the panel at the window's bottom-right provides the full scoop about that customer. The Transactions tab displays all the transactions for that customer, and you can filter those transactions by type (invoices, credit memos, payments, and so on), status (such as open or all), and date. When you click the Contacts tab, you can create and manage multiple contacts, from the president to the accounting manager to the receptionist who knows where to find everyone. The To Do's tab lets you create and manage to-dos you have to perform. Similarly, the Notes tab is where you create and manage notes you record.
- Using the Notes tabs in the QuickBooks Centers, QuickBooks 2013 lets you **create multiple notes for each name** (page 83). In previous versions, you could add as many notes as you wanted, but they all resided in one field in the Edit Note dialog box. On the Notes tabs, you can scan the list of individual notes, create new ones, or edit and delete existing ones.

- You can **set preferences to make QuickBooks mark all your time and expenses as billable or non-billable.** In the Preferences dialog box's Time & Expenses category, you can turn on the "Mark all time entries as billable" checkbox so that QuickBooks automatically turns on the Billable checkbox for every time record you create. (If you bill time only once in a while, turn this checkbox off so that time records are marked as non-billable unless you make them billable.) Similarly, if most of your expenses are billable, you can turn on the "Mark all Expenses as billable" checkbox. Then, in windows such as Enter Bills and Write Checks, expenses you add are automatically marked as billable. (If you bill only a few of your expenses, turn this checkbox off.)
- Similar to Microsoft programs, QuickBooks now uses **a ribbon** (a panel that contains buttons and drop-down menus to access the program's features) across the top of many of its windows, such as Create Invoices. Features that used to be scattered over the window's toolbar, the form itself, and shortcut menus are now gathered at the top of the window. (If you're a fan of right-clicking to open shortcut menus, those are still available.)
- The **left icon bar** (page 36) is a new option that helps you access a variety of QuickBooks elements, including shortcuts to your favorite features, the QuickBooks windows that are open, applications you use, and to-dos that are on the horizon. If you haven't graduated to a widescreen monitor, you can still use the top icon bar or hide both icon bars.
- The **Find button at the top-left of QuickBooks transaction windows** (page 356) makes it easy to find specific transactions you're looking for. When you click this button, a compact version of the Find dialog box opens so you can specify search criteria, such as customer name, date, bill number, or amount.

When QuickBooks May Not Be the Answer

When you run a business (or a nonprofit), you track company finances for two reasons: to keep your business running smoothly and to generate the reports required by the IRS, SEC, and anyone else you have to answer to. QuickBooks helps you perform basic financial tasks, track your financial situation, and manage your business to make it even better. But before you read any further, here are a few things you *shouldn't* try to do with QuickBooks:

- **Work with more than 14,500 unique inventory items or 14,500 contact names.** QuickBooks Pro and Premier company files can hold up to 14,500 inventory items and a combined total of up to 14,500 customer, vendor, employee, and other (Other Names List) names. (The QuickBooks Enterprise Solutions version makes the number of names virtually unlimited.)
- **Track personal finances.** Even if you're a company of one, keeping your personal finances separate from your business finances is a good move, particularly when it comes to tax reporting. In addition to opening a separate checking account for

your business, track your personal finances somewhere else (like in Quicken). If you do decide to use QuickBooks, at least create a separate company file for your personal financial info.

- **Track the performance of stocks and bonds.** QuickBooks isn't meant to keep track of the capital gains and dividends you earn from investments such as stocks and bonds. But companies have investments, too, of course. A machine that costs hundreds of thousands of dollars is an investment that you hope will generate lots of income, and you should track it in QuickBooks. However, in QuickBooks, these types of investments show up as *assets* of the company (page 163).
- **Manage specialized details about customer relationships.** Lots of information goes into keeping customers happy. With QuickBooks, you can stay on top of customer activities with features like To Do items, Notes, Reminders, and Memorized Transactions. You can also keep track of leads before they turn into customers. But if you need to track details for thousands of members or customers, items sold on consignment, project progress, or tasks related to managing projects, a customer-management program or program like Microsoft Excel or Access might be a better solution.

NOTE Some third-party customer-management programs integrate with QuickBooks (page 85).

Choosing the Right Edition

QuickBooks comes in a gamut of editions, offering options for organizations at both ends of the small-business spectrum. QuickBooks Pro handles the basic needs of most businesses, whereas Enterprise Solutions (the most robust and powerful edition of QuickBooks) boasts enhanced features and speed for the biggest of small businesses. On the other hand, the online editions of QuickBooks offer features that are available any time you're online.

WARNING QuickBooks for Mac differs *significantly* from the Windows version, so this book isn't meant to be a guide to the Mac version of the program. Likewise, features vary in the editions for different countries; this book focuses on the U.S. version.

This book focuses on QuickBooks Pro because its balance of features and price make it the most popular edition. Throughout this book, you'll also find notes about features offered in the Premier edition, which is one step up from Pro. (Whether you're willing to pay for these additional features is up to you.) Here's an overview of what each edition can do:

- **QuickBooks Online Simple Start** is a low-cost online option for small businesses with very simple accounting needs and only one person running QuickBooks at a time. It's easy to set up and use, but it doesn't offer features like entering bills, inventory, tracking time, or sharing your company file with your accountant. You can download transactions from only one bank (or credit card) account.

- **QuickBooks Online Essentials** allows up to three people to run QuickBooks at a time and lets you connect to as many bank or credit card accounts as you want. As its name suggests, it offers essential features like automated invoicing, creating estimates, and entering bills.
- **QuickBooks Online Plus** has most of the features of QuickBooks Pro, but you access the program via the Web instead of running it on your PC.

NOTE These online editions let you use QuickBooks anywhere, on any computer, so they're ideal for someone who's always on the go. However, the online editions are subscription-based, so you pay a monthly fee to use the software. A year's subscription adds up to more than what you'd typically pay to buy a license of QuickBooks Pro, but with a subscription, your software is always up-to-date—you don't have to upgrade it or convert your company files to the new versions you installed.

- **QuickBooks Pro** is the workhorse edition. It lets up to three people work on a company file at a time. QuickBooks Pro includes features for tasks such as invoicing; entering and paying bills; job costing; creating estimates; saving and distributing reports and forms as email attachments; creating budgets; projecting cash flow; tracking mileage; customizing forms; customizing prices with price levels; printing shipping labels; and integrating with Word, Excel, and hundreds of other programs. QuickBooks Pro's name lists—customers, vendors, employees, and so on—can include up to a combined total of 14,500 entries. Other lists, like the Chart of Accounts, can have up to 10,000 entries each.

NOTE QuickBooks Pro Plus is a subscription product that costs a little more than the one-time license fee you pay for QuickBooks Pro, but QuickBooks Pro Plus offers mobile access, unlimited phone support, and always-up-to-date software. Similarly, QuickBooks Premier Plus is the premier version of the subscription product.

- **QuickBooks Premier** is another multiuser edition. It can handle inventory items assembled from other items and components, generate purchase orders from sales orders and estimates, apply price levels to individual items, export report templates, produce budgets and forecasts, work with different units of measure for items, and it offers enhanced invoicing for time and expenses. This edition also includes a few extra features like reversing general journal entries. When you purchase QuickBooks Premier, you can choose from six different industry-specific flavors (see the next section). Like the Pro edition, Premier can handle a combined total of up to 14,500 list entries.
- **Enterprise Solutions** is the edition for larger operations. It's faster, bigger, and more robust than its siblings. Up to 30 people can access a company file at the same time, and this simultaneous access is at least twice as fast as in the Pro or Premier edition. The database can handle lots more names in its customer, vendor, employee, and other name lists (1 *million* versus 14,500 for Pro and Premier). You can handle inventory in multiple warehouses or stores, and produce

combined reports for those companies and locations. And because more people can be in your company file, this edition has features such as an enhanced audit trail, more options for assigning or limiting user permissions, and the ability to delegate administrative functions to the other people using the program. And if you subscribe to Advanced Inventory, you can value inventory by using first-in first-out (FIFO) inventory valuation.

TIP You don't have to pay list price for QuickBooks. Your local office supply store, Amazon.com, and any number of other retail outlets usually offer the program at a discount. (If you buy QuickBooks from Intuit, you pay full price, but you also have 60 days to return the program for a full refund.) In addition, accountants can resell QuickBooks to clients, so it's worth asking yours about purchase and upgrade pricing. QuickBooks ProAdvisors can get you up to a 30 percent discount on QuickBooks Pro or Premier, and you'll still have 60 days to return the program for a refund.

FREQUENTLY ASKED QUESTION

Nonprofit Dilemma

I'm doing the books for a tiny nonprofit corporation. I'd really like to avoid spending any of our hard-raised funds on a special edition of QuickBooks. Can't I just use QuickBooks Pro?

You may be tempted to save some money by using QuickBooks Pro instead of the more expensive QuickBooks Nonprofit edition, and you can—if you're willing to live with some limitations. As long as funding comes primarily from unrestricted sources, the Pro edition will work reasonably well. You'll have to accept using the term "customer" when you mean donor or member, or the term "job" for grants you receive. Throughout this book, you'll find notes and tips about tracking nonprofit finances with QuickBooks Pro or QuickBooks Premier (the general business edition—not the nonprofit edition).

However, if you receive restricted funds or track funds by program, you'll have to manually post them to equity accounts and allocate them to accounts in your chart of accounts, since QuickBooks Pro doesn't automatically perform these staples of nonprofit accounting. Likewise, the program doesn't generate all the reports you need to satisfy your grant providers or the government, although you can export reports (page 651) and then modify them as necessary in a spreadsheet program. In that case, QuickBooks Premier Nonprofit might be a real timesaver.

The QuickBooks Premier Choices

If you work in one of the industries covered by QuickBooks Premier, you can get additional features unique to your industry. (When you install QuickBooks Premier, you choose the industry version you want to run. If your business is in an industry other than one of the five options, choose General Business.) Some people swear that these customizations are worth every extra penny, while others say the additional features don't warrant the Premier price. On the QuickBooks website (*http://quickbooks.intuit.com/premier*), you can tour the Premier features to decide for yourself. Or you can purchase QuickBooks Accountant, which can run any QuickBooks edition, from QuickBooks Pro to the gamut of Premier's industry-specific versions.

NOTE The Accountant edition is designed to help professional accountants and bookkeepers deliver services to their clients. It lets you run any QuickBooks edition (Pro or any of the Premier versions). In addition to being compatible with all other editions, it lets you review your clients' data and easily correct mistakes you find, transfer an accountant's copy to your client, design financial statements and other documents, process payroll for clients, reconcile clients' bank accounts, calculate depreciation, and prepare clients' tax returns. In mid-2012, Intuit introduced QuickBooks Professional Bookkeeper, which is somewhere between the QuickBooks Pro and QuickBooks Accountant editions. It lets you work on two company files at a time, manage client passwords, and create new company files based on existing files, but it doesn't offer many of the Accountant edition's advanced features, such as reclassifying transaction, calculating depreciation, and creating reversing journal entries.

Here are the industries that have their own Premier editions:

- The **General Business** edition has Premier goodies like per-item price levels, sales orders, and so on. It also has more built-in reports than QuickBooks Pro, sales and expense forecasting, the Inventory Center, and a business plan feature (although, if you're using QuickBooks to keep your books, you may already have a business plan).
- The **Contractor** edition includes special features near and dear to construction contractors' hearts: job-cost and other contractor-specific reports, the ability to set different billing rates by employee, and tools for managing change orders.
- **Manufacturing & Wholesale** is targeted at companies that manufacture products. Its chart of accounts and menus are customized for manufacturing and wholesale operations. You can use it to manage inventory assembled from components and to track customer return materials authorizations (RMAs) and damaged goods.
- If you run a nonprofit organization, you know that several things work differently in the nonprofit world, as the box on the previous page details. The **Nonprofit** edition of QuickBooks includes features such as a chart of accounts customized for nonprofits, forms and letters targeted to donors and pledges, info about using the program for nonprofits, and the ability to generate Statement of Functional Expenses 990 forms.
- The **Professional Services** edition (not to be confused with QuickBooks Pro) is designed for companies that deliver services to their clients. Unique features include project-costing reports, templates for proposals and invoices, billing rates that you can customize by client or employee, and professional service–specific reports and help.
- The **Retail** edition is customized to work for retail businesses. It includes specialized menus, reports, forms, and help, as well as a custom chart of accounts. Intuit offers companion products that you can integrate with this edition to support all aspects of your retail operation. For example, QuickBooks Point of Sale tracks sales, customers, and inventory as you ring up sales, and it shoots the information over to your QuickBooks company file.

UP TO SPEED

Learning More about Accounting

If you need to learn a lot about QuickBooks and a little something about accounting, you're holding the right book. But if bookkeeping and accounting are unfamiliar territory, some background training (page 715) may help you use QuickBooks better and more easily (without calling your accountant for help five times a day).

The Accounting and Business School of the Rockies offers an accounting and bookkeeping self-study course that you can play on a VCR or DVD player. The course presents real-life accounting situations, so you'll learn to solve common small-business accounting challenges, and it includes hands-on exercises to help you master the material. It doesn't take long to complete, so you'll be up and accounting in no time. To contact the school, visit *www.absrschool.com* or call 1-303-755-6885.

Real World Training offers "Mastering Accounting Basics for QuickBooks," an Intuit-endorsed product that teaches basic accounting concepts using QuickBooks in its examples. It's available online, on CD, and on DVD. Check it out at *http://tinyurl.com/rwaccounting*.

Accounting Basics: The Important Stuff

QuickBooks helps people who don't have a degree in accounting handle most accounting tasks. However, you'll be more productive *and* have more accurate books if you understand the following concepts and terms:

- **Double-entry accounting** is the standard method for tracking where your money comes from and where it goes. Following the old saw that money doesn't grow on trees, money always comes from somewhere when you use double-entry accounting. For example, as shown in Table I-1, when you sell something to a customer, the money on your invoice comes in as income and goes into your Accounts Receivable account. Then, when you deposit the payment, the money comes out of the Accounts Receivable account and goes into your checking account. (See Chapter 16 for more about double-entry accounting and journal entries.)

NOTE Each side of a double-entry transaction is either a debit or a credit. As you can see in Table I-1, when you sell products or services, you credit your income account (since your income increases when you sell something), but debit the Accounts Receivable account (because selling something also increases how much customers owe you). You'll see examples throughout the book of how transactions translate to account debits and credits.

TABLE I-1 *Following the money through accounts*

TRANSACTION	ACCOUNT	DEBIT	CREDIT
Sell products or services	Accounts Receivable	$1,000	
Sell products or services	Service Income		$1,000
Receive payment	Checking Account	$1,000	
Receive payment	Accounts Receivable		$1,000
Pay for expense	Office Supplies	$500	
Pay for expense	Checking Account		$500

- **Chart of accounts.** In bookkeeping, an *account* is a place to store money, just like your checking account is a place to store your ready cash. The difference is that you need an account for each kind of income, expense, asset, and liability you have. (See Chapter 3 to learn about all the different types of accounts you might use.) The *chart of accounts* is simply a list of all the accounts you use to keep track of your company's money.
- **Cash vs. accrual accounting.** Cash and accrual are the two different ways companies can document how much they make and spend. Cash accounting is the choice of many small businesses because it's easy: You don't show income until you've received a payment (regardless of when that happens), and you don't show expenses until you've paid your bills.

  The accrual method, on the other hand, follows something known as the *matching principle*, which matches revenue with the corresponding expenses. This approach keeps income and expenses linked to the period in which they happened, no matter when cash comes in or goes out. The advantage of this method is that it provides a better picture of profitability because income and its corresponding expenses appear in the same period. With accrual accounting, you recognize income as soon as you record an invoice, even if you'll receive payment during the next fiscal year. For example, if you pay employees in January for work they did in December, those wages are part of the previous fiscal year.
- **Financial reports.** You need three reports to evaluate the health of your company (described in detail in Chapter 17):
  - The *income statement*, which QuickBooks calls a *Profit & Loss* report, shows how much income you've brought in and how much you've spent over a period of time. This QuickBooks report gets its name from the difference between the income and expenses, which results in your profit (or loss) for that period.

- The *balance sheet* is a snapshot of how much you own and how much you owe. Assets are things you own that have value, such as buildings, equipment, and brand names. Liabilities are the money you owe to others (like money you borrowed to buy one of your assets, say). The difference between your assets and liabilities is the *equity* in the company—like the equity you have in your house when the house is worth more than you owe on the mortgage.
- The *statement of cash flows* tells you how much hard cash you have. You might think that a Profit & Loss report would tell you that, but noncash transactions—such as depreciation—prevent it from doing so. The statement of cash flows removes all noncash transactions and shows the money generated or spent operating the company, investing in the company, or financing.

About This Book

QuickBooks Help provides a healthy dose of accounting background and troubleshooting tips. If you don't find the answer you need in the "Have a Question?" window (page 707), the Intuit Community—which lets you ask your peers and experts for answers (page 709)—or by searching with keywords, where do you turn next?

This book provides lots of real-world examples and you can search for topics in its index. In addition, with this book, you can mark your place, underline key points, jot notes in the margin, or read about QuickBooks while sitting in the sun—stuff that's hard to do onscreen.

This book applies to the U.S. *Windows* version of QuickBooks Pro and Premier. (Because the Mac version of the program differs significantly from the Windows one, this book won't be of much help if you have QuickBooks for Mac. Versions for other countries differ from the U.S. version, too, although primarily in how you work with payroll and taxes.)

In these pages, you'll find step-by-step instructions for using every QuickBooks Pro feature, including those you might not quite understand: progress invoicing (page 315), making general journal entries (page 451), customizing forms (page 669), writing off losses (page 424), and so on. If you're just starting out with QuickBooks, read the first few chapters as you set up your company file. After that, go ahead and jump from topic to topic depending on the bookkeeping task at hand. As mentioned earlier, you'll learn about some of the extra bells and whistles in the QuickBooks Premier edition, as well. (All the features in QuickBooks Pro—and in this book—are also in Premier.) To keep you productive, this book also includes evaluations of features to help you figure out which ones are most useful and when to use them.

NOTE Although each version of QuickBooks introduces new features and enhancements, you can still use this book if you're using an earlier version. Of course, the older your version of the program, the more discrepancies you'll run across.

QuickBooks 2013: The Missing Manual is designed to accommodate readers at every technical level. The primary discussions are written for people with beginner or intermediate QuickBooks skills. But if you're using QuickBooks for the first time, special boxes titled "Up To Speed" provide the introductory info you need to understand the current topic. On the other hand, people with advanced skills should watch for similar boxes labeled "Power Users' Clinic," which cover more technical tips, tricks, and shortcuts for experienced QuickBooks wranglers.

About the Outline

This book is divided into five parts, each containing several chapters:

- **Part One: Getting Started** explains how to set up QuickBooks based on your organization's needs. These chapters cover creating and managing a company file; setting up accounts, customers, jobs, invoice items, and other lists; and managing QuickBooks files.
- **Part Two: Bookkeeping** follows the money from the moment you rack up time and expenses for your customers and add charges to a customer's invoice to the tasks you have to perform at the end of the year to satisfy the IRS and other interested parties. These chapters describe how to track time and expenses, pay for things you buy, bill customers, manage the money that customers owe you, pay for expenses, run payroll, manage your bank accounts, and perform other bookkeeping tasks.
- **Part Three: Managing Your Business** delves into the features that can help you make your company a success—or even more successful than it already is. These chapters explain how to keep your inventory at just the right level, build budgets, and use QuickBooks reports to evaluate every aspect of your enterprise.
- **Part Four: QuickBooks Power** helps you take your copy of the program to the next level. You'll learn how to save time and prevent errors by downloading transactions electronically; boost your productivity by setting the program's preferences to match the way you like to work and integrating QuickBooks with other programs; customize the program's components to look the way you want; and—most important—set up QuickBooks so your financial data is secure.
- **Part Five: Appendixes** provides a guide to installing and upgrading QuickBooks, and a reference to helpful resources.

NOTE You can find three bonus appendixes online at *www.missingmanuals.com/cds*: "Keyboard Shortcuts," "Tracking Time with the Standalone Timer," and "Advanced Form Customization."

The Very Basics

To use this book (and QuickBooks), you need to know a few basics. This book assumes that you're familiar with the following terms and concepts:

- **Clicking.** This book includes instructions that require you to use your computer's mouse or trackpad. To *click* means to point your cursor (the arrow pointer) at something on the screen and then—without moving the cursor—press and release the left button on the mouse (or laptop trackpad). To *right-click* means the same thing, but you press the *right* mouse button instead. (Usually, clicking selects an onscreen element or presses an onscreen button, whereas right-clicking typically reveals a *shortcut menu*, which lists some common tasks specific to whatever you're right-clicking.) To *double-click*, of course, means to click the left button twice in rapid succession, again without moving the pointer at all. And to *drag* means to move the cursor while holding down the left mouse button the entire time.

  When you're told to *Shift-click* something, you click while pressing the Shift key. Related procedures, like *Ctrl-clicking*, work the same way—just click while pressing the corresponding key.

- **Menus.** The *menus* are the words at the top of your screen: File, Edit, and so on. Click one to make a list of commands appear, as though they're written on a window shade you've just pulled down. Some people click to open a menu and then release the mouse button; after reading the menu choices, they click the option they want. Other people like to press the mouse button continuously as they click the menu title and drag down the list to the desired command; only then do they release the mouse button. Both methods work, so use whichever one you prefer.

- **Keyboard shortcuts.** Nothing is faster than keeping your fingers on your keyboard to enter data, choose names, trigger commands, and so on—without losing time by grabbing the mouse, carefully positioning it, and then choosing a command or list entry. That's why many experienced QuickBooks fans use keyboard shortcuts to accomplish most tasks. In this book, when you read an instruction like "Press Ctrl+A to open the Chart of Accounts window," start by pressing the Ctrl key; while it's down, type the letter A; and then release both keys.

About→These→Arrows

Throughout this book, and throughout the Missing Manual series, you'll find sentences like this one: "Choose Lists→Customer & Vendor Profile Lists→Customer Type List." That's shorthand for a much longer instruction that directs you to navigate three nested menus in sequence, like this: "At the top of your screen, click the Lists menu. On the Lists menu, point to the Customer & Vendor Profile Lists menu item. On the submenu that appears, choose Customer Type List." Figure I-1 shows the menus this sequence opens.

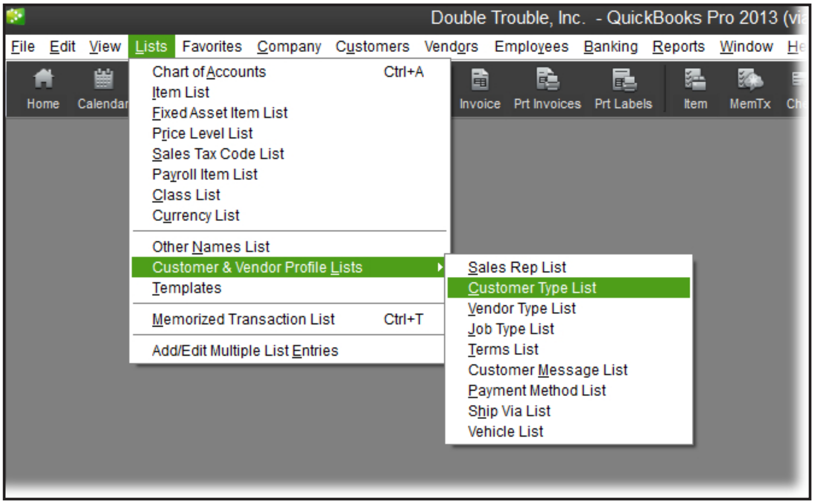

FIGURE I-1.

Instead of filling pages with long and hard-to-follow instructions for navigating through nested menus and nested folders, the arrow notation is concise but just as informative. For example, choosing Lists→Customer & Vendor Profile Lists→Customer Type List takes you to the menu item shown here.

Similarly, this arrow shorthand also simplifies the instructions for opening nested folders, such as Program Files→QuickBooks→Export Files.

About the Online Resources

As the owner of a Missing Manual, you've got more than just a book to read. Online, you'll find example files so you can get some hands-on experience, as well as tips, articles, and maybe even a video or two. You can also communicate with the Missing Manual team and tell us what you love (or hate) about the book. Head over to *www.missingmanuals.com*, or go directly to one of the following sections.

Missing CD

This book doesn't have a CD pasted inside the back cover, but you're not missing out on anything. Go to *www.missingmanuals.com/cds* and click the "Missing CD-ROM" link for this book to download a sample company file that includes an opening balance general journal entry, as well as three additional appendixes to this book. And so you don't wear down your fingers typing long web addresses, the Missing CD page also offers a list of clickable links to the websites mentioned in this book.

Registration

If you register this book at oreilly.com, you'll be eligible for special offers—like discounts on future editions of *QuickBooks: The Missing Manual*. Registering takes only a few clicks. To get started, type *http://oreilly.com/register* into your browser to hop directly to the Registration page.

Feedback

Got questions? Need more information? Fancy yourself a book reviewer? On our Feedback page, you can get expert answers to questions that come to you while reading, and you can share your thoughts on this Missing Manual. To have your say, go to *www.missingmanuals.com/feedback*.

Errata

In an effort to keep this book as up-to-date and accurate as possible, each time we print more copies, we'll make any confirmed corrections you've suggested. We also note such changes on the book's website, so you can mark important corrections into your own copy of the book, if you like. Go to *http://tinyurl.com/9l5h5ks* to report an error and view existing corrections.

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CHAPTER

1

Creating a Company File

A *company file* is where you store your company's financial records in QuickBooks, so it's the first thing you need to work on in the program. You can create a company file from scratch or convert records previously kept in a small-business accounting program or Quicken. Another approach is to use a file that *someone else* created. For example, if you've worked with an accountant to set up your company, she might provide you with a QuickBooks company file already configured for your business so you can hit the ground running.

This chapter starts by explaining how to launch your copy of QuickBooks. Then, if you need to create your own company file, you'll learn how to use the QuickBooks Setup dialog box and the EasyStep Interview to get started (and find out which other chapters explain how to finish the job). Finally, you'll learn how to open a company file, update one to a new version of QuickBooks, and modify basic company information.

Opening QuickBooks

Here are the easiest ways to open QuickBooks:

- **Desktop icon**. Double-click the desktop shortcut that QuickBooks created during installation to launch the program.
- **Windows taskbar**. The fastest way to open QuickBooks is to click its icon on the Windows taskbar—but first you have to put it there. In Windows 7, right-drag (that's dragging while holding down the right mouse button) the program's desktop shortcut onto the taskbar, as shown in Figure 1-1. (The right-drag technique also works for copying or moving a shortcut from Windows Explorer or from the Start menu.)

FIGURE 1-1

Windows' taskbar keeps your desktop tidy. It's easy to reach, because program windows don't hide it the way they do desktop shortcuts.

- **Start menu**. Without a desktop icon, you can launch QuickBooks from the Start menu. Click Start→QuickBooks Pro 2013 (or QuickBooks Premier 2013). If QuickBooks isn't already listed on the Start menu, choose Start→All Programs→QuickBooks→QuickBooks Pro 2013 (or QuickBooks Premier 2013).

The first time you launch QuickBooks, you're greeted by the QuickBooks Setup dialog box, whose sole purpose is to help you create a company file in one way or another. The rest of this chapter explains how to create a company file and then how to open company files you create. After that, you'll be ready to dive into bookkeeping.

TIP If you're running QuickBooks Accountant edition, the Accountant Center opens every time you launch the program. The Tools section at the top of this center includes shortcuts to features that accountants use all the time: the Chart of Accounts window, the Fixed Asset Item List (for entering depreciation), Make General Journal Entries, Client Data Review for checking the data your client entered, Reclassify Transactions for correcting transactions that were assigned to the wrong accounts, and so on. However, if you don't want this window to open automatically, turn off the "Show Accountant Center when opening a company file" checkbox at the bottom-left of the center. (You can open the Accountant Center anytime by choosing Accountant→Accountant Center.)

Before You Create a Company File

If you've just started a business and want to inaugurate your books with QuickBooks, your prep work will be a snap. If, on the other hand, you have existing records for your business, you have a few small tasks to complete before you jump into QuickBooks' setup. Whether your books are paper ledgers or electronic files in another program, gather your company information *before* you open QuickBooks. That way, you can hunker down in front of your computer and crank out a company file in record time. This section explains what you need to create a company file in QuickBooks.

Choosing a Start Date

To keep your entire financial history at your fingertips, you need to put every transaction and speck of financial information in your QuickBooks company file. But you have better things to do than enter years' worth of checks, invoices, and deposits, so the comprehensive approach is practical only if you just recently started your company.

The more realistic approach is to enter your financial data into QuickBooks starting as of a specific date and, from then on, add all *new* transactions to QuickBooks. The date you choose is called the *start date.* (The start date isn't something that you enter in a field in QuickBooks; it's simply the earliest transaction date in your company file.) You shouldn't choose it randomly. Here are your start date options and the ramifications of each one:

- **The last day of the previous fiscal year**. The best choice is to fill in your records for the entire year. Choose the last day of your company's previous fiscal year as the company file start date. That way, the account balances on your start date are like the ending balances on a bank statement, and you're ready to start bookkeeping fresh on the first day of the fiscal year.

  Yes, you have to enter checks, credit card charges, invoices, payments, and other transactions that have happened since the beginning of the year, but that won't take as much time as you think. And you'll regain those hours when tax time rolls around, as you nimbly generate the reports you need to complete your tax returns.

  If more than half of the year has already passed, the best approach is to be patient and postpone your QuickBooks setup until the next fiscal year. (Intuit releases new versions of QuickBooks in October or November each year for just that reason.) But waiting until next year isn't always an option. In cases like that, go with the next option in this list.

TIP For practice, you can decide to start entering transactions that occur after the closing date of one of your bank statements. Then you can enter transactions for the month and try reconciling your QuickBooks records with your bank statement (page 426).

- **The last day of the previous fiscal period**. The next best start date is the last day of the previous fiscal quarter (or fiscal month at the very least). Since your company file doesn't contain a full year's worth of detail, you'll have to switch between QuickBooks and your old filing cabinets to prepare your tax returns and look up financial information. Starting just before a fiscal period reduces this hassle but doesn't eliminate it.

Account Balances and Transactions

Unless you begin using QuickBooks when you start your business, you need to know your account balances as of your selected start date to get things rolling. For example, if your checking account has $342 at the end of the year, that value goes into QuickBooks during setup. You also need every transaction that's happened since the start date—sales you've made, expenses you've incurred, payroll and tax transactions, and so on—to establish your asset, liability, equity, income, and expense accounts. So dig that information out of your existing accounting system (or shoebox). Here are the balances and transactions you need and where you can find them in your records:

- **Cash balances**. For each bank account you use in your business (checking, savings, money market, and so on), find the bank statements with statement dates as close to—but *earlier* than—the start date of your QuickBooks company file. Gather deposit slips and your checkbook register to identify the transactions that haven't yet cleared; you'll need them to enter transactions, unless you download transactions from your bank (page 579). If you have petty cash lying around, count it and use that number to set up your petty cash account (page 448).

TIP For Subchapter C corporations, Subchapter S corporations, and partnerships, the balance sheet that you included with your previous year's tax return is a great starting point for account balances. Your tax return also shows your federal tax ID number, which you'll need, too.

- **Customer balances**. If customers owe you money, pull the paper copy of every *unpaid* invoice or statement out of your filing cabinet so you can give QuickBooks what it needs to calculate your Accounts Receivable balance. If you didn't keep copies, you can ask your customers for copies of the invoices they haven't paid or simply create invoices in QuickBooks to match the payments you receive.
- **Vendor balances**. If your company thinks handing out cash before you have to is more painful than data entry, find the bills you haven't yet paid and get ready to enter them in QuickBooks so you can generate your Accounts Payable balance. (Or, to reduce the number of transactions you have to enter, simply pay those outstanding bills and record the payments in QuickBooks.)
- **Asset values**. When you own assets such as buildings or equipment, their value depreciates over time. If you included a balance sheet with the tax return you filed for your company, you can find asset values and accumulated depreciation on your most recent tax return (yet another reason to start using QuickBooks at the beginning of the year). If you haven't filed a tax return for your company yet, an asset's value is typically the price you paid for it.
- **Liability balances**. Find the current balances you owe on any business loans or mortgages.

- **Inventory**. If you stock products that you sell and track as inventory, you need to know how many items you had in stock as of the start date, how much you paid for them, and what you expect to sell them for.
- **Payroll**. Payroll services are a great value for the money, which you'll grow to appreciate as you collect the info you need for payroll (including salaries and wages, tax deductions, benefits, pensions, 401(k) deductions, and other stray payroll deductions you might have). You also need to know who receives withholdings, such as tax agencies or the company handling your 401(k) plan. Oh, yeah—and you also need payroll details for each employee. Chapter 14 explains the payroll options that are available inside and outside of QuickBooks.

TIP If you have outstanding payroll withholdings such as employee payroll taxes, send in the payments so you don't have to enter those open transactions in QuickBooks.

Creating a Company File

Keeping books requires accuracy, attention to detail, and persistence—hence the customary image of spectacled accountants scanning row after row of numbers. QuickBooks can help you keep your books without ruining your eyesight—as long as you start your company file with good information. If you want to practice with QuickBooks, you can experiment with a sample file, as the box on page 6 explains.

QuickBooks makes it easy to create a company file from scratch. (The box on page 6 tells you how to find someone who can help you create one.) You can opt for a short and sweet process, which asks you for the bare minimum of info before it creates your file. Or you can use a wizard that guides you through the process with a series of questions that takes about 30 minutes to answer. The questions cover the basics of creating and customizing a company file to fit your business. The program wants to know some company information, the industry you're in, and the features you want to use. QuickBooks then sets your preferences and creates a few accounts (like basic income and expense accounts and your checking account). Of course, you have to do the bulk of the setup work later, which you learn in the section "What's Next?" on page 18.

UP TO SPEED

Getting Help Creating a New Company File

The proud owners of brand-new businesses face a dilemma: They have more important things to do than muddle through setting up a company file in QuickBooks, but money is usually as short as free time. If you don't know much about bookkeeping or accounting, a few hours of an accountant's time is a worthwhile investment when you're getting started in QuickBooks. You'll not only save untold hours, but also know that your books are set up properly. Accountants well versed in QuickBooks can create a flawless company file without breaking a sweat.

If you plan to do without an accountant but you want some help setting up your company file, you can choose Help→Find A Local QuickBooks Expert. By answering a few questions on the Local QuickBooks Expert website (*http://tinyurl.com/find-qbadvisor*), you can locate someone in your area who can help you get started.

Options for Creating a Company File

You can create a company file in several ways, and the QuickBooks Setup dialog box—which opens automatically the very first time you start QuickBooks—is your ticket to all of them. If you don't see this dialog box, choose File→New Company (or click "Create a new company" in the No Company Open window). The dialog box takes up most of the screen, so you can stay focused on creating your company file.

GEM IN THE ROUGH

Experimenting with a Sample File

You don't have to use your real company file to test out QuickBooks features you've never used. The program comes with a couple of sample files: one for a basic product-based business, another for a basic service-based business. And if you use QuickBooks Premier, you can experiment with several other sample files for more specialized pursuits like contracting, consulting, manufacturing, and so on.

To experiment with QuickBooks features before you put them in production, in the No Company Open window, click "Open a sample file" and choose the one you want. (To display the No Company Open window, you have to close any open company files by choosing File→Close Company (or File→Close Company/Logoff if there's more than one user set up for the file). If the QuickBooks Setup dialog box is open, close it, too.) Another handy use for a sample file is to test the latest software update from Intuit. If QuickBooks asks whether you want to install a software update, close your company file and open one of the sample files. Then install the software update. If you don't spot any issues with the update, go ahead and reopen your company file.

Don't try to use one of these sample files as your company file. They come with accounts, customers, vendors, and transactions (such as checks, invoices, and purchase orders). Besides, QuickBooks sets "today's" date in these files to 12/15/2016, which makes transactions later than you or your vendors would like (although you can edit the values in date boxes).

If you botch your experiment with sample files, you can always retrieve them from the QuickBooks CD. (If you downloaded QuickBooks, you can call Intuit Customer Support and request an installation CD for a small fee.)

The three basic approaches to creating a company file are covered by the QuickBooks Setup dialog box's three buttons:

- **Express Start**. This button is in pole position because it's the best option if this is your first time creating a company file. QuickBooks holds your hand and asks for a few bits of info at a time before moving to each new screen. If you stop filling in information before QuickBooks creates your company file, the program won't save any of the values you entered. So make sure you have at least 15 minutes to complete the first set of steps. The instructions for Express Start begin below.
- **Advanced Setup**. If you've been around the QuickBooks block before, this option launches the EasyStep Interview window, which asks for more information on each screen than Express Start does. If you need help during the process, you can always click the "Get answers" link at the top right of the window. You can also use Advanced Setup to go back and modify info you entered previously, whether you entered it using Express Start or the EasyStep Interview. (The instructions for the EasyStep Interview begin on page 10. If you're unsure what to put in any of the fields you're supposed to fill in, they're described in the Express Start section, because you fill in much of the same information regardless which approach you use.)
- **Other Options**. This button covers the rest of the bases. You can use it to open an existing company file or to convert existing records that are in Quicken or another accounting program (page 23) for use in QuickBooks.

NOTE If you use the QuickBooks Accountant Edition, you can create a company file from an existing file. Choose File→New Company from Existing Company File.

Whether you use Express Start or the EasyStep Interview, you tell QuickBooks the basic 411 about your company, such as its name and tax ID. (If any of the fields confuse you, try clicking the "Need help? Give us a call" button in the QuickBooks Setup dialog box or the "Get answers" link in the upper-right corner of the EasyStep Interview dialog box.) The next section provides the full scoop on the information you need to provide.

Using Express Start

As its name implies, Express Start gets you going as quickly as possible by asking for the minimum amount of info (you can go back later to fill in the details). To use it, choose File→New Company and then, in the QuickBooks Setup dialog box, click Express Start. The "Tell us about your business" screen appears, and you can start entering info. The following sections explain what the program needs to know to create your company file.

COMPANY INFORMATION

In the "Tell us about your business" screen, shown in Figure 1-2, you need to cough up only three answers, but these responses are the foundation of many of the preferences that QuickBooks sets:

- **Company Name**. Type the name you want to appear on invoices, reports, and other forms. Later on, you can specify your company's legal name (page 9).

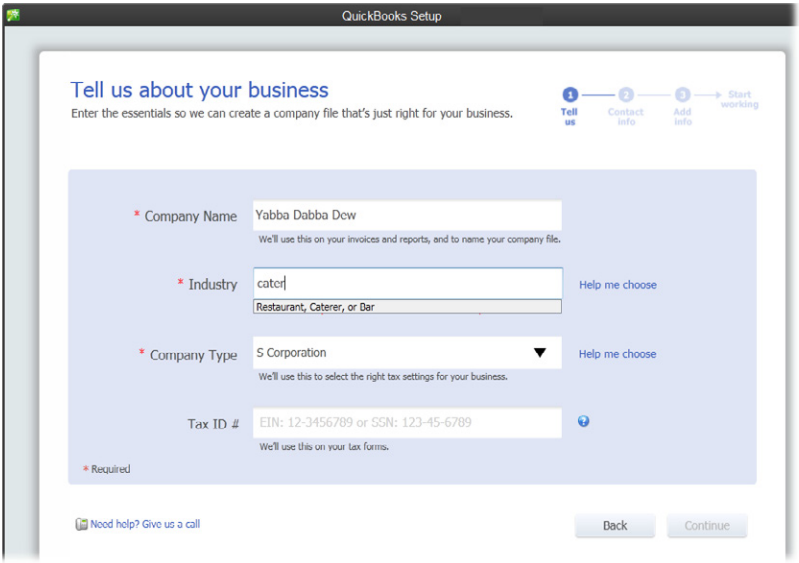


FIGURE 1-2

QuickBooks' list of industries is robust, so chances are good you'll find one that's close to what your company does. You can start typing an industry and the program will display options that match what you've typed so far, such as "cater" to display the industry "Restaurant, Caterer, or Bar" shown here. Or you can click the "Help me choose" link to see all the industries the program offers. The Tax ID box is for the federal tax ID number you use when you file your taxes—your Social Security number or Federal Employer Identification Number.

- **Industry**. Choose your industry carefully. Based on your choice, QuickBooks adjusts its settings and chart of accounts to match how your business operates. For example, the program creates income and expense accounts for your type of business and automatically turns on features like sales tax and inventory if your industry typically uses them. If QuickBooks makes assumptions you don't like, you can alter your preferences (page 595) and accounts (page 51) later.

  If you don't see an obvious choice in the Industry list, scroll to the bottom and choose either General Product-based Business or General Service-based Business.

- **Company Type**. The tax form you use depends on the type of business entity you have. This drop-down list contains the most common types, from sole proprietorships and partnerships to corporations and nonprofits. When you select a type, QuickBooks assigns the corresponding tax form to your company file. After you finish creating your company file, you can see the tax form the program selected by choosing Company→Company Information, which brings up the Company Information window shown in Figure 1-7 (page 18). The Income Tax Form Used box at the bottom of that window lists the tax form for your company type.

- **Tax ID**. This box is for the federal tax ID number you use when you file taxes. You don't have to enter it now, but you'll need it come tax time. You'll use a Federal Employer Identification Number (EIN) if your company is a corporation or partnership, you have employees, or fit a few other criteria (go to *www.irs.gov* to see if you need an EIN). Otherwise, your tax ID is your Social Security number or Individual Tax Identification Number (ITIN).

When you finish filling out the first screen, click Continue.

BUSINESS CONTACT INFORMATION

Next, you can enter your basic contact info. If you're itching to start printing and emailing invoices, bills, and other forms, fill in the following fields:

- **Legal Name**. This is the name you use on contracts and other legal documents. Your company name and legal name are usually the same unless you use a DBA (doing business as) company name. If you own a corporation, the legal name is what appears on your Certificate of Incorporation.
- **Contact info**. Enter your mailing address, telephone number, email address, and website address, if you have one. The Zip and Phone fields are the only ones that are required.

Click Preview Your Settings to see which features QuickBooks selected for you based on the industry and company type you provided (Figure 1-3), and to specify the accounts you want to use and where you store your company file. Here's what you can do on each tab in this dialog box:

- **Features Selected**. This tab is purely informational. You can't modify the features that QuickBooks chooses for your company in this dialog box, but once you've used QuickBooks for a while, you can change the program's preferences (Chapter 23) to suit your needs.
- **Chart of Accounts**. This tab lists accounts typically used in your industry. The accounts that the program chose have checkmarks next to their names. You can include or exclude accounts in your chart of accounts by turning their checkmarks on or off.
- **Company File Location**. This tab shows the path on your computer where the program plans to save your company file. To choose a different spot, click Change Location and then select the folder you want. If the folder doesn't exist, in the Browse For Folder dialog box, click Make New Folder. Click OK to close the Browse For Folder dialog box.

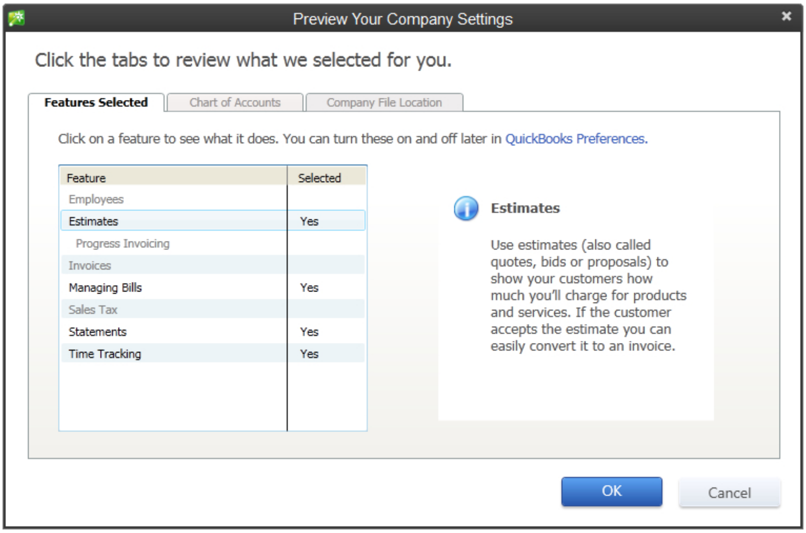


FIGURE 1-3

You can't use this dialog box to change the features listed on the Features Selected tab. However, you can adjust those settings later in the Preferences dialog box (page 608). To modify the accounts in your company file or where the file is stored, click the Chart of Accounts or Company File Location tabs, respectively.

When you've made the changes you want to your company settings, in the Preview Your Company Settings dialog box, click OK to return to the main QuickBooks Setup dialog box.

CREATING YOUR COMPANY FILE

Once everything is the way you want it, click Create Company File. A Working message box appears to show QuickBooks' progress in creating your file. You know it's finished when the "You've got a company file! Now add your info" screen appears. If you have time, you can add your customers, vendors, and employees; the products and services you sell; and your bank accounts. To learn how to do these tasks, jump to "Beginning to Use QuickBooks" on page 15.

Using the EasyStep Interview

The EasyStep Interview also guides you through the setup process, but it gives you more control over setting up your company file than Express Start does. For example, you can provide more info about your company up front and choose which features to turn on.

To access the EasyStep Interview, choose File→New Company and then, in the QuickBooks Setup dialog box, click Advanced Setup. The "Enter your company information" screen appears. As you enter the following info, click Next to proceed to each new screen:

- **Name and contact info**. The first screen wants to know the name of your company, its legal name, tax ID, and your contact info. The "Company name" field is the only one that's required—you can fill in the other fields later on by choosing Company→Company Information.
- **Industry**. On the "Select your industry" screen, choose the industry closest to yours. That way, most of the settings the program chooses will be what you want.
- **Type of company**. On the "How is your company organized?" screen, select the option for your company type. This setting determines which tax form, accounts, and tax form lines you'll use to prepare your business tax return.
- **First month of fiscal year**. When you start a company, you choose a fiscal year. On the "Select the first month of your fiscal year" screen, QuickBooks automatically sets the "My fiscal year starts in" box to January because so many businesses stick with the calendar year for simplicity. If you start your fiscal year in another month, choose it from the drop-down list.
- **Administrator password**. The administrator can do absolutely anything in your company file: set up other users, log in as other users, and access any area of the company file. Although QuickBooks lets you click Next and skip right past the "Set up your administrator password" screen, this is no time for shortcuts, as the box on page 12 explains. Type the password you want to use in both the "Administrator password" and "Retype password" boxes, and then keep the password in a safe but memorable place. (Page 684 explains how to change the administrator name and password.)

CREATING YOUR COMPANY FILE

After you set the administrator password and click Next, the "Create your company file" screen appears. (If you're new to QuickBooks, click the "Where should I save my company file?" link, which opens a Help Article dialog box that explains the pros and cons of storing company files in different places.) When you're ready to create the file, on the "Create your company screen," click Next to specify the filename and location.

UP TO SPEED

Safe Login Practices

Don't even *think* about having everyone who works with a company file share one login. You don't want everyone to have access to payroll data, and you wouldn't know which person to fire if you found any less-than-legal transactions in the file. Even if you run a small business from home, an administrator password prevents the chimney sweep from swiping your business credit card number. Chapter 26 has much more about keeping your QuickBooks files secure, but here are some password basics:

- Set a password that's at least eight characters long and is a combination of letters and numbers.
- Passwords are case sensitive, so make sure that Caps Lock isn't turned on by mistake.
- *Type* the password in both the "Administrator password" and "Retype password" boxes. If you copy and paste the password from the "Administrator password" box into the "Retype password" box, you could copy a typo and not be able to access the company file you just created.

If you forget the administrator login and password or lose the piece of paper they're written on, you won't be able to open your company file without some fancy footwork, so keep a record of them someplace safe. If you've tried everything and your administrator password is still missing in action, see page 686 to learn how to reset it.

QuickBooks opens the Filename for New Company dialog box, which is really just a Save As dialog box. Navigate to the folder where you want to store your company file. QuickBooks automatically sets the "File name" box to the company name you entered, and the "Save as type" box to "QuickBooks Files (*.QBW, *.QBA)." Here are some guidelines for naming and saving your company file:

- If you want to call the file something other than the company name you entered earlier in the interview, simply type a new name in the "File name" box. For example, you may want one that's shorter or that better identifies the company's records within.
- Consider storing your company file in a folder with the rest of your company data so that it gets backed up along with everything else. For example, if you're the only person who uses QuickBooks, you could create a Company Files folder inside your My Documents folder. See page 703 for more about choosing a location for company files.

When you click Save in the Filename for New Company dialog box, QuickBooks may take a minute or so to create the new file. In the meantime, a message box with a progress bar appears. When the company file is ready, the EasyStep Interview displays the "Customizing QuickBooks for your business" screen. Click Next to dig in.

TIP At this point, the progress bar in the left margin of the EasyStep Interview window is depressingly short because you still have to do the bulk of the company file setup. If you need a break before continuing, click Leave. The next time you open that company file, the EasyStep Interview continues where you left off.

CUSTOMIZING YOUR COMPANY FILE

After you click Next on the "Customizing QuickBooks for your business screen," the next several screens of the EasyStep Interview ask questions about your business to help QuickBooks decide which features to turn on, what to include on your QuickBooks Home page, and so on. The interview displays "(recommended for your business)" next to the options that are typical for a company in your industry, as shown in Figure 1-4.

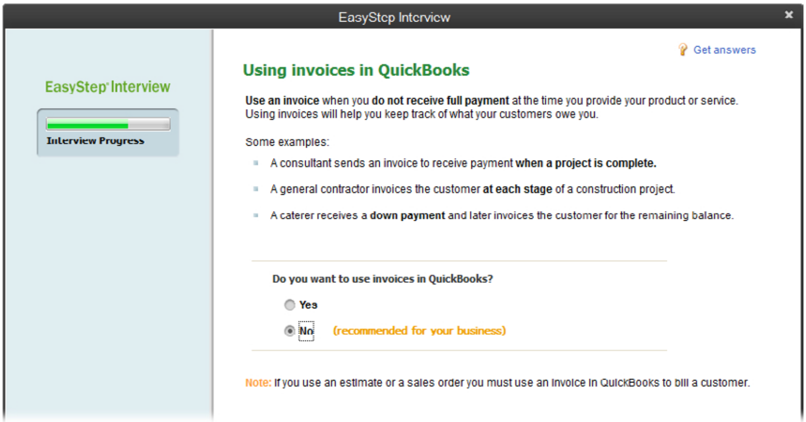


FIGURE 1-4

The EasyStep Interview sticks to the basics, so you'll have more setup to do later. As you step through the screens in this section, make a list of the features you're turning on (and the corresponding page numbers in this book) for reference. If you decide to change any of these settings later, Chapter 23 tells you how.

Here are some guidelines for answering the questions on the screens that follow:

- The **What do you sell?** screen is where you tell QuickBooks whether you offer services, products, or both. When you choose one of these options, the program figures out which types of income accounts you need. If you select "Products only" or "Both services and products," another screen later in the interview asks whether you want to track inventory.
- The **Do you charge sales tax?** screen has only two options: Yes and No. If you're one of the unfortunate souls who has to navigate the rocky shoals of sales tax, select Yes. If you don't charge sales tax, select No. For detailed instructions on dealing with sales tax in QuickBooks, see page 140.
- On the **Do you want to create estimates in QuickBooks?** screen, select Yes or No to turn the estimate feature on or off. If you prepare quotes, bids, or estimates for your customers and want to do so in QuickBooks (page 310), select Yes.

NOTE If you use QuickBooks Premier, the "Tracking customer orders in QuickBooks" screen appears, asking whether you want to use sales orders to track backorders (page 305) or other orders that you plan to fill at a later date. QuickBooks Pro doesn't include this sales order feature.

- The **Using statements in QuickBooks** screen is where you tell the program whether you generate statements to send to customers (page 328). For example, your wine-of-the-month club might send monthly statements to its members. Or a consultant could send invoices for work performed and then send a statement that summarizes the fees, payments, and outstanding balance.
- On the **Using invoices in QuickBooks** screen, select Yes to tell the program that you want to use invoices, which you probably do because invoices are the most flexible sales forms (page 272). If you answer No (if, for example, you own a restaurant), QuickBooks jumps to the "Managing bills you owe" screen.
- If you answer Yes on the "Using invoices in QuickBooks" screen, the **Using progress invoicing** screen asks whether you invoice customers based on the percentage you've completed on a job. To learn why (and how) you might use this feature, see page 315.
- The **Managing bills you owe** screen asks whether you plan to write checks to pay bills immediately (select No) or enter bills in QuickBooks and then pay them later (select Yes). You can read about bill preferences on page 600 and payment preferences on page 618.

TIP Entering bills in QuickBooks (page 219) requires more steps than simply writing checks *without* entering the bills in QuickBooks, but there's a benefit to the extra effort: the program can remind you when bills are due or qualify for timely payment discounts, and keep track of the total you owe.

- **Tracking inventory in QuickBooks** is the screen where you tell the program whether you keep track of the products you have in stock. This screen provides a few examples of when to track or bypass inventory, and page 113 has more about how to decide whether tracking inventory makes sense for your business.
- **Tracking time in QuickBooks** is ideal if you bill by the hour. In that case, select Yes on this screen to track the hours people work and create invoices for their time. Chapter 8 explains how to set up time tracking.
- The **Do you have employees?** screen is where you specify whether you want to use QuickBooks' payroll and 1099 features (select Yes). If you use non-Intuit services to run payroll or generate contractors' 1099s, select No.

When you click Next on the "Do you have employees?" screen, you see the "Using accounts in QuickBooks" screen, and the progress bar indicates that you're almost done with the interview. Click Next to set up these final things:

- The **Select a date to start tracking your finances** screen summarizes what you learned about start dates on page 3. To start at the beginning of this fiscal year (which QuickBooks can figure out using the current calendar year and the starting month you select), choose the "Beginning of this fiscal year: 01/01/13" option. (The year you see listed depends on the current calendar year.) If you've decided to start on a different date, select the "Use today's date or the first day of the quarter or month" option instead. You can then type or choose any date you want in the box, such as the last day of the previous fiscal period.

- The **Review income and expense accounts** screen lists the accounts typically used by companies in your industry, as shown in Figure 1-5.

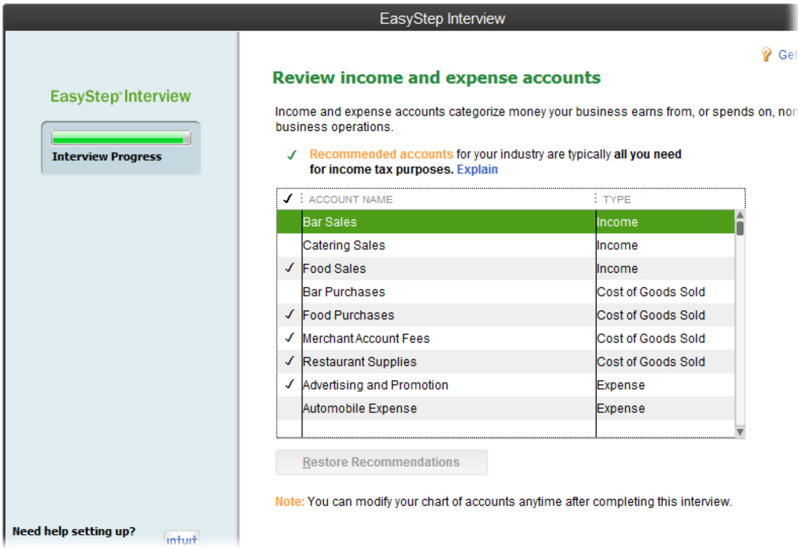


FIGURE 1-5

QuickBooks places a checkmark in front of the accounts that are typical for your industry. Click the checkmark cell for an account to add one that the program didn't select, or click a cell with a checkmark to turn that account off. You can also drag your cursor over checkmark cells to turn several accounts on or off.

When you click Next, you'll see a bright orange, but premature, "Congratulations!" You still have a few more steps to complete before you can open your company file. Click Go to Setup and then read the next section.

Beginning to Use QuickBooks

After you create your company file with Express Start or the EasyStep Interview, you'll see the "You've got a company file!" screen, which is where you perform the additional steps you have to complete, such as adding bank accounts and items you sell. If you want step-by-step guidance through these processes, click one of the Add buttons in these sections:

- **Add the people you do business with**. Adding people you do business with is a snap. Click the first Add button and you can import names from your email program (Outlook, Yahoo, or Gmail), paste data from an Excel workbook, or enter info manually. If you select one of the import options and click Continue, you'll see a table with the names from your email program, as shown in Figure 1-6.

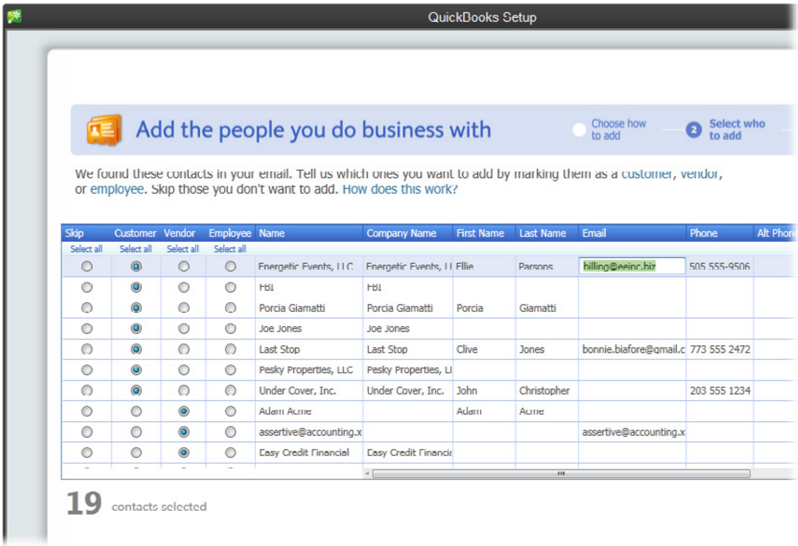


FIGURE 1-6

Initially, QuickBooks selects the Skip option for all the names. That way, you can select the option in the Customer, Vendor, or Employee column for each name you want to import to designate whether it's a customer, vendor, or employee. You can select a cell with info in it (like a name or an email address) and edit the info.

- **Add the products and services you sell**. When you click the Add button in this section, you first choose either the Service or Non-inventory part option, because you fill in different fields for each type of item. Select the Service option to set up services you sell, or select the Non-inventory part option to create products you sell (see page 129 to learn about products you keep in inventory), and then click Continue. Fill in the names, description, and prices, and click Continue again to save your items.
- **Add your bank accounts**. For bank accounts, you fill in the account name, account number, opening balance, and opening balance date.

TIP If you're in the middle of entering names, products and services, or bank accounts, and want to get back to the "You've got a company file!" screen, click Cancel.

After you finish these additional steps, click Start Working to open the Quick Start Center window. You can click icons and links in this window to open the corresponding features, click "Return to Add Info" to reopen the QuickBooks Setup dialog box, or click the X at the top right of the window to close it so you can work directly in the program.

TIP If you'd rather perform these tasks later or want more control over setup, click the Close button (the X at the top-right corner of the Quick Start Center dialog box). Page 18 tells you where to turn in this book for more detailed instructions on the rest of the setup you need.

After you close the QuickBooks Setup dialog box or Quick Start Center window, you see the QuickBooks Home page (page 26), which includes icons for the features you turned on during the EasyStep Interview.

NOTE You may also see the QuickBooks Learning Center window (you can open this window anytime by choosing Help→Learning Center Tutorials), which includes links to tutorials (page 714). In the window, click a link (blue text) to watch a video on that topic.

REOPENING THE QUICKBOOKS SETUP DIALOG BOX

As you've learned in the previous sections, the QuickBooks Setup dialog box offers shortcuts for adding info to your company file. If your data-entry session was cut short by other pressing tasks, you can jump back to this dialog box later to finish the job. Here's how:

1. **Choose Help→Quick Start Center.** At the top right of the Quick Start Center, click "Return to Add Info."

   The QuickBooks Setup dialog box opens to the "You've got a company file!" screen.

2. **Click the Add button for the type of info you want to enter and then jump back to the instructions on page 15.**

When you're done, click the Close button (the X) at the top right of the QuickBooks Setup dialog box to close it and get to work.

Modifying Company Info

In Express Start and the EasyStep Interview, QuickBooks gets the basic facts about your company in small chunks spread over several screens. But after you create your company file, you can edit any of this information in one dialog box, shown in Figure 1-7. To open it, choose Company→Company Information. Remember, your company's legal name and address are the ones you use on federal and state tax forms.

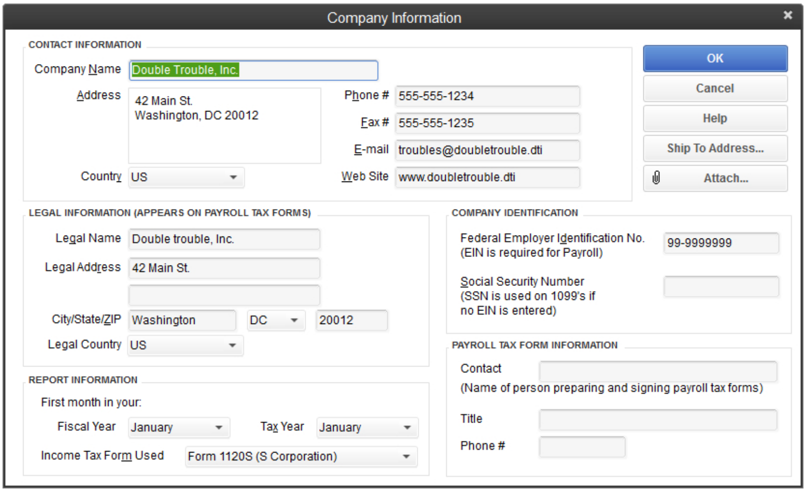


FIGURE 1-7

Some bits of company information change more often than others. For instance, you might relocate your office or change your phone number, email address, or website address. But stuff like your company's legal name and address, Federal Employer Identification Number, and business type (corporation, sole proprietor, and so on) usually stays the same.

What's Next?

Whether you used Express Start or the EasyStep Interview, quite a bit of setup is complete, but you may need guidance for the rest. Look no further than the book in your hands. Here are the ways you can flesh out your company file:

- **Set up your users and passwords**. See "Assigning the Administrator User Name and Password" on page 684.
- **Review and/or change the preferences that QuickBooks set**. See "Preferences: The Basics" on page 596.
- **Set up or edit the accounts in your chart of accounts**. If you didn't set up all your accounts yet, you can create them now. See "Creating Accounts and Subaccounts" on page 51.
- **Create a journal entry to specify accounts' opening balances**. See "Creating General Journal Entries" on page 454.

NOTE See "Recording Owners' Contributions" to learn how to record your initial contribution of cash or assets to your company.

- **Create items for the products and services you sell**. See “What Items Do” on page 111.
- **Set up sales tax codes**. See “Setting Up Sales Tax” on page 140.
- **Set up your 1099 tracking**. See “Tax: 1099” on page 632.
- **Sign up for Intuit Payroll Service**. See “Using an Intuit Payroll Service” on page 409.
- **Enter your historical transactions**. For invoices, see “Creating Invoices” on page 276; for bills, see “Entering Bills” on page 219.

Opening an Existing Company File

After you’ve opened a company file in one QuickBooks session, the next time you launch the program, it opens that same company file automatically. If you keep the books for only one company, you might never have to manually open a QuickBooks company file again.

But if you’re an irrepressible entrepreneur or a bookkeeper who works on several companies’ books, you don’t have to close one company file before you open another. You can open another company file in QuickBooks anytime you want and the program automatically closes the previous one. (Because QuickBooks stores data in a database, you don’t have to save a company file before you close it. And if you use QuickBooks Accountant or Professional Bookkeeper editions, you can have two company files open at the same time, as the Tip below explains.) The following sections describe the different ways to open a company file.

TIP With QuickBooks Accountant, QuickBooks Professional Bookkeeper, and QuickBooks Enterprise, you can have two company files open at the same time. Choose File→Open Second Company, and your computer launches a new instance of QuickBooks. In the new window, double-click the name of the file you want to open. The second company file opens with the text “(Secondary)” after the company name in the QuickBooks window’s title bar. (In the first QuickBooks window, the company name is followed by the text “(Primary).”) There are some restrictions when you open two files, mostly on the secondary file. To learn about these restrictions, search QuickBooks Help for “second company.”

Opening a Recently Opened Company File

If you work on more than one company file, you may frequently switch between them. The easiest way to open a recent file is to choose File→Open Previous Company, and then choose the file you want to open, as shown in Figure 1-8. If the Open Previous Company submenu doesn’t list the file you want, follow the steps in the next section instead.

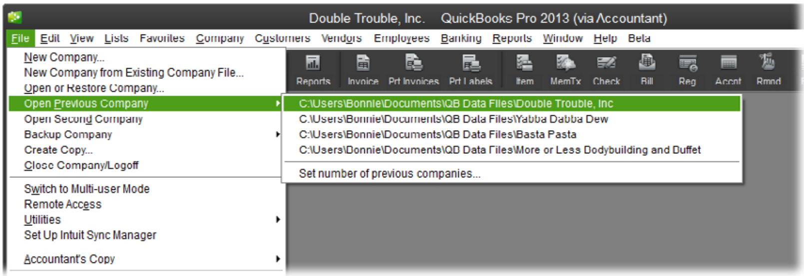


FIGURE 1-8

To open a company file you've worked on recently, select it on the Open Previous Company submenu. If the No Company Open window (not shown here) is visible, you can open a recent file by double-clicking its filename in that window's list. (Opening a sample file is the only task the No Company Open window performs that you can't do from the File menu.)

Opening Any Company File

Sometimes, a company file you want to open falls off the recent-file list. (The box on page 21 explains how to tell QuickBooks how many files to include on the Open Previous Company submenu.) Say your bookkeeping business is booming and you work on dozens of company files every month. Or maybe you want to update a file from a previous version (see the box on page 22). Here's how to open any company file, no matter how long it's been since you last used it:

1. **Choose File→Open or Restore Company.**

   If the No Company Open window is visible, you can click "Open or restore an existing company" instead.

2. **In the Open or Restore Company dialog box, select the "Open a company file" option and then click Next.**

   The Open a Company dialog box appears.

3. **Navigate to the folder with the company file you want and double-click the file's name.**

   You can also click the filename and then click Open.

4. **If the QuickBooks Login window appears (which it will if you've assigned a password to the Administrator user account or set up multiple users), type your user name and password.**

   If the Administrator is the only user, the Password box is the only one that appears. But if you have more than one user for the company file, both the User Name and Password boxes appear.

5. **Click OK.**

   QuickBooks opens the company file, and you're ready to keep the books.

Restoring a Backup File

Backup files are the answer to the adrenaline rush you get when you do something dumb with your company file, your hard drive crashes, or a plume of smoke wafts up from your computer. To restore a backup file, choose File→Open or Restore Company. In the Open or Restore Company dialog box, select the "Restore a backup copy" option, click Next, and then choose the file you want. (To learn how to create backup files, as well as the details on restoring them, see "Backing Up Files" on page 175.)

ORGANIZATION STATION

Fast Access to Several Companies

If you work on several sets of company books at the same time, choosing File→Open Previous Company is the quickest way to hop between company files. Out of the box, QuickBooks lists up to four companies on the Open Previous Company submenu.

If you work with fewer companies, the submenu may have company files that you'd rather forget. You can change the number of companies QuickBooks lists on this submenu to match the number of companies you work with. With a clever workaround, you can also clear out old entries that you don't want to see.

Here's how to change the number of companies on the Open Previous Company submenu:

1. Make sure you have a company file open, and then choose File→Open Previous Company→"Set number of previous companies."
2. In the Set Number of Previous Companies dialog box, type the maximum number of companies you want to see on the submenu, and then click OK. QuickBooks can show up to 20, which it lists starting with the most recent.
3. To clear old entries off the menu, change the number of entries to *1* and then click OK. After you do so, QuickBooks lists only the most recent company file, clearing all the others off the list.
4. If you want to see more than one company, reset the number of entries again, this time to a higher number. Now, when you open another company file, it will appear on the list.

Opening a Portable Company File

A *portable file* is a special type of file that makes QuickBooks company files compact so you can email them more easily. Opening a portable file is similar to opening a regular file:

1. **Choose File→Open or Restore Company.**

   The Open or Restore Company dialog box opens.

2. **Select the "Restore a portable file" option and then click Next.**

   The Open Portable Company File dialog box appears. QuickBooks automatically changes the "Files of type" box to "QuickBooks Portable Company Files (*.QBM)."

3. **Navigate to the folder with the portable file and double-click its name.**

   QuickBooks opens the file.

FREQUENTLY ASKED QUESTION

Updating a QuickBooks File

How do I update a company file to the newest version of QuickBooks?

If you've used a previous version of QuickBooks, your company file is set up to work with that version of the program. When you upgrade to QuickBooks 2013, the program has to make some changes to your company file.

Once you update a company file, your coworkers won't be able to open it until you upgrade their computers to QuickBooks 2013. So to prevent work disruptions, plan to upgrade all copies of QuickBooks and the company file during downtime.

Fortunately, updating a company file is easy: All you have to do is open it in the new version of QuickBooks and follow the onscreen instructions. Here are the steps:

1. In your new version of QuickBooks, choose File→"Open or Restore Company."
2. In the Open or Restore Company dialog box, select the "Open a company file" option, and then click Next.
3. In the Open a Company dialog box, double-click the company file you want to update. If you see the Password box, enter your password.
4. In the Update Company File for New Version dialog box, turn on the "I understand that my company file will be updated to this new version of QuickBooks" checkbox, and then click Update Now.
5. Click OK to create a backup before you upgrade. Follow the steps to create a backup copy of your company file (page 179).
6. When the Update Company message box appears, click Yes to start the update. Keep in mind that the process could take a while if your company file is large or if you're updating from several QuickBooks versions back.

Converting from Another Program to QuickBooks

If you launched your small business from your basement and kept your records with Quicken Home & Business, your accountant has probably recommended that you make the leap to QuickBooks. On the other hand, you may have used another accounting program like Peachtree or Small Business Accounting and have decided to move to QuickBooks. Regardless of which other program you used, the command to convert your records to QuickBooks is the same: File→Utilities→Convert. Then choose From Quicken, From Peachtree, From Microsoft Small Business Accounting, or From Microsoft Office Accounting. (You can also convert a file from the QuickBooks Setup dialog box: Click Other Options and then choose Convert Quicken Data or Convert Other Accounting Software Data.) The rest of this section explains what else you need to know.

Converting from Quicken Home & Business

Quicken doesn't report your business performance in the way that most accountants want to see, nor does it store your business transactions the way QuickBooks does. So if you want the conversion to proceed as smoothly as possible, do some cleanup in your Quicken file first.

For example, record overdue scheduled transactions and send online payments before you convert your Quicken file. Also, while you're in Quicken, delete accounts you no longer need, because once they're in QuickBooks, you can't delete them if they contain any transactions. And make sure that customer names are consistent and unique. QuickBooks doesn't support repeating online payments, so you also have to tell Quicken to delete any repeating online payments you've set up. In addition, you need complete reports of your past payrolls because Quicken payroll transactions don't convert to QuickBooks.

WARNING When you convert from Quicken to QuickBooks, all the names that are converted are added to the Other Names List. You can then change which list the names belong to (page 158 but if your Quicken data file has tons of names, it's easier to export those names to a spreadsheet and then import them by using QuickBooks' Add/Edit Multiple List Entries feature (page 94).

Intuit publishes a detailed guide to help you prepare for a Quicken conversion. Go to *http://tinyurl.com/2af78q5* and follow the instructions there.

NOTE If you've already cleaned up your Quicken file and run into conversion problems in QuickBooks, check the QuickBooks company file for errors by choosing File→Utilities→Verify Data, as described on page 190. Another potential solution is to remove transactions prior to the current fiscal year before converting the file. If nothing you try works *and* you're willing to send your Quicken file to Intuit, contact QuickBooks technical support by choosing Help→Support. (A browser window opens to the Intuit QuickBooks Support page. In the horizontal navigation bar, click Contact Us.) They may agree to convert the file for you (for a fee).

When your Quicken file is ready for conversion to QuickBooks, you have two options in QuickBooks:

- **Choose File→New Company**. In the QuickBooks Setup dialog box, click Other Options and then choose Convert Quicken Data.
- **Choose File→Utilities→Convert→From Quicken**.

Converting from a Non-Intuit Program

To convert files created in other accounting programs, like Peachtree or Small Business Accounting, you have to download a conversion tool from the QuickBooks website. Choose File→Utilities→Convert and then choose the program you want to convert from. In the browser window that opens, fill in the boxes for your name, company name, and email address, and then click Submit.

CHAPTER

2

Getting Around in QuickBooks

You have more than enough to do running your business, so you don't want bookkeeping to take any more time than necessary. The QuickBooks Home page is your command center for all things financial; it helps you get your accounting done quickly and efficiently. The page not only provides a visual roadmap of the bookkeeping tasks you perform regularly, but it also gives you quick access to tasks and information related to vendors, customers, and employees, along with the features and overall financial info you use most often. Click an icon, and the corresponding window or dialog box appears. The Home page also includes Company and Banking panels with icons that open windows like the Chart of Accounts, Item List, Write Checks, and everyone's favorite—Make Deposits.

This chapter explains how to use the workflow icons on the Home page, as well as the Vendor, Customer, and Employees Centers that open when you click the corresponding buttons in the Home page's panels. (The Inventory Center, which is available in QuickBooks Premier and Enterprise, is described on page 506.) You'll also see how to review your company's finances in the Company Snapshot window and keep track of upcoming or overdue to-dos and transactions with the QuickBooks Calendar.

If you typically work with more than one window open in QuickBooks, the Home page might be buried beneath a mosaic of transaction windows, such as Create Invoices and Enter Bills. If that's the case, the top icon bar or the left icon bar (new in QuickBooks 2013) both offer shortcuts to your favorite features. Each icon bar has its pros and cons, so you have to decide which one you prefer (or you can turn them off completely). This chapter shows you how to access QuickBooks features from the menu bar and icon bars, and how to work with all the windows you open during a rousing bookkeeping session.

The Home Page

The QuickBooks Home page (Figure 2-1, background) is a slick way to work through your company's bookkeeping tasks. (If it isn't visible, choose Company→Home Page or click Home in the QuickBooks icon bar to display it.) When you create your company file (page 13), the settings you choose determine what appears on the Home page. Depending on what choices you made during setup, you'll see several *panels*—Vendors, Customers, Employees, Company, and Banking—that each contain various icons. For example, if you tell the Setup wizard that you invoice customers and send statements, the Customers panel includes icons for invoicing and preparing statements. Or if you run a one-person shop with no employees, you won't see the Employees panel.

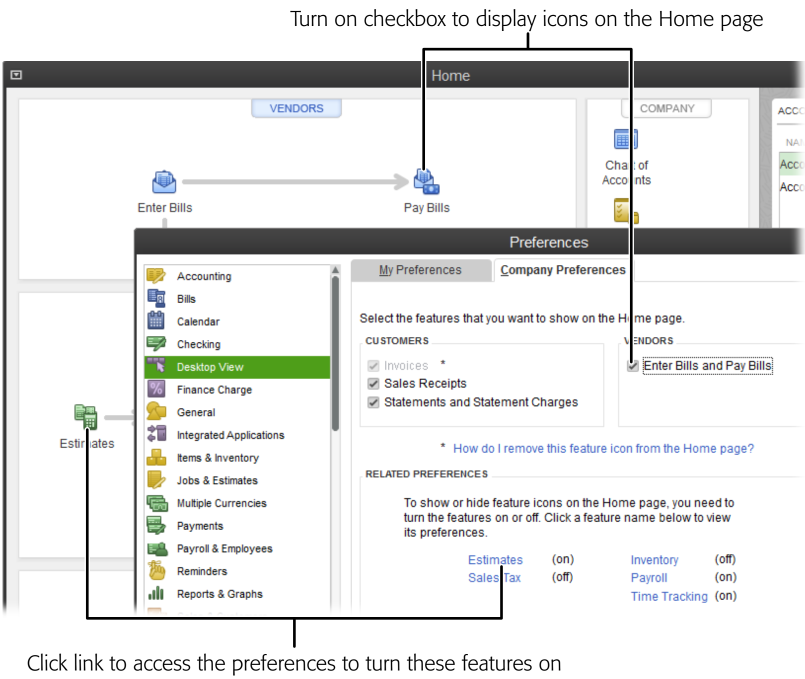


FIGURE 2-1

If a feature you use doesn't appear on the Home page, choose Edit→Preferences→Desktop View and then click the Company Preferences tab (foreground). For example, if you want to enter and pay bills, turn on the "Enter Bills and Pay Bills" checkbox, as shown here. Some features (like Estimates) have their own section of preferences; these features are listed in the bottom half of the Preferences window. To turn one of these features on or off or to adjust its settings, click its icon on the left side of the Preferences window and QuickBooks switches to the corresponding preferences.

The Home page also has icons for other important features, like the Chart of Accounts icon in the Company panel, which opens the Chart of Accounts window, and the Check Register icon in the Banking panel, which opens your checking account register window. This section shows you how to use the Home page to best advantage.

TIP The Home page appears each time you log into a company file. If you prefer to keep the Home page hidden, choose Edit→Preferences→Desktop View, click the My Preferences tab, and then turn off the "Show Home page when opening a company file" checkbox. Then, when you want to see the Home page, simply choose Company→Home Page.

The arrows on the Home page show how bookkeeping tasks fit together so you can follow your money from start to finish. Vendors, customers, and employees each have their own panel on the Home page. The bookkeeping tasks for each group are laid out like breadcrumbs you can follow. Each company is different, so you don't *have* to use every icon you see. This section outlines the tasks you can perform from each panel and where to find detailed instructions elsewhere in this book.

Vendors

Whether you purchase products and services to run your company or to sell to your customers, the Vendors panel steps you through purchasing and paying for the goods and services you use; these steps are described in detail in Chapter 9.

Click the Vendors button at the top of the panel (or choose Vendors→Vendor Center) to open the Vendor Center shown in Figure 2-2, where you can set up and edit vendors, and check the status of purchase orders, bills, and other vendor transactions. The Vendor Center is the best place to create, edit, and view what's going on with your vendors. Here's what you can do there:

- **Create a new vendor**. In the Vendor Center toolbar at the top of the window, click New Vendor→New Vendor and the New Vendor window opens so you can create a new vendor record, as described on page 91. If you click New Vendor→Add Multiple Vendors instead, QuickBooks lets you create several vendors in one window (page 94).

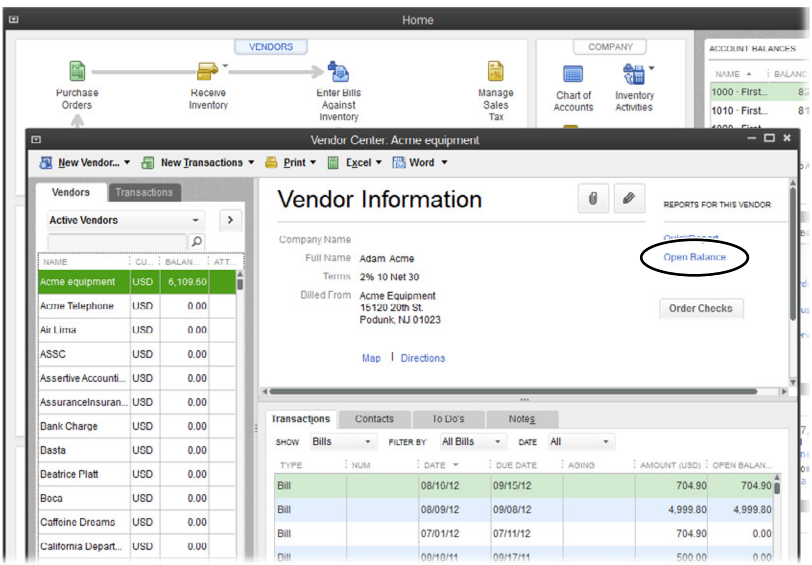


FIGURE 2-2

The Vendor Center puts all vendor-related tasks in a single window. When you choose a vendor in the list on the left, the Vendor Information pane on the right displays info about that vendor and its transactions. Click the Open Balance link (circled) to see how much you owe that vendor. You can even click the Map or Directions link to find out how to get to your vendor.

- **Find a vendor**. If you have a bazillion vendors, you can shorten the vendor list that you see in the Vendors tab on the left side of the center. The tab's unlabeled drop-down list is initially set to Active Vendors. If you want to see active and inactive vendors alike, click the field and choose All Vendors instead. If you'd rather see only the vendors you owe money to, choose Vendors with Open Balances. Choose Custom Filter to specify exactly the criteria you want.

  To do a quick search of vendor records, type part of a vendor's name in the Vendors tab's *second* unlabeled box and then click the Find button, which has a magnifying glass on it. (The Find button changes to a red X, which you can click to clear the value in the Find box and redisplay the full list.)

- **Review a vendor's record**. When you select a vendor on the Vendors tab (shown in Figure 2-2), basic info about that vendor appears at the top right of the window.

- **Edit an existing vendor's record**. To change a vendor's record, on the Vendors tab, right-click the vendor's name and then choose Edit Vendor; or, on the right side of the Vendor Center, click the Edit button (it looks like a pencil). Either way, the Edit Vendor window opens with the same fields you filled in when you created the record (page 91).

- **Attach an electronic document to a vendor record**. You can add attachments to a vendor's record as described on page 344.

- **Create transactions for a vendor**. In the Vendor Center toolbar, click New Transactions to display a drop-down menu of vendor-related features like Enter Bills, Pay Bills, and Receive Items. (These do the same thing as the icons in the Home page's Vendors panel.)

- **Review and manage transactions, contacts, to-dos, and notes for a vendor**. When the Vendors tab is displayed, the bottom-right part of the Vendor Center displays tabs for transactions, contacts, to-dos, and notes. When you select a vendor in the Vendors tab, the Transactions tab at the bottom right of the Center lists that vendor's transactions. By filtering these transactions, you can find out which purchase orders are still open, whether any bills are overdue, and what payments you've made. To see a specific kind of transaction, in the Show drop-down list, choose a type, like Bills or Bill Payments.

  The Filter By drop-down list lets you restrict the transactions in the table by their status, such as Open Bills or Overdue Bills. To track down transactions within a specific date range, choose a date range from the Date drop-down list. (The options in this menu are the same as the ones available in report windows; see page 553.)

  Click the Contacts, To Do's, or Notes tab to create, edit, or view contacts, to-dos, or notes for the selected vendor.

TIP To view a transaction in its corresponding window, double-click the transaction in the list.

- **Review transactions for all vendors**. When you click the Transactions tab on the left side of the window (*not* the bottom right) and then click a type of transaction, such as Bills or Bill Payments, you'll see transactions of that type for all vendors on the right side of the window. You can filter these transactions by status (such as open or overdue), by date, and, if you use multiple currencies, by currency.
- **Print or export vendor information**. In the Vendor Center toolbar, click Print to print vendor lists, vendor info, or vendor transactions. Click Excel to paste, import, or export vendor info and transactions (page 651).
- **Prepare vendor letters**. In the Vendor Center toolbar, click Word to create letters to vendors (page 638).

Customers

The Customers panel has icons for customer-oriented features like creating invoices, statements, sales receipts, and so on. (Chapter 10 describes how to work with invoices, estimates, sales orders, refunds, and customer credits. Chapter 11 covers creating statement charges and statements. Receiving payments and sales receipts for cash sales are both described in Chapter 13.) Click the Customers button at the top of the panel (or choose Customers→Customer Center) to open the Customer Center, where you can perform the following tasks:

- **Create a new customer or job**. In the Customer Center toolbar at the top of the window, click New Customer & Job. In the drop-down menu, choose New Customer to create a new customer record (page 66), or choose Add Multiple Customer:Jobs to add several customers. If you want to add a job to an existing customer, first select the customer in the Customers & Jobs tab on the left side of the Customer Center, and then click New Customer & Job→Add Job (page 76).
- **Find a customer**. You can filter the list in the Customers & Jobs tab list to show active customers, only customers who owe you money (customers with open balances), and so on, simply by choosing an option in the tab's unlabeled drop-down list (it's initially set to Active Customers). Choose Custom Filter to specify criteria for the customers you want to see. To search for a specific customer, type part of the customer's name in the tab's second unlabeled box, and then click the Find button (it has a magnifying glass on it). The Find button changes to a red X, which you can click to clear the value in the Find box and redisplay the complete list.
- **Review a customer record**. When you select a customer in the Customers & Jobs tab, the right side of the center displays the basic 411 about that customer. In the Customer Information section, shown in Figure 2-3, you can get directions to its location, look at key information like the customer's open balance, attach electronic documents to the record, or run reports about the customer.

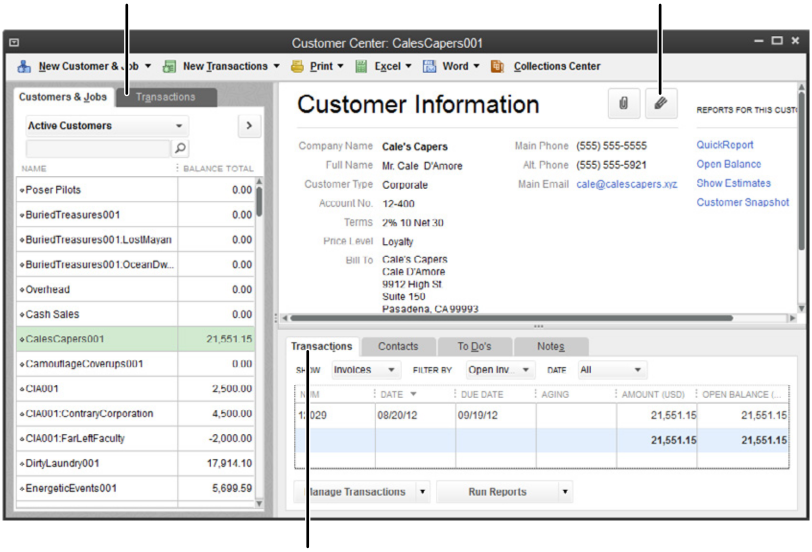


FIGURE 2-3

To open or edit a customer's record, in the Customers & Jobs tab, select the customer so it appears in the Customer Information section. Then click the Edit button labeled here. To see more info about the selected customer, click the Transactions, Contacts, To Do's, or Notes tab at the bottom right of the window. To see transactions for all customers, click the Transactions tab on the left side of the window.

- **Review a customer's status**. On the right side of the Customer Center, click the Customer Snapshot link to open the Company Snapshot window (page 32) to the Customer tab. There, you can quickly scan the customer's recent invoices and payments, look at a bar graph of sales you've made to the customer by time period, and review the items that customer buys the most.
- **Edit an existing customer's record**. To open the Edit Customer window, in the Customers & Jobs tab, either right-click a customer's name and then choose Edit Customer, or select a customer and then click the Edit button that's labeled in Figure 2-3.
- **Attach an electronic document to a customer record**. You can add attachments to a customer's record or scan an image of them into QuickBooks, as described on page 344.
- **Create transactions for a customer**. In the Customer Center toolbar, click New Transactions and then choose a transaction type from the drop-down menu, such as Estimates, Invoices, or Receive Payments. The items in this menu are the same as the icons in the Home page's Customers panel and open the corresponding window to record that type of transaction.

- **Review and manage transactions, contacts, to-dos, and notes for a customer**. When the Customers & Jobs tab is displayed on the left side of the window, the bottom right of the Customer Center includes tabs for transactions, contacts, to-dos, and notes. If you click the Transactions tab, you'll see a table at the bottom right of the Center with the transactions for the customer you select in the Customers & Jobs tab. You can filter these transactions by type (estimates or invoices, for example), status, and date. Double-click a transaction in the list to open a window with details about it. Click the Contacts, To Do's, or Notes tab to create, edit, or view contacts, to-dos, or notes for the selected customer.
- **Review transactions for all customers**. When you select the Transactions tab on the left side of the window and then click a type of transaction (such as Estimate, Invoices, or Received Payments), you'll see transactions of that type for all customers on the right side of the window. Depending on the type you choose, you can filter these transactions by status (such as open or overdue), payment method, date, and, if you use multiple currencies, by currency.
- **Print or export customer information**. In the Center's toolbar, click Print to print customer information (page 169) or click Excel to import or export customer and job info (page 651).
- **Prepare customer letters**. In the Customer Center toolbar, click Word to create letters to customers (page 638).

Employees

The Employees panel has only a few icons. The devilish details arise when you click one of these icons to enter time, set up paychecks, or pay payroll tax liabilities. The Employee Center works the same way as the Vendor and Customer centers you just learned about. To open it, click Employees in the Employees panel of the Home page or choose Employees→Employee Center. (See Chapter 8 to learn how to record the time that employees work. Chapter 14 introduces the process for paying employees and other payroll expenses.)

In the Employee Center, you can create new records for employees, update info for existing employees, and view transactions like paychecks. On the Employees tab on the left side of the Center, you can filter the list to view active employees, released employees (ones who no longer work for you), or all employees.

Company

The Company panel is on the right side of the Home page. The two icons in this panel that you'll probably click most often are Chart of Accounts and Items & Services, which open the Chart of Accounts (page 51) and Item List (page 119) windows, respectively. If you track inventory, click the Inventory Activities icon and then choose a feature, such as Adjust Quantity On Hand, which lets you change the quantity and value of your inventory (page 513). If you use QuickBooks Premier or Enterprise, choose Inventory Center to open a window similar to the Customer Center, except that it focuses on the status of and transactions involving your inventory items (page 506).

Banking

The Home page's Banking panel is a one-stop shop for banking tasks. Whether you visit this panel frequently or almost never depends on how you like to record transactions. For example, you can click the Write Checks icon to open the Write Checks window (page 257) or simply press Ctrl+W to do the same thing. (Or, if you like to record checks in a check register window, you might prefer to double-click your bank account in the Chart of Accounts window instead.) Similarly, clicking the Enter Credit Card Charges icon opens the Enter Credit Card Charges window (page 262), though you can also record credit card charges directly in a credit card account's register (page 414).

Clicking the Record Deposits icon opens the Payments to Deposit dialog box so you can record bank deposits (page 397 The Reconcile icon opens the Begin Reconciliation dialog box so you can reconcile your QuickBooks records to your bank's (page 426). And the Print Checks icon opens the Select Checks to Print dialog box so you can choose the ones you want to print and send them to a printer loaded with blank checks.

NOTE If you use the top icon bar (View→Top Icon Bar), the far-right side of the Home page shows account balances at the top and a link to display reminders at the bottom. In between are a few links to additional services that Intuit offers. You also see a Backup Status section that tells you when your last backup ran and includes info about the Intuit Data Protect backup service (page 180). If any of these sections are collapsed, click the panel's down arrow to expand it. Click a section's up arrow to collapse it.

If you use the left icon bar (View→Left Icon Bar), you can see your account balances by clicking View Balances in the middle section of the bar. See page 662 to learn more about the icon bars.

The Company Snapshot

The Company Snapshot window (choose Company→Company Snapshot or click the Snapshots icon on the icon bar to open it) is a dashboard that shows important aspects of your company's financial state, like account balances, income breakdown (by top-level income accounts), customers who owe money, best-selling items, and reminders, as you can see in Figure 2-4. You can choose from 12 different views (page 667) to see the information you care about most.

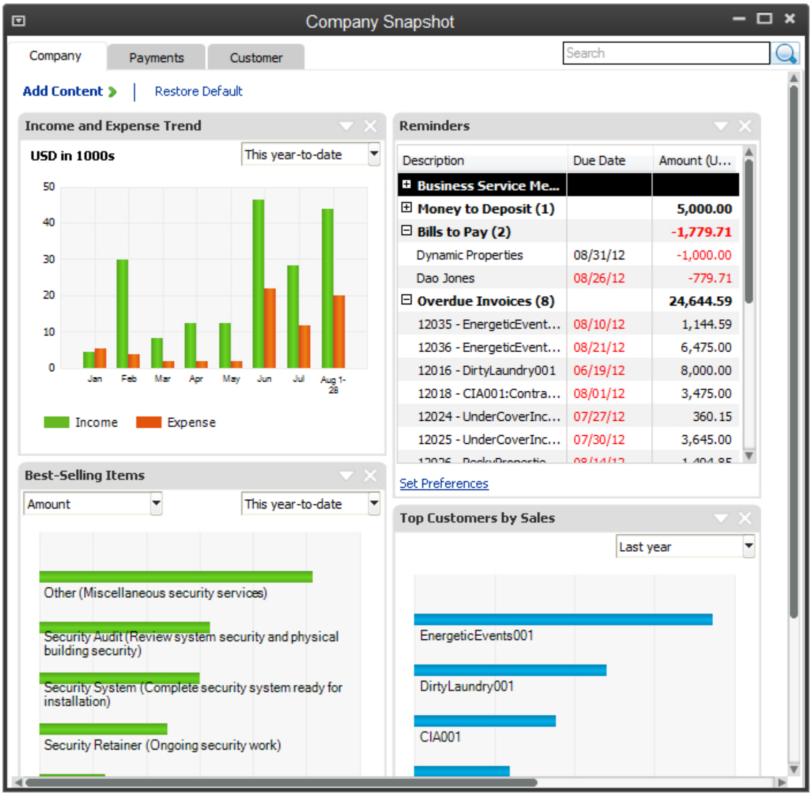


FIGURE 2-4

Not only can you quickly scan your company's financial status in this window, but you can also double-click entries here to dig into the details. You can even add or remove items from the Snapshot window or drag items to rearrange them, as described on page 667.

Your Financial Calendar

Paying a bill late can result in a whopping late fee. Conversely, you can leave money on the table if you don't take advantage of early payment discounts. And it's bad form to forget to do things like call people or send them info. The Calendar window (Figure 2-5) acts as a dashboard that shows when transactions and to-dos are due. To open it, choose Company→Calendar, or click the Calendar icon on the icon bar.

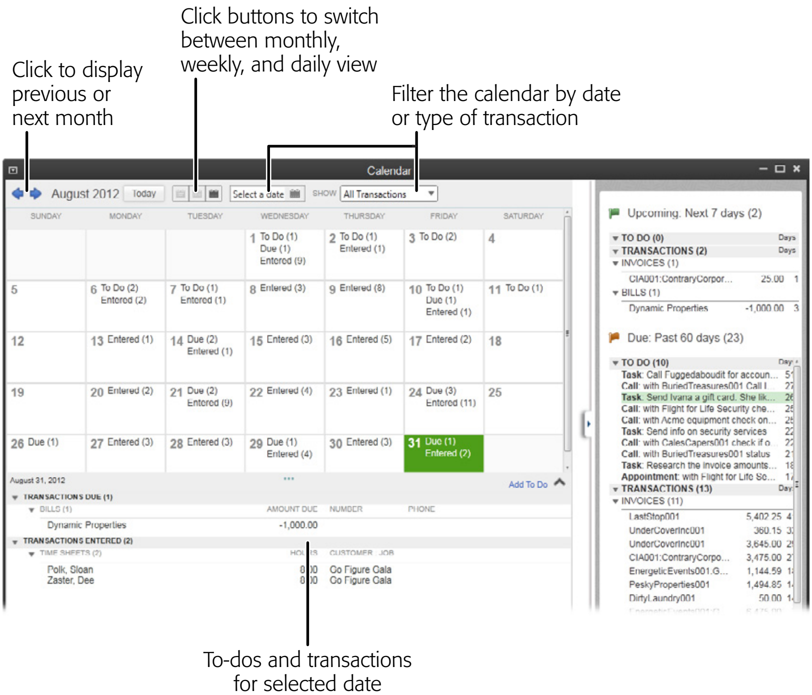


FIGURE 2-5

Each square shows what happened or is supposed to happen on that day. Click a date square to see the transactions due on that day. When To Do appears on a day, there's a to-do that is due on that day; Due indicates that transactions are due on that day; and Entered shows how many transactions were recorded with that date. The panel on the right shows all the to-dos and transactions that are coming up or past due as of today.

NOTE The Calendar window's toolbar includes icons and boxes for controlling your view. Here's what they do from left to right: Click a blue arrow to move to the previous or next time period. Click Today to select the square for today's date. Click the icons to display one day, one week, or one month, respectively. Use the Show drop-down list to pick the transactions you want to see in the calendar.

Out of the box, the Calendar window has three panes:

- The **calendar** displays an entire month initially. Each day in the calendar summarizes the transactions and to-dos for that day, as shown in Figure 2-5.

TIP If you want to see more detail in the calendar, switch to a weekly or even a daily view. To the right of the Today button, click the first button to display a single day in the calendar pane. The daily view shows transactions and to-dos for a day, similar to what you see in the bottom pane of the Calendar. Click the second button to display a weekly view.

- The **Upcoming and Due pane** on the right lists the to-dos and transactions that are on deck or past due as of today, which is incredibly handy for staying on top of your bookkeeping and business activities. Double-click a to-do to open the Edit To Do dialog box with the details about what you're supposed to do and when. Double-click a transaction to open it in its corresponding window (such as Create Invoices for an invoice).

- The **activity pane** at the bottom of the window lists the to-dos and transactions for the date you select in the calendar. The customer's telephone number is listed for invoices, which is handy if you want to call and find out when you can expect a payment. If a day is particularly busy, you can expand this bottom pane by pointing your cursor at the three blue dots at the top of the pane and then dragging.

NOTE To hide the "Upcoming and Due" pane, click the right arrow on its left edge; to restore this pane, click the left arrow on the Calendar pane's right edge. To collapse the activity pane, click the up arrow at its top right; to expand the pane, click the down arrow. If you click Daily View, the calendar disappears; to restore the calendar, click the Weekly View or Monthly View button.

Menus and the Icon Bars

Although the Home page guides you through bookkeeping tasks, QuickBooks veterans may still prefer to use the menu bar at the very top of the QuickBooks window (Figure 2-6) to launch different activities. The menu bar is handy because it's always visible and serves up every feature QuickBooks has to offer.

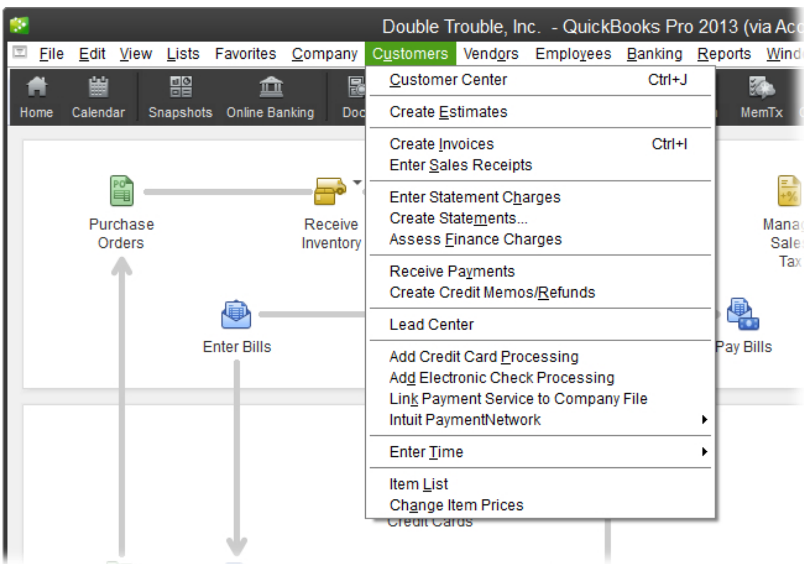


FIGURE 2-6

Every feature that QuickBooks has is always within reach via the menu bar. Choose a top-level menu like Customers (shown here), and then choose an entry from the drop-down menu or a submenu. For one-click access to your favorite features, use the top icon bar (shown here) or left icon bar, both of which you can customize to include the features and reports you use the most (page 662).

In QuickBooks 2013, you can use the View menu to choose between two icon bars: the top icon bar and the left icon bar. The top icon bar has been around for years. It sits just below the QuickBooks menu bar and displays your favorite features as icons with brief identifying labels. Click an icon, such as Home, Calendar, or Customers, and the corresponding feature launches. If you haven't graduated to a large widescreen monitor, this icon bar is both convenient and space-saving. (If you *really* need more space, you can hide the icon bar by choosing View→Hide Icon Bar.)

The left icon bar (see Figure 2-7) is new in QuickBooks 2013 and offers access to more features than the top icon bar. Here's what the entries in the middle section of the left icon bar do:

- **My Shortcuts**. This entry is selected initially. It displays your favorite shortcuts at the top of the left icon bar. These shortcuts are the same ones you see on the top icon bar, such as Home, Calendar, Snapshots, Reports, and so on.
- **My Apps**. If you use add-on programs, click this entry to access those programs or find new ones.
- **Do Today**. Unsurprisingly, when you click this entry, the top section of the left icon bar lists transactions and to-dos that are due today.
- **View Balances**. When you use the left icon bar, the Home page doesn't display account balances on the right side as it does when you use the top icon bar. To see your account balances at the top of the left icon bar, click this entry.
- **Run Favorite Reports**. Clicking this entry lists the reports that you've flagged as your favorites (page 544). The reports you see are the same ones that appear on the Favorites tab of the Report Center.
- **Open Windows**. If you turn on the preference to use multiple windows (page 605), you can click this entry to see a list of the open windows at the top of the left icon bar. Click a window's name to make it active. This entry displays the same windows you see if you choose View→Open Window List when you use the top icon bar, as described in the next section.

TIP The left icon bar takes up a couple of inches on the left side of the main QuickBooks window, so it's more useful if you use a widescreen monitor. With older and smaller monitors, you'll have trouble fitting the left icon bar and your transactions windows onscreen at the same time.

After shortcut menus and keyboard shortcuts (see Appendix C, online at *www.missing-manuals.com/cds*), icon bars are the fastest way to launch your favorite features. You can add features, memorized reports, and windows you open often to them—and remove features you don't use. Page 662 tells you how to customize the icon bars.

Switching Among Open Windows

If you tend to work on one bookkeeping task for hours on end, you can set QuickBooks up to display one full-size window at a time (page 605). That way, when you open additional windows, they get stacked on top of each other so you see only the last one you opened. If you go with the one-window approach, you can choose the window you want to see in several ways:

- Click Open Windows in the left icon bar, shown in Figure 2-7. Then, click the name of the window you want in the list at the top of the left icon bar.
- If you use the top icon bar, you can see a list of open windows by choosing View→Open Window List. Then, in the list, simply click the name of the window you want to work with.
- On the menu bar, choose Window, and then choose the name of the one you want to see.

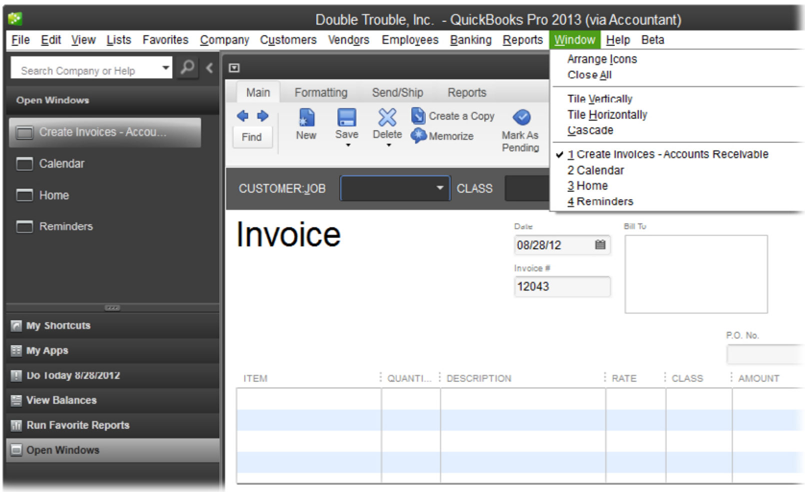


FIGURE 2-7

If you focus on one window, you can switch to another window by clicking the Window menu at the top of the screen and choosing the window you want to display. When you have multiple windows open, the Window menu includes entries for arranging them, such as Cascade and Tile Vertically.

If, on the other hand, you flit between bookkeeping tasks like a honeybee in an alfalfa field, you probably want to display several windows at a time. QuickBooks can do that. Like windows in other programs, simply click a window to bring it to the front, or use the buttons in its upper right to minimize, maximize, or close it. You can reposition windows by dragging their title bars, or resize them by dragging their edges and corners.

To learn how to tell QuickBooks which window setup you prefer, see page 605.

Supermax View

New in QuickBooks 2013, you can expand transaction windows, such as Create Invoices, to Supermax view, which is perfect when you want to see more information in a transaction window, as shown in Figure 2-8.

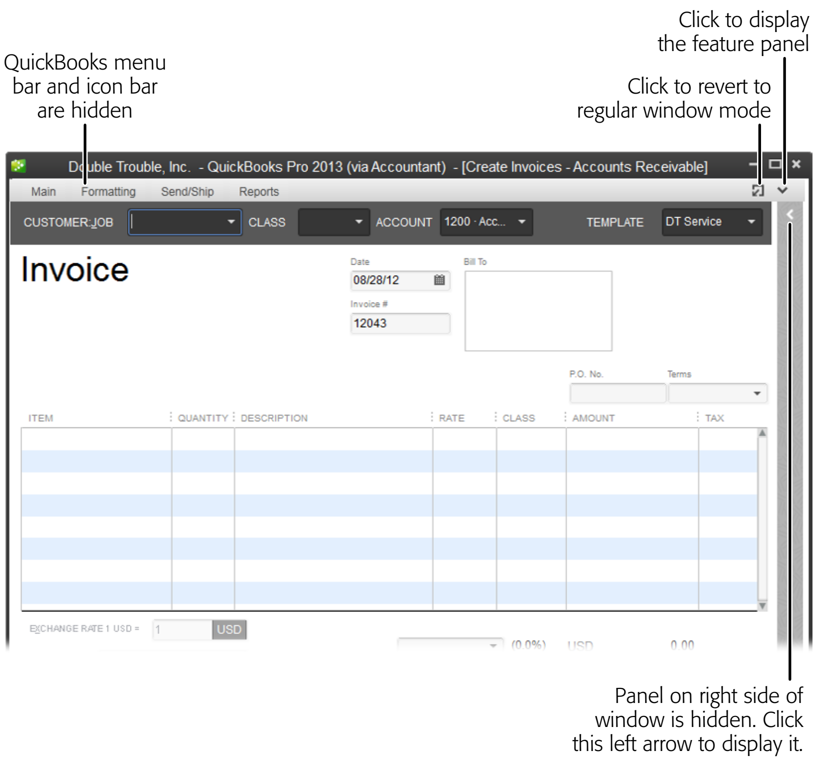


FIGURE 2-8

Supermax view hides the menu bar, the icon bar, and the feature panel at the top of the transaction window. It also hides the transaction history panel on the right side of the window. You can restore or hide the feature panel and transaction history by clicking the appropriate arrows (shown here).

This view does several things so you can see more of the data entry lines:

- Hides the QuickBooks menu bar and icon bar (if you use one)
- Minimizes the feature panel (a.k.a. the ribbon, if you're familiar with Microsoft's ribbon) at the top of the window
- Fills the entire QuickBooks window with the transaction window you Supermaxed
- Hides the transaction history panel on the right side of the window

To switch a transaction window to Supermax mode, at the top right of the window, click the icon that looks like a four-headed arrow. To revert to regular window mode, click the icon again. (When the window is in Supermax mode, the icon looks like a square with an arrow pointing to its bottom-left.)

NOTE When you revert to regular window mode, the QuickBooks menu bar, icon bar, and feature panel at the top of the transaction window all reappear. However, the transaction window is maximized to fill the rest of the QuickBooks main window. If you want to restore the window to its previous size, click the Maximize button (it looks like two offset windows) at the top right of the main QuickBooks window.

CHAPTER

3

Setting Up a Chart of Accounts

If you've just started running a business and keeping your company's books, all this talk of accounts, credits, and debits might have you flummoxed. Accounting is a cross between mathematics and the mystical arts; its goal is to record and report the financial performance of an organization. The end result of bookkeeping and accounting is a set of financial statements (page 467), but the starting point is the chart of accounts.

In accounting, an *account* is more than a real-world account you have at a financial institution; it's like a bucket for holding money used for a specific purpose. When you earn money, you document those earnings in an income account, just as you might toss the change from a day's take at the lemonade stand into the jar on your desk. When you buy supplies for your business, that expense shows up in an expense account that works a lot like the shoebox you throw receipts into. If you buy a building, its value ends up in an asset account. And if you borrow money to buy that building, the mortgage owed shows up in a liability account.

Accounts come in a variety of types to reflect whether you've earned or spent money, whether you own something or owe money to someone else, as well as a few other financial situations. Your *chart of accounts* is a list of all the accounts you use to track money in your business.

Neophytes and experienced business folks alike will be relieved to know that you don't have to build a chart of accounts from scratch in QuickBooks. This chapter explains how to get a ready-made chart of accounts for your business and what to do with it once you've got it. If you want to add or modify accounts in your chart of accounts, you'll learn how to do that, too.

NOTE Industry-specific Premier editions of QuickBooks include a chart of accounts, an Item list, payroll items, and preferences already tuned to your industry (such as construction, manufacturing, nonprofit, professional services, or retail). The industry-specific editions also have features unique to each industry, like enhanced job costing in the Contractor edition. These features may save you time during setup and your day-to-day bookkeeping, but you have to decide whether you want to spend a few hundred dollars more than the QuickBooks Pro price tag (page xx) to get them.

Acquiring a Chart of Accounts

When you create a new QuickBooks company file and choose an industry (page 8), the program automatically sets up the chart of accounts with accounts that are typical for that industry. For example, if you choose a product-oriented industry, you'll see an income account for product or parts income, while a service-oriented business gets an income account for labor income. If your company is like many small businesses, the chart of accounts that QuickBooks creates includes everything you need.

However, if you want to customize your chart of accounts to mirror your company's needs, the easiest—although probably not the cheapest—way to get a chart of accounts is from your accountant. Accountants understand the accounting guidelines set by the Financial Accounting Standards Board (FASB—pronounced "faz bee"), a private-sector organization that sets standards with the SEC's blessing. When your accountant builds a QuickBooks chart of accounts for you, you can be reasonably sure that you have the accounts you need to track your business and that those accounts conform to accounting standards. If you're a business owner and want a specific account or want to see your business financials in a particular way, ask your accountant to set that up for you.

NOTE Don't worry—getting an accountant to build a chart of accounts for you probably won't bust your budget, since the accountant won't start from scratch. Many financial professionals maintain spreadsheets of accounts and build a chart of accounts by importing a customized account list into QuickBooks. Or, they may keep QuickBooks company files around to use as templates for new files.

Importing a Chart of Accounts

If you don't want to pay an accountant to create a chart of accounts for you, how about finding one built by experts and available at no charge? A quick search on the Web for "QuickBooks chart of accounts" returns links to sites with predefined charts of accounts. For example, if you run a restaurant, you can go to *www.rrgconsulting.com/restaurant_coa.htm* and download a free .iif file with a restaurant-oriented chart of accounts that you can import into QuickBooks, as explained in the next section.

In the not-for-profit world, the National Center for Charitable Statistics website (*http://nccs.urban.org/projects/ucoa.cfm*) includes downloadable QuickBooks files that contain the Unified Chart of Accounts for nonprofits (known as the UCOA). You can download a QuickBooks backup file of a nonprofit company file, complete with a chart of accounts (see page 184 to learn how to restore a backup file), an .iif file that you can import into QuickBooks, or a backup file for the Mac version of QuickBooks.

IMPORTING ACCOUNTS FROM EXCEL

If you have an Excel spreadsheet with your company account information, you can import that info directly into your company file. The full story on importing from Excel is on page 654, but here are the basic steps:

1. **Open the QuickBooks Chart of Accounts window.**

   Press Ctrl+A or, at the top right of the Home page, in the Company panel, click Chart of Accounts.

2. **At the bottom of the Chart of Accounts window, click Account→Import from Excel.**

   The "Import a file" dialog box opens.

3. **Click Browse and locate the file that contains the accounts you want to import; click its filename and then click Open.**

   The filename appears in the File box.

4. **If necessary, in the "Choose a sheet in this Excel workbook" drop-down list, select the worksheet with the data, as shown in Figure 3-1.**

   Keep the "This data file has header rows" checkbox turned on if the Excel worksheet includes a row with the names of the fields you're importing.

5. **In the "Choose a mapping" drop-down list, pick < Add New >. In the Mappings dialog box that appears, type a name in the "Mapping name" box, such as Imported Accounts.**

   A *mapping* is when you designate which fields from one program match up with fields in another program so you can transfer data between the programs. The left side of the Mapping dialog box lists the fields for accounts.

6. **For each QuickBooks account field, click the cell in the corresponding "Import data" column and choose the matching spreadsheet header name or column.**

   If the spreadsheet doesn't have a header row, you have to choose Column A, Column B, and so on.

7. **When you've completed your choices, click Save to close the Mappings dialog box, and then click Import in the "Import a file" dialog box to create accounts from the imported data.**

   QuickBooks displays a message box that recommends that you back up your company file first. Click Yes. Then, when the backup and import are done, you'll see a message telling you whether the import was successful.

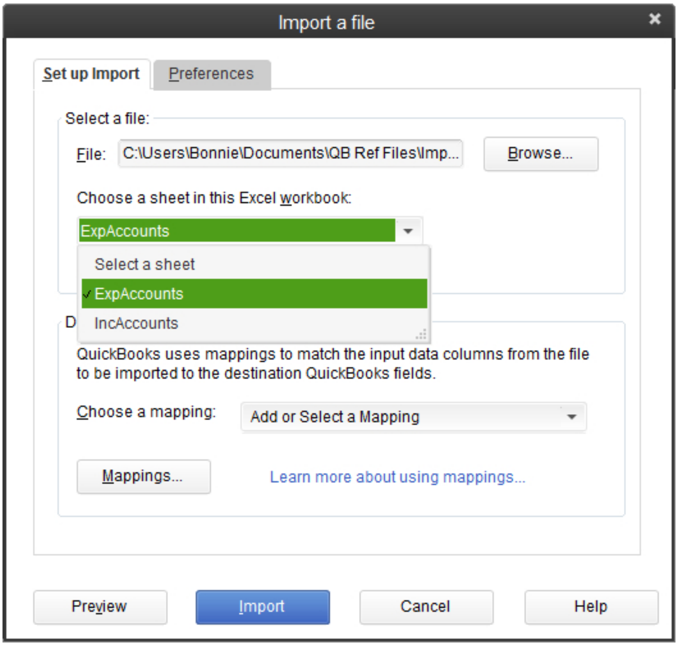


FIGURE 3-1

If the Excel workbook contains more than one worksheet, choose the one you want to use. For example, if your workbook has worksheets for income and expense accounts, you can import only the expense accounts by choosing the worksheet for those accounts.

IMPORTING A DOWNLOADED CHART OF ACCOUNTS

If you download an .iif file with a chart of accounts, you can import that file into a QuickBooks company file. Because you're importing a chart of accounts, you want to create your company file with basic info about your company and as few accounts as possible in the Chart of Accounts list. Here's how you create a QuickBooks company file with bare-bones information so you can import a chart of accounts from an .iif file:

1. **Choose File→New Company; in the QuickBooks Setup window that appears, click Express Start.**

2. **On the "Tell us about your business" screen, enter your company's name, type, and Tax ID. In the Industry box, type Other/None, and then click Continue.**

3. **On the "Enter your business contact information" screen, do just that.**

   See Chapter 1 for details. If you click Preview Your Settings and then click the "Chart of Accounts" tab, you see that the accounts list is empty. Click OK to close the preview window.

4. **After you finish filling in your contact info, click Create Company File.**

   QuickBooks creates your company file and then displays the "You've got a company file! Now add your info" screen in the QuickBooks Setup window.

5. **To close the QuickBooks Setup window, click Start Working.**

   You can also close the QuickBooks Setup window by clicking the X at the window's upper right.

6. **Choose File→Utilities→Import→IIF Files.**

   QuickBooks opens the Import dialog box to the folder where you stored your company file and sets the "Files of type" box to "IIF Files (*.IIF)."

7. **Navigate to the folder that contains the .iif file you want to import, select the file, and then click Open.**

   A message box appears that shows how the import is progressing. If all goes well, QuickBooks then displays a message box that tells you that it imported the data successfully. Click OK. If QuickBooks ran into problems with the data in the .iif file, it tells you that it didn't import the data successfully. In that case, you have to open the .iif file in a text editor or Excel and correct the account info. (You can see what information QuickBooks expects by exporting an account list, as described on page 649.)

To admire your new chart of accounts, in the QuickBooks Home page's Company panel, click Chart of Accounts (or press Ctrl+A). Now that your chart of accounts is in place, you can add more accounts, hide accounts you don't need, merge accounts, or edit the accounts on the list. The rest of this chapter explains how to do all these things.

Planning the Chart of Accounts

A chart of accounts is a tool for tracking your company's finances at a relatively high level—it helps you produce financial statements (see page 467) and prepare your business tax returns. When setting up your chart of accounts, bear in mind that it will be easier to work with if you keep the number of accounts to a minimum. (Even the income statements for ginormous global corporations typically fit on a single page.) This section helps you figure out which accounts you need and provides guidelines for naming and numbering them.

Do You Need Another Account?

QuickBooks offers several features—including items, jobs, and classes—that can provide details about your company's performance without you having to add additional accounts. So before you create an account, think about whether another feature can track the information you want instead. Here's a brief description of what each feature does and when to use it:

- **Accounts**. When you create transactions in QuickBooks, the program allocates money to accounts in your chart of accounts. Then, when you run a Profit & Loss report (page 468), you see financial results by account. So create a new account if you want to see a particular pool of money broken out in your financial reports. For example, add an income account for services you're offering in addition to your product sales.

NOTE Subaccounts (page 54) are an option if you want to break one category into several smaller pieces, such as divvying travel expenses up into airfare, lodging, transportation, and meals.

- **Items.** In QuickBooks, items track details about what you buy and sell. For example, you might create dozens of items for each specific service you provide, such as cutting down trees, cutting logs, chipping wood, splitting wood, and hauling trash. However, each of those items can be assigned to the same services income account. Chapter 5 provides the full story on items.
- **Jobs.** If you work on different projects for the same customer, you can create jobs in QuickBooks (page 76). That way, you can assign invoices to specific jobs and track income by job. You can also make bills or other expenses billable to specific jobs to track job expenses.
- **Classes.** If your business is broken into segments, such as regions, business units, or partners in a partnership, you can turn to classes (page 598). You can assign a class to each transaction, such as an invoice or bill, which lets you track income and expenses across accounts, customers, and vendors. For example, if you create a class for each business unit, you can assign the appropriate class to each transaction you record. Then, a Profit & Loss report by class (page 474) will produce an income statement for each business unit in the company.

Naming and Numbering Accounts

Account names and numbers make it easy for accountants, bookkeepers, and company employees to find the accounts they need. In addition, with standardized naming and numbering, you can compare your company's financial performance to others in your industry. This section suggests some rules to follow as you set up naming and numbering conventions.

If you accept the accounts that QuickBooks recommends when you set up your company file, then they already have assigned names and numbers, as shown in Figure 3-2. You might think that lets you off the hook. But by taking the time to learn standard account numbers and names, you'll find working with accounts more logical, and you'll understand more of what your accountant and bookkeeper say.

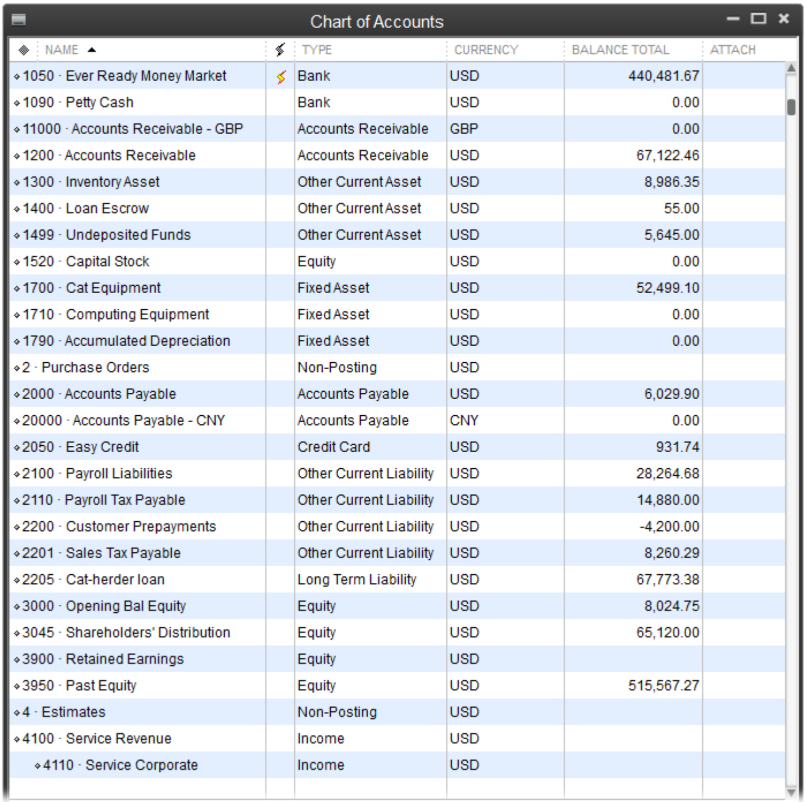


Chart of Accounts

NAME	⚡	TYPE	CURRENCY	BALANCE TOTAL	ATTACH
1050 · Ever Ready Money Market	⚡	Bank	USD	440,481.67	
1090 · Petty Cash		Bank	USD	0.00	
11000 · Accounts Receivable - GBP		Accounts Receivable	GBP	0.00	
1200 · Accounts Receivable		Accounts Receivable	USD	67,122.46	
1300 · Inventory Asset		Other Current Asset	USD	8,986.35	
1400 · Loan Escrow		Other Current Asset	USD	55.00	
1499 · Undeposited Funds		Other Current Asset	USD	5,645.00	
1520 · Capital Stock		Equity	USD	0.00	
1700 · Cat Equipment		Fixed Asset	USD	52,499.10	
1710 · Computing Equipment		Fixed Asset	USD	0.00	
1790 · Accumulated Depreciation		Fixed Asset	USD	0.00	
2 · Purchase Orders		Non-Posting	USD		
2000 · Accounts Payable		Accounts Payable	USD	6,029.90	
20000 · Accounts Payable - CNY		Accounts Payable	CNY	0.00	
2050 · Easy Credit		Credit Card	USD	931.74	
2100 · Payroll Liabilities		Other Current Liability	USD	28,264.68	
2110 · Payroll Tax Payable		Other Current Liability	USD	14,880.00	
2200 · Customer Prepayments		Other Current Liability	USD	-4,200.00	
2201 · Sales Tax Payable		Other Current Liability	USD	8,260.29	
2205 · Cat-herder loan		Long Term Liability	USD	67,773.38	
3000 · Opening Bal Equity		Equity	USD	8,024.75	
3045 · Shareholders' Distribution		Equity	USD	65,120.00	
3900 · Retained Earnings		Equity	USD		
3950 · Past Equity		Equity	USD	515,567.27	
4 · Estimates		Non-Posting	USD		
4100 · Service Revenue		Income	USD		
4110 · Service Corporate		Income	USD		

FIGURE 3-2

Accounts that QuickBooks adds to your chart of accounts during setup come with assigned names and numbers. If you don't see account numbers in the Chart of Accounts window (open it by pressing Ctrl+A), page 598 tells you how to display them.

ORGANIZING ACCOUNT NUMBERS

Account numbers are initially turned off when you create a new company file in QuickBooks (page 598 explains how to display them), and you don't have to use them. However, account numbers make it easier for your bookkeeper or accountant to work with your financial records. This section explains the typical numbering convention that financial folks use.

Companies reserve ranges of numbers for different types of accounts, so they can identify the *type* of account by its number alone. Business models vary, so you'll find account numbers carved up in different ways depending on the business. Think about your personal finances: You spend money on lots of different things, but your income derives from a precious few sources. Businesses and nonprofits are no different. So you might find income accounts numbered from 4000 to 4999 and expense accounts using numbers anywhere from 5000 through 9999 (see Table 3-1).

TABLE 3-1 *Typical ranges for account numbers*

RANGE	ACCOUNT TYPE
1000–1999	Assets
2000–2999	Liabilities
3000–3999	Equity
4000–4999	Income
5000–5999	Cost of goods sold, cost of sales, job costs, or general expenses
6000–7999	Expenses, overhead costs, or other income
8000–9999	Expenses or other expenses

NOTE Most businesses use the same account-numbering scheme up until the number 4999. After that, things can differ because some companies require more income accounts, but in most businesses, expense accounts are the most numerous.

Account numbering conventions don't just carve number ranges up for account types. If you read annual reports as a hobby, you know that companies further compartmentalize their finances. For example, assets and liabilities get split into *current* and *long-term* categories. (Current means something that's expected to happen within the next 12 months, such as a loan that's due in 3 months; long-term is anything beyond 12 months.) Typically, companies show assets and liabilities progressing from the shortest to the longest term, and the asset and liability account numbers follow suit. Here's one way to allocate account numbers for current and progressively longer-term assets:

- **1000–1099.** Immediately available cash, such as a checking account, savings account, or petty cash.
- **1100–1499.** Assets you can convert into cash within a few months to a year, including accounts receivable, inventory assets, and other current assets.
- **1500–1799.** Long-term assets, such as land, buildings, furniture, and other fixed assets.
- **1800–1999.** Other assets.

Companies also break expenses down into smaller categories. For example, many companies keep an eye on whether their sales team is doing its job by tracking sales expenses separately and monitoring the ratio of sales to sales expenses. Sales expenses often appear in the 5000–5999 range. QuickBooks reinforces this standard by automatically creating a Cost of Goods Sold account numbered 5001. (In fact, you can create as many Cost of Goods Sold accounts as you need to track expenses that relate directly to your income, such as the cost of purchasing products you sell, as well as what you pay your salespeople.) Other companies assign overhead expenses to accounts in the 7000–7999 range, so they can assign a portion of those expenses to each job performed.

TIP When you add new accounts to your chart of accounts, increment the account number by 5 or 10 to leave room in the numbering scheme for similar accounts you might need in the future. For example, if your checking account number is 1000, assign 1010 or 1015 to your new savings account rather than 1001.

In QuickBooks, an account number can be up to seven digits long, but the program sorts numbers beginning with the leftmost digit. So if you want to categorize in excruciating detail, slice your number ranges into sets of 10,000. For example, assets range from 10000 to 19999; income accounts span 40000 to 49999, and so on.

NOTE QuickBooks sorts accounts by type and then by number, beginning with the leftmost digit. For example, account 4100020 appears before account 4101.

VIEWING ACCOUNT NUMBERS

If you want to see or hide account numbers in QuickBooks, here's how to turn them on or off:

1. **Choose Edit→Preferences.**

   The Preferences dialog box opens.

2. **On the left side of the dialog box, click the Accounting icon, and then in the middle, click the Company Preferences tab.**

   You have to be a QuickBooks administrator (page 684) to open the Company Preferences tab.

3. **Turn on the "Use account numbers" checkbox to show account numbers.**

   To hide them, turn *off* this checkbox.

4. **Click OK to close the Preferences dialog box.**

With this setting turned on, account numbers appear in the Chart of Accounts window, account drop-down lists, and account fields. In addition, the Add New Account and Edit Account windows display the Number box, so you can add or modify an account's number.

NOTE Turning off the "Use account numbers" checkbox doesn't remove account numbers you've already added; it simply hides them in the spots mentioned above. You can see them again by simply turning the checkbox back on. However, you can't *add* account numbers to any accounts you create while the checkbox is turned off. If you create an account anyway, you can edit it (page 57) to add an account number.

CHOOSING GOOD ACCOUNT NAMES

Account names should be meaningful, both to you and your accountant (or bookkeeper). In addition, your accounts should be unique in name and function because you don't need two accounts for the same type of income, expense, or financial bucket. For example, if you consider advertising and marketing two distinctly different activities, then create an account for each. But if advertising and marketing blur in your mind, then create one account with a name like "Marketing & Advertising."

NOTE Because accounts represent high-level categories, stick to names that summarize the income or expense, such as Service Income and Product Income. If your account names are something like Tom's Consulting, Dick's Consulting, and Harry's Consulting, your accounts and their names are too specific—and might cause confusion if Rosie takes over Harry's work.

QuickBooks does its part to enforce unique account names. Say you try to create a new expense account named "Postage," but an account by that name already exists. QuickBooks displays the message, "This name is already in use. Please use another name." What QuickBooks *can't* do is ensure that each account represents a unique category of money. Without a naming standard, you could end up with multiple accounts with unique names, each representing the same category, as shown by the following names for an account used to track postage:

Expense-postage

Postage

Postage and delivery

Shipping

If you haven't used QuickBooks before, here are some rules you can apply to help make your account names consistent:

- **Word order**. If you include the account type in the name, then append it to the end of the name. You'll spot "Postage Expense" more easily than "Expense Postage."
- **Consistent punctuation**. Choose "and" or "&" for accounts that cover more than one item, like "Dues and Subscriptions." And decide whether to include apostrophes, as in "Owners Draw" or "Owners' Draw."
- **Spaces**. Decide whether to include spaces for readability or to eliminate them for brevity; for example, "Dues & Subscriptions" vs. "Dues&Subscriptions."
- **Abbreviation**. If you abbreviate words in account names, then choose a standard abbreviation length. If you go with four-letter abbreviations, for example, "Postage" would become "Post." For a three-letter abbreviation, you might use "Pst."

WARNING QuickBooks won't enforce your naming standards. So after you set the rules for account names, write them down so you don't forget them. A consistent written standard encourages everyone (yourself included) to trust and follow the naming rules. Also, urge everyone to display inactive accounts (page 60) and scan the chart of accounts for synonyms to see if such an account already exists *before* creating a new one. These rules are easier to enforce if you limit the number of people who can create and edit accounts (page 693).

Creating Accounts and Subaccounts

Different types of accounts represent dramatically different financial animals, as described in the box on page 52. The good news is that every type of account in QuickBooks shares most of the same fields, so you need to learn only one account-creation procedure.

If you look closely at the chart of accounts list in Figure 3-2, you'll notice that accounts fall into two main categories: those with balances and those without. If you're really on your toes, you might also notice that accounts with balances are the ones that appear on the Balance Sheet report. (Accounts without balances appear on the Profit & Loss report.) To learn more about financial statements and the accounts they reference, see Chapter 17.

Creating an Account

After you've had your business for a while, you won't add new accounts very often. However, you might need one if you start up a new line of income, take on a mortgage for your new office building, or want a new expense account for the subcontractors you hire to manage your workload.

Creating accounts in QuickBooks is simple, which is a refreshing change from many accounting tasks. Before you can create an account, you have to open the Chart of Accounts window. Because the chart of accounts is central to accounting, you have several ways to open this window:

- Press Ctrl+A (which you can do from anywhere in the program).
- At the top right of the Home page, in the Company panel, click Chart of Accounts.
- In the menu bar, choose Lists→Chart of Accounts.

The Chart of Accounts window works much like other list windows. For example, you can sort the account list by different columns or drag accounts in the list to different locations. (See page 168 to learn how to sort and rearrange lists.)

UP TO SPEED

Making Sense of Account Types

QuickBooks' account types are standard ones used in finance. Here's a quick introduction to the different types and what they represent:

- **Bank**. Accounts that you hold at a financial institution, such as a checking, savings, money market, or petty cash account.
- **Accounts Receivable**. The money that your customers owe you, like outstanding invoices and goods purchased on credit.
- **Other Current Asset**. Things you own that you'll use or convert to cash within 12 months, such as prepaid expenses.
- **Fixed Asset**. Things your company owns that decrease in value over time (depreciate), like equipment that wears out or becomes obsolete.
- **Other Asset**. If you won't convert an asset to cash in the next 12 months and it isn't a depreciable asset, then it's—you guessed it—an other asset. A long-term note receivable is one example.
- **Accounts Payable**. This is a special type of current liability account (money you owe in the next 12 months) that represents what you owe to vendors.
- **Credit Card**. Just what it sounds like: a credit card account.
- **Other Current Liability**. Money you owe in the next 12 months, such as sales tax and short-term loans.
- **Long Term Liability**. Money you owe *after* the next 12 months, like mortgage payments you'll pay over several years.
- **Equity**. The owners' equity in the company, including the original capital invested in the company and retained earnings. (Money that owners withdraw from the company also shows up in an equity account, but reduces the value of the account.)
- **Income**. The revenue you generate through your main business functions, like sales or consulting services.
- **Cost of Goods Sold**. The cost of products and materials that you held originally in inventory but then sold. You can also use this type of account to track other expenses related to your sales, such as commissions and what you pay subcontractors to do work for your customers.
- **Expense**. The money you spend to run your company.
- **Other Income**. Money you receive from sources other than business operations, such as interest income.
- **Other Expense**. Money you pay out for things other than business operations, like interest.
- **Non-posting Account**. QuickBooks creates non-posting accounts automatically when you use features such as estimates and purchase orders. For example, when you create an estimate (page 310), you don't want that money to appear on your financial reports, so QuickBooks stores those values in non-posting accounts.

TIP You can create accounts on the fly by clicking < Add New > in any Account drop-down list. Suppose you create a new service item (in the Item List window, press Ctrl+N) and want a new income account to track revenue for that service. In the New Item dialog box, scroll to the top of the Account drop-down list and then choose < Add New >. Fill in the info and then click Save & Close. QuickBooks fills in the Account box with the new account, and you can finish creating your item.

Once you've opened the Chart of Accounts window, here's how to create an account:

1. **Press Ctrl+N to open the Add New Account window.**

   Alternatively, on the menu bar at the bottom of the Chart of Accounts window, you can click Account→New. Or, right-click anywhere in the Chart of Accounts window, and then choose New from the shortcut menu.

   No matter which method you use, QuickBooks opens the Add New Account window, shown in Figure 3-3.

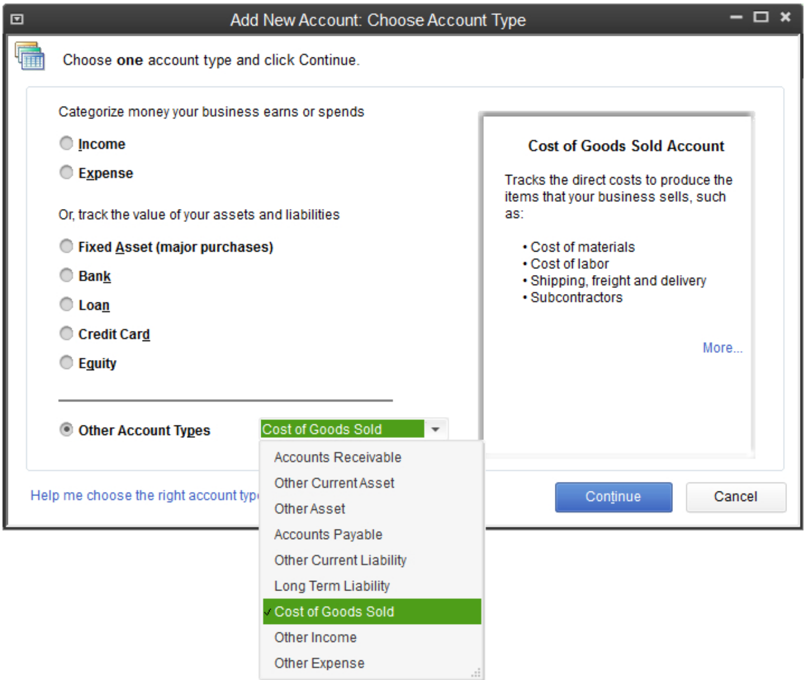


FIGURE 3-3

If you aren't sure which type to choose, read the box on page 52. When you select one of the options here, a description with examples of that type of account appears on the right side of the window. Click More to read a Help topic that explains when to use that type of account.

2. **Select the type of account you want to create, and then click Continue.**

   The Add New Account window lists the most common kinds of accounts. If you don't see the type you want—Other Current Liability, for example—select the Other Account Types option, and then choose from the drop-down menu (Figure 3-3).

3. **In the Number box in the upper right of the Add New Account window (Figure 3-4), type the chart of accounts account number you want to use. (If you don't see the Number box, flip to page 598 to learn how to display it.)**

If you keep the Chart of Accounts window in view while creating new accounts, you can review the account numbers for similar types of accounts. That way, you can increment the new account number by 5 or 10 higher than an existing account number, so that the new one snuggles in nicely with its compatriots in the chart of accounts.

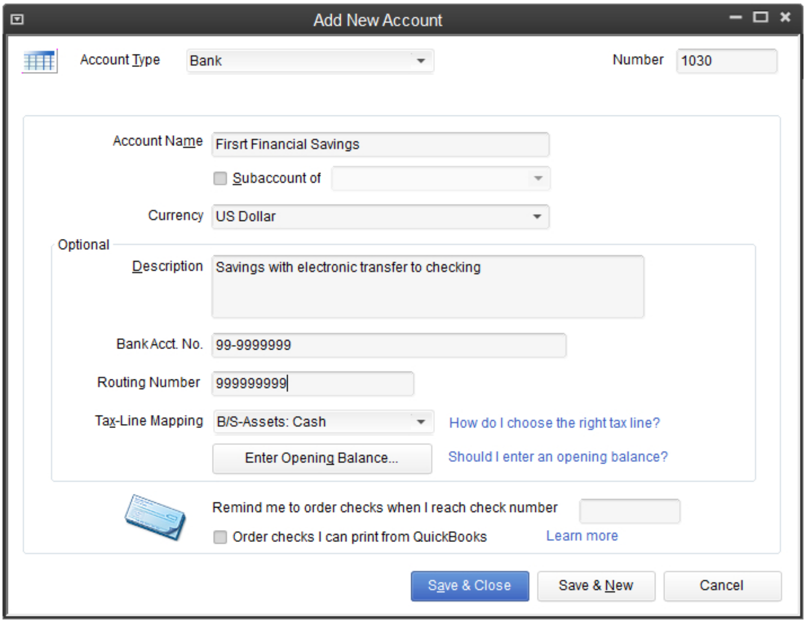


FIGURE 3-4

The Bank account type includes every account field except for the Note field. It also includes one field that you won't find in any other account type: If you want QuickBooks to remind you to order checks, in the "Remind me to order checks when I reach check number" field, type the check number you want to use as a trigger. If you want the program to open a browser window to an Intuit site where you can order supplies, turn on "Order checks I can print from QuickBooks." If you get checks from somewhere else, just reorder checks the way you normally do.

4. **In the Account Name box, type a name for the account.**

   See page 50 for tips on standardizing account names.

NOTE If you create an account and don't see one of the fields mentioned here, it simply doesn't apply to that account type.

5. **If you want the account to be a subaccount, then turn on the "Subaccount of" checkbox. Then, in the drop-down list, choose the account that you want to act as the parent.**

   Subaccounts are a good way to track your finances in more detail, as the box on page 55 explains. In the chart of accounts, subaccounts are indented below their parent accounts to make the hierarchy easy to see, as shown at the bottom of Figure 3-2 on page 47).

TIP When you use subaccounts, QuickBooks displays both the parent account's name and the subaccount's name in the Account fields found throughout the program, which often makes it impossible to tell which account a transaction uses, as you can see in Figure 3-5 (top). If you want to see only the lowest-level subaccount in Account fields, head to the Accounting section of the Preferences dialog box and turn on the "Show lowest subaccount only" checkbox, which is on the same tab as the "Use account numbers" checkbox described on page 598.

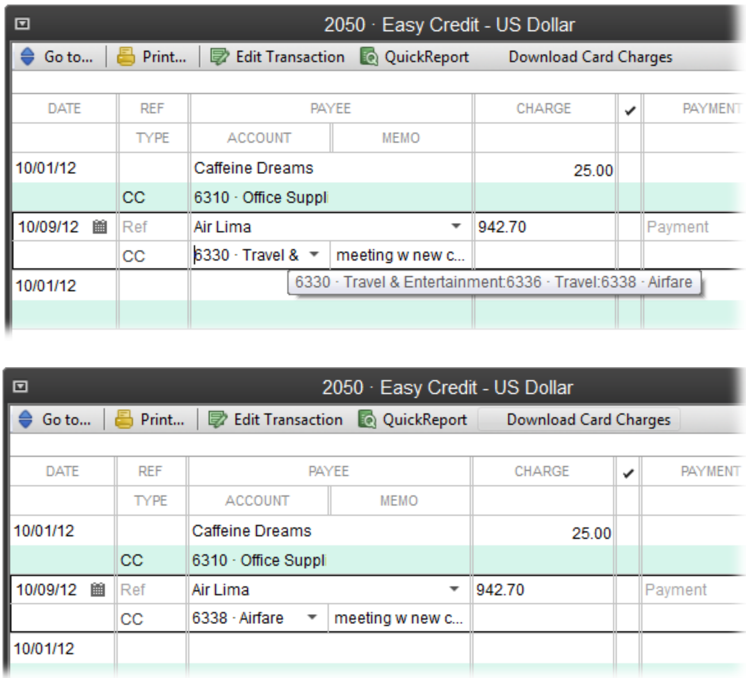


FIGURE 3-5

Top: QuickBooks combines the names of parent accounts and their subaccounts into one long name in Account fields and drop-down lists, like the travel example shown here. In many instances, only the top-level account is visible unless you scroll within the Account field.

Bottom: When you turn on the "Show lowest subaccount only" checkbox, the Account field shows the subaccount number and name instead, which is exactly what you need to identify the assigned account (in this case, Airfare).

UP TO SPEED

Adding Detail with Subaccounts

Say your company's travel expenses are sky-high and you want to start tracking what you spend on different types of travel, such as airfare, lodging, and limousine services. Subaccounts make it easy to track details like these. Subaccounts are nothing more than partitions within a higher-level account (called the *parent* account).

When you post transactions to subaccounts only (not the parent account), your reports show the subtotals for the subaccounts and a grand total for the parent account, such as the Travel account (number 6336, say) and its subaccounts Airfare (6338), Lodging (6340), and Transportation (6342), for example.

Subaccounts also come in handy for assigning similar expenses to different lines on a tax form. For example, the IRS doesn't treat all travel expenses the same: You can deduct only half of your meal and entertainment expenses, while other travel expenses are fully deductible. Meals and Entertainment are separate subaccounts from Travel for this very reason.

6. **If you've turned on QuickBooks' multiple currency preference, the Currency box appears below the "Subaccount of" checkbox. If the currency for the account is different from the one listed there, choose the right currency in the drop-down list.**

   If you do business in more than one currency, see page 617 to learn how to set up multiple currencies in QuickBooks.

7. **To add a description of the account, fill in the Description box.**

   For instance, you can define whether a bank account is linked to another account or give examples of the types of expenses that apply to a particular expense account. The Description field can hold up to 256 characters, which should be more than enough.

8. **If you see a field for an account number—such as Bank Acct. No., Credit Card Acct. No., or simply Account No.—type in the number for your real-world account at your financial institution (checking account, savings account, loan, and so on).**

   If the account type you chose in step 2 doesn't include a field for an account number, you see the Note field instead, which you can use to store any additional information you want to document about the account.

9. **For a bank account, in the Routing Number box, type the routing number for your bank.**

   A routing number is the nine-digit number in a funny-looking font that's at the bottom of your checks.

10. **To associate the account with a tax form and a specific line on that tax form, in the Tax-Line Mapping drop-down list, choose the entry for the appropriate tax form and tax line.**

    The Tax-Line Mapping field is set to < Unassigned > if you haven't specified the tax form that your company files with the IRS. See page 8 to learn how to choose a tax form for your company.

    If QuickBooks hasn't assigned a tax line for you, you can scan the entries in the drop-down list for a likely match. If you don't find an entry that seems right or if QuickBooks tells you the one you chose isn't compatible with the account type, your best bet is to call your accountant or the IRS. You can also get a hint for an appropriate tax line for the account you're creating by examining one of QuickBooks' sample files (page 6).

    To remove a tax line from an account, in the drop-down list, choose < Unassigned >.

NOTE Below the Tax-Line Mapping field, you may see the Enter Opening Balance button. It's easy to figure out the opening balance for a brand-new account—it's zero—so you can ignore this button. But if you're setting up QuickBooks with accounts that existed prior to your QuickBooks start date, those accounts *do* have opening balances. Even so, clicking the Enter Opening Balance button isn't the best way to specify an opening balance for an account you're adding to your company file. The box on page 58 explains how to specify opening balances for all your accounts in just a few steps.

11. **Click the Save & New button to save the current account and create another one.**

    If you want to save the account you just created and close the Add New Account window, then click Save & Close instead. Or click Cancel to discard the account-in-progress and close the Add New Account window.

12. **If the Set Up Online Services dialog box appears, click Yes if you want to set up a bank account for online services.**

    When you click Yes, QuickBooks' windows close while you go through the setup. (See Chapter 22 to learn about online services and QuickBooks.) If you want to set up the account for online banking later—or never—click No.

Modifying Accounts

If you stick to your account numbering and naming conventions, you'll have few reasons to edit accounts. But the Edit Account window lets you tweak an account's name or description, adjust its number to make room for new accounts, or change its level in the chart of accounts hierarchy.

You're not likely to change an account's type unless you chose the wrong one when you created the account. If you do need to change the account type, back up your QuickBooks file first (see page 179) in case the change has effects that you didn't anticipate. Also, note that QuickBooks has several restrictions on changing account types. You can't change an account's type if:

- It has subaccounts.
- It's an Accounts Receivable or Accounts Payable account. (You also can't change other types of accounts to AR or AP accounts.)
- QuickBooks automatically created the account, like Undeposited Funds.

To modify an account, in the Chart of Accounts window, select the account you want to edit and then press Ctrl+E or click Account→Edit Account. In the Edit Account window that appears, make the changes you want, and then click OK.

Hiding and Deleting Accounts

If you create an account by mistake, you can delete it. However, because QuickBooks drops your financial transactions into account buckets and you don't want to throw away historical information, you'll usually want to *hide* accounts that you don't use anymore instead of deleting them. The records of past transactions are important, whether you want to review the amount of business you've received from a customer or the IRS is asking unsettling questions. For example, you wouldn't delete your Nutrition Service income account just because you've discontinued your nutrition consulting service to focus on selling your new book, *The See Food Diet*. The income you earned from that service in the past needs to stay in your records.

FREQUENTLY ASKED QUESTION

Doing Opening Balances Right

When I add an account to my company file, can I just click the Enter Opening Balance button and type the balance I want to start with in the Opening Balance field? That seems the most logical place for it.

You can, but your accountant may not be too happy about it. Filling in the Opening Balance field from the Add New Account window (or in the Edit Account window, for that matter) automatically adds that balance to the Opening Bal Equity account, which accountants consider sloppy bookkeeping. Instead, they usually recommend creating a general journal entry from your trial balance for most of your accounts. The three exceptions are your Accounts Receivable (AR), Accounts Payable (AP), and bank accounts. Because QuickBooks requires customer names and vendor names in journal entries that contain AR and AP accounts, you're better off creating invoices and bills to define your AR and AP opening balances. With bank accounts, you can enter your previous reconciled balance in the Opening Balance field and then bring the account up-to-date by recording all the transactions since your last reconciliation. If you work with an accountant, ask her how she'd like you to enter opening balances—or better yet, have her do it.

Whoa! What's a general journal entry? What's a trial balance?

Here's the deal: *General journal entries* (page 451) are mechanisms for moving money between accounts—on paper, that is. A *trial balance* (page 484) is a report (from your accountant or your old accounting system) that lists all your accounts with their balances in either the Debit or Credit column. In the days of paper-based ledgers, bean counters totaled the Debit and Credit columns. If the totals weren't equal, the accountant had to track down the arithmetic error. Happily, QuickBooks' digital brain does the math for you, without errors. But it's up to you to set up the journal entry properly in the first place.

If you look at the trial balance on the first day of your fiscal year, it's quite simple—it includes balances only for your balance sheet accounts, not income and expense accounts. You can use these values to fill in a general journal entry to assign all your accounts' opening balances: First, set the journal entry's date to the last day of the previous fiscal year; that way, you can start fresh for your current fiscal year. Next, for each account, add a line in the general journal entry with the account name and the balance from your trial balance report in either the Debit or Credit column. Finally, omit your AR and AP accounts from the general journal entry; instead, create invoices and bills to define the opening balances for those accounts. If you didn't use the Opening Balance field to set your bank account balances, you can include your bank accounts in the general journal entry.

To see this in action, you can download from *www.missingmanuals.com/cds* a sample company file that includes an opening balance general journal entry from.

Hiding Accounts

Hiding accounts doesn't mean withholding key financial info from prying eyes. When you hide an account in QuickBooks, the account continues to hold your historical transactions, but it doesn't appear in account lists, so you can't choose it by mistake with a misplaced mouse click.

Hiding and reactivating accounts (Figure 3-6) also comes in handy when QuickBooks creates a chart of accounts based on the industry you choose during setup (page 8). If QuickBooks overwhelms you with accounts you don't think you need, simply hide those accounts for the time being. That way, if you find yourself saying, "Gosh, I wish I had an account for the accumulated depreciation of vehicles," the solution might be as simple as reactivating a hidden account.

Deleting Accounts

You can delete an account only if nothing in QuickBooks references it in any way. An account with references is a red flag that deleting it might not be the right choice. If you try to delete such an account, QuickBooks displays a message box telling you it can't delete the account and recommends making it inactive instead. If that isn't enough to deter you, the sheer tedium of removing references to an account should nudge you toward hiding the account instead. If you *insist* on deleting an account, here are the conditions that prevent you from doing so and what you have to do to remove the constraints:

- **An item uses the account**. If you create any items that use the account as an income account, expense account, cost of goods sold account, or inventory asset account, you can't delete it. You have to edit the items to use other accounts first, as described on page 146.
- **The account has subaccounts**. You have to delete all subaccounts before you can delete the parent account.
- **Payroll uses the account**. You can't delete an account if your payroll setup uses it.
- **At least one transaction references the account**. If you created a transaction that uses the account, either edit that transaction to use a different account or hide the account if you want to keep the transaction the way it is.
- **The account has a balance**. An account balance comes from either an opening balance transaction or other transactions that reference the account. You remove an account balance by deleting all the transactions in the account (or reassigning them to another account).

  To delete transactions, in the Chart of Accounts window, double-click the account's name. For accounts with balances, QuickBooks opens a register window where you can select a transaction and then press Ctrl+D to delete it. For accounts without balances, QuickBooks opens an Account QuickReport window. To delete a transaction that appears in the report, double-click the transaction. QuickBooks then opens a window related to that transaction (for instance, the Write Checks window appears if the transaction is a check). Right-click anywhere in that window and choose Delete Check or the corresponding delete command for the type of transaction.

After you've deleted all references to the account, in the Chart of Accounts window, select the account you want to delete, and then press Ctrl+D or choose Account→Delete Account. QuickBooks asks you to confirm that you want to delete the account; click OK.

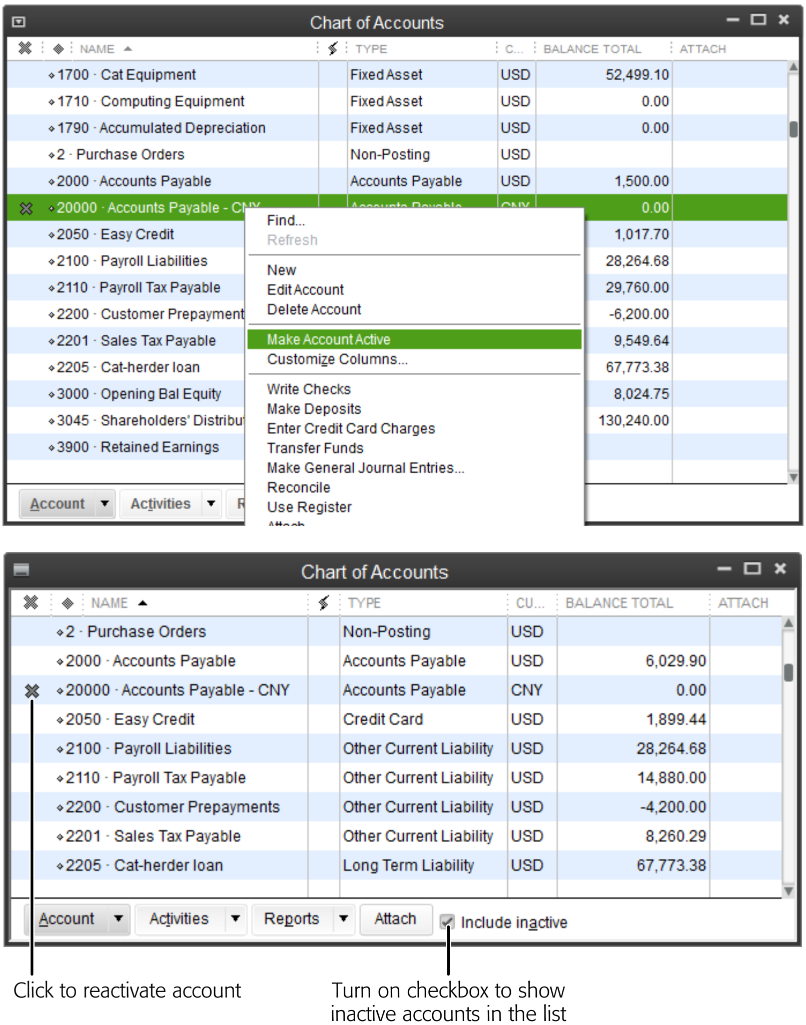


FIGURE 3-6

Top: To hide an account, in the Chart of Accounts window, right-click the account and choose Make Account Inactive from this shortcut menu. The account and any subaccounts that belong to it disappear from the list.

Bottom: To reactivate a hidden account, first display all your accounts by turning on the "Include inactive" checkbox at the bottom of the Chart of Accounts window. QuickBooks adds a column with an X as its heading and displays an X in that column for every hidden account in the list. To unhide an account, click the X next to its name. If the account has subaccounts, QuickBooks displays the Activate Group dialog box; there, click Yes to reactivate the account and all its subaccounts.

Merging Accounts

Suppose you find multiple accounts for the same purpose—Postage and Mail Expense, say—lurking in your chart of accounts. No problem! You can merge the accounts into one and then remind everyone who creates accounts in QuickBooks about your naming conventions. (If you haven't gotten around to setting up naming conventions, see page 50 for some guidelines.)

TIP Before you merge accounts, see what your accountant thinks. There's no going back once you've merged two accounts—they're combined for good. And the QuickBooks audit trail (page 694) doesn't keep track of this kind of change.

QuickBooks sweeps all the transactions from the account you merge into the account you keep, so you can merge accounts only if they're the same type. (As an experienced manager, you can imagine the havoc that merging income and expense accounts would cause in your financial statements.) In addition, accounts must be at the same level in the chart of accounts list. To move an account to another level, position your cursor over the small diamond to the left of the account's name. When the cursor turns into a four-headed arrow, drag to the left or right so that the account is indented the same amount as the other account.

NOTE If you find two accounts with similar names but different types, those accounts might not represent the same thing. For instance, a Telephone Ex. expense account probably represents your monthly telephone service, while the Telephone Eq. asset account might represent the big telephone switch that your mega-corporation owns. In this situation, the accounts are different types and should be separate, although more meaningful names and descriptions would help differentiate them.

Here's how to eliminate an extraneous account:

1. **Switch to single-user mode, as described on page 173.**

   You have to be in single-user mode to merge accounts. Be nice to your fellow QuickBooks users by making these changes outside of working hours. If you have to merge accounts during the workday, remember to tell your coworkers they can log into the program after you've switched the company file back to multiuser mode.

2. **Press Ctrl+A to open the Chart of Accounts window. Then, in the chart of accounts list, select the name of the account you want to *eliminate* and then press Ctrl+E.**

   The Edit Account window opens.

3. **In the Edit Account window, change the account number and name to match the values for the account you want to *keep.***

   As long as you get the letters and numbers right, QuickBooks takes care of matching uppercase and lowercase for you.

   If you don't remember the number and name of the account you're keeping, drag the Chart of Accounts window and the Edit Account window so you can see both at the same time. (If QuickBooks won't let you do that, you might have the One Window preference turned on; see page 605 to learn how to change your settings to display multiple windows.)

4. **Click Save & Close, read the message informing you that the name is in use and asking if you want to merge the accounts, and then click Yes.**

   In the chart of accounts list, the account you renamed disappears, and any transactions for that account now appear in the account you kept.

CHAPTER

4

Setting Up Customers, Jobs, and Vendors

You may be fond of strutting around your sales department proclaiming, "Nothing happens until somebody *sells* something!" As it turns out, you can quote that tired adage in your accounting department, too. Whether you sell products or services, the first sale to a new customer can initiate a flurry of activity, including creating a new *customer* in QuickBooks, assigning a *job* for the work, and the ultimate goal of all this effort—*invoicing* your customer (sending a bill for your services and products that states how much the customer owes) to collect some income.

The people who buy what you sell have plenty of nicknames: customers, clients, consumers, patrons, patients, purchasers, donors, members, shoppers, and so on. QuickBooks throws out the thesaurus and applies one term to every person or organization that buys from you: customer. In QuickBooks, a *customer* is a record of information about your real-life customer. The program takes the data you enter about customers and fills in invoices and other sales forms with your customers' names, addresses, payment terms, and other info.

Real-world customers are essential to your success, but do you need customers in QuickBooks? Even if you run a primarily cash business, creating customers in QuickBooks could still be a good idea. For example, setting up QuickBooks records for the repeat customers at your store saves you time by automatically filling in their information on each new sales receipt.

If, on the other hand, your business revolves around projects, you can create a job in QuickBooks for each project you do for a customer. To QuickBooks, a *job* is a record of a real-life project that you agreed (or perhaps begged) to perform for a customer—remodeling a kitchen, designing an ad campaign, or whatever. Suppose you're a plumber and you regularly do work for a general contractor. You could create several jobs, one for each place you plumb: Smith house, Jones house, and Winfrey house. In QuickBooks, you can then track income and expenses by job and gauge each one's profitability. However, if your company doesn't take on jobs, you don't have to create them in QuickBooks. For example, retail stores sell products, not projects. If you don't need jobs, you can simply create your customers in QuickBooks and then move on to invoicing them or creating sales receipts for their purchases.

In addition to customers, you're going to do business with vendors and pay them for their services and products. The telephone company, your accountant, and the subcontractor who installs Venetian plaster in your spec houses are all vendors. The information you fill in for vendors isn't all that different from what you specify for customers.

This chapter guides you through creating customers, jobs, and vendors in QuickBooks. It also helps you decide how to apply the program's customer, job, and vendor fields to your business. And you'll learn how to manage the customer, job, and vendor records you create in QuickBooks.

Creating Customers in QuickBooks

Alas, you first have to persuade customers to work with your company. But once you've cleared *that* hurdle, creating those customers in QuickBooks is easy. The box on page 66 provides some hints on keeping customers straight in QuickBooks. The program offers several methods for creating customer records:

- **QuickBooks Setup**. When you're getting started with the program, you can use the QuickBooks Setup window to quickly import piles of customer information (as well as vendor and employee info) from your email program or by copying and pasting data from Excel, as described on page 15. You can return to the QuickBooks Setup window at any time (page 17) to add more records.
- **One at a time**. The New Customer window lets you create one customer at a time, although you can create several records in a row without closing the window. The section "Creating a New Customer" on page 66 describes how to create customers with this window and explains what each customer field represents.

TIP If you don't add customers very often, you can create a customer record when you create that customer's first invoice. The handy < Add New > entry in every drop-down list of customers and jobs is your ticket to just-in-time customer and job creation.

- **Copying data**. You can also create customers in batches. With the Add/Edit Multiple List Entries feature (page 94), you can paste data from Microsoft Excel or copy values from customer to customer.

TIP QuickBooks doesn't care if you create customers and jobs without any forethought, but it pays to take the time to set them up properly. For example, you can create customers and jobs without classifying them in any way, but you might want to categorize them so you can send customized communications to each type or determine which types are the most profitable. If you want to categorize customers from the get-go, turn to page 79 to learn how to set up customer and job types and different ways to use them.

The Customer Center (Figure 4-1) is a one-stop shop for customers and jobs: creating, modifying, and viewing their records, and creating transactions for them. QuickBooks gives you four easy ways to open the Customer Center window:

- From anywhere in the program, press Ctrl+J.
- At the top of the Customers panel on the QuickBooks Home page, click Customers.
- On the icon bar, click Customers. (If you don't see a Customers item on the icon bar, flip to page 663 to learn how to add it.)
- On the QuickBooks menu bar, choose Customers→Customer Center.

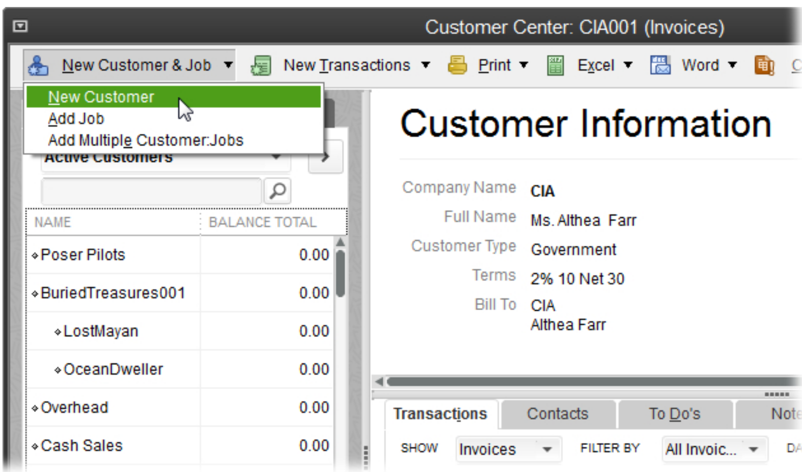


FIGURE 4-1

To create a new customer in the Customer Center, click New Customer & Job and then choose New Customer. To view a customer's details and transactions, click the customer's name in the Customers & Jobs list on the left side of this window. If the Transactions tab is selected instead of the Customers & Jobs tab, you'll see the New Customer feature on the Customer Center menu bar; clicking it opens the New Customer window immediately.

WORD TO THE WISE

Making Customers Easy to Identify

In QuickBooks, the Customer Name and Vendor Name fields don't show the names that appear on invoices or bills. Instead, they display a code that uniquely identifies each customer or vendor so it's easy to tell them apart.

If you own a small company, you're not likely to mistakenly create multiple records for the same customer or vendor. Your Customer and Vendor lists are short, so you probably remember which ones you've created. Even so, it's a good idea to define a standard for names.

Consistent naming can help you avoid having multiple records for the same customer or vendor by preventing you from creating slightly different values in the Customer Name or Vendor Name field. For example, you could end up with three customer records in QuickBooks all representing the same real-world customer, such as Cales's Capers, Cales Capers, and CalesCapers. The same holds true for vendors.

QuickBooks doesn't enforce naming conventions. After you define rules that work for your business, you have to be disciplined and apply those rules each time you create a new customer or vendor. You're free to use alphanumeric characters and punctuation in names. Here are a few of the more common naming conventions:

- **The first few letters of the customer's or vendor's company name, followed by a unique numeric identifier**. This standard is easy to apply and differentiates customers or vendors as long as their names don't all begin with the same words. For example, if the companies you do business with aren't imaginative, your names could end up as Wine001, Wine002, and Wine003. But if the companies are Zinfandels To Go, Merlot Mania, and Cabernet Cabinet, this system works nicely.
- **For individuals, the last name followed by the first name and a numeric ID to make the name unique**. Although unusual names such as Zaphod Beeblebrox render a numeric ID unnecessary, using this standard ensures that all names are unique.
- **The actual company name with any punctuation and spaces omitted**. Removing spaces and punctuation from company names helps eliminate multiple versions of the same name. If you choose this convention, using capital letters at the beginning of each word (called *camel caps*) makes the name more readable. For instance, Icantbelieveitsyogurt is a headache waiting to happen, but ICantBelieveItsYogurt looks more like its spaced and punctuated counterpart.
- **A unique alphanumeric code**. Customer:Job drop-down menus and reports sort entries by the values in the Customer Name field of customer records. (Vendor drop-down menus and reports sort by the Vendor Name field.) Codes like X123Y4JQ use only a few characters to produce unique identifiers, but they're also so cryptic that they make it difficult to pick out the name you want in drop-down lists, or to sort reports in a meaningful way. Stick with using part of the company name (at the beginning of the name, since names appear alphabetically) unless you have hundreds or thousands of customers or vendors.

Creating a New Customer

Here's the short and sweet method of creating a customer in QuickBooks:

1. **In the Customer Center toolbar, click New Customer & Job→New Customer or press Ctrl+N.**

   The New Customer window opens (Figure 4-2).

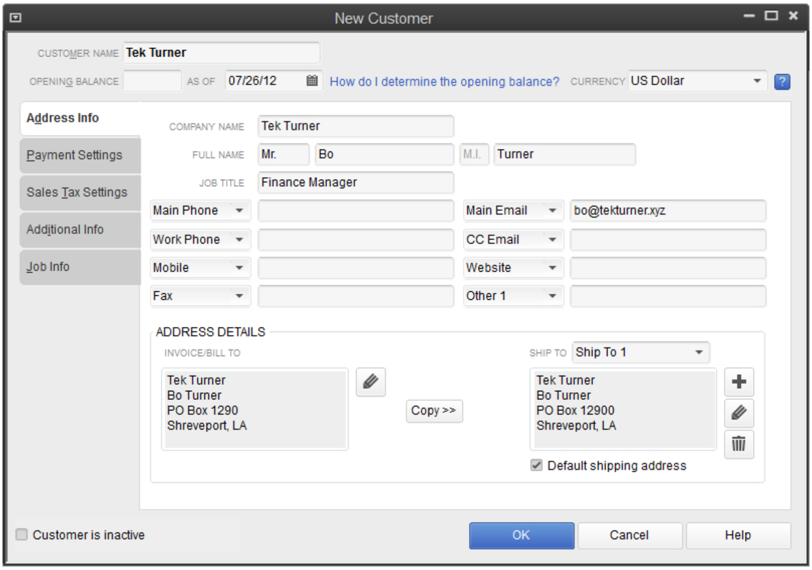


FIGURE 4-2

Although the Opening Balance box beckons from below the Customer Name field in the New Customer window, it's better to leave it blank. The box on page 58 explains the best way to define a customer's opening balance, and the following sections explain what's on each of this window's tabs (Address Info, Payment Settings, and so on).

2. **In the Customer Name field, type a unique name or code for this customer, following the naming convention you've chosen (see the box on page 66).**

   The Customer Name field is the only field you *have* to fill in—the rest are optional.

3. **To save that customer's record and close the New Customer window, click OK.**

   To discard what you entered and close the window, click Cancel instead.

TIP To create a job for a customer, you have to close the New Customer window and open the New Job window. So it's a lot faster to create all your customers first and *then* add the jobs for each one.

The box on page 66 tells you how to prevent your QuickBooks Customer List from growing out of control.

If you've turned on QuickBooks' multiple currency option (page 610), a Currency box appears in the New Customer window in the row below the Customer Name box, as shown in Figure 4-2. QuickBooks automatically fills in this box with your home currency, so you usually don't have to change this value. But if the customer pays in a foreign currency, choose it in the Currency drop-down list. QuickBooks creates a separate Accounts Receivable account (page 52) for each currency you use.

NOTE In QuickBooks 2013, the organization of tabs and fields in the New Customer (and Edit Customer) windows is much improved. The contact and address info is all on the first tab, Address Info. All the fields related to payments are now on the Payment Settings tab. The Sales Tax Settings tab contains fields for sales tax, so you can skip it entirely if you don't sell taxable goods. The Additional Info tab, which used to be a jumble of different types of fields, now holds a few miscellaneous fields like customer type, sales rep, and custom fields you've created. You'll learn about the Job Info tab on page 77.

TROUBLESHOOTING MOMENT

How Many Names?

If you're a big fish in the small-business pond, you might bump up against limitations on the number of names you can add to QuickBooks. In QuickBooks Pro and Premier editions, the maximum number of *total* names you can have (including customers, vendors, employees, and other names) is 14,500, and the maximum number of each *type* of name is 10,000. Here are a few techniques you can use to avoid maxing out your name lists:

- **Conserve names**. Be frugal with names by creating one customer or vendor to represent many individual sales or purchases. For example, you can aggregate all your cash sales under a single customer named Cash Sales. Or you can combine all your meal expenses by using a single vendor named Meals. Just keep in mind that, by doing so, you can't produce reports by individual names. However, you can store a customer's name in the Bill To field in sales forms or in the Memo field in a bill, check, or credit card charge.
- **Keep an eye on how many names you have**. Press F2 anytime to call up the Product Information window so you can view the number of entries you have in each list. They appear in the List Information box on the right side of the window.
- **Upgrade**. If there's no getting around your company's gluttony for names, QuickBooks Enterprise Solutions lets you add more than 100,000 names, although Intuit warns you that the program might not run as quickly as the number of names increases.

ENTERING CONTACT INFORMATION

If you plan to bill your customers, ship them products, or call them to make them feel appreciated, address and contact information is important. You record this info on the New Customer window's Address Info tab. Here's a guide to what you enter on this tab:

- **Company Name**. Unlike Customer Name, which acts as an identifier, the Company Name field is the customer's name as you want it to appear on invoices and other forms you create. QuickBooks automatically copies what you type here into the Invoice/Bill To box below.
- **Contact**. To address invoices, letters, and other company communications, enter the primary contact's salutation or title, first name, middle initial, and last name in the appropriate fields. QuickBooks automatically copies the information you type in these fields into the Invoice/Bill To fields. You can also fill in the Job Title box with the contact's title.

NOTE After you create a customer, you can add additional contacts for that customer in the Customer Center. Page 75 tells you how.

FREQUENTLY ASKED QUESTION

Opening Act

Should I add an opening balance for new customers?

Since the Opening Balance field is always visible at the top of the New Customer window (Figure 4-2), you might think you should fill it in. But you're actually better off skipping it altogether.

Entering an opening balance as of a specific date is a shortcut that eliminates having to create the invoices that generate the customer's current balance. But that shortcut comes at a price: If customers haven't paid, then you might have a hard time collecting the money, especially if you can't tell them what services and products you delivered, how much they cost, the invoice numbers, and when the invoices were due. In addition, when your customers *do* pay, you can't accept those payments against specific invoices to track your accounts receivable.

The best way to record a customer's balance is to create QuickBooks invoices for the invoices the customer hasn't paid yet (called "open invoices"). That way, you'll have complete documentation of those sales and the corresponding balance in your Accounts Receivable account. Also, you can then apply the payments that come in to settle those invoices. See Chapter 10 to learn all about invoicing.

TIP The Address Info tab has more fields for contact information, including four phone numbers, two email addresses, the company's website, and a field labeled "Other 1." If you look closely, you'll notice that the labels for these eight fields have down arrows on them, so you can set these fields to any of 16 contact-related fields, such as LinkedIn, Facebook, and Skype ID.

- **Invoice/Bill To**. QuickBooks uses the address you enter in this box on invoices. To edit the address at any time, click the Edit button (its icon looks like a pencil). Then, in the Edit Address Information dialog box, fill in the street address, city, state, country, and postal code, or paste that info from another program. QuickBooks automatically turns on the "Show this window again when address is incomplete or unclear" checkbox, which tells the program to notify you when you forget a field like the city or when the address is ambiguous. For example, if the address of your biggest toy customer is Santa Claus, North Pole, then QuickBooks opens the Edit Address Information dialog box so you can flesh out the address with a street, city, and arctic postal code.

TIP You can quickly enter addresses and contact info for all your customers by importing data from another program (page 654 or by using QuickBooks' Add/Edit Multiple List Entries feature (page 94).

- **Ship To** If you don't ship products to this customer, you can skip the Ship To field altogether. If the billing and shipping addresses are the same, click "Copy>>" to replicate the contents of the Invoice/Bill To field in the Ship To field. (The greater-than symbols on the button indicate the direction that QuickBooks copies the address—left to right.) Otherwise, type the shipping address in the Ship To box.

TIP You can define more than one ship-to address for a single customer, which is perfect if that customer has multiple locations. To add another ship-to address, click the + button to the field's right and fill in the Add Shipping Address Information dialog box. Once you've added shipping addresses, you can choose the one you want in the Ship To drop-down list. When the shipping address you use most often is visible, turn on the "Default shipping address" checkbox below the Ship To field to tell QuickBooks to pick that address automatically. Click the Edit button (the pencil icon) or Delete button (the trash can icon) to modify or remove a shipping address, respectively.

ENTERING PAYMENT INFORMATION

The Payment Settings tab, shown in Figure 4-3, is the place to indicate how the customer pays and how much credit you're willing to extend.

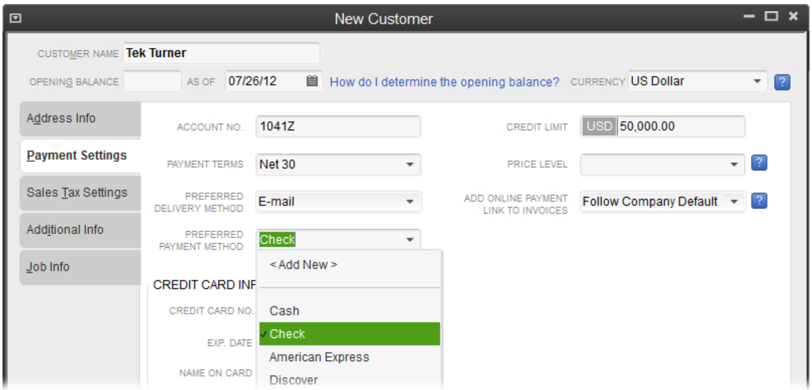


FIGURE 4-3

Several of the fields on the Payment Settings tab use QuickBooks' lists. To jump directly to the entry you want in long lists, in any text box with a drop-down list, type the first few characters of that entry. QuickBooks selects the first entry that matches the characters you've typed and continues to reselect the best match as you continue typing. You can also scroll to the entry in the list and click to select it. If the entry you want doesn't exist, click <Add New> to create it.

You can use the following fields to specify the customer's payment info:

- **Account No**. Account numbers are optional in QuickBooks. Large accounting programs often assign unique account numbers to customers, which greatly reduces the time it takes to locate a customer's record. In QuickBooks, the Customer Name field works like an identifier, so you're best off reserving the Account No. field for an account number generated by one of your other business systems.
- **Payment Terms**. What you select here represents the payment terms the customer has agreed to. The entries you see in this drop-down list come from the Terms List (page 160), which QuickBooks uses for both payment terms for your customers *and* the ones you accept from your vendors. This list includes several of the most common payment terms, such as "Due on receipt" and Net 30, but you can choose

<Add New> at the top of the drop-down list to define additional payment terms in the Terms List. If you leave this field blank in a customer's record, you have to choose the payment terms every time you create an invoice for that customer.

- **Preferred Delivery Method**. Choose E-mail, Mail, or None to identify the method that your customer prefers for receiving information. If you choose E-mail, QuickBooks automatically turns on the E-mail checkbox when you create forms (such as invoices) for this customer. The Mail method uses an add-on QuickBooks service to mail invoices (additional fees apply). Choose None if you typically print documents and mail them the old-fashioned way. You can't add a new entry to the Preferred Delivery Method list, so if you use carrier pigeons to correspond with your incarcerated customers, you'll just have to choose None and remember that preference.
- **Preferred Payment Method**. Choose the form of payment that the customer uses most frequently. This drop-down list includes several common ones such as Cash, Check, and Visa, but you can add others by choosing <Add New>. The payment method you specify appears automatically in the Receive Payments window (page 374) when you choose this customer. If a regular customer pays with a method different than the one you chose here, you can simply select that method in the Receive Payments window.
- **Credit card information**. For credit card payments (see page 350 to learn about QuickBooks' credit card processing service), you can specify the customer's card number, the name on the card, the billing address, the Zip/postal code, and the expiration date. (You can enter only one credit card number for each customer.)

NOTE If you store customer credit card numbers in QuickBooks, turn on the Customer Credit Card Protection feature (choose Company→Customer Credit Card Protection and then click Enable Protection). That way, the program helps you comply with credit card industry security requirements (page 687). For example, any user who views complete credit card information must create a complex password. In addition, QuickBooks doesn't let you store the card's security code (the three-digit code on the back of the card) because doing so violates your merchant account agreement and PCI (Payment Card Industry) standards.

- **Credit Limit**. You can specify the amount of credit that you're willing to extend to the customer. If you do, QuickBooks warns you when an order or invoice exceeds this customer's credit limit, but that's as far as it goes—it's up to you to reject the order or ship your products COD. If you don't plan to enforce the credit limits you assign, don't bother entering a value in this field.
- **Price Level**. More often than not, customers pay different prices for the same product. Just think about the labyrinth of pricing options for seats on airplanes, for instance. In QuickBooks, price levels represent discounts or markups that you apply to transactions. For example, you might have one price level called Top20, which applies a 20 percent discount for your best customers, and another price level called AuntMabel that extends a 50 percent discount to your

Aunt Mabel because she fronted you the money to start your business. Page 153 explains how to define price levels. Once you create a price level, you can apply it to every transaction for a customer by choosing that price level in this box.

- **Add Online Payment Link to Invoices**. Online payment links on invoices allow your customers to pay you through the Intuit PaymentNetwork either by making a payment directly from their bank accounts into yours or by credit card. (The fees you pay vary based on how the customers pay). However, setting up this feature requires a couple of steps. First, be sure to sign up for the Intuit PaymentNetwork service. If you don't sign up and your customers click an online payment link, they'll see a message telling them that you haven't signed up for the service yet. Choose Customers→Intuit PaymentNetwork→About PaymentNetwork to learn about the service and how to enroll. Page 290 describes how online payment links work.)

  On the Payment Settings tab, you can use this field to tell QuickBooks which online payment option to use for this customer. "Follow Company Default" applies the setting that you selected in QuickBooks preferences (page 619). Choosing "Always ON (bank only)" means the customer can only pay through their bank account regardless of your company preference. With "Always ON (bank or credit card)," the customer can pay by bank account or credit card. "Always OFF for this customer" means QuickBooks doesn't display the online payment link on this customer's invoices.

SPECIFYING SALES TAX INFORMATION

The Sales Tax Settings tab appears whether or not you turn on QuickBooks' Sales Tax preference (page 628). However, if sales tax isn't turned on, the fields on this tab are grayed out. If the customer pays sales tax, choose "Tax" in the Tax Code drop-down list. Then, in the Tax Item drop-down list, choose the tax item that specifies the tax rate the customer pays. (See page 140 for instructions on setting up sales tax items and page 287 for the full scoop on charging sales tax.)

Customers who buy products for resale usually don't pay sales tax because that would tax the products twice. (Who says tax authorities don't have hearts?) To bypass sales tax for a customer, choose Non (for "nontaxable sales") in the Tax Code drop-down list, and then type the customer's resale number in the Resale Number field. That way, if tax auditors pay you a visit, the resale number tells them where the sales-tax burden should fall.

SPECIFYING ADDITIONAL CUSTOMER INFORMATION

The New Customer window's Additional Info tab serves up a few fields that categorize your customers. Here are the fields you can fill in and some ways to use them:

- **Customer Type**. Categorize this customer (see page 79) by choosing from this drop-down list, which displays the entries from your Customer Type List, such as government, health insurance, or private pay, if you run a healthcare company.
- **Rep**. Choosing a name in this field links a customer to a sales representative, which is helpful if you want to track sales reps' results. But reps don't have to be *sales* representatives: One of the best ways to provide good customer service is to assign a customer service rep to a customer. When you choose <Add New> here to create a new Rep entry (page 157), you can select existing names from the Employee List, Vendor List, and the Other Names List, or even add a new name to one of those lists to use as a rep.
- **Custom Fields**. QuickBooks offers 15 custom fields, which you can use to store important info that QuickBooks doesn't include fields for out of the box. Because custom fields don't use drop-down lists, you have to type your entries and take care to enter values consistently. The box below has more about custom fields.

GEM IN THE ROUGH

Defining Custom Fields for Lists

QuickBooks' customer, vendor, employee, and item records include lots of fields you can fill in, but those fields may not cover all the information you need. For example, you might add a custom field for the branch office that services a customer. Or for employees, you could set up a custom field to track whether they make charitable contributions that your company matches.

QuickBooks' answer to this issue is custom fields. After you create a custom field and apply it to a list, QuickBooks adds the custom field's label and a text box to the Additional Info tab (Figure 4-4, background). You have to type your entries each time; there's no drop-down list or a way to compare it to text you entered in other records. It's up to you to make sure that your data entry is correct and consistent.

To set up a custom field, follow these steps:

1. In the appropriate New or Edit window (New Customer or Edit Vendor, for example), click the Additional Info tab.
2. Click the Define Fields button. The "Set up Custom Fields for Names" dialog box (Figure 4-4, foreground) opens.
3. In one of the 15 Label cells, type a name for the field.
4. If you're associating a custom field with a customer, vendor, or employee record, click the cell for the appropriate list (Cust, Vend, or Empl) and QuickBooks puts a checkmark there. For example, the Region custom field could apply to both the Customer:Job List and the Vendors List, so you'd want checkmarks in both the Cust and Vend columns.

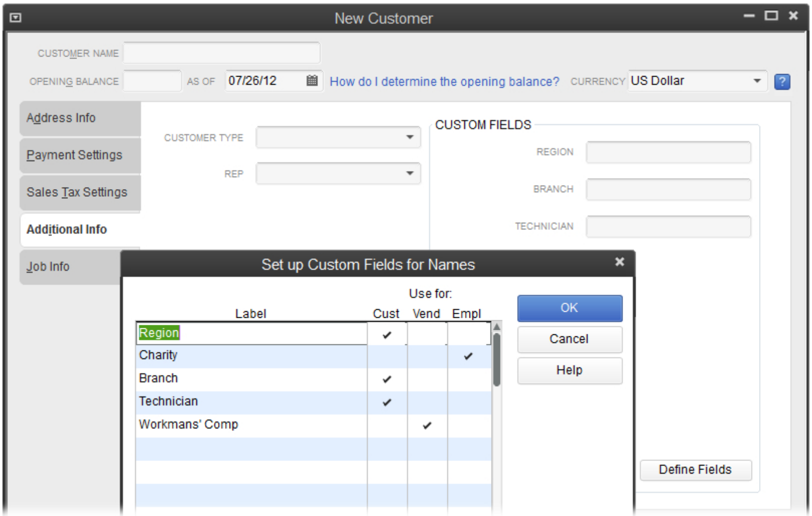


FIGURE 4-4

The "Set up Custom Fields for Names" dialog box (which opens when you click Define Fields in a New or Edit window for customers, vendors, or employees) lets you create up to 15 custom fields. To associate a custom field with a customer, vendor, or employee, click the corresponding cell in the field's row in the table. You can associate a custom field with one or more types of names; for example, with both customers and employees.

NOTE The New Customer window also includes a Job Info tab, which (not surprisingly) has fields for job-related information. If you don't track jobs, you could use this tab's Job Status field to store the overall status of your work for the customer, although a contact-management or project-management program is probably more useful. And if a customer hires you to do more than one job, skip the Job Info tab, since you'll create separate jobs to track the info, as described on page 76.

ALTERNATE REALITY

Tracking Donors for Nonprofits

For nonprofit organizations, any individual or organization that sends money is a *donor*, but the term "donor" doesn't appear in most QuickBooks editions. The Premier Nonprofit edition of the program mentions donors, pledges, and other nonprofit terms, but QuickBooks Pro and other Premier editions focus single-mindedly on customers, so you may have to get used to thinking "donor" whenever you see "customer" in QuickBooks.

Likewise, a job in QuickBooks is the equivalent of a contract or grant. If you need to report on a grant or contract, add a separate job for it to the customer (er, donor) who donated the funds.

Entering members or individual donors as separate customers can max out QuickBooks' customer name limit or make the program run slowly. The Enterprise Solutions edition of QuickBooks can handle a larger number of customers, but most nonprofits would choke at that edition's price tag.

To solve this dilemma, create customers in QuickBooks to represent generic pools, such as donors and members. For example, create a customer called Unrestricted and then post all unrestricted donations to that customer. Then, keep the details of your donor and member names in a separate donor database, spreadsheet, or program designed specifically for nonprofits.

Adding More Customer Contacts

When you create a customer, you can specify information about a contact on the Address Info tab of the New Customer window (page 68). However, you can then add more contacts to a customer's record. For example, you might add contacts for the person who handles day-to-day billing questions, the employee who resolves shipping issues, as well as the owner in case you need to escalate a problem. You can also edit or delete contacts as the people you deal with change offices or transfer to new jobs.

When you select a customer in the Customer Center's Customers & Jobs list, you see contact info for that customer on the right side of the window. To add more contacts to the customer's record, click the Contacts tab in the Center's lower-right pane (Figure 4-5). The Contacts tab doesn't list the contact you specified in the Address Info tab of the New Customer or Edit Customer window.

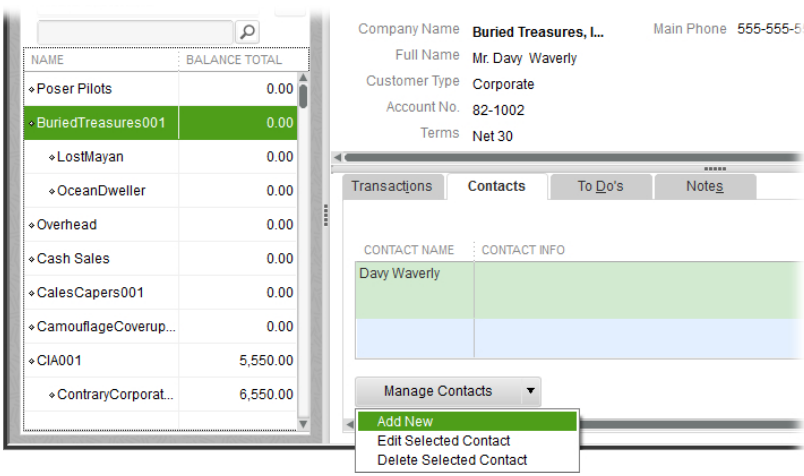


FIGURE 4-5

Any time you want to see information about one of the additional contacts you've created, select the contact in the Contacts tab shown here, click Manage Contacts, and then choose Edit Selected Contact from the drop-down menu. To delete the contact, select the contact, click Manage Contacts, and then choose Delete Selected Contact. Or choose Add New to add another contact.

To add a new contact, click Manage Contacts at the bottom of the pane (if you don't see this button, drag a corner of the Customer Center window to make it taller), and then choose Add New to open the Contacts window. Then, start filling in the boxes, such as Job Title, First Name, Last Name, and so on.

In the Contacts dialog box, you can select any contact for that customer if, for example, you want to edit or delete the contact. Click the down arrow to the right of the Contact box to see a drop-down list that includes all the contacts for that customer sorted by first and last name.

The fields in the Contacts dialog box are a subset of those on the Address Info tab in the New Customer window. They include Job Title and name fields, as well as five other fields that are initially set to Work Phone, Work Fax, Mobile, Main Email, and Additional Email, respectively. However, if you contact the person via Skype or

LinkedIn, click the down arrow on the right end of a field label and then choose the appropriate type of contact info from the drop-down list. Click "Save and New" to add another contact or "Save and Close" to close the window.

Creating Jobs in QuickBooks

Project-based work means that your current effort for a customer has a beginning and an end (even if it sometimes feels like the project will last forever). Whether you build custom computer programs or rustic cabins, you can use QuickBooks' job-tracking features to analyze financial performance by project. Suppose you want to know whether you're making more money on the mansion you're building or on the bungalow remodel, and the percentage of profit you made on each project. As long as you create jobs for each project you want to track, QuickBooks can calculate these financial measures.

NOTE If you sell products and don't give a hoot about job tracking, you can simply invoice customers for the products you sell without ever creating a job in QuickBooks.

In QuickBooks, jobs cling to customers like baby possums to their mothers. A QuickBooks job *always* belongs to a customer. In fact, if you try to choose the Add Job feature before you create a customer, you'll see a message box telling you to create a customer first. Both the New Customer and Edit Customer windows include tabs for customer info *and* job info. So when you create a customer, in effect, you create one job automatically, but you can add as many as you need. This section explains how.

Creating a New Job

Because jobs belong to customers, you have to create a customer (page 66) before you can create any of that customer's jobs. Once the customer exists, follow these steps to add a job to the customer's record:

1. **In the Customer Center's Customers & Jobs tab, right-click the customer you want to create a job for, and then choose Add Job from the shortcut menu.**

   You can also select the customer in the Customers & Jobs tab, and then, in the Customer Center toolbar, choose New Customer & Job→Add Job. Either way, the New Job window appears.

2. **In the Job Name box, type a name for the job.**

   This name will appear on invoices and other customer documents. You can type up to 41 characters in the box. The best names are short but easily recognizable by both you *and* the customer.

   QuickBooks fills in most of the remaining job fields with the information you entered for the customer associated with this job. The only time you have to edit the fields on the Address Info, Payment Settings, and Additional Info tabs is when the information on these tabs is different for this job. For example, if materials for the job go to a different shipping address than the customer's, type the address in the fields on the Address Info tab.

3. **If you want to add info about the job type, dates, or status, click the Job Info tab and enter values in the appropriate fields.**

   If you add job types (page 159), you can analyze jobs with similar characteristics, no matter which customer hired you to do the work. Filling in the Job Status field lets you see what's going on by scanning the Customer Center, as shown in Figure 4-6. If you want to see whether you're going to finish the work on schedule, you can document your estimated and actual dates for the job in the Date fields (the box on page 78 has more about these fields).

NOTE To change the values you can choose in the Job Status field, modify the status text in QuickBooks' preferences (see page 616).

4. **After you've filled in the job fields, click OK to save the job and close the New Job window.**

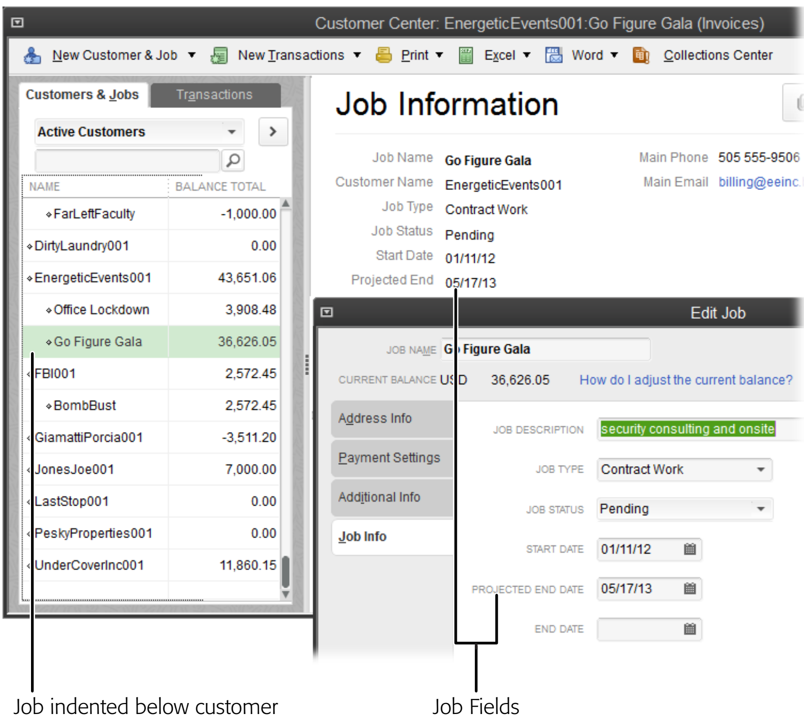


FIGURE 4-6

When you select a job in the Customer Center (jobs are indented below their customers), the Job Information section of the window displays Job Status, Start Date, Projected End, and End Date. If you want to edit info you've entered for a job, double-click the job's name in Customers & Jobs tab to open the Edit Job dialog box.

UP TO SPEED

Specifying Job Information

The fields on the New Job (and Edit Job) window's Job Info tab are optional—you can invoice a customer even if every one is blank. However, the Job Status and Job Type fields can both help you analyze your business performance, past and future. You don't even have to use the terms that QuickBooks provides in the Job Status drop-down list; you can customize the list by adjusting the Jobs and Estimates preferences described on page 616.

Here's a guide to the Job Info tab's fields and how you can put them to use:

- **Job description**. Here's where you can type a detailed description to remind you about the work in case the job's name doesn't ring any bells.
- **Job type**. If you categorize your jobs, choose the job type (page 82) from this drop-down menu.
- **Job status**. This field can indicate trends in your business. If several jobs are set to Pending status, for example, a resource crunch might be in your future.
- **Start date**. Set this field to the date you started the job.
- **Projected end**. If you've estimated when you'll complete the job, select that date here.
- **End date**. When you complete the job, set this field to the date you actually finished up. By comparing the actual end date with your projection, you can improve future estimates or change how you work in order to finish jobs on time.

Modifying Customer and Job Information

You can edit a customer's record at any time to add more data or change what's already there. Similarly, you can create a job with only the job name and then come back later to edit it or add details.

QuickBooks gives you a few ways to open the Edit Customer or Edit Job window when the Customer Center window is open. On the Customers & Jobs tab:

- Double-click the customer or job you want to tweak.
- Select the customer or job you want to edit and then press Ctrl+E or, on the right side of the Customer Center, click the Edit button (its icon looks like a pencil).
- Right-click the customer or job and then choose Edit Customer:Job from the shortcut menu.

NOTE You can also modify multiple customer and job records at once, as described on page 94.

In the Edit Customer window, you can make changes to all the fields except Current Balance. QuickBooks calculates the customer's balance from the opening balance (if you provide one) and any unpaid invoices for that customer. Once a customer exists, you modify the customer's balance by creating invoices (page 276), credit memos (page 321), journal entries (page 451), or payment discounts (page 378).

Similarly, all the fields in the Edit Job window are editable except for Current Balance. Remember that the changes you make to fields on the Address Info, Additional Info, Payment Info, and Job Info tabs apply only to that job, not to the customer.

You can't change the currency assigned to a customer if you've recorded a transaction for that customer. So if the customer moves from Florida to France and starts using euros, you'll need to close that customer's current balance (by receiving payments for outstanding invoices). Then you can create a new customer in QuickBooks and assign the new currency to it. After the customer's new record is ready to go, you can make the old record inactive (page 88).

WARNING Unless you've revamped your naming standard for customers (page 66), don't edit the value in a customer's Customer Name field. Why? Because doing so can mess up things like customized reports you've created that are filtered by a specific customer name. Such reports aren't smart enough to automatically use the new customer name. So if you do modify a Customer Name field, make sure to modify any customizations to use the new name.

Categorizing Customers and Jobs

If you want to report and analyze your financial performance to see where your business comes from and which type is most profitable, categorizing your QuickBooks customers and jobs is the way to go. For example, customer and job types can help you produce a report of kitchen remodel jobs that you're working on for residential customers. With that report, you can order catered dinners to treat those clients to customer service they'll brag about to their friends. If you run a construction company, knowing that your commercial customers cause fewer headaches *and* that doing work for them is more profitable than residential jobs is a strong motivator to focus future marketing efforts on commercial work. The box on page 80 explains how you can analyze your business in other ways.

If you take the time to plan your QuickBooks customers and jobs in advance, you'll save yourself hours of effort later, when you need information about your business. You can add customer and job *types* (as well as customers and jobs) anytime. If you don't have time to add types now, come back to this section when you're ready to learn how.

GEM IN THE ROUGH

Categorizing with Classes

The Class Tracking feature explained on page 150 is a powerful and often misunderstood way to categorize a business. Classes are powerful because of their ability to cross income, expense, account, customer, and job boundaries.

Say you want to track how much each sales region actually sells to figure out who gets to host your annual sales shindig. Your income accounts show sales by products and services, even if each region sells all those items. Customer types won't help if some large customers buy products from several regions. The same goes if a job requires a smorgasbord of what you sell. To solve this sales-by-region dilemma, you can create a class for each region.

When you turn on Class Tracking, every transaction includes a Class field. Unlike the Customer Type and Job Type fields, which you assign when you create a customer or job, a transaction's Class field starts out blank. For each invoice, sales receipt, and so on, simply choose the class for the region that made the sale. That way, you can produce a report sorted by class that shows each region's performance.

As you'll learn on page 154, classes can track information that spans multiple customers and jobs, such as business unit, company division, and office location. But don't expect miracles—classes work best when you stick to using them to track only one thing. If you want to apply classes for different purposes, such as both business units *and* locations, you can create subclasses to further categorize your data. For example, you could create top-level classes for your locations, and then create subclasses for the business units in each location.

Understanding Customer Types

Business owners often like to look at the performance of different segments of their businesses. Say your building-supply company has expanded over the years to include sales to homeowners, and you want to know how much you sell to homeowners versus professional contractors. In that case, you can use customer types to designate each customer as a homeowner or a contractor to make this comparison, and then total sales by Customer Type, as shown in Figure 4-7. As you'll learn on page 73, categorizing a customer is as easy as choosing from the Customer Types list.

Customer types are yours to mold into whatever categories help you analyze your business. A healthcare provider might classify customers by their insurance, because reimbursement levels depend on whether a patient has Medicare, uses major medical insurance, or pays privately. A clothing maker might classify customers as custom, retail, or wholesale, because the markup percentages are different for each. And a training company could categorize customers by how they learned about the company's services.

NOTE As you'll see throughout this book, QuickBooks' lists make it easy to fill in information in most QuickBooks dialog boxes by choosing from a list instead of typing.

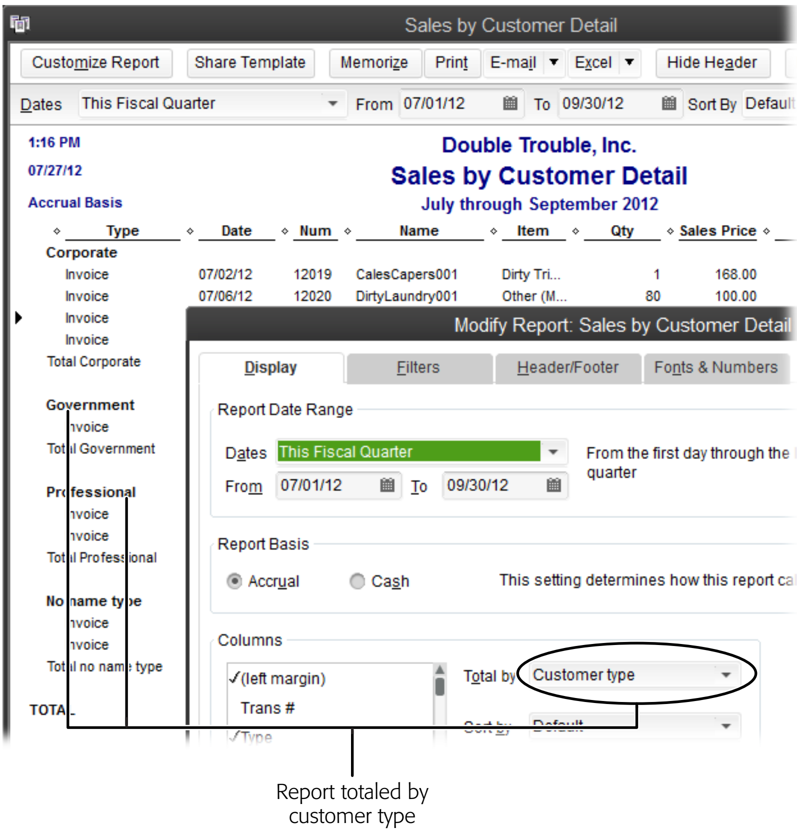


FIGURE 4-7

The Sales by Customer Detail report initially totals income by customer. To subtotal income by customer type (in this example, corporate, government, professional, and so on), click Customize Report in the report window's button bar. On the Display tab of the dialog box that appears, choose "Customer type" in the "Total by" drop-down list (circled), and then click OK.

If you create a company file by using an industry-specific edition of QuickBooks or you select an industry when creating your company file (page 8), QuickBooks fills in the Customer Type List with a few kinds of customers that are typical for your industry. If your business sense is eccentric, you can delete QuickBooks' suggestions and replace them with your own entries. If you're a landscaper, you might include customer types such as Green Thumb, Means Well, or Lethal, so you can decide whether orchids, cacti, or Astroturf are most appropriate.

TIP A common mistake is creating customer types that don't relate to customer characteristics. For example, if you provide several kinds of services—like financial forecasting, investment advice, and reading fortunes—your customers might hire you to perform any or all of those services. So if you classify your customers by the services you offer, you'll wonder which customer type to choose when someone hires you for two different services. Instead, go with customer types that describe the customer in some way, like Economics, Investments, and Gambler.

Here are some suggestions for using customer types and other QuickBooks features to analyze your business in different ways:

- **Customer business type.** Use customer types to classify your customers by their business sector, such as Corporate, Government, and Small Business.
- **Nonprofit "customers."** For nonprofit organizations, customer types such as Member, Individual, Corporation, Foundation, and Government Agency can help you target fundraising efforts.
- **Location or region.** Customer types or classes can help track business performance if your company spans multiple regions, offices, or business units.
- **Services.** To track how much business you do for each type of service you offer, set up separate income accounts or subaccounts in your chart of accounts, as outlined on page 45.
- **Products.** To track product sales, create one or more income accounts or subaccounts in your chart of accounts.

TIP Create income accounts for broad categories of income, such as services and products. Don't create separate accounts for each service or product you sell; you can use items to track sales for each service and product instead, as described in Chapter 5.

- **Marketing.** To identify the income you earned based on how customers learned about your services, create classes such as Referral, Web, Newspaper, and Blimp, or enter this info in a custom field (page 73). That way, you can create a report that shows the revenue you've earned from different marketing efforts—and figure out whether each one is worth the money.

Creating a Customer Type

You can create customer types when you set up your QuickBooks company file or at any time after setup. If you want, you can even set up a customer type as a subtype of another type. To see the list of customer types, choose Lists→Customer & Vendor Profile Lists→Customer Type List. See page 158 to learn how to create customer types and subtypes.

Categorizing Jobs

Jobs are optional in QuickBooks, so job types matter only if you track your work by the job. If your sole source of income is selling organic chicken-fat ripple ice cream, jobs and job types don't matter—your relationship with your customers is one long run of selling and delivering products. But for project-based businesses, job types add another level of filtering to the reports you produce. If you're a writer, then you can use job types to track the kinds of documents you produce (Manual, White Paper, and Marketing Propaganda, for instance) and filter the Job Profitability Report by job type to see which forms of writing are the most lucrative. (Page 559 describes how to filter reports.)

Creating a job type is similar to creating a customer type (page 158): Choose Lists→Customer & Vendor Profile Lists→Job Type List. When the Job Type List window opens, press Ctrl+N to open the New Job Type window, and then enter a name for the job type. If you want to create a subtype, turn on the "Subtype of" checkbox and choose the job type this subtype belongs to.

Adding Notes

Attention to detail. Follow-through. These are a couple of the things that keep customers coming back for more. Following up on promises or calling to check that an issue was resolved successfully is good business. But sending reorder brochures after customers have made purchases can just make them mad. If you use another program for managing customer relationships, you can track these types of details there. But if you prefer to use as few programs as possible, QuickBooks' notes feature can help you stay in customers' good graces by tracking what's been going on, and the to-do items that still need to be done.

In earlier versions of QuickBooks, there was only one note box for all the notes you added to a customer's or job's record. But in QuickBooks 2013, you can add as many separate notes as you want. To view them, simply open the Customer Center, select a customer or job in the Customers & Jobs tab, and then click the Notes tab on the right side of the window. All the notes for the selected customer or job appear, as shown in Figure 4-8 (background). On the Notes tab, you can add, edit, and delete notes in the same way you work with contacts (page 75):

- **Add a note**. With a customer or job selected, click Manage Notes→Add New. The Notepad dialog box opens with the customer's contact information filled in as shown in Figure 4-8 (foreground).
- **Edit a note**. Select the note you want to edit, and then click Manage Notes→Edit Selected Note.
- **Delete a note**. Select the note you want to delete, and then click Manage Notes→Delete Selected Note.

The Notes tab displays all the notes you've added for the selected customer or job. To limit the notes to a date range, click the down arrow to the right of the Date box and choose the time period you want, such as This Month-to-date. To keep track of when conversations happen, click Date Stamp before you start typing. If you're adding a note about something that happened on a day other than today, you have to type in the date.

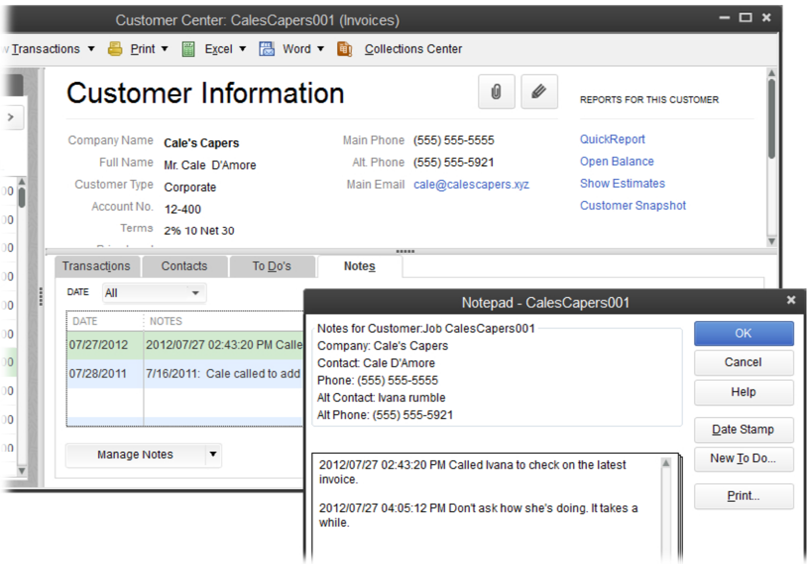


FIGURE 4-8

You can add a date and time to an entry by clicking Date Stamp. To print the customer's notes, click Print. To add a reminder of what you want to do for a customer and when, click New To Do. (Page 108 describes how to create and manage to-dos.)

Working with Leads

Suppose you attend a tradeshow and return to your office with a stack of leads. If you want to turn those leads into new sales, you usually have a host of to-dos, like following up on the questions that prospects asked, sending out more info about your products and services, or simply taking the next step in your sales process. The information you collect about leads is similar to that for customers, but leads aren't customers—yet. If your lead-tracking needs are simple, the Lead Center can help you track prospects while you're trying to turn them into customers. Then, if your persuasion pays off, you can transform leads into customers in QuickBooks.

To work with leads, open the Lead Center by choosing Customers→Lead Center. The Lead Center looks a lot like the Customer Center with a few exceptions. The Leads list on the left shows the lead's name and status. And because leads don't have transactions, the tabs at the bottom of the Lead Center focus on to-dos, contacts, locations, and notes you can use to try to convert the leads into customers.

NOTE The Lead Center's features aren't as powerful as the ones you find in market-leading customer relationship management (CRM) programs. For example, you can't send an email to a lead from the Lead Center or create an estimate for a lead. But if your leads are scribbled in a notebook or listed in a spreadsheet, the Lead Center can help you organize them—and because it's built into QuickBooks, it doesn't cost extra. If you need more sophisticated tracking tools, skip the Lead Center and check out CRM programs that integrate with QuickBooks. You can find a few dozen listed at the Intuit marketplace (*http://tinyurl.com/7xntgpe*). QuickBooks also integrates with Salesforce, a major CRM provider. You can learn about this program in the Lead Center window by clicking the "Learn about Salesforce" button to the right of the Lead Information heading.

Here are some of the actions you can perform with leads:

- **Create a new lead**. In the Lead Center toolbar, click New Lead. In the Add Lead dialog box, name the lead. The Status field lets you classify leads as Hot, Warm, or Cold, so you know which ones to focus on first. The Company tab contains fields for info such as company name, telephone number, email address, website, and main address. (You can add other addresses if the company has several locations.) The Contacts tab lets you add contact information for people in the company. The first contact you enter is designated the Primary Contact, but you can add other contacts by clicking the Add Another Contacts button.

NOTE After you create a lead, you can add more contacts or locations to it by selecting it on the left side of the Lead Center and then clicking either the Contacts or Locations tab at the bottom of the window.

- **View leads**. Like the Customer Center, the Lead Center lists your leads on the left side of the window. The list shows the lead's name and status. You can filter the list by choosing an entry in the View drop-down list. For example, choose Active Leads to see all the leads you're working on, or choose Hot to filter the list for all your most promising leads.
- **Search leads**. If your sales team is prolific, your lead list could be quite long. You can search for specific leads by typing part of the lead's name in the Find box on the left side of the Lead Center and then clicking the magnifying glass icon. QuickBooks filters the list to show all the leads that contain the text you typed.
- **Edit a lead**. After you create a lead, you can view its information and edit it. Simply double-click the lead in the Leads list on the left side of the Lead Center.
- **Create a to-do**. To add a to-do for a lead, select the lead in the Leads list. Next, click the To Do's tab at the bottom of the Lead Center, click To Do at the bottom of the tab, and then choose New To Do. (See page 108 to learn how to create different types of to-dos.) The To Do's tab shows info about that lead's to-dos, including the type of to-do, its priority, when it's due, and whether it's complete.

- **Add notes**. To add notes about a lead, first select the lead in the Leads list. Next, click the Notes tab at the bottom of the Lead Center, and then click Add Notes. In the "Note For <customer>" dialog box, type the information you want to record. For example, you might specify the particular services or products that lead is interested in or her budget. When you add a note, QuickBooks automatically records the date you wrote it. To filter the notes by date, choose a time period in the Notes tab's Date drop-down list.
- **Convert a lead to a customer**. Leads are stored in a separate list from your customers. When you turn a lead into a customer in real life, you can easily do the same in QuickBooks. Right-click the lead in the Leads list and choose "Convert to a Customer" in the shortcut menu. (Or click the "Convert this Lead to a Customer" button in the Lead Center's upper right.) QuickBooks asks you to confirm this action, because you can't undo it. When you click OK, the lead disappears from the Active Leads list. You can see the leads you've converted to customers by choosing Converted Leads in the View drop-down list. Although you can still view these converted leads in the Lead Center, you can no longer *edit* them there. They appear as customers in the Customer Center, and you can edit them there as you do other customers (page 78).
- **Import leads**. To import information about several leads, in the Lead Center toolbar, click Import Multiple Leads. The Import Leads dialog box that appears lets you type values into a table, but you can also copy and paste information from an Excel spreadsheet like you do in the Add/Edit Multiple List Entries window (page 94).

Merging Customer Records

Suppose you remodeled buildings for two companies run by brothers: Morey's City Diner and Les's Exercise Studio. Morey and Les conclude that their businesses have a lot of synergy—people are either eating or trying to lose weight, and usually doing both. To smooth out their cash flow, they decide to merge their companies into More or Less Body Building and All You Can Eat Buffet. Your challenge: to create one customer in QuickBooks from the two businesses, while retaining the jobs, invoices, and other transactions that you created when the companies were separate. The solution: QuickBooks' merge feature.

TIP Here's another instance when merging can come in handy: If you don't use a standard naming convention as recommended on page 66, you could end up with multiple customer records representing one real-life customer, such as "Les's Exercise Studio" and "LesEx." You can merge these doppelgangers into one customer just as you can merge two truly separate companies into one.

When you merge customer records in QuickBooks, one customer retains the entire transaction history for the two original customers. In other words, you don't so much merge two customers as turn one customer's records into those of another.

QuickBooks doesn't have a Merge Customer button. If you want to merge two customers' records into one, the secret is to rename one customer to the same name as another. Sounds simple, right? But there's a catch: The customer you rename can't have any jobs associated with it. So if the customer you want to rename has jobs associated with it, you have to move all those jobs to the customer you intend to keep *before* you start the merge. Your best bet: Subsume the customer with fewer jobs so you don't have to move very many. (If you don't use jobs, then subsume whichever customer you want.)

NOTE If you work in multiuser mode, you have to switch to single-user mode for the duration of the merging operation. See page 173 to learn how to switch to single-user mode and back again after the merge is complete.

To merge customers with a minimum of frustrated outbursts, follow these steps:

1. **Open the Customer Center.**

   In QuickBooks' icon bar, click Customers, or in the Customers panel of the Home page, click Customers.

2. **If the customer you're going to subsume has jobs associated with it, on the Customers & Jobs tab, position your cursor over the diamond to the left of the job you want to reassign.**

   Jobs are indented beneath the customer to which they belong.

3. **When the cursor changes to a four-headed arrow, drag the job under the customer you plan to keep, as shown in Figure 4-9, left.**

4. **Repeat steps 2 and 3 for each job that belongs to the customer you're going to subsume.**

   If you have hundreds of jobs for the customer, moving them is tedious at best—but move them you must.

5. **On the Customers & Jobs tab, right-click the name of the customer you want to subsume and, from the shortcut menu, choose Edit Customer:Job.**

   You can also edit the customer by selecting its name on the Customer & Jobs tab and then, when the customer's info appears on the right side of the Customer Center, clicking the Edit button (the pencil icon). Either way, the Edit Customer dialog box opens.

6. **In the Edit Customer dialog box, edit the Customer Name field to match the name of the customer you intend to keep, and then click OK.**

   QuickBooks displays a message letting you know that the name is in use and asking if you want to merge the customers.

7. **Click Yes to complete the merge.**

   In the Customer Center, the customer you renamed disappears and any balances it had now belong to the remaining customer, as shown in Figure 4-9, right.

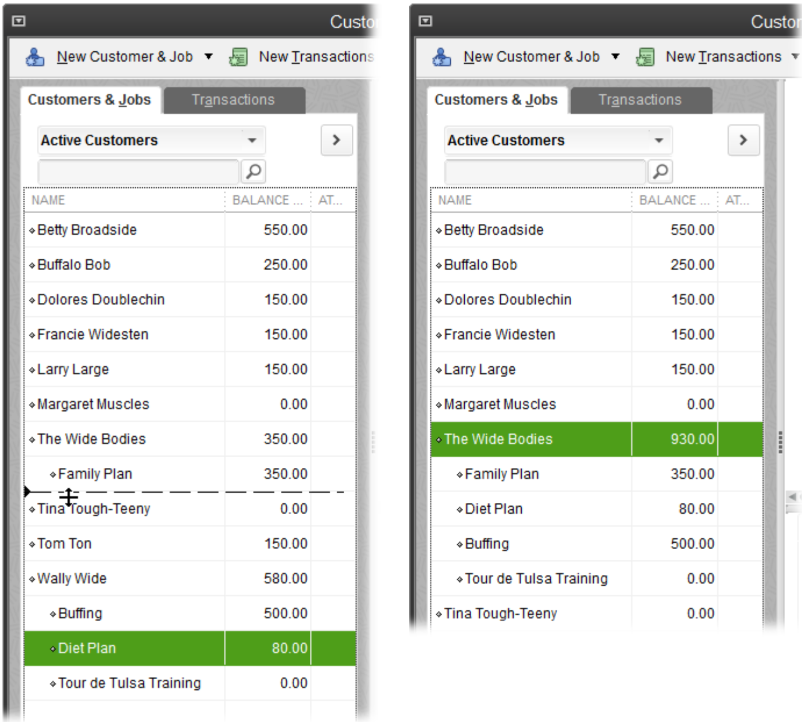


FIGURE 4-9

Left: When your cursor changes to a four-headed arrow, drag within the Customers & Jobs tab to move the job. As you drag, a horizontal line between the two arrow-heads shows you where the job will go when you release the mouse button.

Right: After reassigning all the jobs to the customer you intend to keep, you can merge the now-jobless customer into the other. When the merge is complete, you see only the customer you kept.

Hiding and Deleting Customers

Hiding customers isn't about barricading them in a conference room when the competition shows up to talk to you. Because QuickBooks lets you delete customers only in very limited circumstances, hiding customers helps keep your list of customers manageable and your financial history intact. This section explains your options.

Hiding and Restoring Customers

Although your work with a customer might be over, you still have to keep records about your past relationship. But old customers can clutter up the Customer Center, making it difficult to select active customers. The solution is to hide old customers, which also removes those customers' names from all the lists that appear in transaction windows so you can't select them by mistake. Hiding old customers is a better solution than deleting them, because QuickBooks retains the historical transactions for those customers so you can reactivate them if they decide to work with you again.

To hide a customer, in the Customer Center's Customers & Jobs tab, right-click the customer and then, from the shortcut menu, choose Make Customer:Job Inactive. The customer and any associated jobs disappear from the list. Figure 4-10 shows you how to unhide (reactivate) customers.

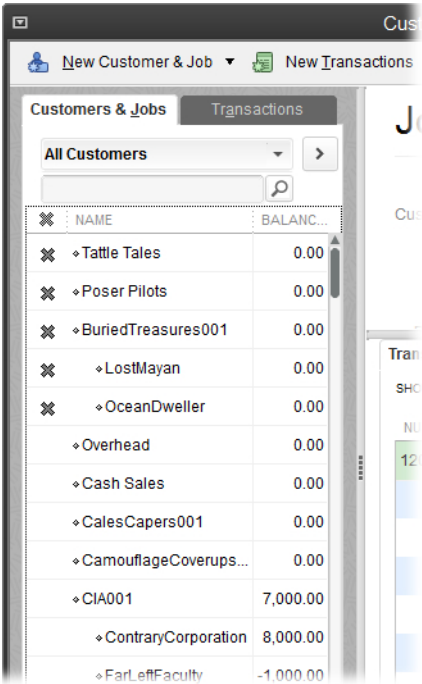


FIGURE 4-10

To make hidden customers visible again and reactivate their records, set the drop-down list at the top of the Customers & Jobs tab to All Customers as shown here. QuickBooks displays an X to the left of every inactive customer in the list. Simply click that X to restore the customer to active duty.

Deleting Customers

You can delete a customer only if there's no activity for that customer in your QuickBooks file. If you try to delete a customer that has even one transaction, QuickBooks tells you that you can't delete that record.

If you create a customer by mistake, you can remove it, as long as you first remove any associated transactions—which are likely to be mistakes as well. But QuickBooks doesn't tell you which transactions are preventing you from deleting this customer. To find and delete transactions that prevent you from deleting a customer, follow these steps:

1. **View all the transactions for the customer by selecting that customer in the Customer Center's Customers & Jobs tab, and then, in the Transactions pane, setting the Show box to All Transactions and the Date box to All, as shown in Figure 4-11.**

   You can also view transactions by running the "Transaction List by Customer" report (Reports→Customers & Receivables→Transaction List by Customer).

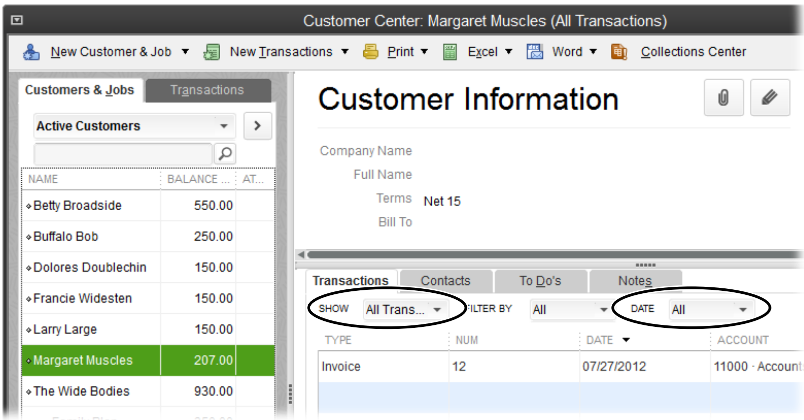


FIGURE 4-11

When you select a customer in the Customer Center, the transaction pane in the lower right shows that customer's transactions. To see them all, in the Show drop-down list, choose All Transactions, and in the Date drop-down list, choose All.

2. **In the Customer Center or the report, open the transaction you want to delete by double-clicking it.**

   The Create Invoices window (or the corresponding transaction window) opens to the transaction you double-clicked.

3. **Right-click the Create Invoices window and choose Delete Invoice from the shortcut menu (or choose Edit→Delete Invoice, Edit→Delete Check, or the corresponding delete command).**

   In the message box that appears, click OK to confirm that you want to delete the transaction.

4. **Repeat steps 2 and 3 for every transaction for that customer.**

5. **Back on the Customers & Jobs tab, select the customer you want to delete, and then press Ctrl+D or choose Edit→Delete Customer:Job.**

   If the customer has no transactions, QuickBooks asks you to confirm that you want to delete the customer; click OK. If you see a message stating that you can't delete the customer, go back to steps 2 and 3 to delete any remaining transactions.

Setting Up Vendors

Creating and editing vendors is similar to creating and editing customers: You can add them one at a time or create them all at once. The New Vendor window lets you create one vendor at a time. The next section describes how to use that window and explains the fields that are unique to vendors.

TIP You can create a vendor record when you create that vendor's first bill (page 220). Simply choose <Add New> in the Enter Bills window's Vendor drop-down list.

You can use the QuickBooks Setup window to import vendor information from your email program or copy and paste data from Microsoft Excel, as described on page 15. And the Add/Edit Multiple List Entries feature lets you paste data from Excel or copy values from vendor to vendor; you can read how to use it on page 94.

Importing vendor information into QuickBooks is another fast way to create oodles of vendor records. After you create a map between QuickBooks' fields and fields in another program, you can transfer all your vendor info, as described on page 654.

The Vendor Center makes creating, editing, and reviewing vendors in QuickBooks a breeze. Like the Customer Center (page 29), the Vendor Center lists the details of your vendors and their transactions in one easy-to-use dashboard. To open the Vendor Center window, use any of the following methods:

- Choose Vendors→Vendor Center.
- In the Vendors panel of the QuickBooks Home page, click Vendors.
- In the icon bar, click Vendors.

Creating a Vendor

You create a new vendor from the Vendor Center window by pressing Ctrl+N or, in the Vendor Center menu bar, by clicking New Vendor→New Vendor. Either way, the New Vendor window opens.

Many of the fields you see should be familiar from creating customers in QuickBooks. For example, the Vendor Name field corresponds to the Customer Name field, which you might remember is actually more of a code than a name (page 67). Use the same sort of naming convention for vendors that you use for customers (see the box on page 66). As with customer records, you're better off leaving the Opening Balance field blank and building your current vendor balance by entering the invoices or bills they send.

The following sections explain how to fill out the rest of the fields in a vendor record.

ENTERING ADDRESS INFORMATION

If you print checks and envelopes to pay your bills, you'll need address and contact information for your vendors. The Address Info tab in the New Vendor window has fields for the vendor's address and contact info, which are almost identical to customer address and contact fields, so see page 68 if you need help filling them in.

PAYMENT SETTINGS

In QuickBooks 2013, the fields related to payments reside on the Payment Settings tab. Here are the fields and how you fill them in:

- **Account No**. When you create customers, you can assign account numbers to them; when it's your turn to be a customer, your vendors return the favor and assign an account number to *your* company. If you fill in this box with the account number that the vendor gave you, QuickBooks prints it in the memo field of checks you print. Even if you don't print checks, keeping your account number in QuickBooks is handy if a question arises about one of your payments.
- **Payment Terms**. Choose the payment terms that the vendor extended to your company. The entries in this drop-down list (page 70) are the same as for customers.
- **Print Name On Check As**. QuickBooks automatically fills in this box with whatever you enter in the vendor's Company Name field on the Address Info tab. When you print checks, QuickBooks fills in the payee with the contents of this field, so to print a different name, simply edit what's in this box.
- **Credit Limit**. If the vendor has set a credit limit for your company (like $30,000 from a building supply store), type that value in this box. That way, QuickBooks warns you when you create a purchase order that pushes your credit balance above this limit.
- **Billing Rate Level**. If you use the Contractor, Professional Services, or Accountant edition of QuickBooks, this is another list that lets you set up custom billing rates for employees and vendors. Billing rates let you price the *services* you sell the same way a Price Level helps you adjust the prices of products you sell. Say you have three carpenters: a newbie, an old-timer, and a finish carpenter. You can set up a Billing Rate Level for each one based on experience. Then, when you create an invoice for your carpenters' billable time, QuickBooks automatically applies the correct rate to each carpenter's hours.

SALES TAX SETTINGS

QuickBooks 2013 keeps the two sales tax–related fields on the Sales Tax Settings tab. Here's what they do:

- **Vendor ID**. You have to put the vendor's Employer Identification Number (EIN) or Social Security number in this field *only if* you plan to create a 1099 for this vendor.
- **Vendor eligible for 1099**. Turn on this checkbox if you're going to create a 1099 for this vendor (page 497).

NOTE When you hire subcontractors to do work for you, you have them fill out a W-9 form, which tells you the subcontractor's taxpayer identification number. Then, at the end of the year, you fill out a 1099 tax form that indicates how much you paid them, which they use to prepare their tax returns. See page 497 to learn how QuickBooks can help with 1099s.

FILLING IN EXPENSE ACCOUNTS AUTOMATICALLY

When you write checks, record credit card charges, or enter bills for a vendor, you have to indicate the expense account to which you want to assign the payment. The Account Settings tab in the New Vendor or Edit Vendor window lets you tell QuickBooks which accounts you typically use. However, the easiest approach to filling in expense accounts is to tell QuickBooks to automatically recall your previous transactions. That way, when you record a bill, check, or credit card charge for a vendor, the program creates a new bill using the total amount and the accounts you chose on the previous transaction. Page 612 explains how to set the "Automatically recall last transaction for this name" preference.

ADDITIONAL INFO

With all the New Vendor window's new tabs in QuickBooks 2013, the Additional Info tab is rather sparse, which is probably why it's the last tab in the list. Here are its fields and what you can do with them:

- **Vendor Type**. If you want to classify vendors or generate reports based on their types, choose an entry in this drop-down list or create a new type in the Vendor Type List (page 159) by choosing <Add New>. For example, if you assign a Tax type to all the tax agencies you remit taxes to, you can easily prepare a report of your tax liabilities and payments.
- **Custom Fields**. If you want to track vendor information that isn't handled by the fields that QuickBooks provides, you can add several custom fields (see the box on page 73). Say your subcontractors are supposed to have current certificates for workers' comp insurance, and you could be in big trouble if you hire one whose certificate has expired. If you create a custom field to hold the expiration date for each subcontractor's certificate, you can generate a report of these dates.

Data Entry Shortcuts

If you frequently add or edit more than one customer or vendor a time, filling in the New Customer or New Vendor window isn't only tedious, it also takes up time you should spend on more important tasks, like selling, managing cash flow, or finding out who has the incriminating pictures from the last company party.

When you set up your company file, the QuickBooks Setup window helps you bring information in from an email program or Excel (page 15), and you can use that same window anytime you want to add more customers or vendors. Another option is the Add/Edit Multiple List Entries feature. When you're creating customers, vendors, or items, you can use the Add/Edit Multiple List Entries window to paste data from Excel into QuickBooks. Or, to edit existing records, you can filter or search the list in that window to show just the customers (or vendors, or items) you want to update and then paste Excel data, type in values, or copy values between records.

Then again, you might store info about customers and vendors in other programs such as a database or word-processing program where you create mailing labels. If your other programs can create *Excel-compatible files* or *delimited text files*, you can avoid data-entry grunt work by transferring data to or from QuickBooks. (Delimited text files are nothing more than files that separate each piece of data with a comma, space, tab, or other character.) In both types of files, the same kind of info appears in the same position in each line or row, so QuickBooks (as well as other programs) can pull the information into the right places. When you want to transfer a *ton* of customer information between QuickBooks and other programs, importing and exporting is the way to go. By mapping QuickBooks fields to the fields in the other program, you can quickly transfer hundreds or even thousands of records.

This section covers it all: working with multiple entries, importing, and exporting.

Adding and Editing Multiple Records

The Add/Edit Multiple List Entries feature is a great tool for adding or updating values in the Customer, Vendor, and Item Lists. If you have data in an Excel spreadsheet, you can paste it directly into a table in the Add/Edit Multiple List Entries window. Features for copying or duplicating values between records come in handy with changes like updating the billing address for a customer who sends you job after job. (Typing values into cells works, too, if you notice a typo in one of the records in the list.) And you can customize the window's table to show only the customers, vendors, or items you want to edit and the fields you want to modify.

This feature goes by different names depending on where you find it in QuickBooks. Choose it in any of these locations to open the Add/Edit Multiple List Entries window:

- **In the Lists menu, choose Add/Edit Multiple List Entries.** When you go this route, QuickBooks sets the window's List box to Customers.
- **In the Customer Center toolbar, click New Customer & Job→Add Multiple Customer:Jobs or Excel→Paste from Excel.** QuickBooks sets the List box to Customers.
- **In the Vendor Center toolbar, click New Vendor→Add Multiple Vendors or Excel→Paste from Excel.** QuickBooks sets the List box to Vendors.
- **At the bottom of the Item List window (page 119), click Excel→Paste from Excel.** QuickBooks sets the List box to Service Items.

SELECTING A LIST TO WORK WITH

As mentioned above, if you open the Add/Edit Multiple List Entries window from the Customer Center, Vendor Center, or Item List window, it automatically selects the appropriate list in the List drop-down menu. You can switch lists by choosing Customers, Vendors, Service Items, Inventory Parts, or Non-Inventory Parts from this drop-down menu.

TIP If you set up jobs for customers, the Add/Edit Multiple List Entries window's table includes rows for both customers and jobs. The Name column contains the customer's name for a customer row and the job's name for a job row. Usually, you can spot job rows by looking at the Company Name field, since all jobs for that customer will have the same value listed here.

To make it easier to edit existing list entries, you can display only the ones you want to change. Here are some ways to control what you see in the table:

- **Filter the entries**. The View drop-down list includes several choices for filtering the list. Choose Active Customers if you want to make changes to only active customers in your company file. Choosing Inactive Customers displays only customers that you've set to inactive status (page 88). You can filter for active or inactive vendors and items, too.

  Because QuickBooks doesn't save the changes you make in the Add/Edit Multiple List Entries window until you click Save Changes, you can filter by Unsaved Customers (or Unsaved Vendors or Unsaved Items) to see all the entries you've edited but haven't yet saved. Choosing the entry that ends in "with errors" displays only entries that contain invalid values, like a vendor type or tax code that doesn't exist in your company file. In fact, if you click Save Changes when there are records with errors, the window automatically filters the list to the "with errors" view so you can see what you need to correct before you can save your changes. Page 100 explains how to spot and fix errors.

  To filter the list to your exact specifications, choose Custom Filter and then fill in the dialog box shown in Figure 4-12. For example, if you want to divide your government customers into local, state, and federal groups, you can filter the list to show only records with "Government" in their customer fields. Note that QuickBooks displays only list entries that *exactly* match what you filter for, so if you type *(555)* to look for the 555 area code, records that don't have parentheses around the area code won't show up.

- **Find entries**. Typing a word, value, or phrase in the Find box is similar to applying a custom filter to the list, except that QuickBooks searches *all* fields. For example, if you type *555* in the Find box and then click the Search button (which looks like a magnifying glass), QuickBooks will display records that contain 555 anywhere, whether it's in the company name, telephone number, address, or account number field.

TIP To clear a custom filter or the search criteria you typed in the Find box, simply click the button to the right of the Find box (which has a red X on it when you've applied a filter or find criteria to the list).

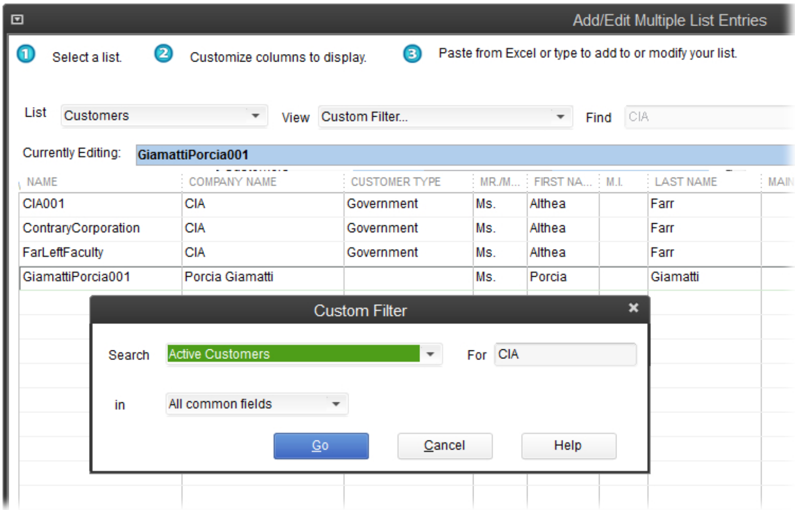


FIGURE 4-12

In the Custom Filter dialog box, you can type a word, value, or phrase to look for, and specify the fields you want QuickBooks to search. For example, type cia *in the For field and set the "in" drop-down list to "All common fields" to find customers with "cia" in fields like name, company name, and so on.*

NOTE QuickBooks is quite literal in its searches, so the entries you see in your search results exactly match what you typed in the Find box. For example, if you type *New York*, QuickBooks displays customer records that contain that exact phrase, but not ones that use the abbreviation NY.

- **Customize the columns that appear in the table**. To paste data from Excel in a jiffy, you can customize the table's columns to match your Excel spreadsheet. (If you're an Excel whiz, you may prefer to rearrange the columns in your spreadsheet before pasting data.) Click Customize Columns to open the Customize Columns dialog box. The tools for customizing columns are straightforward, as Figure 4-13 illustrates. To add a column, select the field you want in the Available Columns list and then click Add. To remove a column, select it in the Chosen Columns list and then click Remove.
- **Sort the list entries**. To sort the entries in the table, click the column heading for the field you want to sort by, and QuickBooks sorts the records in ascending order (from A to Z or from low to high numbers). Click again to sort in descending order.

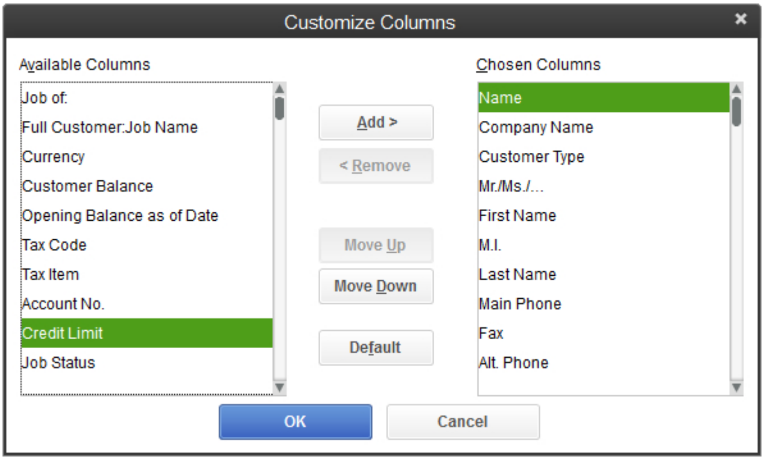


FIGURE 4-13

In addition to adding and removing columns, you can change the position of a column by selecting it in the Chosen Columns list and then clicking Move Up or Move Down. If you completely mangle the columns, click Default to restore the original ones.

ADDING OR EDITING LIST ENTRIES

Whether you want to add new entries or edit existing ones, you can paste data from Excel, type in values, or use features like Copy Down to copy values between records. (When you want to add a new record, you have to click the first empty row at the bottom of the list before you can enter any data.) Here are the various ways to enter values in records:

- **Type values in cells**. This method is straightforward: Click a cell and make your changes.
- **Copy and paste values from Excel**. If you're a fan of copying and pasting (and who isn't?), you can copy data from an Excel spreadsheet (a single cell, a range of cells, one or more rows, or one or more columns) and paste it into the table. The only requirement is that the rows and columns in the table and in the spreadsheet have to contain the same information in the same order. You can rearrange the rows and columns either in the Add/Edit Multiple List Entries window or in the spreadsheet, whichever you prefer.

  If you want to copy and paste customers and jobs (or items with subitems), you first have to create the top-level entries, as shown in Figure 4-14. That's because jobs or subitems you paste include the name of the customer in the Company Name field (a parent item's name appears in the "Subitem of" field). Once the parent entries exist, you can use the Add/Edit Multiple List Entries window again to paste jobs or subitems.

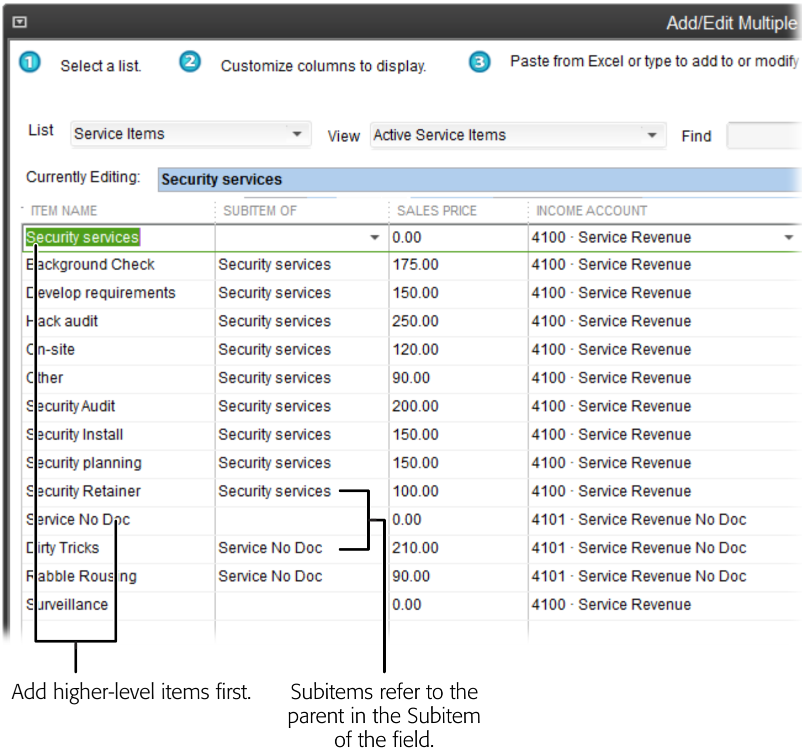


FIGURE 4-14

Create customers before you create jobs, and create parent items before creating subitems. That way, the company name you paste in the Company Name field (or the parent item name you paste in the "Subitem of" field) will exist in your company file. If you don't create the parent items first, the jobs or subitems you paste will produce errors.

NOTE To prevent errors when you copy and paste data, make sure the values you reference, such as accounts, tax codes, and so on, already exist in your company file.

When you paste Excel data into existing records in the Add/Edit Multiple List Entries window, QuickBooks overwrites the existing values in the cells. To paste Excel data into *new* records, be sure to select the first empty row in the window before pasting the data.

- **Copy and paste data within the table**. You can also copy and paste data from one cell in the table to another. For example, if a customer with several jobs has relocated its main office, you can copy values from Bill To cells and paste them into the cells for the customer's jobs. When you copy and paste data within the table, you can copy only one cell at a time.

TIP If you want to copy several cells in the Add/Edit Multiple List Entries table, it's quicker to make the changes in your Excel spreadsheet and then paste the data from Excel into the Add/Edit Multiple List Entries table.

- **Duplicate a row**. To create a new record that has many of the same values as an existing record, right-click a cell in the row you want to duplicate and then choose Duplicate Row from the shortcut menu. The new record appears in the row below the original and contains all the same values as the original record, except that the value in the first field begins with "DUP" to differentiate it from the original. Edit the cells in the row that have different values. Then edit the Name cell to reflect the new name.
- **Copy values down a column**. You can quickly fill in several cells in a column by using the Copy Down feature. Because this feature copies data into *all* cells below the one you select, it's important to filter the list (page 95) to show only the records you want to change. Then right-click the cell you want to copy down the column and choose Copy Down from the shortcut menu. QuickBooks copies the value in the selected cell to all the cells below it in the column, overwriting any existing data. For example, if you want to change the contact name for all the jobs for a particular customer, filter the list to show just the records for that customer (in the Find box, type the customer's name, and then click the magnifying glass icon). Next, type the new contact into the first Contact cell. Then, right-click the cell and choose Copy Down.

NOTE If a cell is selected, right-clicking it doesn't display the shortcut menu. Click a different cell and then right-click the cell you want to copy so you can choose the editing entries on the shortcut menu.

- **Insert a row**. If you want to insert a blank line in the table (to create a new job for a customer, for example), right-click the row that's currently where you want the blank line, and then choose Insert Line from the shortcut menu (or press Ctrl+Insert).
- **Delete a row**. If you created a record by mistake, you can get rid of it by right-clicking anywhere in its row and then choosing Delete Line. (This entry is grayed out if the entry is used in a transaction or other record, because you can't delete a record if it's referenced somewhere else in your company file.)
- **Clear a column**. To clear all the values in a column, right-click in the column and then choose Clear Column from the shortcut menu; QuickBooks immediately removes all the values in the column. If you chose this feature by mistake, you can undo the deletion by clicking Close, and then, in the Unsaved Customer message box, click No.

SAVING CHANGES

After you've completed the additions and modifications you want in the Add/Edit Multiple List Entries window, click Save Changes to save your work. QuickBooks saves all the entries that have no errors and tells you how many records it saved.

CORRECTING ERRORS

If you try to save changes and QuickBooks finds any errors, like a value that doesn't exist in the Terms list, it displays those entries in the Add/Edit Multiple List Entries window's table and changes the incorrect values to red text. Point your cursor at a cell to see a hint about the error. For example, if you typed a letter in a price field, QuickBooks tells you that the field contains an invalid character. If the problem is a list entry that doesn't exist, the "<list name> Not Found" dialog box opens (where "<list name>" is a list like Terms) and tells you the value isn't in the list. Click Set Up to add the entry to the list. Fix the errors and then click Save Changes again.

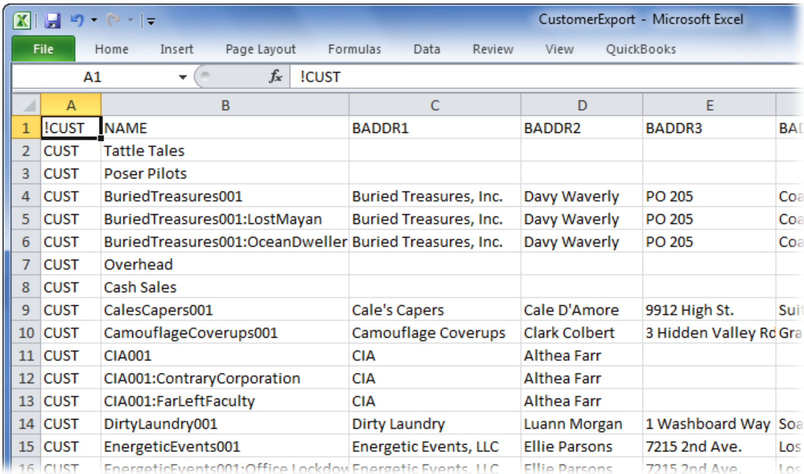
TIP If you don't know what the problem is, you can select the incorrect value and delete it by pressing Delete or Backspace. When you figure out what the value *should* be, you can edit that record in the Add/Edit Multiple List Entries window or the corresponding Edit dialog box.

Importing Customer or Vendor Information

If you have hundreds of customer or vendor records to stuff into QuickBooks, even copying and pasting can be tedious. If you can produce a delimited text file or a spreadsheet of customer or vendor info in the program where you currently store it (page 657), then you can match up your source data with QuickBooks' fields and import all your records in one fell swoop.

Delimited files and spreadsheets compartmentalize data by separating each piece of info with a comma or a tab, or by cubbyholing them into columns and rows in a spreadsheet file. An exported delimited file isn't necessarily ready to import into QuickBooks, though. Headings in the delimited file or spreadsheet might identify the field names in the program that originally held the information, but QuickBooks has no way of knowing the correlation between those fields and its own.

But don't worry: You can help QuickBooks understand the data you're importing. QuickBooks looks for keywords in the file you're importing to figure out what to do, as shown in Figure 4-15. So you'll need to rename some headings to transform the file produced by the other program into an import file that QuickBooks can read. QuickBooks' customer keywords and the fields they represent are listed in Table 4-1, and vendor keywords and fields are listed in Table 4-2. Fortunately, it's easy to edit headings in Excel and other spreadsheet programs. When your exported file looks something like the one in Figure 4-15, save it in Excel 2010 by clicking that program's File tab and then choosing Save (if you're using Excel 2007, click the Office button and then choose Save). The box on page 105 describes how to use spreadsheets for other data tasks.



CustomerExport - Microsoft Excel

File | Home | Insert | Page Layout | Formulas | Data | Review | View | QuickBooks

A1 | !CUST

	A	B	C	D	E	
1	!CUST	NAME	BADDR1	BADDR2	BADDR3	BAD
2	CUST	Tattle Tales				
3	CUST	Poser Pilots				
4	CUST	BuriedTreasures001	Buried Treasures, Inc.	Davy Waverly	PO 205	Coa
5	CUST	BuriedTreasures001:LostMayan	Buried Treasures, Inc.	Davy Waverly	PO 205	Coa
6	CUST	BuriedTreasures001:OceanDweller	Buried Treasures, Inc.	Davy Waverly	PO 205	Coa
7	CUST	Overhead				
8	CUST	Cash Sales				
9	CUST	CalesCapers001	Cale's Capers	Cale D'Amore	9912 High St.	Sui
10	CUST	CamouflageCoverups001	Camouflage Coverups	Clark Colbert	3 Hidden Valley Rd	Gra
11	CUST	CIA001	CIA	Althea Farr		
12	CUST	CIA001:ContraryCorporation	CIA	Althea Farr		
13	CUST	CIA001:FarLeftFaculty	CIA	Althea Farr		
14	CUST	DirtyLaundry001	Dirty Laundry	Luann Morgan	1 Washboard Way	Soa
15	CUST	EnergeticEvents001	Energetic Events, LLC	Ellie Parsons	7215 2nd Ave.	Los
16	CUST	EnergeticEvents001:Office Lockdow	Energetic Events, LLC	Ellie Parsons	7215 2nd Ave.	Los

FIGURE 4-15

A file you import has to use field names that match QuickBooks'. For example, replace a Street_Address heading with BADDR1, which is the keyword for the first address line field in QuickBooks, and a Last_Name heading with LASTNAME. The first column has to include the keywords QuickBooks uses to identify customer (CUST) or vendor (VEND) records. And the first cell in the first row of a customer import file has to contain the text "!CUST," as shown here. (The first cell in the first row of a vendor import file has to contain "!VEND" instead.)

TIP To see how QuickBooks wants a delimited file to look, export your current QuickBooks Customer List to an .iif file (page 649) and then open it in Excel and check out the field names it uses.

TABLE 4-1 *Customer keywords and their respective fields in the order that QuickBooks exports them*

KEYWORD	FIELD CONTENTS
NAME	(Required) The Customer Name field, which specifies the name or code you use to identify the customer.
BADDR1 – BADDR5	Up to five lines of the customer's billing address.
SADDR1 – SADDR5	Up to five lines of the customer's shipping address.
PHONE1	The number stored in the Phone Number field.
PHONE2	The customer's alternate phone number.
FAXNUM	The customer's fax number.

KEYWORD	FIELD CONTENTS
EMAIL	The customer's email address.
NOTE	Despite its confusing keyword, this field is the name or number of the account stored in the Account No. field. (To set up a customer as an online payee, you have to assign it an account number.) The NOTEPAD keyword explained below, on the other hand, represents the notes you enter about a customer.
CONT1	The name of the customer's primary contact.
CONT2	The name of an alternate contact for the customer.
CTYPE	The customer's type. If you import a customer type that doesn't exist in your Customer Type List, QuickBooks adds the new type to the list.
TERMS	The payment terms by which the customer abides.
TAXABLE	Y or N in this field indicates whether you charge the customer sales tax.
SALESTAXCODE	The code that identifies the type of sales tax to charge.
LIMIT	The dollar amount of the customer's credit limit with your company.
RESALENUM	The customer's resale number.
REP	The representative who works with the customer. The format for a rep entry is *name:list ID:initials*, such as "Saul Lafite:2:SEL." *Name* represents the rep's name; *list ID* equals 1 if the rep's name belongs to the Vendor List, 2 for the Employee List, or 3 for the Other Names List; and *initials* are the rep's initials.
TAXITEM	The name of the type of tax you charge this customer. What you enter has to correspond to one of the sales tax items in your Item List (on page 142).

KEYWORD	FIELD CONTENTS
NOTEPAD	This field is where you can wax poetic about your customer's merits or simply document details you want to remember. To see this imported data in QuickBooks, in the Customer Center, select the customer's name, and then click the Notes tab.
SALUTATION	The title to include before the contact's name, such as Mr., Ms., or Dr.
COMPANYNAME	The name of the customer's company as you want it to appear on invoices or other documents.
FIRSTNAME	The primary contact's first name.
MIDINIT	The primary contact's middle initial.
LASTNAME	The primary contact's last name.
CUSTFLD1-CUSTFLD15	Custom field entries for the customer, if you've defined any. (Page 73 explains how to create custom fields.)
HIDDEN	This field is set to N if the customer is active in your QuickBooks file, or Y if he's inactive.
PRICELEVEL	The customer's price level (page 71).

NOTE QuickBooks also exports the fields for job information into six columns with the keywords JOBDESC, JOBTYPE, JOBSTATUS, JOBSTART, JOBPROJEND, and JOBEND.

TABLE 4-2 *Vendor keywords and their respective fields in the order that QuickBooks exports them*

KEYWORD	FIELD CONTENTS
NAME	(Required) The Vendor Name field, which specifies the name or code that you use to identify the vendor.
PRINTAS	The name you want to appear as the payee when you print a check for the vendor.
ADDR1–ADDR5	Up to five lines of the vendor's billing address.
VTYPE	The vendor's type. If you import a vendor type that doesn't exist in your Vendor Type List, QuickBooks adds the new type to the list.

KEYWORD	FIELD CONTENTS
CONT1	The name of the vendor's primary contact.
CONT2	The name of an alternate contact for the vendor.
PHONE1	The number stored in the Phone Number field.
PHONE2	The vendor's alternate phone number.
FAXNUM	The vendor's fax number.
EMAIL	The vendor's email address.
NOTE	This mislabeled field is the name or number of the account stored in the vendor's Account No. field. (To set up a vendor as an online payee, you have to assign an account number.)
TAXID	The vendor's tax ID, which you need to produce a 1099 for the vendor at the end of the year.
LIMIT	The dollar amount of your credit limit with the vendor.
TERMS	The payment terms the vendor requires.
NOTEPAD	This field is your opportunity to document details you want to remember. The data you import into this field appears when you select a vendor in the Vendor Center and then click the Notes tab.
SALUTATION	The title that goes before the contact's name, such as Mr., Ms., or Dr.
COMPANYNAME	The name of the vendor's company as you want it to appear on documents and transactions.
FIRSTNAME	The primary contact's first name.
MIDINIT	The primary contact's middle initial.
LASTNAME	The primary contact's last name.
CUSTFLD1–CUSTFLD15	Custom field entries for the vendor, if you've defined any. (Page 73 explains how to create custom fields.)
1099	Y or N to indicate whether you produce a 1099 for the vendor at the end of the year.
HIDDEN	This field is set to N if the vendor is active in your QuickBooks file, or Y if it's inactive.

POWER USERS' CLINIC

The Easy Way to View Data

Data is easier to examine when you view an export or import file with a spreadsheet program like Excel, as described in Chapter 24. Most programs can open or import delimited text files, but Excel is a master at reading the records stored in these text files and displaying them clearly.

When you export data to a delimited text file and then open it in Excel, the program puts the data into cells in a spreadsheet. Because records and fields appear in neat rows and columns, respectively, you can quickly identify, select, and edit the data you want. Furthermore, you can eliminate entire rows or columns with a few deft clicks or keystrokes.

Here's how to open a delimited text file with Excel:

1. In Excel 2010, click the File tab and then choose Open. In Excel 2007, click the Office button and then choose Open.
2. The delimited text files won't appear in the Open dialog box at first because they're not Excel files. Delimited text files come with a range of *file extensions* (the three characters that follow the last period in the filename), so choose All Files in the file-type drop-down list to make sure you'll see your delimited file listed.
3. To open the file, navigate to the folder where it's saved, and then double-click the file's name. The Text Import Wizard dialog box appears. (A *wizard* is a series of question-and-answer screens that walk you through a particular process.)
4. As you tell the wizard which characters act as delimiters and what type of data appears in each column, it shows you what the data will look like after it's imported into Excel. When its interpretation of the data is correct, click Finish.

Now, you can use Excel to rename column headings or to delete the columns or rows you don't want to import.

Exporting Customer or Vendor Information

QuickBooks lets you do lots of cool things with customer or vendor info, but say you already have a mail merge set up in FileMaker Pro, or you want to transfer all your records to Microsoft Access to track product support. In cases like that, you have to export your customer or vendor data out of QuickBooks into a file that the other program can read and import.

You have three ways of extracting customer or vendor info from QuickBooks:

- **Export the information directly to Excel** if you're not sure what info you need and you'd rather delete and rearrange columns in a spreadsheet program. QuickBooks exports every customer or vendor field. You can then edit the spreadsheet all you want and transfer the data to yet another program when you're done.
- **Create a report** when you want control over exactly which fields QuickBooks exports. By creating a customized version of the Customer Contact List report or Vendor Contact List report, for example, you can export the same set of records repeatedly, creating delimited files, spreadsheets, and so on. (Chapter 21 covers QuickBooks' reports in detail.)
- **Export a text file** of your data if you need a delimited text file to load into another program. The delimited file lists each customer or vendor in its own row with each field separated by tabs.

The following sections explain all your options.

EXPORTING TO EXCEL

Exporting QuickBooks' Customer List or Vendor List to Excel is a snap. To export all the customer data stored in QuickBooks to an Excel file, in the Customer Center toolbar, click Excel, and then choose Export Customer List to open the Export dialog box (Figure 4-16). To export vendors, in the Vendor Center toolbar, click Excel, and then choose Export Vendor List. The Excel menus in both centers also contain features for exporting transactions, and for importing and pasting spreadsheet data into QuickBooks.

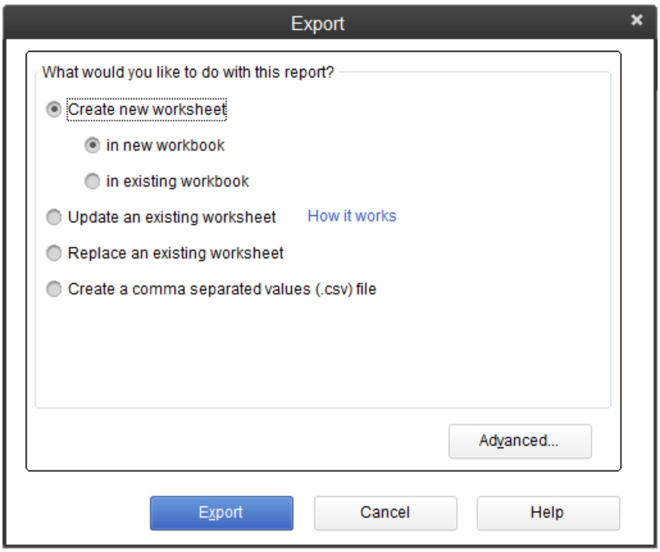


FIGURE 4-16

The Export dialog box that appears is already set up to create a new spreadsheet. Click the Export button, and you'll be looking at you customer or Vendor List in Excel in mere seconds. If you'd rather give QuickBooks more guidance on creating the spreadsheet, click the Advanced button and then adjust options like AutoFit (which sets the column width so you can see all your data) before clicking Export.

CUSTOMIZED EXPORTS USING CONTACT LIST REPORTS

By modifying the settings in the Customer Contact List report or the Vendor Contact List report, you can export exactly the fields you want for specific customers or vendors. For example, storing email addresses in QuickBooks is perfect when you email invoices to customers, but you probably also want these addresses in your email program so you can communicate with customers about the work you're doing for them. Exporting the entire Customer or Vendor List is overkill when all you want are the contacts' name and email address; that's where exporting a report shines.

Out of the box, QuickBooks' Customer Contact List report includes Customer, Bill to, Contact, Main Phone, Fax, and Balance Total columns. The Vendor Contact List report includes Vendor, Account No., Bill from, Contact, Main Phone, Fax, and Balance Total columns. Here's how you transform these reports into an export tool, using the Customer Contact List as an example:

1. **Choose Reports→Customers & Receivables→Customer Contact List.**

   The Customer Contact List report window opens. (For the Vendor Contact List, choose Reports→Vendors & Payables→Vendor Contact List instead.)

2. **In the report window's toolbar, click Customize Report.**

   The "Modify Report: Customer Contact List" dialog box that appears lets you adjust the report to filter the data that you'll export. (See page 551 to learn about other ways of customizing reports.)

3. **Click the dialog box's Display tab (if you're not already on it) and, in the Columns section, choose the fields you want to export.**

   The Customer, Contact, Main Phone, and Fax fields might be good ones to export. Then again, they might not. You can add or remove whichever fields you want by clicking a field's name in the Columns list to toggle that field on or off. If there's a checkmark in front of the field's name, the report will include a column for that field.

4. **To produce a report for only the customers you want, click the dialog box's Filters tab. In the Filter list, choose Customer. In the Customer drop-down list that appears, choose "Multiple customers/jobs" to select the customers you want to export.**

   QuickBooks displays the Select Customer:Job dialog box with the Manual option selected; that's what you want. In the list of customer names on the right side of this dialog box, click each customer you want to export, and then click OK. Then, in the Modify Report dialog box, click OK.

   You see the report with the modifications you've made.

TIP Saving the modified report you just created reduces the number of steps you have to take the next time you export. Page 563 explains how to make QuickBooks memorize a report.

5. **In the Customer Contact List window's toolbar, click Excel→Create New Worksheet.**

   The "Send Report to Excel" dialog box opens. To create a new Excel workbook, keep the "Create new worksheet" option selected and click Export. Your computer launches Excel and displays the report in a workbook.

EXPORTING A TEXT FILE

To create a delimited text file of the entire Customers & Jobs List (or any other QuickBooks list), choose File→Utilities→Export→Lists to IIF Files. The first Export dialog box that appears includes checkboxes for each QuickBooks list, described in detail on page 649. Turn on the checkboxes for the ones you want to export, and then click OK.

TIP If you want to export *only* names and addresses to a tab-delimited file, choose File→Utilities→Export→Addresses to Text File. In the "Select Names for Export Addresses" dialog box, you can choose to export all names, all customer names, all vendor names, or other subsets of names.

Tracking To-Dos

QuickBooks lets you track your business to-dos in your company file. QuickBooks' to-dos are preferable to papering the edges of your computer monitor with sticky notes, although you might prefer to keep to-dos in a program that you keep running constantly, like your email or calendar program, so that you see reminders when you need them.

You can create to-dos for customers, leads who aren't yet customers, vendors, and employees. You can manage all your to-dos in the To Do List window, which lets you filter by type, status, date, customer, lead, or vendor.

Creating a To-Do

QuickBooks gives you several ways to create to-dos:

- **In the Customer or Vendor Center**. Select a customer or vendor, and then click the To Do's tab at the bottom of the center. Then, click the Manage To Dos button and choose Create New on the drop-down menu.
- **In the Lead Center**. Select a lead and then, on the To Do's tab at the bottom of the center, click To Do (or click the down arrow and choose New To Do).
- **In the To Do List window**. Open the global To Do List by choosing Company→To Do List. Then, at the bottom of the window, click To Do (or click the down arrow and choose New To Do).

Once the Add To Do dialog box is open, follow these steps:

1. **In the Type drop-down list, choose the kind of to-do you want to create.**

   To-dos can be calls, faxes, emails, meetings, appointments, or tasks.

2. **In the Priority box, choose High, Medium, or Low.**

   You can sort the to-dos in the To Do List by any field including Priority.

3. **If the to-do is associated with someone, turn on the With checkbox. Next, in the drop-down list below the checkbox, choose Lead, Customer, Vendor, or Employee. Then, in the drop-down list below *that*, choose the specific customer, lead, vendor, or employee associated with the to-do, as shown in Figure 4-17.**

4. **Specify the due date and time.**

   QuickBooks automatically selects the current date, so be sure to choose the date by which you want to complete this to-do. To specify a time, turn on the checkbox to the left of the first Time box, and then set the time.

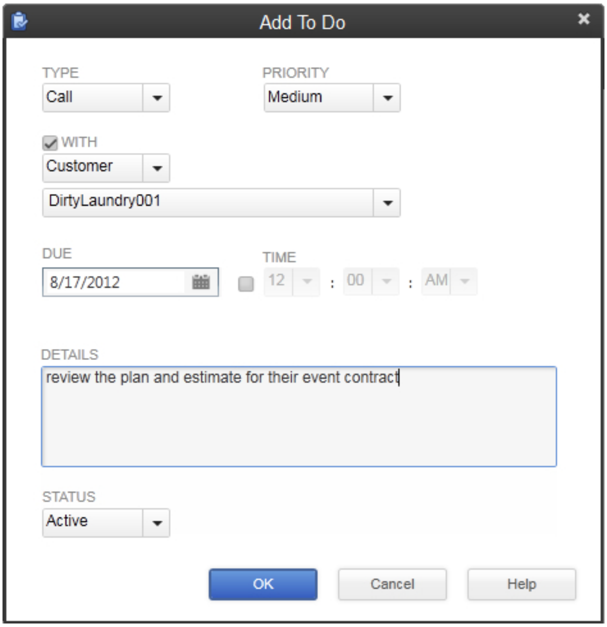


FIGURE 4-17

A to-do doesn't have to be associated with someone. For example, you may just want a reminder to submit your quarterly income tax form. In a situation like that, simply turn off the With checkbox. However, if a to-do is a task or communication with someone, turn on the checkbox, and then specify the person or company it's connected to.

5. **In the Details box, type information about the to-do.**

   By filling in the Details box, you can remind yourself what you want to do or delegate the to-do to someone else.

6. **In the Status box, choose Active.**

   Active represents to-dos that aren't complete yet. Later on, you can edit the to-do and change its status to Done when the task is complete, or Inactive if you no longer need to perform the task.

7. **Click OK to save the to-do.**

   It appears in the To Do List window.

TIP The global To Do List includes all the to-dos for customers, leads, vendors, and employees. To see just the to-dos for a specific person or company, in the Customer, Lead, Vendor, or Employee Center, select the customer, lead, vendor, or employee and then click the To Do's tab at the bottom of the center.

Editing a To-Do

The To Do List window (Figure 4-18) is your one-stop shop for editing to-dos, whether you created them for customers, leads, vendors, or employees. Open this window by choosing Company→To Do List, and then double-click the to-do you want to edit. The fields in the Edit To Do dialog box that opens are the same as the ones in the Add To Do dialog box. Simply make whatever changes you want, and then click OK.

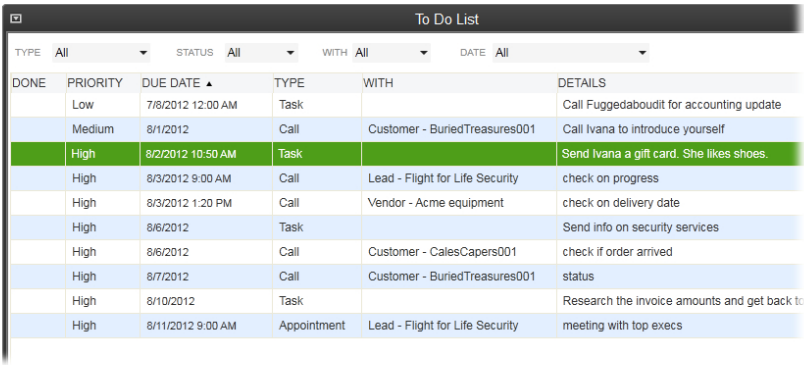


FIGURE 4-18

You can view or edit to-dos in this window. Double-click a to-do to edit it, or view specific to-dos by choosing a value from the Type, Status, With, or Date drop-down list.

NOTE To-dos that you created in QuickBooks 2011 or earlier are automatically set to the Task type, so they aren't associated with a customer, lead, or vendor. If you want to add an association like that, double-click the to-do to open the Edit To Do dialog box, and then choose a type other than Task. Then turn on the With checkbox, and in the drop-down list below it, choose Lead, Customer, or Vendor. In the drop-down list below that, choose the specific customer, lead, or vendor.

Viewing To-Dos

The To Do List window shows all the to-dos that you've created. You can sort them by clicking a column heading, such as Priority, or filter the list by choosing entries in the drop-down lists at the top of the window:

- Choose a **Type** to see only a specific kind of to-do, such as calls you need to make.
- To focus on tasks that aren't complete yet, in the **Status** drop-down list, choose Active.
- To see to-dos for just leads, customers, vendors, or employees, choose a category in the **With** drop-down list.
- To see to-dos that are due during a specific time period, choose the period in the **Date** drop-down list.

NOTE To-dos also appear in the QuickBooks Calendar (page 33). And, if you display the left icon bar (View→Left Icon Bar), you can see any to-dos that are due today by clicking the Do Today shortcut.

CHAPTER

5

Setting Up Items

Whether you build houses, sell gardening tools, or tell fortunes on the Internet, you'll probably use *items* in QuickBooks to represent the products and services you sell. But to QuickBooks, things like subtotals, discounts, and sales tax are items, too. In fact, *nothing* appears in the body of a QuickBooks sales form (such as an invoice) unless it's an item.

Put another way, to create invoices (which you'll learn how to do in Chapter 10), sales receipts, or other sales forms in QuickBooks, you need customers *and* items. So, now that you've got your chart of accounts and customers set up in QuickBooks, it's time to dive into items.

This chapter begins by helping you decide whether your business is one of the few that doesn't need items at all. But if your organization is like most and uses business forms like invoices, sales receipts, and so on, the rest of the chapter will teach you how to create, name, edit, and manage the items you add to forms. You'll learn how to use items in invoices and other forms in the remaining chapters of this book.

What Items Do

For your day-to-day work with QuickBooks, items save time and increase consistency on sales forms. Here's the deal: Items form the link between what you sell (and buy) and the income, expense, and other types of accounts in your chart of accounts. When you create an item, you describe what the item is, how much you pay for it, how much you sell it for, and the accounts to which you post the corresponding income, expense, cost of goods sold, and asset value. For example, say you charge $75 an hour for the bookkeeping service you provide, and you want that income to show up in your Financial Services income account. So you create an item for bookkeeping and associate it with your income account. That way, when you add the item to a sales form, QuickBooks automatically multiplies the price per hour by the number of hours to calculate the full charge, and then posts the income to your Financial Services account. You also create items for other stuff you add to sales forms, like discounts, shipping charges, and subtotals.

Items also make it easy to look at your company's finances from different perspectives. You can set up your chart of accounts to cover what you show on your financial statements (page 467), which are usually summarized to include only what your bankers or other interested parties need to know. At the same time, items (and classes, which you'll learn about on page 150) let you track income and expenses to the level of detail you want. For example, you might set up two income accounts: one for services and one for products. However, you can create items for every type of service and product you sell.

When it's time to analyze how your business is doing, items shine. QuickBooks has built-in reports based on items, which show the dollar value of sales or the number of inventory units you've sold. (To learn how to use inventory reports, see page 507.) Other item-based reports are described throughout this book. You can work out which accounts to assign items to on your own or with the help of your accountant (a good idea if you're new to bookkeeping), and then specify those accounts in your items, as shown in Figure 5-1. QuickBooks remembers these assignments from then on.

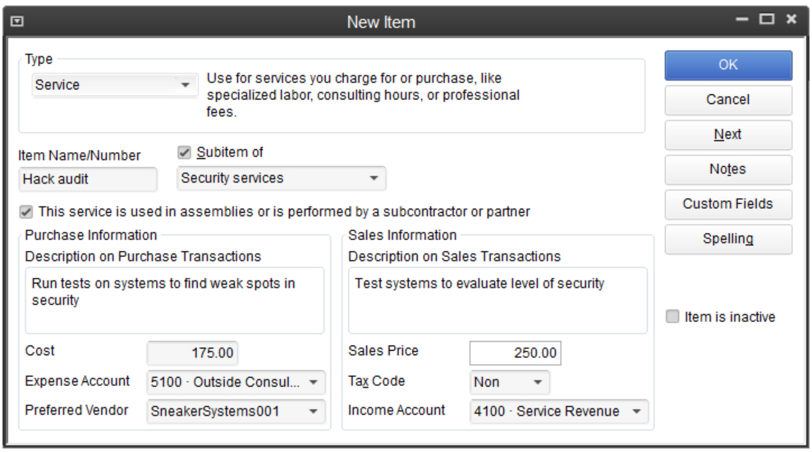


FIGURE 5-1

You'd be bound to make mistakes if you had to enter item details each time you added an entry to an invoice. By setting up an item in the New Item window, you can make sure you use the same information on sales forms each time you sell or buy that item. When the inevitable exception to the rule arises, you can edit the item info that QuickBooks fills in on the sales form.

When You Don't Need Items

Without items, you can't create any type of sales form in QuickBooks, including invoices, statements, sales receipts, credit memos, and estimates. But if you don't use sales forms, you don't need items. Not many organizations operate without sales forms, but here are a few examples of ones that do:

- Old Stuff Antiques sells junk—er, antiques—on consignment. Kate, the owner, doesn't pay for the pieces; she just displays them in her store. When she sells a consignment item, she writes paper sales receipts. When she receives her cut from the seller, she deposits the money in her checking account.
- Tony owns a tattoo parlor specializing in gang insignias. He doesn't care how many tattoos he creates and—for safety's sake—he doesn't want to know his customers' names. All Tony does is deposit the cash he receives upon completing each masterpiece.
- Dominic keeps the books for his charity for iceberg-less penguins. The charity accepts donations of money and fish, and it doesn't sell any products or perform services to earn additional income. He deposits the monetary donations into the charity's checking account and enters each deposit in QuickBooks. He keeps track of the donors' contributions and fish inventory in a spreadsheet.

Should You Track Inventory with Items?

If your business is based solely on selling services, you can skip this section entirely. But if you sell products, it'll help you understand your options.

You can handle products in two ways: by stocking and tracking inventory or by buying products only when work for your customers requires them. The system you use affects the types of items you create in QuickBooks.

When you buy products specifically for customers, you need items, but you don't have to track the quantity on hand. In this case, you create *Non-inventory Part items*, which you'll learn about shortly. For example, general contractors work on various types of projects, so they usually purchase the materials they need for a specific job and charge the customer for those materials. Because general contractors don't keep materials in stock, they don't have to track inventory and can use Non-inventory Part items.

On the other hand, specialized contractors like plumbers install the same kinds of pipes and fittings over and over. These contractors often purchase parts and store them in a warehouse, selling them to their customers as they perform jobs. These warehoused parts should be set up as *Inventory Part items* (page 129) in QuickBooks. When you use QuickBooks' inventory feature, the program keeps track of how many products you have on hand, increasing the number as you purchase them and decreasing the number when you sell them to customers.

Because tracking inventory requires more effort than buying only the materials you need, use the following guidelines to determine whether your business should track inventory:

- **Track inventory if you keep products in stock to resell to customers**. If your company stocks faux pony bar stools to resell to customers, those stools are inventory. By tracking inventory, you know how many units you have on hand, how much they're worth, and how much money you made on the stools you've sold.

  On the other hand, the faux pony mouse pads you keep in the storage closet for your employees are business supplies. Most companies don't bother tracking inventory for supplies like these, which they consume in the course of running their business.

- **Track inventory if you want to know when to reorder products so you don't run out**. If you sell the same items over and over, keeping your shelves stocked means more sales (because the products are ready to ship out as soon as an order comes in). QuickBooks can remind you when it's time to reorder a product.
- **Don't track inventory if you purchase products specifically for jobs or customers**. If you special-order products for customers or buy products for specific jobs, you don't need to track inventory. After you deliver the special order or complete the job, your customer has taken and paid for products, and you simply have to account for the income and expenses you incurred.
- **Don't track inventory if you rent equipment to customers**. For leases and rentals, you receive income for the rental or lease of assets you own. In this case, you can show the value of the for-rent products as an asset in QuickBooks and the rental income as a Service item (page 123), so you don't need Inventory Part items.

Your business model might dictate that you track inventory. However, QuickBooks' inventory-tracking feature has some limitations. For example, it lets you store only up to 14,500 items. If you answer yes to any of the following questions, QuickBooks isn't the program to use to handle the products you sell:

- **Do you sell products that are unique?** In the business world, tracking inventory is meant for businesses that sell commodity products, such as electronic equipment, and stock numerous units of each product. If you sell unique items, such as fine art or compromising Polaroid photos, you'd eventually hit QuickBooks' 14,500 item limit. For such items, consider using a spreadsheet to track the products you have on hand.

TIP Here's one way to track unique products using QuickBooks: When you sell your unique handicrafts, record the sales in QuickBooks using generic Non-inventory Part items. For example, use an item called Oil Painting on the sales receipts for the artwork you sell and fill in more specific information about the painting in the sales receipt's Description field.

- **Do you manufacture the products you sell out of raw materials?** QuickBooks inventory can't follow materials as they wend through a manufacturing process or track inventory in various stages of completion.

NOTE QuickBooks Premier and Enterprise editions can track inventory for products that require *some* assembly. For instance, if you create Wines from Around the World gift baskets using the wine bottles in your store, you can build an Inventory Assembly item (page 130) out of wine and basket Inventory Part items. The box on page 133 explains another way to track assembled inventory.

- **Do you value your inventory by using a method other than average cost?** QuickBooks Pro and Premier calculate inventory value by average cost. If you want to use other methods—like last in, first out (LIFO) or first in, first out (FIFO)—you can export inventory data to a spreadsheet program and then calculate inventory cost there (page 651). Or you can upgrade to QuickBooks Enterprise and subscribe to Intuit's Advanced Inventory add-on service (which costs extra.)
- **Do you use a point-of-sale system to track inventory?** Point-of-sale inventory systems often blow QuickBooks' inventory tracking out of the water. If you forgo QuickBooks' inventory feature, you can periodically update your QuickBooks file with the value of your inventory from the point-of-sale system.

NOTE If you like the point-of-sale idea but don't have a system yet, consider Intuit's QuickBooks Point of Sale, an integrated, add-on product for retail operations that tracks store sales, customer info, and inventory. Head to *http://pointofsale.intuit.com* for more info.

You don't have to use QuickBooks' inventory feature at all if you don't want to. For example, if you perform light manufacturing, you can track the value of your manufactured inventory in a database or other program. You can then periodically add journal entries (page 451) to QuickBooks to show the value of in-progress and completed inventory.

TIP The answer to your inventory dilemma could be an add-on program that tracks inventory *and* keeps QuickBooks informed. One of the best is FishBowl Inventory (*www.fishbowlinventory.com*).

Planning Your Items

Setting up items in QuickBooks is a lot like shopping at a grocery store. If you need only a few things, you can shop without a list. Similarly, if you're going to use just a few QuickBooks items, you don't need to write them down before you start creating them. But if you use dozens or even hundreds of items, planning your Item List can save you lots of frustration.

If you jumped straight to this section, now's the time to go back and read "Should You Track Inventory with Items?" on page 113, which helps you with your first decision: whether to use items that represent services, inventory, or non-inventory products.

By deciding how to name and organize your items before you create them, you won't waste time editing and reworking existing items to fit your new naming scheme. Read on to learn what you should consider before creating items in QuickBooks.

Generic or Specific?

Conservation can be as important with QuickBooks' items as it is for the environment. QuickBooks Pro and Premier can hold no more than 14,500 items, which is a problem if you sell unique products, such as antiques, or products that change frequently, such as current clothing styles for teenagers. Once you use an item in a transaction, you can't delete that item, so you could end up with lots of items you no longer use (see page 145). By planning how specific your items will be, you can keep your Item List lean.

For instance, a generic item such as Top can represent a girl's black Goth T-shirt one season and a white, poplin button-down shirt the next. Generic items have their limitations, though, so use them only if necessary. For example, you can't track inventory properly when you use generic items. QuickBooks might show that you have 100 tops in stock, but that doesn't help when your customers are clamoring for white button-downs and you have 97 black Goth T-shirts. In addition, the information you store with a generic item won't match the specifics of each product you sell. So, when you add generic items to an invoice or a sales form, you'll have to edit a few fields, such as Description or Price, as shown in Figure 5-2.

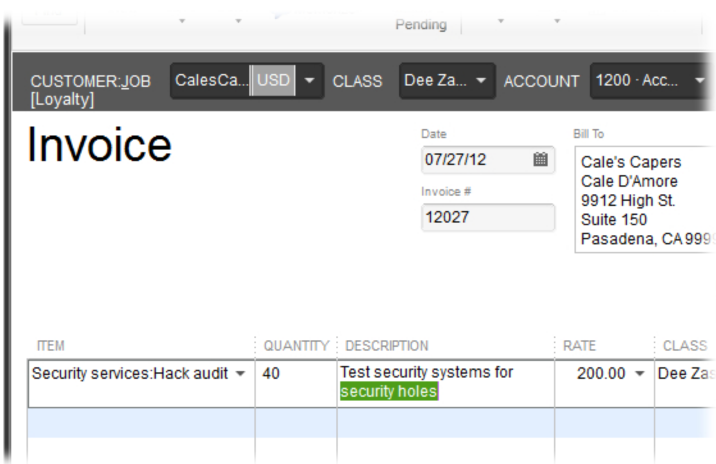


FIGURE 5-2

QuickBooks automatically fills in fields like Description and Price (or Rate) with values you've saved in item records. But you can edit those fields once you add an item to an invoice, whether you use generic or specific items to describe what you sell. Just click a field in a sales form, select the text you want to change, and then type the new value.

Naming Items

Brevity and recognizability are equally desirable characteristics in item names. Short names are easier to type and manage, but they can be unintelligible. Longer names take more effort to type and manage but are easier to decipher. Decide ahead of time which type of name you prefer, and stick with it as you create items.

QuickBooks encourages brevity because an item's name can be no more than 31 characters. If you sell only a handful of services, you can name your items the same things you call them. For instance, for a tree service company, names like Cut, Limb, Trim, Chip, and Haul work just fine. But if your Item List runs into the hundreds or thousands, some planning is in order. Here are some factors to consider when naming items:

- **Aliases**. Create a pseudonym to represent the item. For a carpet company, "Install standard" could represent the installation along with vacuuming and hauling waste, while "Install deluxe" could include the standard installation *plus* moving and replacing furniture. You can include the details in the item description.
- **Sort order**. In the Item List window (to open it, on the Home page, click Items & Services), QuickBooks sorts items first by type and then in alphabetical order. If you want your items to appear in some logical order in drop-down lists (like an invoice item table, for instance), pay attention to the order of characteristics in your item names. Other Service items beginning with the intervening letters of the alphabet would separate "Deluxe install" and "Standard install." By naming your installation items "Install deluxe" and "Install standard" instead, they'll show up in your Item List one after the other.
- **Abbreviation**. If you have to compress a great deal of information into an item name, you'll have to abbreviate. For example, suppose you want to convey all the things you do when you install a carpet, including installing tack strips, padding, and carpet; trimming carpet; vacuuming; and hauling waste. That's more than the 31 characters (including spaces) you have to work with. Poetic won't describe it, but something like "inst trim vac haul" says it all in very few characters. The box on page 118 suggests two other ways to identify complicated items.

POWER USERS' CLINIC

Other Ways to Identify Items

If you want to keep item names lean but still include detailed information, look to these two item features:

- **Descriptions**. Items have fields for both names and descriptions. When you create an invoice, you choose the item's name from a drop-down list, but the invoice that the customer sees shows the item's description. You can keep your item names brief by putting the details in the Description field, which, for all practical purposes, can hold an unlimited amount of text.
- **Group**. Instead of creating one item that represents several phases of a job, you can create separate items for each phase and then create a *Group item* (page 136) to include those phases on an invoice. For instance, create one item for installing tack strips, padding, and carpet, and then create additional items for vacuuming, hauling, and moving and replacing furniture. Then create a Group item that contains all the individual service items included in a carpet-installation job. That way, when you add that Group item to an invoice, QuickBooks adds each item to a line on the invoice.

NOTE Construction companies in particular can forgo long hours of item data entry by using third-party estimating programs. Construction-estimating programs usually include thousands of entries for standard construction services and products. If you build an estimate with a program that integrates with QuickBooks, you can import that estimate into QuickBooks and then sit back and watch as it automatically adds all the items in the estimate to your Item List. To find such QuickBooks-integrated programs, go to *http://marketplace.intuit.com*. On the menu bar, click Find Software→Find Solutions by Industry. Then, on the By Industry tab, choose Construction/Contractors.

Subitems

If you keep all your personal papers in one big stack, you probably have a hard time finding everything from birth certificates to tax forms to bills and receipts. If you've got one big list of items in QuickBooks, you're in no better shape. To locate items more easily, consider designing a hierarchy of higher-level items (*parents*) and one or more levels of subitems, as shown in Figure 5-3. The box on page 119 explains how to make sure you have items for every purpose.

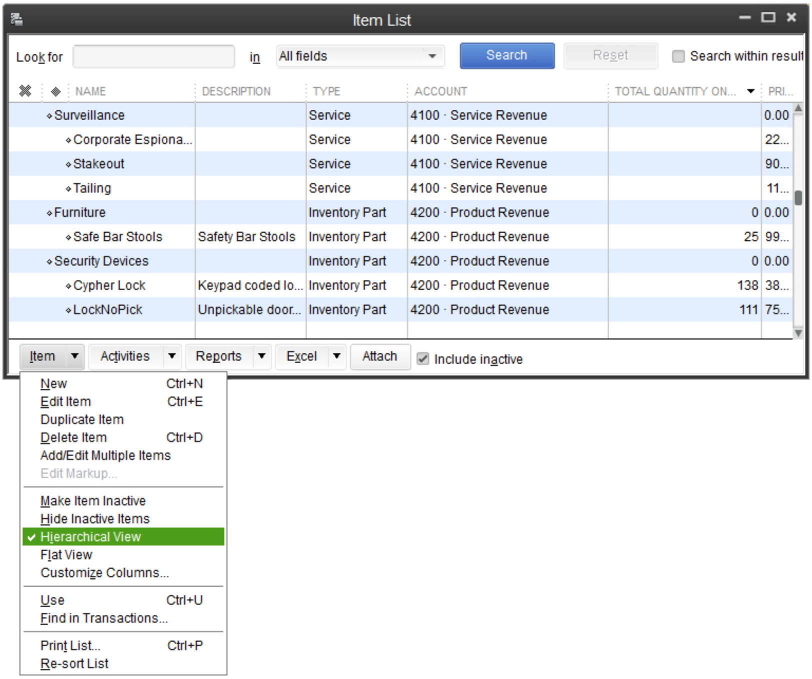


FIGURE 5-3

The Item List window's Hierarchical View (shown here) indents subitems, making it easy to differentiate the items that you use to categorize the list from the items you actually sell. To check which view you're seeing, click the Item button at the bottom of the window to display the menu shown here. If you work with long lists of subitems, the parent item might end up off the screen. To keep the hierarchy of items visible at all times, choose Flat View, wherein QuickBooks uses colons to separate the names of each level of item and subitem.

For example, a landscaping business might create top-level items for trees, shrubbery, cacti, and flower bulbs. Within the top-level tree item, the landscaper might create subitems for several species: maple, oak, elm, sycamore, and dogwood. Additional levels of subitems can represent categories such as size (seedling, established, and mature, say).

WORD TO THE WISE

Catchall Items

When you develop a hierarchy of parent items and subitems, eventually someone in your company will run across a service or product that doesn't fit any of the existing subitems. The solution? A catchall subitem to give these outcasts a home. If you assign a transaction to the parent item, QuickBooks automatically creates a subitem called "Other" for these catch basins. For example, if you have a parent item called Security Services, you'd get a subitem like Security Services-Other.

Catchall items can act as holding pens while you figure out which item you should use. They're also an easy way to look for transactions that should be reassigned to a different subitem. For instance, you can create a transaction by using the Security Services-Other item, and then change the item in the transaction later (page 325) when you've identified (or created) the correct item.

Creating Items

The best time to create items is *after* you've created your accounts but *before* you start billing customers. Each item links to an account in your chart of accounts, so creating items goes quicker if you don't have to stop to create accounts as well.

Similarly, you can create items while you're in the midst of creating an invoice, but you'll find that creating items goes much faster when you create several at once. How long it takes to create items depends on how many you need. If you sell only a few services, a few minutes should do it. On the other hand, construction companies that need thousands of items often forgo hours of data entry by importing items from third-party programs (see page 646).

Creating Multiple Items

The Add/Edit Multiple List Entries feature is a real time-saver when you want to populate your Item List. If you're comfortable working with Excel, you can set up an Excel spreadsheet and fill in values for all your items by using that program's tools and shortcuts. Then you can paste that data from Excel into the table in the Add/Edit Multiple List Entries window. This feature works for Customer, Vendor, Employee, and Item lists; page 94 gives you the full scoop on how to use it.

Here's how you get started with using Add/Edit Multiple List Entries to fill in items:

1. **On the QuickBooks Home page, in the Company panel, click Items & Services.**

   The Item List window opens.

2. **Right-click the Item List window, and then choose Add/Edit Multiple Items from the shortcut menu. (Alternatively, at the bottom of the window, click Item→Add/Edit Multiple Items.)**

   The Add/Edit Multiple List Entries window opens. The List box is set to Service Items or the type of item you selected the last time you used this feature. The table initially displays the active items for the type selected in the List box (Figure 5-4), which makes sense because you typically want to add or edit items that you're currently using. To filter the list (page 95) to show specific kinds of items, in the View drop-down menu, choose the kind you want.

3. **If you want to work with a different type of item, in the List drop-down menu, choose Service Items, Inventory Parts, or Non-inventory Parts.**

   The columns that you see in the table vary depending on the type of item you select and the preferences you've turned on. For example, for Service items, the table includes Item Name, Subitem of, Sales Price, Income Account columns, and Sales Tax Code if you've turned on the sales tax preference (page 628.) If you've turned on the preference for inventory (page 615) and choose Inventory Parts, you see a COGS Account column, among others. If you want to change the columns that appear in the table or their order, click the Customize Columns button on the right side of the window.

4. **Switch to Excel and copy the data you want from your spreadsheet.**

   The order of the columns in the Add/Edit Multiple List Entries table and your Excel spreadsheet have to match or you'll see errors when you paste the data (which you'll do in the next step). To fix that, you can reorder the columns in either Excel or QuickBooks. To reorder them in QuickBooks, click the Customize Columns button to insert or remove columns, or change their order to match that of your Excel spreadsheet. See page 96 to learn how. When the programs' columns match, in Excel, select the information you want to paste into QuickBooks and then press Ctrl+C to copy it.

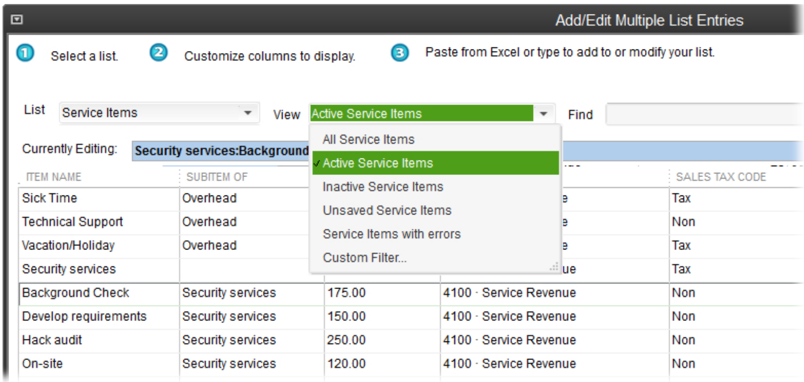


FIGURE 5-4

In the List drop-down menu, choose the type of item you want to work on. The table displays the active items for the selected type, so you can add or edit the items you use. To filter the list (page 95), in the View drop-down menu, choose the kind of item you want or choose Custom Filter to define a more targeted filter.

5. **Back in the Add/Edit Multiple List Entries window, click the first blank Item Name cell and then press Ctrl+V (or choose Edit→Paste).**

   QuickBooks pastes the copied data into the selected cell and then continues pasting into the cells below and to the right of the selected cell. Cells that contain data with errors, such as invalid values or list entries that don't exist in QuickBooks, appear in red text. See page 100 to learn how to correct these errors.

TIP If you want to paste parent and subitems into the Add/Edit Multiple List Entries table, paste the top-level items first, followed by a separate paste pass for each subsequent level of your Item List. That way, the parent items you need will already exist so the new entries will paste in without errors.

Creating Individual Items

Each type of item has its own assortment of fields, but the overall process of creating an item is the same for every type. With the following procedure under your belt, you'll find that you can create many of your items without further instruction. (If you *do* need help with fields for a specific type of item, read the sections that follow to learn what each field does.)

1. **On the QuickBooks Home page, click Items & Services (or, choose Lists→Item List) to open the Item List window.**

   When you first display the Item List, QuickBooks sorts the entries by type. The sort order for the item types isn't alphabetical—it's the order that types appear in the Type drop-down list, as shown in Figure 5-5. You can change the list's sort order by clicking a column header.

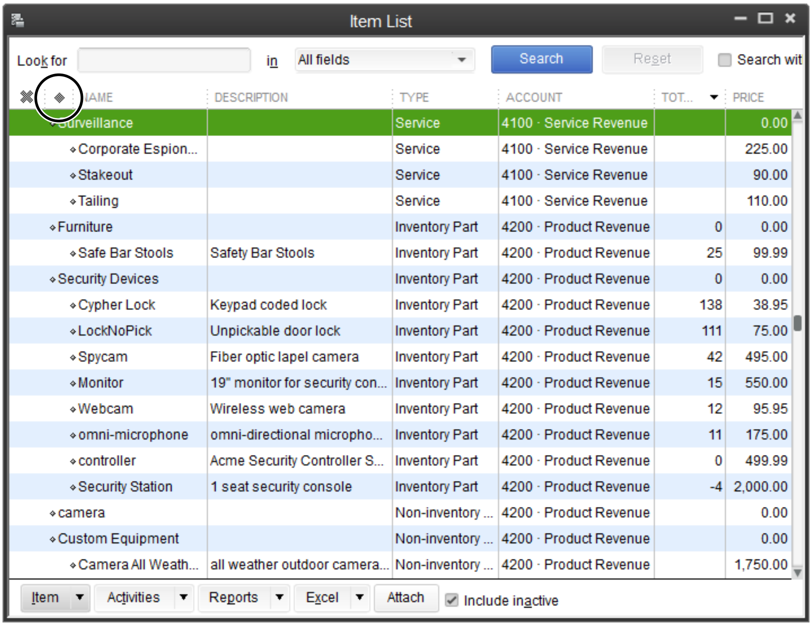


FIGURE 5-5

QuickBooks lists items in alphabetical order within each item type. You can change the sort order of the list by clicking a column heading. If you click the heading again, QuickBooks toggles the list between ascending and descending order. To return the list to being sorted by item type, click the diamond to the left of the column headings (circled), which appears anytime the list is sorted by a column other than Type.

2. **Open the New Item window by pressing Ctrl+N or clicking Item→New.**

   QuickBooks opens the New Item window and selects the Service item type (page 123) in the Type drop-down list.

3. **To create a Service item, just press Tab to proceed with naming the item. To create any other type of item, choose it in the Type drop-down list.**

   Some item types won't appear in the list if you haven't turned on the corresponding feature. For example, the Inventory Item type doesn't appear unless you've turned on inventory tracking, as described on page 615.

4. **In the Item Name/Number box, type a unique identifier for the item.**

   For example, if you opt for long and meaningful names, you might type *Install carpet and vacuum*. For a short name, you might type *Inst Carpt*. See page 117 for guidelines on naming items.

5. **To make this item a subitem, turn on the "Subitem of" checkbox and then choose the item that you want to act as the parent.**

   If the parent item already exists, simply choose it from the "Subitem of" drop-down list. To create the parent *while* creating the subitem, choose <Add New> at the top of the "Subitem of" list, and then jump back to step 3 to begin the parent-creation process.

NOTE Subitems and parents have to be the same type, and you can't create subitems for Subtotal, Group, or Payment items.

6. **Complete the other fields as described in the following sections for the type of item you're creating (page 123, page 129, and so on).**

   QuickBooks will use the info you enter to fill in fields on sales forms. For example, it uses the sales price you enter on an invoice when you sell some units. If the sales price changes each time, simply leave the item's sales price field (which is labeled Rate, Price, or Sales Price depending on the type of item and the item's settings) set to zero. That way, QuickBooks doesn't fill in a price so you can type one in each time you sell the item. (Even if you set up a value for an item, you can overwrite it whenever you use the item on a sales form.)

NOTE You have to assign an account to every item, whether it's a parent or not.

7. **If you have additional items to create, click Next to save the current item and start another.** If you want to save the item you just created and close the New Item window, click OK.

   If you've made mistakes in several fields or need more information before you can complete an item, click Cancel to throw away the current item and close the New Item window.

Service Items

Services are intangible things that you sell, like time or the output of your brain. For example, you might sell consulting services, Internet connection time, haircuts, or Tarot card readings. In construction, services represent phases of construction, which makes it easy to bill customers based on progress and to compare actual values to estimates.

Suppose you run a telephone answering service. You earn income when your customers pay you for the service. You pay salaries to the people who answer the phones, regardless of whether you have two service contracts or 20. For this business, you earn income with your service, but your costs don't link to the income from specific customers or jobs.

In some companies, such as law practices, the partners get paid based on the hours they bill, so the partners' compensation is an expense associated directly with the firm's income. Services that you farm out to a subcontractor work similarly. If you offer a 900 number for gardening advice, you might have a group of freelancers who field the calls and whom you pay only for their time on the phone. You still earn income for the service you sell, but you also have to pay the law-practice partners or the subcontractors to do the work. The partners' or subcontractors' cost relates to the income for that service. Conveniently, QuickBooks displays different fields depending on whether a service has costs associated with income.

The mighty Service item single-handedly manages *all* types of services, whether you charge by the hour or by the service, with associated expenses or without. This section describes the fields you fill in when creating Service items.

Service Items Without Associated Costs

Here's how the fields in the New Item (or Edit Item) window work when you're creating a Service item that *doesn't* include purchasing services from someone else (that is, when you leave the "This service is used in assemblies or is performed by a subcontractor or partner" checkbox turned off, as shown in Figure 5-6):

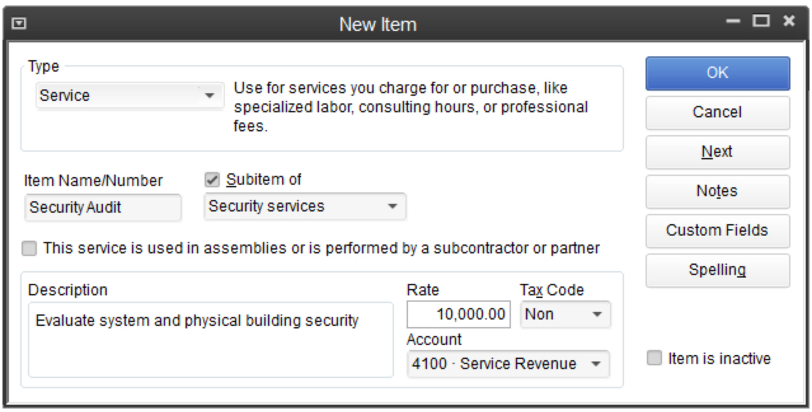


FIGURE 5-6

If a service doesn't have costs directly associated with it, you define only its description, rate, tax code, and income account.

- **Description.** Type a detailed explanation of the service in this box. This text appears on invoices and sales forms, so use terms that your customers will understand.

- **Rate.** Type how much you charge customers for the service. You can enter a flat fee or a charge per unit of time. For example, you might charge $9.95 for unlimited gardening advice per call, charge by the minute, or charge $200 for unlimited calls each month.

When you add the item to an invoice, QuickBooks multiplies the quantity by the sales price to calculate the total charge. If the cost varies, leave the Rate or Sales Price field set to 0; you can then enter the price when you create an invoice or other sales form. If the rate or price is often the same, fill in the most common rate. Then, when you add the item to an invoice, you can modify the rate whenever you want to use a different amount. For services that carry a flat fee, use a quantity of *1* on your invoices.

NOTE QuickBooks multiplies the cost and sales prices by the quantities you add to sales forms. Be sure to define the cost and sales price in the same units (by hour or carton, for example) so that QuickBooks calculates your income and expenses correctly.

- **Tax Code.** Most Service items are nontaxable, so you'll choose *Non* here more often than not. (This field appears only if you've turned on the sales tax feature, as described on page 628.)
- **Account.** Choose the income account to which you want to post the income for this service, whether it's a catchall income account for all your services or one you created specifically for this service.

Service Items with Associated Costs

If you sell services that have associated costs, such as when you purchase services from someone else, you have to set up the service item to include those costs. The key to displaying the fields you need to fill in when you purchase services from someone else is the "This service is used in assemblies or is performed by a subcontractor or partner" checkbox, shown in Figure 5-7. In addition to the basics like Item Name/Number and "Subitem of," here are the fields you fill in when an item *does* have associated costs:

- **Description on Purchase Transactions.** Type in the description that you want to appear on the bills or purchase orders you issue to subcontractors.
- **Cost.** Enter what you pay for the service, which can be an hourly rate or a flat fee. For example, if a subcontractor performs the service and receives $175 for each hour of work, type *175* in this field. If the cost varies, leave this field set to 0; you can then enter the actual cost when you create a purchase order.
- **Expense Account.** Choose the account to which you want to post what you pay for the service. If a subcontractor does the work, choose a Cost of Goods Sold account or an expense account for subcontractor or outside consultants' fees. If a partner or owner performs the work, choose a Cost of Goods Sold account or an expense account for service-related costs.
- **Preferred Vendor.** If you almost always use the same vendor for a service, choose that vendor in this drop-down list. That way, if you don't select a vendor when you first create a purchase order, QuickBooks selects that vendor when you add this Service item. However, if you purchase the item from several vendors, leave this field blank.

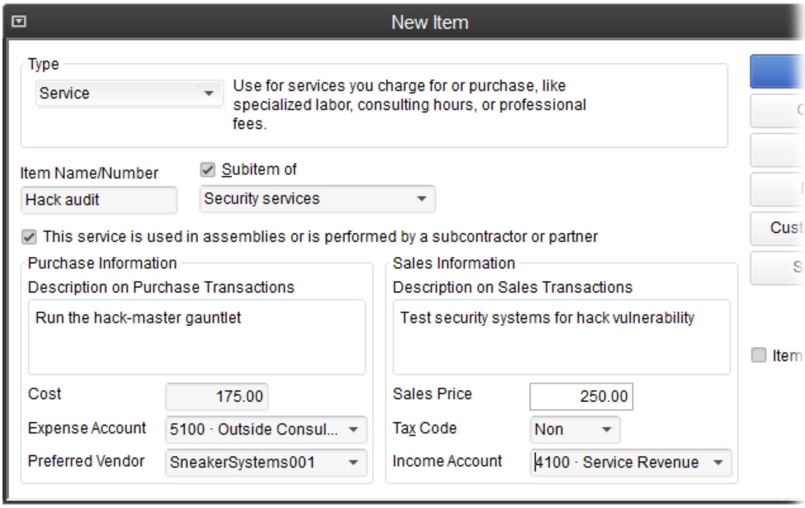


FIGURE 5-7

If subcontractors or partners perform the service and get paid for their work, a Service item has to contain information for both the sales and purchase transactions. In that case, turn on the "This service is used in assemblies or is performed by a subcontractor or partner" checkbox to make QuickBooks display the additional fields shown here.

- **Description on Sales Transactions.** This field appears on sales forms like invoices and sales receipts. QuickBooks copies the text from the Description on Purchase Transactions box into this field. However, if your vendors use technical jargon that your customers wouldn't recognize, you can change the text in this box to something more meaningful.
- **Sales Price.** Type in how much you charge customers for the service, as you would in the Rate field for a Service item that you don't purchase from someone else (page 124).
- **Tax Code.** Most Service items are nontaxable, so you'll choose *Non* here most of the time. (This field appears only if you've turned on QuickBooks' sales tax feature, as described on page 628.)
- **Income Account.** Choose the income account to which you want to post the income for this service, whether it's a catchall income account for all services or one you created specifically for this service.

ALTERNATE REALITY

Subitems for Nonprofits

Service items are the workhorses of nonprofit organizations. Donations, dues, grants, and money donated in exchange for services all fall into the Service-item bucket. The only time you'll need another type of item is if you raise money by selling products from inventory (calendars and notecards, for instance).

For nonprofits without heavy reporting requirements, you can make do with one item for each type of revenue you receive (grants, donations, dues, fundraising campaigns), with a link to the corresponding income account. For example, a Service subitem called Donation would link to an income account called Donations.

But subitems also come in handy for categorizing the money you receive for different types of services, particularly when donors give money and want to see detailed financial reports in return. You don't make the big subitem-related decision yourself—the organizations that contribute do. If your organization receives money from the government or a foundation with specific reporting requirements, you can set up subitems and classes (see page 150) to track the details you need for the reports they require. Here's an example of an Item List that differentiates types of income and different donors:

- Grant
  - Government
  - Corporate
- Donation
  - Regular
  - Matching
- Membership Dues
  - Individual
  - Corporate
  - Contributing
  - Platinum Circle

Product Items

Products you sell to customers fall into three categories: ones you keep in inventory, ones you special order, and ones you assemble. QuickBooks can handle inventory as long as your company passes the tests on page 114. Likewise, products you purchase specifically for customers or jobs are no problem. And as explained on page 130, QuickBooks can handle lightly assembled products like gift baskets or gizmos made from widgets—but you'll need QuickBooks Premier edition to do more than that.

Choose one of these three QuickBooks item types for the products you sell:

- **Inventory Part.** Use this type for products you purchase and keep in stock for resale. Retailers and wholesalers are the obvious examples of inventory-based businesses, but other types of companies like building contractors may track inventory, too. With inventory parts, you can track how many you have, how much they're worth, and when you should reorder. The box on page 128 explains how to keep track of the financial details for inventory.

NOTE You can create Inventory Part items only if you turn on QuickBooks' inventory feature as described on page 615.

- **Non-inventory Part.** If you purchase products specifically for a job or customer and don't track how many products you have on hand, use Non-inventory Part items. Unlike an Inventory Part item, this type has at most two account fields: one for income you receive when you sell the part, and another for the expense of purchasing the part in the first place.
- **Inventory Assembly.** This item type (available only in QuickBooks Premier and Enterprise editions) is perfect when you sell products built from your inventory items. For example, say you stock wine bottles and related products like corkscrews and glasses, and you assemble them into gift baskets. With an Inventory Assembly item, you can track the number of gift baskets you have on hand, as well as the individual inventory items. You can also assign a different price for the gift basket than the total of the individual products, as described in the box on page 130. (The box on page 135 describes another way to track products you build from other items.)

ACCOUNTING CONCEPTS

Following the Inventory Money Trail

Inventory Part items are the most complicated type of item because, in accounting, the cost of inventory moves from place to place as you purchase, store, and finally sell your products. Table 5-1 and the following steps show the path that the inventory money trail takes:

1. You spend money to purchase faux pony chairs to sell in your store. Your checking or credit card account shows the money you pay going out the door.
2. Because you spent money to purchase inventory, which has value, it represents an asset of your company. Hence, the value of the purchased inventory appears in an inventory asset account in your chart of accounts.
3. When you sell some chairs, QuickBooks posts the sale to an income account (such as Product Income) and the money your customer owes you shows up in Accounts Receivable.
4. The chairs leave inventory, so QuickBooks deducts the value of the chairs you sold from the inventory asset account. The value of the sold chairs has to go somewhere, so QuickBooks posts it to a *cost of goods sold account*.

In the financial reports you create, the gross profit of your company represents your income minus the cost of goods sold (in this example, $1,000 income minus $500 cost of goods sold for $500 gross profit). As soon as you turn on QuickBooks' inventory-tracking preference (page 615), the program adds cost of goods sold and inventory asset accounts to your chart of accounts.

TABLE 5-1 *Following inventory money through accounts*

TRANSACTION	ACCOUNT	DEBIT	CREDIT
Buy inventory	Checking Account		$500
Buy inventory	Inventory Asset	$500	
Sell inventory	Product Income		$1,000
Sell inventory	Accounts Receivable	$1,000	
Sell inventory	Inventory Asset		$500
Sell inventory	Cost of Goods Sold	$500	

Inventory Part Fields

As described in the box on page 128, money moves between accounts as you buy and sell inventory. Here's how you can use the fields for an Inventory Part item (shown in Figure 5-8) to define your company's inventory money trail and, at the same time, keep track of how much inventory you have:

- **Manufacturer's Part Number.** If you want your purchase orders to include the manufacturer's part number or unique identifier for the product, enter it here.

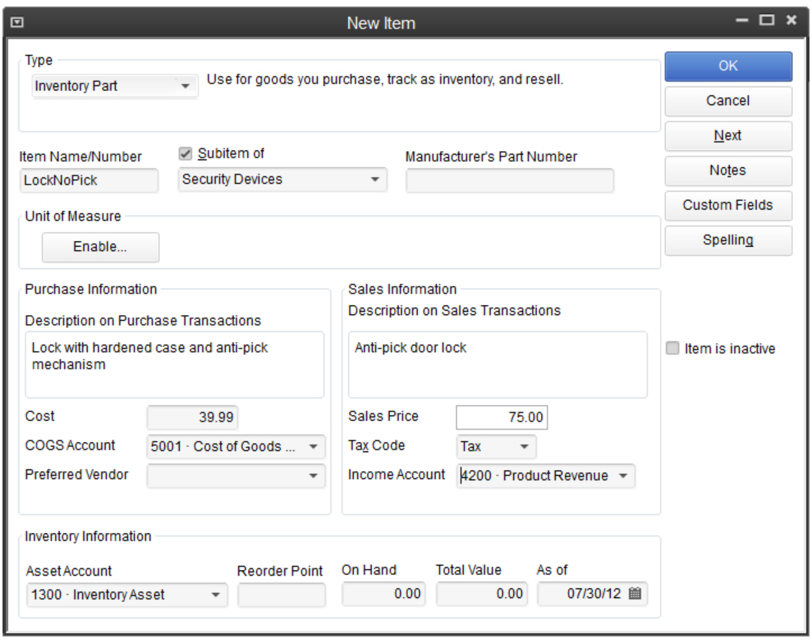


FIGURE 5-8

When you create a new Inventory Part item, QuickBooks includes fields for purchasing and selling that item. The fields in the Purchase Information section show up on purchase orders. The Sales Information section sets the values you see on sales forms, such as invoices and sales receipts. The program simplifies recording your initial inventory by letting you type in the quantity you already have on hand and its value.

NOTE If you use QuickBooks Premier or Enterprise, you'll also see a "Unit of Measure" section, which lets you specify the units the inventory part comes in (bottles, cases, tons, cubic feet, or whatever). When you define units for an inventory part, they appear on invoices, sales forms, and reports. To turn this feature on, in the New Item (or Edit Item) dialog box, click the Enable button and then choose whether you want to assign one or several units of measure to each item. Once this feature is turned on, the New Item and Edit Item dialog boxes display the U/M box in the "Unit of Measure" section. Choose the unit you want to apply from the drop-down list.

- **Description on Purchase Transactions.** Whatever you type here appears on the purchase orders you issue to buy inventory items. Describe the product in terms that the vendor or manufacturer understands; you can use a different and more customer-friendly description for the invoices that customers see.
- **Cost.** Enter what you pay for one unit of the product. QuickBooks assumes you sell products in the same units that you buy them. So, for example, if you purchase four cases of merlot but sell wine by the bottle, enter the price you pay *per bottle* in this field.
- **COGS Account.** Choose the account to which you want to post the cost *when you sell the product*. (COGS stands for "cost of goods sold," which is an account for tracking the underlying costs of the things you sell in order to calculate your gross profit, which you'll learn about on page 469.)

NOTE If you don't have a cost of goods sold account in your chart of accounts, QuickBooks creates one for you as soon as you type the name of your first Inventory Part item in the New Item window.

POWER USERS' CLINIC

Assembling Products

In the Premier and Enterprise editions of QuickBooks, you can create an Inventory Assembly item that gathers Inventory Part items into a new item that you sell as a whole. As shown in Figure 5-9, the New Item window for an assembled item is similar to the one for an inventory part.

The main difference is that you select other inventory items or Inventory Assembly items as the building blocks of your new item. In the "Bill of Materials" section, you specify the components and the quantity of each, and QuickBooks then calculates the total cost of the *bill of materials*—that is, the list of all the materials that make up the assembled product. You set the price you charge for the entire ball of wax in the Sales Price field, regardless of the cost of the individual pieces.

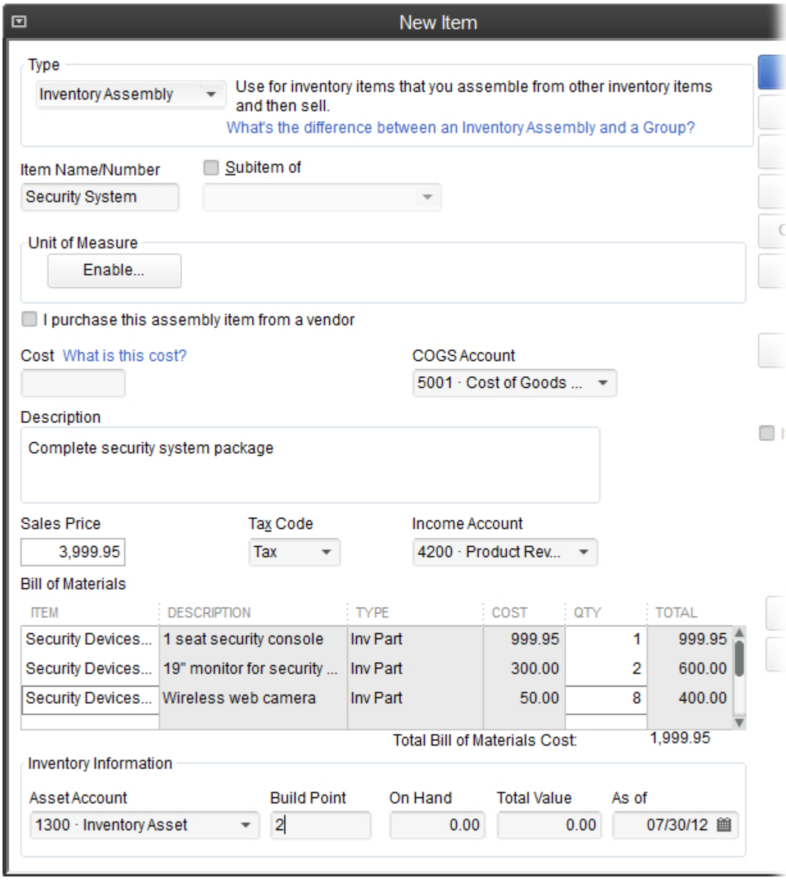


FIGURE 5-9

The New Item (or Edit Item) window for an Inventory Assembly item includes a Build Point field instead of the Reorder Point field that Inventory items have. The reorder point for Inventory items tells QuickBooks when to remind you to reorder individual Inventory items. As you build Inventory Assembly items, QuickBooks keeps track of how many individual Inventory items you use, which can trigger a reorder reminder. Because you build an Inventory Assembly item out of individual components, you fill in the Build Point field with the minimum number of inventory assemblies you want on hand to tell QuickBooks when to remind you to build more.

- **Preferred Vendor.** If you choose a vendor in this drop-down list, QuickBooks selects that vendor when you add this Inventory Part item to a purchase order.
- **Description on Sales Transactions.** QuickBooks automatically copies what you typed in the Description on Purchase Transactions field into this box, so it appears on sales forms like invoices, credit memos, and sales receipts. If your customers wouldn't recognize that description, type a more customer-friendly one here.

- **Sales Price.** Type in how much you charge for the product, and make sure that the Cost field uses the same units. For example, if you sell a bottle of merlot for $15, type *15* in this field and type the price you pay *per bottle* in the Cost field.
- **Tax Code.** When you add an item to an invoice, QuickBooks checks this field to see whether the item is taxable. (QuickBooks comes with two tax codes: *Non* for nontaxable items and *Tax* for taxable items.) Most products are taxable, although groceries are a common exception.
- **Income Account.** This drop-down list includes all the accounts in your chart of accounts. Choose the *income* account for the money you receive when you sell one of these products.
- **Asset Account.** Choose the asset account for the value of the inventory you buy. Suppose you buy 100 bottles of merlot, which are each worth the $8 a bottle you paid; QuickBooks posts $800 into your inventory asset account. When you sell a bottle, QuickBooks deducts $8 from the inventory asset account and adds that $8 to the COGS account.
- **Reorder Point.** Type the quantity on hand that would prompt you to order more. When your inventory hits that number, QuickBooks adds a reminder to reorder this product to the Reminders List (page 621).

TIP If you can receive products quickly, use a lower reorder point to reduce the money tied up in inventory and prevent write-offs due to obsolete inventory. If products take a while to arrive, set the reorder point higher. Start with your best guess and then edit this field as business conditions change.

- **On Hand.** If you already have some of the product in inventory, type the quantity in this field. From then on, if you use QuickBooks' inventory feature (Chapter 19) to record inventory you receive, you can rely on it to accurately post inventory values in your accounts.
- **Total Value.** If you filled in the On Hand field, fill in *this* field with the total value of the quantity on hand. QuickBooks increases the value of your inventory asset account accordingly.
- **As of.** The program uses this date for the transaction it creates in the inventory asset account.

NOTE You can enter values for the last three fields listed above only when you create a new item, not when you edit an existing one. From then on, QuickBooks calculates how many you have on hand based on the numbers you've sold and received.

WORKAROUND WORKSHOP

Turning Parts into Products

Inventory Assembly items don't work the way many manufacturers treat assembled items. Manufacturers and distributors often build batches of assembled items, pool the manufacturing costs for the batch, and then assign a value to the resulting batch of products that goes into inventory. To use this approach in QuickBooks, you track the parts you use to build products (Non-inventory Parts) as *assets* instead of Inventory Assembly items. Here's how it works:

1. As you buy ingredients for a batch, assign the costs (via bills and so on) to an asset account specifically for inventory you build (such inventory is often referred to as WIP for "work in progress").
2. When the batch is complete, make an inventory adjustment to add the items you made to inventory. Choose Vendors→Inventory Activities→Adjust Quantity/Value on Hand.
3. In the "Adjust Quantity/Value on Hand" window, in the Adjustment Type drop-down list, choose "Quantity and Total Value."
4. In the Adjustment Account drop-down list, choose the asset account for your WIP.
5. In the New Quantity column, type the number of items you built from your pool of parts. In the New Value column, type the value of the parts you used.
6. Click Save & Close to save the adjustment, which places the value of the new inventory in your inventory asset account. Because the inventory value matches what you paid for parts, the value adjustment also reduces the WIP asset account's balance to zero, in effect moving the value of your parts from the WIP asset account to your inventory asset account.

You have to know how many units you got out of the parts pool, so this approach works only if you build products in batches. If you constantly manufacture products, you need a program other than QuickBooks to track your inventory. To find one, go to *http://marketplace.intuit.com*. On the menu bar, click Find Software→Find Solutions by Industry. Then, on the By Industry tab, click Manufacturing. Finally, in that same tab under the Manufacturing heading, click Inventory Management.

Non-Inventory Part Fields

You'll need Non-inventory Part items if you use purchase orders to buy supplies or other products that you don't track as inventory. For example, suppose you're a general contractor and you buy materials for a job. When you use Non-inventory Part items, QuickBooks posts the cost of those products to an expense account and the income from selling them to an income account. You don't have to bother with an inventory asset account because you transfer ownership of these products to the customer almost immediately. (See page 298 to learn how to charge your customer for these reimbursable expenses.)

The good news is that Non-inventory Part items use all the same fields as Service items (page 123), although there are a few subtle differences you need to know. Take the following disparities into account when you create Non-inventory Part items:

- **This item is used in assemblies or is purchased for a specific customer:job.** This checkbox goes by a different name than the one in Service items, but its effect is the same. Turn it on when you want to use different values on purchase and sales transactions for items you resell. If the Non-inventory Part item is for office supplies you want to place on a purchase order, then leave this checkbox off because you won't have sales values.

  When this checkbox is on, QuickBooks displays Purchase Information and Sales Information sections, like the ones you saw in Figure 5-7 (page 126). For Non-inventory Part items, choose income and expense accounts you set up specifically for products. Read on to find out what happens when you turn this checkbox off.

- **Account.** If you don't resell this product, leave the "This item is used in assemblies or is purchased for a specific customer:job" checkbox turned off, and you'll see only one Account field. QuickBooks considers the account in this field the expense account for the purchase.

- **Tax Code.** This works exactly the same way as it does for a Service item. Choose Non if the products are nontaxable (like groceries), and Tax if they're taxable. (This field appears only if you've turned on QuickBooks' sales tax feature, as described on page 628.)

TIP Many companies don't bother with purchase orders—forms that record what you order from a vendor—when buying office supplies. But if you want to track whether you receive the supplies you bought, you can create purchase orders for them (page 230). Then use Non-inventory Part items for supplies you add to purchase orders but don't track as inventory. (Remember, purchase orders are non-posting transactions, so they don't affect the balances in your accounts.)

Other Types of Items

If a line on a sales form isn't a service *or* a product, read this section to figure out the type of item you need.

Other Charge

The Other Charge item is aptly named because you use it for any charge that isn't quite a service or a product, like shipping charges, finance charges, or bounced check charges. Other Charge items can be percentages or fixed amounts. For example, you might set up shipping charges that are the actual cost of shipping, or calculate shipping as a percentage of the product cost.

If a customer holds back a percentage of your charges until you complete the job satisfactorily, create an Other Charge item for the *retainer* (the portion of your fee that the customer doesn't pay initially). Then, when you create the invoice, enter a negative percentage so QuickBooks deducts the retainer from the invoice total. When your customer approves the job, create another invoice, this time using another Other Charge item, called Retention, to charge the customer for the amount she withheld.

TIP Progress invoices (page 315) are another way to invoice customers for a portion of a job. They're ideal if you invoice the customer based on the percentage of the job you've completed or on the parts of the job that are complete.

Other Charge items can be linked to expenses—or not. Here are your options:

- **A charge linked to expenses.** For Other Charge items, the checkbox for hiding or showing purchase fields is labeled "This item is used in assemblies or is a reimbursable charge." Turn on this checkbox when you want to set the Cost field to what you pay and the Sales Price field to what you charge your customers. You'll see the same sets of fields for purchases and sales as you do for Service and Non-inventory Part items.
- **A charge without associated expenses.** You can create charges that don't link directly to expenses by leaving the "This is used in assemblies or is a reimbursable charge" checkbox turned off. You can then create a percentage, which is useful for calculating shipping based on the value of the products being shipped. With the checkbox off, instead of the Cost and Sales Price fields, you see the "Amount or %" field. If you want to create a charge for a specific amount (like the value for a country club's one-time initiation fee), type a whole or decimal number in this field, as shown in Figure 5-10. To create a percentage-based charge, type a number followed by "%", such as *10%,* in this field instead.

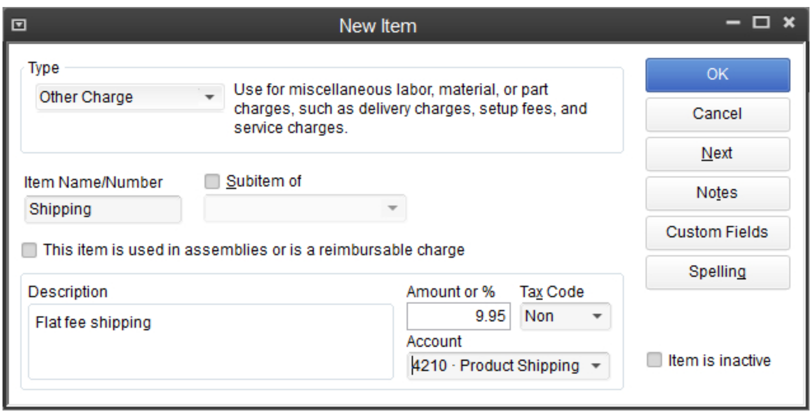


FIGURE 5-10

To create a percentage-based charge, type a number followed by "%" in the "Amount or %" field. To set a dollar value, type a number without the percent symbol, as shown here.

NOTE When you add a percentage-based Other Charge item to an invoice, such as shipping, QuickBooks applies the percentage to the previous line in the invoice. If you want to apply the Other Charge percentage to *several* items, add a Subtotal item (explained next) to the invoice before the Other Charge item.

Subtotal

You'll need a Subtotal item if you apply sales tax to all the products you include on a sales form, discount only some of the items on a form, or calculate shipping based on the value of the order. You need to create only *one* Subtotal item in QuickBooks, because a Subtotal item does just one thing: totals all the amounts for the preceding lines up to the last subtotal or the beginning of the invoice. That means you can add more than one subtotal to an invoice. For example, you can use one Subtotal item to add up the services you sell before applying a preferred-customer discount and a second Subtotal item for product sales when you have to calculate shipping. Because you can't change a Subtotal item's behavior, Subtotal items have just two fields: Item Name/Number and Description. You can type any name and description you wish in these fields, but in practically every case, Subtotal says it all.

Group

Group items are great timesavers, and they're indispensable if you tend to forget things. As the name implies, a Group item represents several related items you often buy or sell together. Create a Group item that contains items that always appear together, such as each service you provide for a landscaping job. That way, when you add the Landscaping Group item to an invoice, QuickBooks automatically adds the Service items for the various phases, such as Excavation, Grading, Planting, and Cleanup.

You can also use a Group item to show or hide the underlying items, which is useful mainly when you create fixed-price invoices (page 288) and you don't want the customer to know how much profit you're making. Here's how you set up a Group item to do these things:

- **Group Name/Number.** Type a name for the group that gives a sense of the individual items within it, such as Security Package.
- **Description.** Type the description that you want to appear on sales forms.
- **Print items in group.** To show all the underlying items on your invoice, turn on this checkbox. Figure 5-11 (top) shows an invoice that prints all the items in a group, and what an invoice looks like when you leave this checkbox turned off (bottom).

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
4	Review system security and physical building security	200.00	800.00
8	Install custom-designed security system	150.00	1,200.00
1	1 seat security console	2,000.00	2,000.00T
4	Wireless web camera	95.95	383.80T
5	Wireless web camera	95.95	479.75T
	Full package for security including audit, install, basic equipment		4,863.55

P.O. No.	Terms	Project

Quantity	Description	Rate	Amount
	Full package for security including audit, install, basic equipment		4,863.55

FIGURE 5-11

Top: If you turn on the "Print items in group" checkbox when you create a Group item (Security Package, in this example) and then add it to an invoice, QuickBooks adds all the individual items it contains.

Bottom: If you leave the "Print items in group" checkbox turned off when you create the Group item, you'll see the individual items in the Create Invoices window, but the invoice you print to send to the customer will list only the Group item itself, along with the total price for all the items in the group.

- **Item.** To add an item to a group, click a blank cell in the Item column, shown in Figure 5-12, and then choose the item you want. You can also create a new item by choosing <Add New> from the drop-down list.
- **Qty.** Group items can include different quantities of items, just like a box of notecards usually includes a few more envelopes than cards. For each item in the group, type how many you typically sell as part of that group. If the quantity of each item varies, type *0* in the Qty cells. You can then specify the quantities on your invoices after you add the Group item.

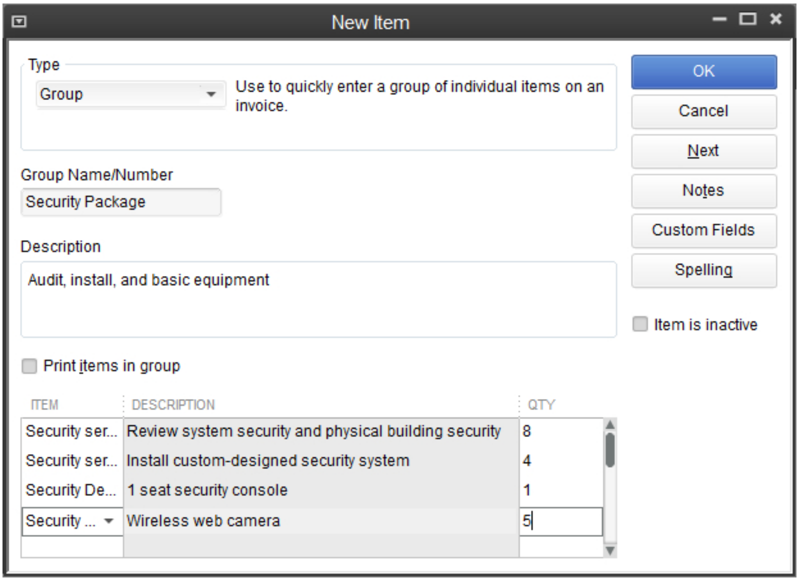


FIGURE 5-12

In the New Item or Edit Item window, when you work on a Group item, the background of the Description column is a different color to indicate that you can't edit those cells. That's because QuickBooks fills in the Description cells with the contents of each individual item's Description field.

Discount

As you know, a discount is an amount you deduct from the standard price you charge, such as a volume discount, customer-loyalty discount, or sale discount. QuickBooks' Discount item calculates deductions like these. By using both Subtotal and Discount items, you can apply discounts to some or all of the charges on a sales form.

Discount items deduct either a dollar amount or a percentage for discounts you apply at the time of sale, such as volume discounts, damaged-goods discounts, or customer-appreciation discounts.

NOTE Early payment discounts don't appear on sales forms because you won't know that a customer pays early until long after that form is complete. You apply early payment discounts in the Receive Payments window, described on page 378.

The fields for a Discount item are similar to those of an Other Charge item with a few small differences:

- **Amount or %.** To deduct a dollar amount, type a positive number (whole or decimal) in this field. To deduct a percentage, type a whole or decimal number followed by "%," like *5.5%*.

- **Account.** Choose the account to which you want to post the discounts you apply. You can post discounts to either income or expense accounts. When you post discounts to an income account, they appear as negative income, so your gross profit reflects what you actually earned after deducting them. Posting discounts to expense accounts, on the other hand, makes your income look better than it actually is. But the discounts increase the amounts in your expense accounts, so your net profit is the same no matter which approach you use.
- **Tax Code.** Most of the time, you choose a taxable code in this field (which only appears if you have the program's sales-tax features turned on) so that QuickBooks applies the discount before it calculates sales tax. For instance, if customers buy products on sale, they pay sales tax on the *sale* price, not the original price. If you choose a nontaxable code in this field, QuickBooks applies the discount after it calculates sales tax. You'll rarely want to do this, though, because it means you'll collect less sales tax from customers than you have to send to the tax agencies.

Payment

When customers send you payments, you can record them in QuickBooks by using the Receive Payments feature (page 371). But if you're in the middle of creating invoices when the checks arrive, you can avoid that task by recording those payments right in your invoices by adding a Payment item. As Figure 5-13 explains, Payment items do more than reduce the amount owed on the invoice.

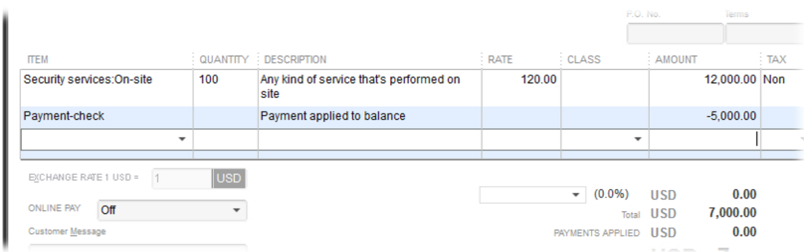


FIGURE 5-13

A Payment item (here, a check) reduces the balance on an invoice by the amount the customer paid and executes the equivalent of a Receive Payments feature: It deposits the funds into a bank account or groups the payment with other undeposited funds.

In addition to the Type, Item Name/Number, and Descriptions fields, Payment items boast fields unlike those for other items. These unique fields tell QuickBooks the method of payment that a customer uses and whether you deposit the funds in a specific bank account or group them with other undeposited funds. For example, you group payments with other undeposited funds if you save up the checks customers send so you can make one trip to deposit them all in your bank. For credit card payments, banks sometimes transfer them into an account individually and sometimes make a single deposit each day with all the charges for that day. Here are the details:

- **Payment Method.** Choose a method such as cash, check, or brand of credit card. That way, when you open the Make Deposits window (page 396) to make a deposit and the "Payments to Deposit" window opens, you can filter pending deposits by payment method.
- **Group with other undeposited funds.** Choose this option if you want to add the payment to other payments you received. That way, when you add this Payment item to a sales form, QuickBooks adds the payment to the list of undeposited funds. To actually complete the deposit of all your payments, choose Banking→Make Deposits (page 397).
- **Deposit To.** If payments flow into an account without any action on your part, such as credit card or electronic payments, choose this option and then choose the appropriate bank account in the drop-down list.

Setting Up Sales Tax

If you don't have to collect and remit sales tax, skip this section and give thanks. Sales taxes aren't much more fun in QuickBooks than they are in real life. QuickBooks has two features for dealing with sales tax: *codes* and *items*:

- **Sales Tax Codes** specify whether an item you sell is taxable—that is, whether QuickBooks calculates sales tax for the item when you add it to a sales form.
- **Sales Tax items**, on the other hand, provide the nitty-gritty detail: They let you calculate and organize sales taxes charged by state and local authorities for the items on your invoices and other sales forms.

This section describes both features and how to use them. If you sell products in a place burdened with multiple sales taxes (state, city, and local, say), you can use a Sales Tax Group item to calculate the total sales tax you have to charge. That way, your sales form shows only the total, but QuickBooks keeps track of what you owe to each agency.

NOTE Before you can dive into the details of setting up sales tax, you need to turn on QuickBooks' sales tax feature. Page 628 explains how.

For most product sales in most areas, you have to keep track of the sales taxes you collect and then send them to the appropriate tax agencies. Labor usually isn't taxable, whereas products usually are. (Groceries are a notable nontaxable exception.) To simplify applying sales tax to the right items or subtotals on your invoices, create separate items for the things you sell that are taxable and the things that are nontaxable. After you assign sales tax codes to the items you create, QuickBooks takes care of calculating the sales tax that's due.

Sales Tax Codes

Sales tax codes are QuickBooks' way of letting you specify whether to apply sales tax. Out of the box, the program's Sales Tax Code List comes with two self-explanatory options: Tax and Non. If you'd like to further refine taxable status (to specify *why* a sale isn't taxable, for example), you can add more choices, as explained on page 142. You can apply tax codes to customers or to individual sales items.

ASSIGNING TAX CODES TO CUSTOMERS

Nonprofit organizations and government agencies are usually tax-exempt, meaning they don't have to pay sales taxes. To tell QuickBooks whether a customer pays sales tax, open the Edit Customer window, click the Sales Tax Settings tab, and then fill in the fields as described on page 72. Here's how QuickBooks interprets a customer's tax-exempt status:

- **Nontaxable customer.** When you assign Non or another nontaxable sales tax code to customers (page 72), QuickBooks doesn't calculate sales tax on *any* items you sell to them.
- **Taxable customer.** When you assign Tax or any taxable sales tax code to a customer, the program calculates sales tax only on the taxable items on their invoices and other sales forms.

ASSIGNING TAX CODES TO ITEMS

Some items aren't taxable regardless of whether a customer pays sales tax. For example, most services and non-luxury goods like food don't get taxed in most states. If you look carefully at the invoice in Figure 10-7 on page 285, you'll notice Non or Tax to the right of some of the amounts. QuickBooks applies the sales tax only to taxable items to calculate the sales taxes on the invoice.

Items include a Tax Code field so you can designate them as taxable or nontaxable. To assign a tax code to an item, in the Create Item or Edit Item window (page 132), choose a code in the Tax Code drop-down list.

NOTE Taxable and nontaxable items can live together peacefully assigned to the same income account. QuickBooks figures out what to do with sales taxes based on tax codes, tax items, and whether a customer has to pay sales tax.

CREATING ADDITIONAL SALES TAX CODES

Tax codes let you mark customers and items as either taxable or nontaxable. The two built-in options, Non and Tax, pretty much cover all possibilities, but you may want to create additional sales tax codes to classify nontaxable customers by their *reason* for exemption (nonprofit, government, wholesaler, out-of-state, and so on). If that's the case, here's how to create additional sales tax codes in QuickBooks:

1. **Choose Lists→Sales Tax Code List.**

   QuickBooks opens the Sales Tax Code List window.

2. **To create a new code, press Ctrl+N or, at the bottom of the window, click Sales Tax Code→New.**

   The New Sales Tax Code window opens.

3. **In the Sales Tax Code box, type a one- to three-character code.**

   For example, type *Gov* for government agencies, *Whl* for wholesalers who resell your products, *Oos* for out-of-state customers, and so on.

4. **In the Description box, add some details about the code.**

   For example, type a description that explains the purpose of the code, like *Government* for Gov.

5. **Choose the Taxable or Non-Taxable option.**

   Sales tax codes are limited to taxable or nontaxable status.

6. **Click Next if you want to add another code.**

   The code you created appears in the Sales Tax Code List window.

7. **When you've added all the codes you want, click OK to close the New Sales Tax Code window.**

As you can see, QuickBooks' sales tax codes don't let you specify a sales tax percentage or note which tax office to send the collected sales taxes to. That's where Sales Tax *items* (described next) come into play.

Sales Tax Items

QuickBooks' built-in sales tax codes are fine for designating taxable status, but you also have to tell QuickBooks the rate and which tax authority levies the tax. If you sell products in more than one state, Sales Tax items are the way to deal with varying tax regulations. (Like the IRS, each tax agency wants to receive the taxes it's due.) To track what you owe, create a Sales Tax item for *each* agency. Also, if you sell products through direct mail, you'll need a Sales Tax item for each state you ship to that charges sales tax.

For example, suppose *both* local and state taxes apply to products you sell in your store. For customers to whom you ship goods in *other* states, sales taxes for those other states apply. You can create separate Sales Tax items for your local tax and the state sales taxes for each state in which you do business. Or, if one tax authority collects several sales taxes, QuickBooks has a Sales Tax Group feature (page 144) to help you collect them all in one shot.

Unlike sales tax codes, which can apply to both customers and products, Sales Tax items apply only to customers, which makes sense, since sales tax rates usually depend on the customer's location. If the customer is in the boonies, you might assign the state Sales Tax item because the customer pays only that one tax. Alternatively, a customer smack in the middle of downtown might have to pay state tax, city tax, and a special district tax. Once you assign Sales Tax items to customers (page 72), QuickBooks automatically fills in the Sales Tax item on your invoices and other sales forms to show the customer the sales taxes they pay.

To create a Sales Tax item, open the Item List (click Items & Services on the QuickBooks Home page) and then press Ctrl+N to open the New Item window (page 124). From the Type drop-down list, choose Sales Tax Item. Then fill in the fields (shown in Figure 5-14) as follows:

- **Sales Tax Name.** Type in a name for the tax. You can use the same identifiers that the tax authority does, or a more meaningful name like Denver City Tax. You can fit up to 31 characters in this field—more than enough to use the four- or five-digit codes that many states use for sales taxes.
- **Description.** If you want QuickBooks to display a description of the tax on your invoices or sales forms, type it here.
- **Tax Rate (%).** Type the percentage rate for the tax here. QuickBooks automatically adds the percent sign, so simply type the decimal number—for example, *4.3* for a 4.3 percent tax rate.
- **Tax Agency.** In this drop-down list, choose the tax authority that collects the sales tax. If you haven't created the vendor for the tax authority yet, choose <Add New> and create a vendor record (page 91).

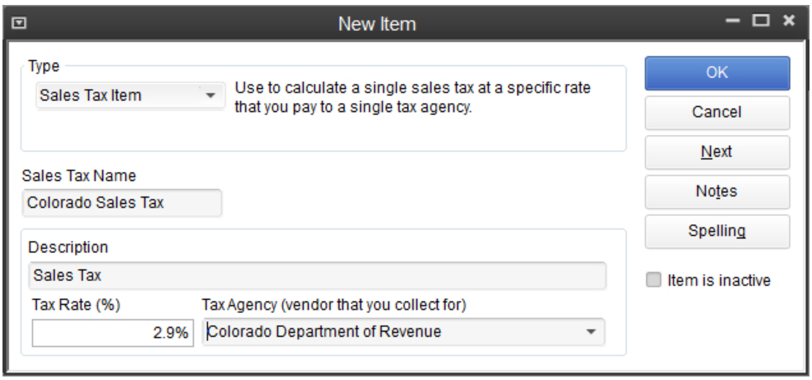


FIGURE 5-14

The "Tax Rate (%)" field sets the percentage of the tax. The Tax Agency drop-down list shows the vendors you've set up, so you can choose the agency to which you remit the taxes. If a tax authority collects the sales taxes for several government entities, a Sales Tax Group is the way to go (see the box on page 144).

GEM IN THE ROUGH

Sales Tax Groups

A Sales Tax Group item calculates the total tax for multiple Sales Tax items—perfect when you sell goods in an area rife with state, city, and local sales taxes. The customer sees only the total tax, but QuickBooks tracks how much you owe to each agency. This item works the same way as the Group item (page 136), except that you add Sales Tax items to it instead of Service, Inventory, and Other Charge items.

As shown in Figure 5-15, a Sales Tax Group item applies several Sales Tax items at once. QuickBooks totals the individual tax rates into a total rate for the group, which is what the customer sees on the invoice. For example, businesses in Denver charge a combined sales tax of 7.62 percent, which is made up of a Denver sales tax, the Colorado sales tax, an RTD tax, and special district taxes.

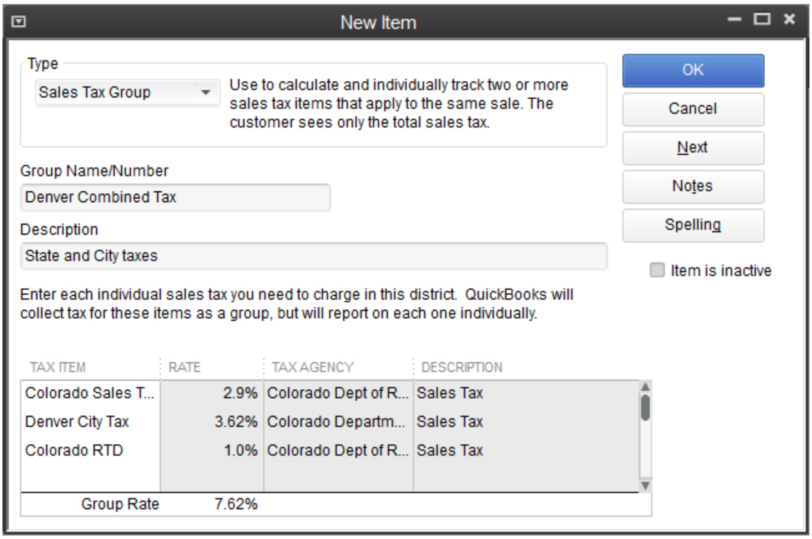


FIGURE 5-15

Before you can create a sales tax group, you first need to create each of the Sales Tax items that you plan to include in it. After you type the name or number of the sales tax group and a description, click the Tax Item cell and then click the drop-down list to choose one of the individual Sales Tax items to include in the group. QuickBooks fills in the rate, tax agency, and description from the Sales Tax item.

Modifying Items

You can change information about an item even if you've already used the item in transactions. The changes you make don't affect *existing* transactions, but when you create *new* transactions using that item, QuickBooks uses the updated information to fill in fields.

In the Item List window (List→Item List), double-click the item you want to edit. QuickBooks opens the Edit Item window. Simply make the changes you want and then click OK. If you want to modify several items at once, use the Add/Edit Multiple List Entries feature (page 94) instead.

NOTE If you change an account associated with an item (like the income account to which sales post), the Account Change dialog box appears when you save the edited item. This dialog box tells you that all future transactions for that item will use the new account. If you also want to change the account on all *existing* transactions using the item, consult with your accountant to make sure that change is OK before you click Yes. Click No to keep the old account on existing transactions that use the item.

Be particularly attentive if you decide to change an item's Type field. You can change only Non-inventory Part or Other Charge items to other item types, and they can be changed into only certain item types: Service, Inventory Part, Inventory Assembly (available only in QuickBooks Premier and Enterprise), Non-inventory Part, or Other Charge. If you conclude from this that you can't change a Non-inventory Part item *back* once you change it to an Inventory part, you're absolutely correct. To prevent type-change disasters, back up your QuickBooks file (see page 179) before switching item types.

TIP Parts that you keep in inventory have value that shows up as an asset of your company, but Non-inventory Parts show up simply as expenses. If you change a Non-inventory Part item to an Inventory Part item, be sure to choose a date in the "As of" field that's *after* the date of the last transaction that uses the item in its non-inventory guise.

Hiding and Deleting Items

Deleting items and hiding them are two totally different actions, although the visible result is the same: QuickBooks doesn't display the items in the Item List window or in item drop-down lists. The only time you'll delete an item is when you create it by mistake and want to eliminate it permanently from the Item List. You can delete an item only if you've never used it in a transaction.

Hiding items doesn't have the same restrictions as deleting them, and offers a couple of advantages to boot. First, when you hide items, they don't appear in the Item List, which prevents you from selecting them accidentally. And unlike deleting, hiding is reversible: You can switch items back to active status if you start selling them again. Suppose you hid the item for bell-bottom hip-huggers in 1974. Decades later, now that '70s retro has become cool again, you can reactivate that item and use it on sales forms. (Of course, you'll probably want to edit the cost and sales price to reflect today's economy.)

Hiding Items

As mentioned above, if you've sold an item in the past, then the only way to remove it from the Item List is to hide it. Hiding items means that your Item List shows only the items you currently use, so you'll scroll less to find the items you want and you're less likely to pick the wrong item by mistake. If you start selling a hidden item again, you can reactivate it so that it appears on the Item List once more.

Here's a guide to hiding and reactivating items:

- **Hide an item.** In the Item List, right-click the item and choose Make Item Inactive from the shortcut menu. The item disappears from the list.
- **View all items, active or inactive.** At the bottom of the Item List window, turn on the "Include inactive" checkbox. QuickBooks displays a column with an X as its heading and shows an X in that column for every inactive item in the list. (The "Include inactive" checkbox is grayed out when all your items are active.)
- **Reactivate a hidden item.** First, turn on the "Include inactive" checkbox to display all items. Then, click the X next to the name of the item you want to reactivate. When you click the X next to a *parent* item, QuickBooks opens the Activate Group dialog box. If you want to reactivate all the subitems as well as the parent, click Yes; to reactivate only the parent item, click No.

If you find that you're constantly hiding items you no longer sell, your Item List might be too specific for your constantly changing product list. For example, if you create 100 items for the clothes that are fashionable for teenagers in May, those items will be obsolete by June. So consider creating more generic items, such as pants, shorts, T-shirts, and bathing suits. You can then reuse these items season after season, year after year, without worrying about running out of room in the Item List, which is limited to 14,500 entries.

TIP To see how many items you have, press F2 to open the Product Information window. In the List Information section on the right side of the window, look for the Total Items figure (you may have to scroll down in the List Information box to see it).

Deleting Items

If you erroneously create an item and catch your mistake immediately, deleting the offender is no sweat. Open the List Item window (Lists→Item List) and then use one of these methods:

- Select the item and then press Ctrl+D.
- Right-click the item and then choose Delete Item on the shortcut menu.
- Select the item, and then head to the main QuickBooks menu bar and choose Edit→Delete Item.
- At the bottom of the Item List window, click Item→Delete Item.

If you try to delete an item that's used in even *one* transaction, QuickBooks warns you that you can't delete it. Say you created an item by mistake and then compounded the problem by inadvertently adding the item to an invoice. When you realize your error and try to delete the item, QuickBooks refuses to oblige. Fortunately, it's pretty easy to run a report to find the transactions that contain the item and then replace it with another item:

1. **Open the Item List window (Lists→Item List), and then right-click the item and choose "QuickReport: <item name>" on the shortcut menu.**

   QuickBooks opens the Item QuickReport report window. Depending on how your report preferences are set, the Modify Report dialog box might open as well.

2. **If the Modify Report dialog box appears, on the Display tab, choose All at the top of the Dates drop-down list and then click OK.**

   If the Modify Report dialog box *doesn't* appear, in the Item QuickReport window, choose All in the Dates drop-down list.

3. **To edit a transaction to remove an item, in the report window, double-click the transaction.**

   Based on the type of transaction you double-click, QuickBooks opens the corresponding dialog box or window. For example, if you double-click an invoice, QuickBooks opens the Create Invoices window and displays the invoice you chose. In the Create Invoices window's Item column, click the cell containing the item you want to delete, click the downward-pointing arrow in that cell, and then choose the replacement item from the Item drop-down list.

4. **To save the transaction with the revised item, click Save & Close.**

   You'll know that you've successfully eliminated the item from all sales transactions when the Item QuickReport window shows no transactions.

TIP To be sure that you've removed all links to the item, in the button bar at the top of the report window, click Refresh to update the report based on the current data in your QuickBooks file.

5. **To close the report window, click the X button at its upper right.**

   QuickBooks takes you back to the Item List window.

6. **Finally, back in the Item List window, select the item you want to delete and then press Ctrl+D. In the Delete Item message box, click OK to confirm that you want to get rid of the item.**

   The item disappears from your Item List for good, and you're ready to get back to work.

CHAPTER

6

Setting Up Other QuickBooks Lists

Open any QuickBooks window, dialog box, or form, and you're bound to bump into at least one list. These drop-down lists make it easy to fill in transactions and forms. Creating an invoice? If you pick the customer and job from the Customer:Job List, QuickBooks fills in the customer's address, payment terms, and other fields for you. Selecting payment terms from the Terms List tells the program how to calculate an invoice's due date. If you choose an entry in the Price Level List, QuickBooks calculates the discount you extend to your customers for the goods they buy. Even the products and services you sell to customers come from the Item List, which you learned about in Chapter 5.

In this chapter, you'll discover what many of these lists can do for you and whether you should bother setting them up for your business. Because some lists have their own unique fields (such as the Price Level Type for a Price Level entry), you'll also learn what the various fields do and how to fill them in. If you already know which lists and list entries you want, you can skip to "Creating and Editing List Entries" on page 164 to master the techniques that work for most lists in QuickBooks, such as adding and tweaking entries, hiding entries, and so on. Once you learn how to work with one QuickBooks list, the doors to almost every other list open, too.

NOTE A few lists—such as the Customer, Vendor, and Employee lists—behave a little differently from the ones described in this chapter. Here are the other chapters that provide instructions for working with other QuickBooks lists:

- The **chart of accounts**, which is a list of your bookkeeping accounts, is covered in Chapter 3.
- The **Customer:Job List**, which includes entries for both customers and their jobs, is the topic of Chapter 4.
- The **Vendor List** is also described in Chapter 4.
- The **Item List** helps you fill in invoices and other sales forms with services and products you sell; it's covered in Chapter 5.
- Although the **Sales Tax Code List** appears on the Lists menu, sales tax codes are inextricably linked to how you handle sales tax. The details of setting up this list are described in Chapter 5 on page 141.
- Chapter 12 shows you how to have QuickBooks memorize transactions and store them in the **Memorized Transaction List** so you can reuse them.
- If you turn on QuickBooks' payroll feature (page 619), the Lists menu includes the **Payroll Item List**, which covers the deposits and deductions on your payroll. Payroll items are quite specialized, and you use them only if you use one of QuickBooks' payroll services.

Categorizing with Classes

Classes are the only solution if you want to classify income and expenses by categories that span multiple accounts in your chart of accounts or multiple customers, jobs, and vendors. Classes help you track financial results by categories such as business unit, location, partner, or consultant.

Suppose you have business units that sell to the same customers and rack up the same types of expenses. By creating classes that represent business units in QuickBooks' Class List, you can track the profitability of each unit. Classes also come in handy for tracking the allocation of functional expenses that nonprofit organizations have to show on financial statements.

TIP Before you decide to use classes, use QuickBooks without them for a few weeks or months. If it turns out that you can generate all the reports you need *without* classes, then don't burden yourself with another field to fill in. But if you work without classes and then decide to use them after all, you can go back and edit past transactions to assign classes to them, or just start using classes at the beginning of a new fiscal period. For more help deciding whether to use classes, see the box on page 151.

If you choose to work with classes, be sure to follow these guidelines to get the most out of them:

- **Pick one use for classes**. QuickBooks has only one list of classes, so every class should represent the same type of classification. Moreover, you can assign just one class to a transaction, so classes add only one additional way to categorize transactions. For example, once you assign a class for a business unit to a transaction, there's no way to assign another class—to identify the office branch, say—to the same transaction.

- **Use classes consistently**. Make sure to use classes on *every* transaction that relates to your classification method. For example, if you classify income and expenses by partner, assign a class to every invoice and expense that is related to a partner's work; otherwise, your class-based reports won't be accurate. However, if expenses are overhead and don't relate to the work partners do, you can leave a transaction's class field blank.
- **Create a catchall class**. Set up a class like Other so that you can still classify transactions even if they don't fit into any of the specific classes you've defined.

UP TO SPEED

Do You Need Classes?

Not every company needs classes, so don't feel that you *have* to use them. You can call on several other QuickBooks features to help you track your business. Each tracking feature has its advantages, so how do you decide which one(s) to use to evaluate your performance? Here's a brief description of each feature and the best time to use it:

- **Accounts**. You can use accounts to segregate income and expenses in several ways. For instance, keep income from your physical store separate from your website sales by creating two separate income accounts. Accounts are the fastest way to see performance because QuickBooks' built-in Profit & Loss reports (page 468) automatically display results by account.
- **Customer, job, and vendor types**. To analyze income by wholesale, retail, online, and other types of customers, use customer types to classify your customers. That way, you can filter the reports you generate to show results for a specific kind of customer. However, types are more limited in scope than accounts—for example, customer types apply only to customers (page 158). Likewise, job types and vendor types (page 159) help you categorize only by job and vendor, respectively.
- **Classes**. Classes cut across accounts, customers, jobs, *and* vendors because you assign a class to an individual transaction, such as a check, bill, or invoice. So classes are perfect for categories that span accounts, customers, vendors, and types. Suppose the partners in your company help customers implement technology and tighten their security. You've decided to use separate income accounts to track technology sales and security sales, and you use customer types to track work for the government versus the private sector. You also want to track income and expenses by partner, but each partner works on all types of service for all types of customers. Happily, you can create classes to track partners' sales and expenses, regardless of which service they deliver or the type of customer. A Profit & Loss report by class (page 474) will then tell you how each partner is performing.

Turning on Class Tracking

You have to turn on QuickBooks' class-tracking feature before you can start assigning classes. To see whether classes are turned on, in the main QuickBooks menu bar, click Lists. If you don't see a Class List item in the menu, the class-tracking feature is turned off. Here's how to turn it on:

1. **Choose Edit→Preferences→Accounting, and then click the Company Preferences tab.**

   To turn class tracking on, you need to be a QuickBooks administrator, because classes affect everyone in your organization who uses the program. (If you aren't a QuickBooks administrator, you'll have to persuade someone who is to turn on classes.)

2. **Turn on the "Use class tracking for transactions" checkbox.**

   When you do, QuickBooks automatically turns on the "Prompt to assign classes" checkbox. With this checkbox turned on, if you try to save a transaction without an entry in the Class field, QuickBooks gives you a chance to add the class (or save the transaction without one). Turn this checkbox off if you don't want to be reminded to assign classes.

3. **Click OK to close the Preferences window.**

   The Class List entry now appears on the Lists menu.

Setting Up Classes

Once QuickBooks' class-tracking feature is turned on, here's how you create classes:

1. **In the main QuickBooks menu bar, choose Lists→Class List.**

   The Class List window opens.

2. **In the Class List window, press Ctrl+N or click Class→New.**

   The New Class window opens.

3. **In the Class Name box, type a name for the class.**

   If you want to create a class that's the subclass of a parent (to set up subclasses for each region within a business unit, say), turn on the "Subclass of" checkbox. Then, in the drop-down list, choose the parent class you want.

4. **Click Next to create another class, or click OK to close the New Class window.**

   If you realize you need another class while you're working on a transaction, you can create an entry by choosing <Add New> in the Class drop-down list, shown in Figure 6-1.

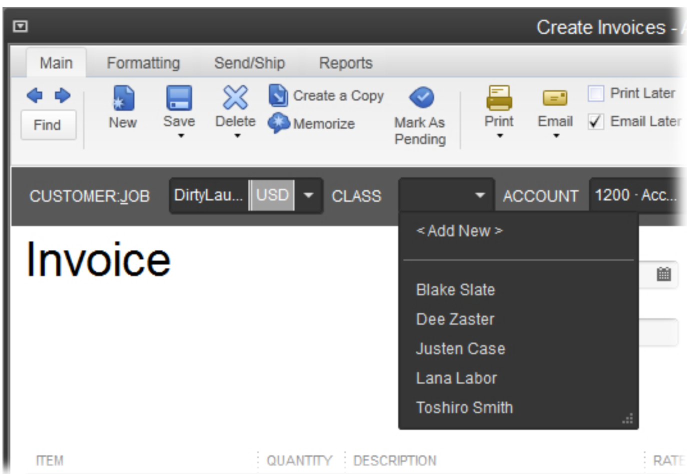


FIGURE 6-1

After you turn on class tracking, every transaction you create includes a Class field. To assign a class to a transaction, choose one of the classes from the drop-down list or choose <Add New>.

Price Levels

Whether you give your favorite customers price breaks or increase other customers' charges because they keep asking for "just one more thing," you can apply discounts and markups when you create invoices. But remembering who gets discounts and how big is tough when you have a lot of customers, and it's bad form to mark up a favorite customer's prices by mistake.

Say hello to QuickBooks' Price Level List. When you define price levels and assign them to customers, QuickBooks takes care of adjusting the prices on every invoice you create. You can also apply a price level to specific lines on invoices to mark up or discount individual items. For example, suppose you create a price level that represents a 15 percent discount. If you apply that price level to a customer, the sales forms you create for that customer automatically discount prices by 15 percent. And if you apply that price level to a product on a customer's invoice, the product's price gets reduced by 15 percent.

Creating a Price Level

To create a price level, do the following:

1. **Make sure the Price Level preference is turned on (you have to be a QuickBooks administrator to turn it on).**

   If QuickBooks' Price Level preference is turned off, you won't see the Price Level List item in the Lists menu. Choose Edit→Preferences→Sales & Customers, and then click the Company Preferences tab. Turn on the "Use price levels" checkbox, and then click OK.

2. **Choose Lists→Price Level List.**

   The Price Level List window opens.

3. **In the Price Level List window, press Ctrl+N or click Price Level→New.**

   The New Price Level window, shown in Figure 6-2, opens.

4. **In the Price Level Name box, type a name for the level.**

   If you have a fixed set of discounts, you might name the various levels by the percentage, like Discount 10 and Discount 20, for example. An alternative is to name them by their purpose, like Customer Loyalty or User Group Discount. That way, it's easy to change the discount amount without changing the price level's name.

5. **In the "This price level will" box, choose "increase" or "decrease" based on whether you want the price level to mark up or discount items, and then enter the percentage in the "item prices by" box.**

   In QuickBooks Pro, the Price Level Type box is automatically set to "Fixed %" because you can create price levels that increase or decrease prices only by a fixed percentage. See the box on page 155 to learn about the Per Item price level available in QuickBooks Premier and Enterprise.

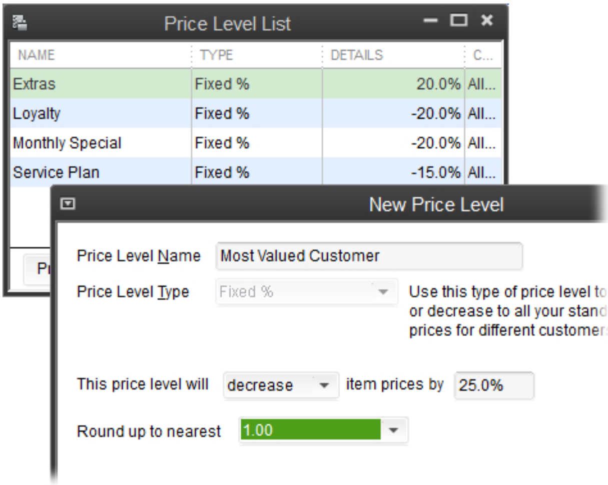


FIGURE 6-2

Think of fixed-percentage price levels as standard discounts or markups. For example, you can create a price level called Extras to boost prices by 20 percent. Then assign that price level in the customer record (page 71) for every nitpicker you work for. (Although price level names don't appear on your customer invoices, it's still a good idea to choose names that are meaningful without being rude.)

6. **For percentage price levels, in the "Round up to nearest" drop-down list, choose the type of rounding you want to apply.**

   The "Round up to nearest" feature is handy if the percentages you apply result in fractions of pennies or amounts too small to bother with. This setting lets you round discounts to pennies, nickels, dimes, quarters, half-dollars, and even whole dollars (if you *really* hate making change). The box on page 156 explains other, fancier rounding you can apply.

7. **Click OK to close the New Price Level window.**

   To create another price level, repeat steps 3–7.

POWER USERS' CLINIC

Per-Item Price Levels

In QuickBooks Premier and Enterprise, you can create price levels that apply to individual items in your Item List. To do that, in the New Price Level window's Price Level Type drop-down list, choose Per Item. The window then displays a table containing all your items. In the Custom Price column, type the price for an item at that price level. For example, suppose you sell calendars to retail stores for $5 each. The Standard Price column would show 5.00 for the calendar item. If you're creating a price level for nonprofit organizations, you could type *3.50* in the item's Custom Price cell so that a nonprofit would pay only $3.50 for a calendar.

If you want to apply percentages to several items in the table displayed in the New Price Level window, there's a shortcut for calculating custom prices:

1. Turn on the checkboxes for the items that use the same percentage increase or decrease.
2. In the "Adjust price of marked items to be" box, type the percentage. In the drop-down list next to it, choose "lower" or "higher." And in the "than its" drop-down list, choose an entry to tell QuickBooks to calculate the price level based on the standard price, the cost, or the current custom price.
3. Click the Adjust button. QuickBooks fills in the Custom Price cells for the marked items with the new custom prices.
4. To apply different percentages to another set of items, clear any checkmarks and then select the next set of items and repeat the steps to define the percentage adjustment.

If you work with more than one currency and turn on the multiple currency preference, you can create price levels for individual items to set their prices in different currencies. Here's how: In the New Price Level window, choose the currency in the Currency drop-down list. Then, in the Custom Price cell, type the price for the item in the foreign currency. After that, when you add the item to an invoice, simply choose the currency price level in the Rate drop-down list, and QuickBooks recalculates the price.

NOTE You can't create price levels on the fly while you're creating an invoice. The easiest solution to a missing price level is to adjust the price on the invoice manually. Then, after the invoice is done, add the price level to your Price Level List.

Applying Price Levels

You can apply price levels in two ways:

- **Applying a price level to a customer record** (page 71) tells QuickBooks to automatically adjust all the prices on every new invoice for that customer by that price level percentage (page 284).
- **Applying a price level to line items in an invoice** adjusts the prices of those items whether or not a customer has a standard price level. To do so, in the Create Invoices window, click an item's Rate cell, click the down arrow that appears, and then choose the price level you want from the drop-down list.

POWER USERS' CLINIC

Rounding Price Level Values

When you use percentages to calculate markups and discounts, the resulting values may not be what you want. The basic choices in the New Price Level window's "Round up to nearest" drop-down list take care of the most common rounding—to the nearest penny, dime, quarter, dollar, and so on. Other entries on the list let you give QuickBooks more complex rounding instructions, which can come in handy.

The seven entries that include the word "minus" help you position prices at magic marketing prices like $29.99 or $1.95. For example, the ".10 minus .01" entry ensures that the price always ends in 9. With this rounding choice, if the discounted price comes out to $8.74, QuickBooks rounds up to the nearest 10 cents ($8.80) and then subtracts 1 cent, so the rounded value is $8.79.

If you like to undercut your competitors with unusual price points, in the "Round up to nearest" drop-down menu, choose "user defined." QuickBooks then displays several boxes and options for defining your own rounding:

- **The "nearest" drop-down menu**. In the unlabeled drop-down menu below "user defined," you can choose "to nearest," "up to nearest," or "down to nearest." "To nearest" rounds in whichever direction is closest (for example, rounding from 1.73 to 1.70 or from 1.77 to 1.80).
- **The first $ box**. Type the value you want to round to, like .01, .25, or 1.00.
- **Plus or Minus and the second $ box**. Select the Plus or Minus option depending on whether you want to add or subtract money after you've rounded the value. In the $ box, type the amount you want to add or subtract from the rounded value. (If you don't want to use this feature, just leave the second $ box set to 0.)

Customer and Vendor Profile Lists

Filling in fields goes much faster when you can choose info from drop-down lists instead of typing values. The lists that appear on the Customer & Vendor Profile Lists submenu (choose Lists→Customer & Vendor Profile Lists to see it) pop up regularly, whether you're creating an invoice, paying a bill, or generating a report. For example, when you create an invoice, QuickBooks fills in the Payment Terms field with the terms you assigned to the customer's record (page 70), but you can choose different terms from the drop-down list to urge your customer to pay more quickly.

For many of these lists, creating list entries involves nothing more than typing the entry's name and specifying whether that entry is a subentry of another. This section describes how to add entries to each list and how to put these lists to work for you.

Sales Rep List

The Sales Rep List is perfect when you want to assign people as points of contact for your customers. The people you add to this list can be sales reps you pay on commission or employees who are dedicated contacts for customers. For example, if you assign people as sales reps to your customers (page 73) and add the appropriate rep to your sales transactions, you can then generate reports by sales rep (page 559). But first you have to add the names of your sales reps and contacts to the Sales Rep List.

NOTE The Intuit Commissions Center is an add-on service for QuickBooks that calculates commissions for sales reps. When you use this feature, you can flag items that don't pay commissions and assign commissions as percentages or dollar amounts. To learn more, go to *http://workplace.intuit.com/appcenter*, click All Apps, and then, below the Sales Management heading, click Intuit Commissions Manager. Alternatively, to find a third-party program for sales commissions, go to *http://marketplace.intuit.com*. In the Search Apps Now box, type *sales commission* and then press Enter.

To add a name to the Sales Rep List:

1. **Choose Lists→Customer & Vendor Profile Lists→Sales Rep List; in the Sales Rep List window that opens, press Ctrl+N or click Sales Rep→New.**

   The New Sales Rep List dialog box opens.

2. **In the Sales Rep Name drop-down list, choose a name; in the Sales Rep Initials box, type the person's initials.**

   The Sales Rep Name list displays names from the Employee List (page 202), the Vendor List (page 91), and the Other Names List (page 158). If the name you want doesn't exist, choose <Add New> at the top of the list. (In the Select Name Type dialog box that appears, select Vendor, Employee, or Other, and then click OK. Then, in the New Name window, fill in the Name box and any other fields you want.)

   QuickBooks automatically fills in the Sales Rep Type field with Employee, Vendor, or Other Name, depending on which list the name came from or, if you just added the name, the type you assigned when you added that person. (The box on page 158 gives hints about when to use the Other Names List.)

3. **Click Next to add another sales rep, or click OK to close the New Sales Rep window.**

   If you select a name and realize that it's misspelled, you can edit the name from the New Sales Rep window. Click Edit Name, and QuickBooks opens the Edit Employee, Edit Vendor, or Edit Name dialog box so you can change the name.

GEM IN THE ROUGH

When to Use the Other Names List

If you have more than a few names on your Other Names List, you're probably not getting the most out of QuickBooks. In fact, unless you're a sole proprietor or several partners share ownership of your company, you can run QuickBooks without *any* names on the Other Names List.

The entries in the Other Names List show up in the drop-down menus for a few types of transactions, such as checks and credit card charges (page 259). But they don't appear when you create invoices, purchase orders, sales receipts, or any other type of transaction.

So what are Other Names good for? People who aren't customers, vendors, or employees—for example, *your* name as sole proprietor or the names of company partners. That way, when you write partners' distribution checks to pay partners, you can choose their names from the Other Names List.

To create an entry on the Other Names List:

1. Choose Lists→Other Names List.
2. When the Other Names List window opens, press Ctrl+N.
3. Fill in the fields in the New Name window, which are similar to the ones in the New Customer dialog box (page 66).

The Other Names List can also serve as a holding tank. If you aren't sure which list to put someone on, you can add that person to the Other Names List temporarily. Then, when you figure out which list she should go on, you can move her. Because QuickBooks needs to close all open windows to move people between lists, it's best to save this task for a lull in your workday. When you're ready, open the Other Names List window and click Activities→Change Other Name Types. In the Change Name Types dialog box that appears, find the person's name and then click the cell in the appropriate column (Customer, Vendor, or Employee) to assign that type. Click OK to complete the makeover.

Merging entries in the Other Names List is similar to merging customers (page 86). For example, if you realize that you created two entries for the same person in the Other Names List, you can merge one into the other. The alternative is to change one of the two entries to inactive, as described on page 88, and then use the other entry for all future transactions.

Customer Type List

Customer types help you analyze your income and expenses by customer category (page 79). For example, a healthcare provider might create Government and Private customer types to see how much a change in government reimbursement might hurt revenue.

You first create customer types in the Customer Type List and then assign one of those types in each customer's record. Creating all your customer types up front is fast—as long as you already know what entries you want to create:

1. **Choose Lists→Customer & Vendor Profile Lists→Customer Type List; when the Customer Type List dialog box opens, press Ctrl+N.**

   The New Customer Type window (Figure 6-3) opens.

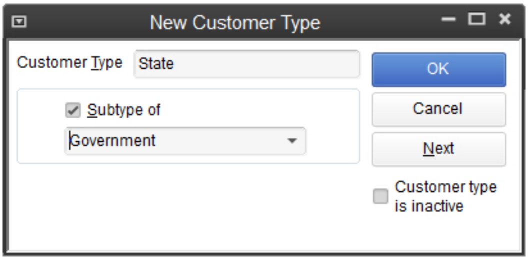


FIGURE 6-3

The only thing you have to fill in here is the Customer Type field. If this type represents a portion of a larger customer category, turn on the "Subtype of" checkbox and choose the parent type. For example, if you have a Government customer type, you might create subtypes like Federal, State, County, and so on.

2. **Enter a name in the Customer Type field.**

   If the new type is a subtype of another, turn on the "Subtype of" checkbox and then choose the parent type from the drop-down list.

3. **Click OK if you're done, or click Next to create another type.**

You can also create entries as you work: If you're creating or modifying a customer in the New Customer or Edit Customer dialog box, click the Additional Info tab. In the Customer Type drop-down list, choose <Add New>, which opens the New Customer Type window. Then you can create a new customer type, as shown in Figure 6-3.

Vendor Type List

Vendor types work similarly to customer types—you can filter reports or subtotal expenses by different types of vendors. For example, if you create a Communications vendor type, you could generate a report showing the expenses you've paid to your telephone, Internet, and satellite communication providers.

You create Vendor Type entries the way you create Customer Type entries: Choose Lists→Customer & Vendor Profile Lists→Vendor Type List, and then press Ctrl+N to open the New Vendor Type window.

TIP To create a new vendor type while you're creating a vendor, in the New Vendor dialog box, click the Additional Info tab; in the Vendor Type drop-down list, choose <Add New> to open the New Vendor Type window.

Job Type List

Job types also follow the customer-type lead. You can use job types to classify the projects you perform for customers, as described on page 82. For instance, you can filter a Profit & Loss report to show how profitable your spec house projects are compared with your remodeling contracts. You create Job Type entries the way you create Customer Type entries (page 158). Open the Job Type List window by choosing Lists→Customer & Vendor Profile Lists→Job Type List.

Terms List

The Terms List includes both the payment terms you require of your customers and the payment terms your vendors ask of you. If you assign terms in a customer's record, then QuickBooks automatically fills in the Terms box on the invoices you create for that customer. Likewise, filling in terms in a vendor record means that QuickBooks fills in the Terms box on bills you enter.

To add a new term, open the Terms List window (Lists→Customer & Vendor Profile Lists→Terms List), and then press Ctrl+N. The fields that you fill in to create terms (Figure 6-4) are different from those in other Customer & Vendor Profile lists. The following sections explain the New Terms window's Standard and Date Driven options.

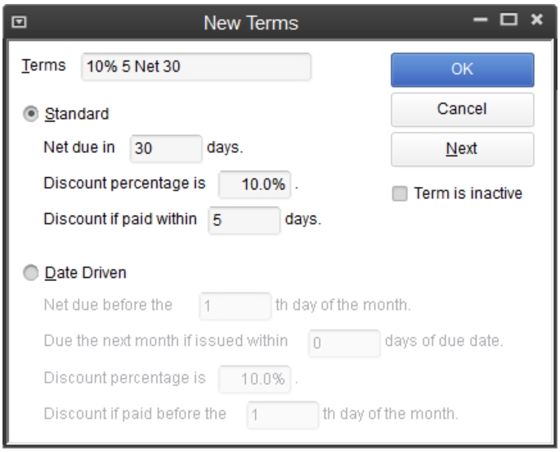


FIGURE 6-4

Because payment terms apply to both vendors and customers, consider using generic names that say something about the terms themselves. For example, the "10% 5 Net 30" entry shown here is an enticement for early payments because it means that the amount is due 30 days from the invoice date, but you can deduct 10 percent from your bill if you pay within 5 days.

SETTING UP TERMS USING ELAPSED TIME

The New Terms window's Standard option is ideal when the due date is a specific number of days after the invoice date (or the date you receive a bill from a vendor). If you send invoices whenever you complete a sale, choose the Standard option so that payment is due within a number of days of the invoice date. Here's what the Standard option fields do:

- **Net due in _ days**. Type the maximum number of days after the bill or invoice date that you or a customer can pay. For example, if you type *30*, customers have up to 30 days to pay an invoice or you have up to 30 days to pay a bill. If you charge penalties for late payments, QuickBooks can figure out when customer payments are late so you can assess finance charges (page 388).
- **Discount percentage is**. If you or your vendor offers a discount for early payments, type the discount percentage in this box.
- **Discount if paid within _ days**. Type the number of days after the invoice date within which you or a customer has to pay to receive the early payment discount.

NOTE When terms reduce a customer's bill for early payments, QuickBooks deducts these discounts in the Receive Payments window (page 378), where the program can determine whether the customer paid early. If a vendor offers discounts for early payments, you can take advantage of those in the Pay Bills window (page 245).

SETTING UP DATE DRIVEN TERMS

The Date Driven option sets up terms for payments that are due on a specific date, regardless of the date on the invoice. This option is handy if you or your vendors send invoices on a schedule—say, on the last day of the month. For example, home mortgages often assess a late fee if payments arrive after the 15th of the month.

Here's what the New Terms window's Date Driven options do:

- **Net due before the _th day of the month**. Type the day that the payment is due. For example, if a payment is due before the 15th of the month, no matter what date appears on your statement, type *15* in this box.
- **Due the next month if issued within _ days of due date**. Your customers might get annoyed if you require payment by the 15th of the month and send out your invoices on the 14th. They would have no way of paying on time, unless they camped out in your billing department.

  You can type a number of days in this box to automatically push the due date to the following month when you issue invoices too close to the due date. Suppose payments are due on the 15th of each month and you type *5* in this box. In that case, for invoices you create between August 10 and August 15, QuickBooks automatically changes the due date to September 15.
- **Discount percentage is**. If you or your vendors extend a discount for early payments, type the discount percentage in this box.
- **Discount if paid before the _th day of the month**. Type the day of the month before which you or a customer has to pay to receive the early payment discount.

Customer Message List

When you create an invoice, you can add a short message to it, such as "If you like the service we deliver, tell your friends. If you don't like our service, tell us." To save time and prevent embarrassing typos, add your stock messages to the Customer Message List (Lists→Customer & Vendor Profile Lists→Customer Message List).

The New Customer Message dialog box (which you open by pressing Ctrl+N while the Customer Message List window is open) has only one field—Message—which can hold up to 101 characters (including spaces).

TIP Don't use the Customer Message List for notes that change with every invoice (like one that specifies the date range that an invoice covers) because you'll fill the list with unique messages and won't be able to add any more. If you want to include unique information, do so in the cover letter (or email) that accompanies your invoice.

Payment Method List

Categorizing payments by the method the customer uses can be handy. For instance, when you select Banking→Make Deposits (page 396), you can choose to process all the payments you've received via a specific payment method—deposit all the checks and cash you received into your checking account, say, but deposit the payments you receive via credit cards to a dedicated merchant account.

You categorize payments by using the entries on the Payment Method List. QuickBooks starts the list for you with entries for cash, check, and credit cards (such as American Express and Visa). To add another payment method—for payments through PayPal, for example—choose Lists→Customer & Vendor Profile Lists→Payment Method List, and then press Ctrl+N. In the New Payment Method dialog box, type a name for the method, and then choose a type. For instance, if you use two Visa credit cards, you can create two entries with the Visa payment type. Other payment types include Debit Card, Gift Card, and E-Check.

Ship Via List

When your invoices include the shipping method that you use, your customers know whether to watch for the mailman or the UPS truck. QuickBooks creates several shipping methods for you: DHL, Federal Express, UPS, and US Mail. If you use another shipping method, like a bike messenger in New York City or your own delivery truck, simply create additional entries in the Ship Via List window (Lists→Customer & Vendor Profile Lists→Ship Via List) by pressing Ctrl+N. In the Shipping Method field (the only field in the New Ship Method dialog box), type a name for the method and then click OK.

TIP If you use one shipping method most of the time, you can have QuickBooks fill in the Shipping Method field on invoices with that entry automatically. See page 627 to learn about the Usual Shipping Method preference and the Usual Free on Board location.

Vehicle List

If you want to track mileage (page 210) on the vehicles you use for your business, create entries for your cars and trucks in the Vehicle List (Lists→Customer & Vendor Profile Lists→Vehicle List). Press Ctrl+N and then use the Vehicle box to name the vehicle: *Ford Prefect 1982 Red*, for example. The Description field holds up to 256 characters, so you can use it to store the VIN, license plate, and even the insurance policy number.

TIP If you want to charge your customers for mileage, see page 214.

Fixed Asset Items

Assets that you can't convert to cash quickly—such as backhoes, buildings, and supercomputers—are called *fixed assets*. If you track information about your fixed assets in another program or have only a few fixed assets, there's no reason to bother with the Fixed Asset Item List. As you can see in Figure 6-5, QuickBooks can track info such as when you bought the item and how much you paid. But in QuickBooks Pro, *you* have to calculate depreciation (see the box on page 463) for each asset at the end of the year and create journal entries to adjust the values in your asset accounts.

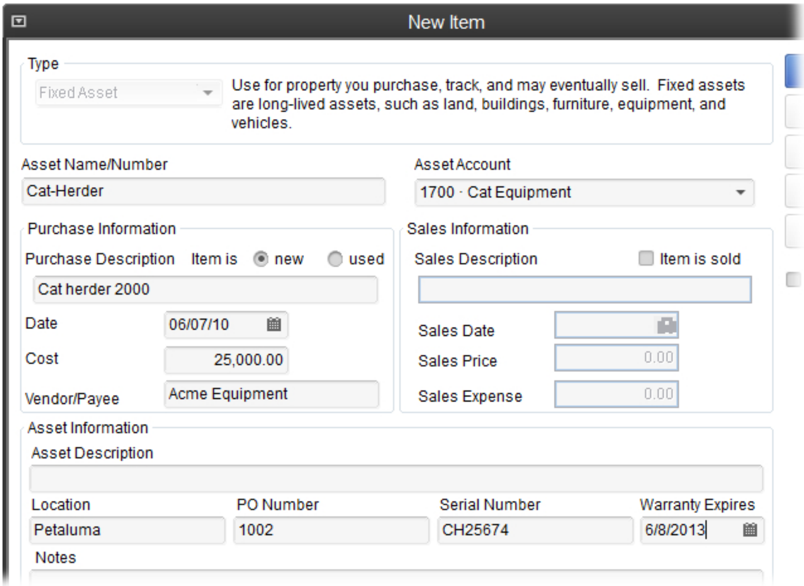


FIGURE 6-5

When you buy a fixed asset, you can create a Fixed Asset item and enter the asset's name and purchase information, where you keep it, its serial number, and when the warranty expires. When you create a Fixed Asset item, QuickBooks doesn't automatically add the purchase price to the asset account you choose. Instead, the account you choose in your purchase transaction (check or credit card charge, for instance) is what adds the purchase price to the Fixed Asset account in your chart of accounts.

NOTE QuickBooks Premier Accountant edition and QuickBooks Enterprise edition include the Fixed Asset Manager, which figures out the depreciation on your assets and posts depreciation to an account in your QuickBooks company file. If you have an accountant prepare your depreciation schedule, go with the number your accountant gives you. The depreciation that QuickBooks calculates may be close to, but different from, the number your accountant calculates.

When you sell an asset, open the Edit Item dialog box (choose Lists→Fixed Asset Item List, and then press Ctrl+E) and turn on the "Item is sold" checkbox. When you do that, the sales fields come to life so you can specify when you sold the asset, how much you got for it, and any costs associated with the sale.

If you decide to track the details about your fixed assets outside QuickBooks, you still need to include the *value* of those assets in your financial reports. Simply create Fixed Asset accounts (page 52) to hold the value of your assets. Then each year, add a general journal entry to record the amount of depreciation for your fixed assets.

Creating and Editing List Entries

Every list in QuickBooks responds to the same set of commands. As your business changes, you can add new entries, edit existing ones, hide entries that you no longer use, and (in some lists) merge two entries into one. If you make a mistake creating an entry, you can delete it. You can also print your QuickBooks lists to produce a price list of the products you sell, for example. Using the following techniques, you'll be able to do what you want with any list or entry you might need.

Creating Entries

If you're setting up QuickBooks, creating all the entries for a list at the same time is fast and efficient. Open the New dialog box for the type of list entry you want (New Customer Type, for example), and you'll soon get into a rhythm creating one entry after another.

You can also add new list entries in the middle of bookkeeping tasks without too much of an interruption. (If you launch a new line of business selling moose repellent, for example, you can add a Burly Men customer type in the middle of creating an invoice.) But don't rely on this approach to add every entry to every list—you'll spend so much time jumping from dialog box to dialog box that you'll never get to your bookkeeping.

Each list has its own collection of fields, but the overall process for creating entries in lists is the same:

1. **To open the window for the list you want to work on, on the main QuickBooks menu bar, click Lists and then select the list you want on the submenu.**

   For example, to open the Class List window, choose Lists→Class List.

   Several lists are tucked away one level deeper on the Lists menu. For lists that include characteristics of your customers or vendors, such as Vendor Type or Terms, choose Lists→Customer & Vendor Profile Lists, and then choose the list you want, as shown in Figure 6-6.

2. **To create a new entry, press Ctrl+N or, right-click the list window and choose New on the shortcut menu that appears. Or, at the bottom of the window, click the button with the list's name on it, and then choose New.**

   For instance, to create an entry in the Class List, make sure that the Class List window is active and then press Ctrl+N. Or, at the bottom of the Class List window, click Class→New. Either way, QuickBooks opens the New Class window.

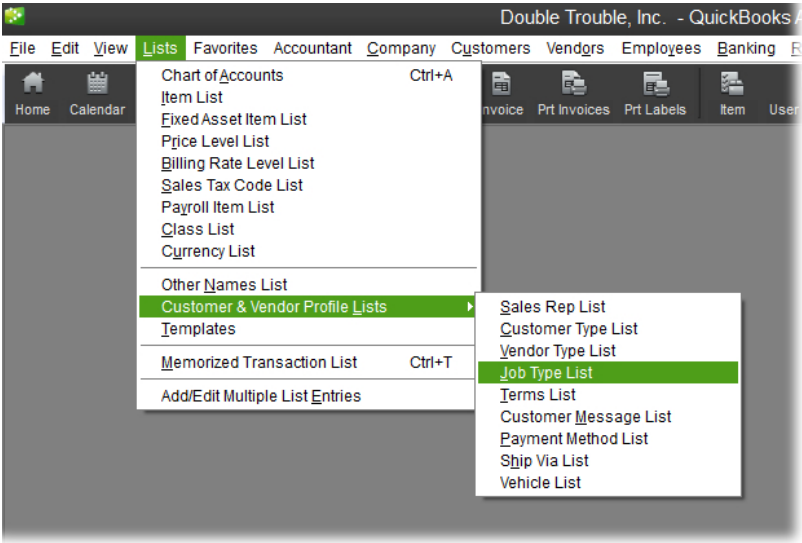


FIGURE 6-6

Many of QuickBooks' lists appear directly on the Lists menu, but some are one level lower on the Customer & Vendor Profile Lists submenu, shown here. To boost your productivity, take note of the keyboard shortcuts for lists you're likely to access most often. For example, Ctrl+A opens the Chart of Accounts window. (Online Appendix C lists lots of other handy keyboard shortcuts.) In addition, when you see an underlined letter in a menu entry, you can type that letter to launch that feature. For example, when the Lists menu is open, press "c" to open the Class List window.

3. **After you've completed one entry, simply click Next to save the current entry and begin another. To save the entry you just created and close the dialog box, click OK.**

   To toss an entry that you botched, click Cancel to throw it away and close the dialog box.

NOTE Unlike all the other New dialog boxes for lists, the New Price Level window doesn't include a Next button.

Editing Entries

To modify a list entry, open the window for that list. (You can customize the columns that appear in list windows so it's easier to see values associated with list entries; the box on page 166 tells you how.) Then select the entry you want to edit and press Ctrl+E (or double-click the entry). When the Edit dialog box opens, make the changes you want, and then click OK.

POWER USERS' CLINIC

Customizing Columns in List Windows

Some list entries don't come with many fields, such as the items in the Ship Via List, so all you need to see in that list window is the names of the shipping methods you've created. But other lists, such as Terms, store a plethora of information, including discounts and days of the month associated with the terms. You can customize the columns that appear in list windows so you can see list entries' values without editing the entries. Here's how:

1. At the bottom of the list window, click the button with the list's name on it, and then choose Customize Columns.
2. In the "Customize Columns - <list name>" dialog box that appears, in the Available Columns list, select a field you want to display, and then click Add. The column moves to the Chosen Columns list.
3. Repeat step 2 to add more columns.
4. To remove a column from the window, in the Chosen Columns list, select the field, and then click Remove.
5. To move a field to another position, select it in the Chosen Columns list, and then click Move Up or Move Down until it's in the position you want.
6. When you're done customizing, click OK. The fields appear in the window, as shown in Figure 6-7 (background).

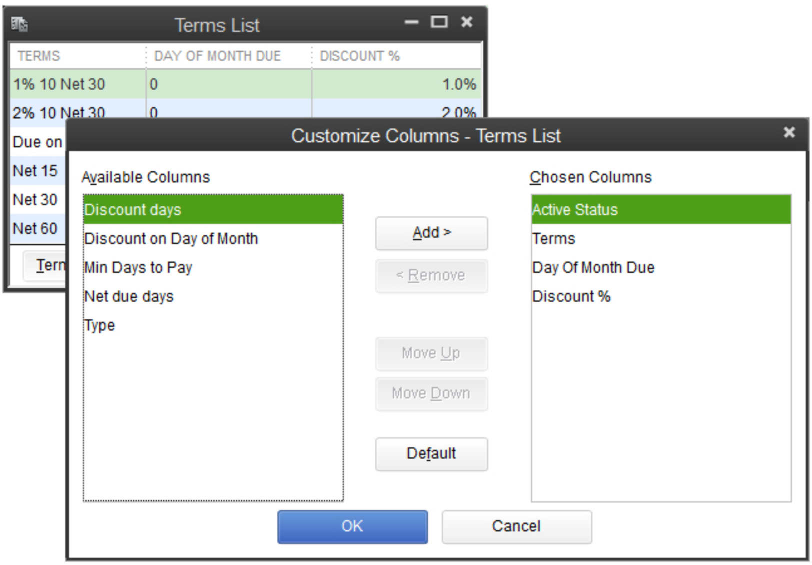


FIGURE 6-7

You can add, remove, or reorder the fields in the Customize Columns dialog box. The fields are listed from top to bottom in the Chosen Columns list, but they appear from left to right in the list window.

Hiding and Deleting List Entries

Deleting entries is only for discarding entries that you create by mistake. If you've already used list entries in transactions, hide the entries you don't use anymore so your historical records are complete. For example, you wouldn't delete the "Net 30" payment term just because you're lucky enough to have only Net 15 clients right now; you may still extend Net 30 terms to some clients in the future.

Hiding Entries

Hiding list entries that you no longer use does two things:

- **Keeps your records intact**. Your previous transactions still use the entries you've hidden, so your historical records don't change.
- **Declutters your lists**. When you create new transactions, the hidden entries don't appear in drop-down lists, so you can't choose them by mistake.

The methods for hiding and reactivating list entries are exactly the same regardless of which list you're working on:

- **To hide an entry**: In the list's window, right-click the entry and choose "Make <list name> Inactive" from the shortcut menu, where <list name> is the list you're editing. The entry disappears from the list.
- **To view all the entries in a list**: At the bottom of the list window, turn on the "Include inactive" checkbox so you can see both active and hidden entries. QuickBooks adds a column with an X as its heading and displays an X in that column for every inactive entry in the list.
- **To reactivate an entry**: First, view all the entries, and then click the X next to the entry that you want to reactivate. If the entry has subentries, in the Activate Group dialog box that appears, click Yes to reactivate the entry *and* all its subentries.

Deleting Entries

You can delete a list entry only if nothing in your QuickBooks company file references it in any way. To delete a list entry, open the appropriate list window and select the entry you want to delete, and then press Ctrl+D or choose Edit→"Delete <list name>." If you haven't used the entry in any records or transactions, QuickBooks asks you to confirm that you want to delete the entry; click Yes.

Finding List Entries in Transactions

If QuickBooks won't let you delete a list entry because a transaction is still using it, don't worry—it's easy to find transactions that use a specific list entry. Here's how:

1. **Open the list that contains the entry you want to find and, in the list window, right-click the entry and choose Find on the shortcut menu.**

   The Find dialog box opens already set up to search for transactions that use the list entry you selected.

2. **Click Find.**

   The table at the bottom of the Find dialog box displays all the transactions that use that entry.

3. **To modify the list entry a transaction uses, select the transaction in the table, and then click Go To.**

   QuickBooks opens the window or dialog box that corresponds to the type of transaction. If you're trying to eliminate references to a list entry so you can delete it, choose a different list entry and then save the transaction.

Sorting Lists

QuickBooks sorts lists alphabetically by name, which is usually what you want. The only reason to sort a list another way is if you're having trouble finding the entry you want to edit. For example, if you want to find equipment you bought within the last few years, you could sort the Fixed Asset List by purchase date to find the machines that you're still depreciating. Figure 6-8 shows you how to change the sort order.

NOTE Sorting in a list window doesn't change the order in which entries appear in drop-down lists, unless you manually sort a list by dragging the diamond icons to the left of list items' names.

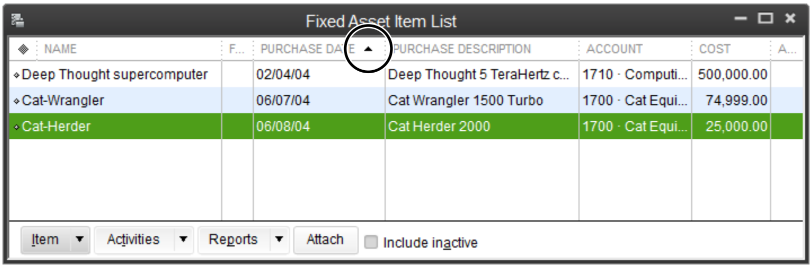


FIGURE 6-8

To sort a list by a column, click the column's heading, such as Purchase Date. The first time you click the heading, QuickBooks sorts the list in ascending order. To toggle between ascending and descending order, click the heading again. The small black triangle in the heading (circled) points up when the list is in ascending order, as shown here, and down when it's in descending order.

NOTE If you use a different column to sort a list, QuickBooks displays a gray diamond to the left of the column heading that it used to sort the list initially. For example, the Fixed Asset Item List shows items in alphabetical order by Name. If you sort the list by Purchase Date instead, a gray diamond appears to the left of the Name heading, as shown in Figure 6-8. To return the list to the order that QuickBooks originally used, click the diamond.

Printing Lists

After you spend all that time building lists in QuickBooks, you'll be happy to know that it's much easier to get information about those lists *out* of the program than it was to put it in. For instance, suppose you want to print a price list of all your fixed asset items. QuickBooks makes short work of printing lists or turning them into files that you can use in other programs.

Blasting Out a Quick List

Here's the fastest way to produce a list, albeit one that doesn't give you any control over the report's appearance:

1. **At the bottom of a list window, click the button labeled with the list's name—like Price Level, for example—and then, in the drop-down menu, choose Print List (or press Ctrl+P).**

   QuickBooks might display a message box telling you to try list reports if you want to customize or format your reports. That method is covered in the next section. For now, in the message box, click OK. The Print Lists dialog box opens.

NOTE To print Customer, Vendor, or Employee lists, in the Customer Center, Vendor Center, or Employee Center toolbar, click Print and then choose Customer & Job List, Vendor List, or Employee List.

2. **To print the list, select the Printer option and then choose a printer in the drop-down list. If you want to output the list to a file, choose the File option instead and then select the file format you want.**

   If you go with the Printer option, you can specify print settings, as you can in many other programs. Choose landscape or portrait orientation, the pages to print, and the number of copies.

   If you choose File, you can create ASCII text files, comma-delimited files, or tab-delimited files (page 649).

3. **Click Print.**

   QuickBooks prints the report or creates the type of file you selected.

Customizing a Printed List

If the Print List feature described in the previous section scatters fields over the page or produces a comma-delimited file that doesn't play well with your email program, you'll be happy to know that QuickBooks might offer a report closer to what you have in mind. For example, an Other Names Phone List is only two clicks away.

To access the reports that come with QuickBooks, in the program's main menu bar, go to Reports→List and then choose the report you want. If these reports fall short, you can modify them to change the fields and records they include, or format them in a variety of ways.

Chapter 21 explains how to customize reports, but if you click Customize Report in a report window's toolbar, you can make changes to the list report before you print it or create a file containing the list's info. In the Modify Report window that appears, you can:

- **Choose fields**. On the Display tab, the Columns box includes every field for that type of list entry. When you click a field's name, QuickBooks puts a checkmark next to it and adds that field to the report.
- **Sort records**. On the Display tab, choose the field you want to sort by from the "Sort by" drop-down menu and whether you want the report sorted in ascending or descending order.
- **Filter the report**. You can use the settings on the Filters tab to limit the records in a report. For example, you can produce an employee report for active employees (which refers to their employment status, not the level of effort they devote to their jobs). You can also filter by employee name or by values in other fields.
- **Set up the report's header and footer**. On the Header/Footer tab, you can choose the information that you want to show in the report's title and in the footer at the bottom of each page. The title identifies the data in the report, and the footer can include the date the report was prepared so you know whether it's current.
- **Format text and numbers**. On the Fonts & Numbers tab, you can choose the font that QuickBooks uses for different parts of the report. For instance, labels should be larger than the lines in the report. You can also choose how to display negative numbers: The In Bright Red checkbox controls whether red ink truly applies to your financial reports. If you like, turn on the Divide By 1,000 checkbox to make QuickBooks remove three zeroes from the end of each number before displaying it in the report so it's easier to differentiate thousands from millions.

CHAPTER

7

Managing QuickBooks Files

When company ledgers were made of paper, you had to be careful not to tear the pages or spill coffee on them. Today's electronic books require their own sort of care and feeding. Protecting your QuickBooks files is essential, not only because they tell the financial story of your company, but also because computers are notorious for chewing up data in all sorts of ways.

QuickBooks files have a few advantages over their paper-based relatives. Most importantly, you can make copies of them for safekeeping. (QuickBooks can also create a *special* copy of your company file so you and your accountant can both work on it at the end of the year; see page 490 for details.) If several people work on your QuickBooks file simultaneously, you'll learn when and how to switch from multi-user mode to single-user mode so you can perform the housekeeping tasks that require dedicated access. This chapter focuses on the most important things you can do with your QuickBooks files: back them up and copy them. It also explains why and how to verify, condense, and delete your files, which you'll do less often—if ever.

Switching Between Multi- and Single-User Mode

In QuickBooks, some maintenance tasks require that only one person have access to the company file. So if you told QuickBooks to set up your company file in multi-user mode when you created it, you have to switch to *single-user mode* for the following tasks:

- Merge or delete accounts and items.
- Set up some aspects of your company file, such as finance charges.

- Condense or export data from a company file.
- Save an accountant's copy of your company file (although you can open or convert an existing one while in multi-user mode.)

TIP You can verify data while in multi-user mode, although the verification isn't as rigorous as the one performed while in single-user mode. Single-user mode can also speed up time-consuming tasks like running humongous reports.

To see which mode your company file is currently in, display QuickBooks' File menu. If you see "Switch to Multi-user Mode" on the menu, it's in single-user mode. If you see "Switch to Single-user Mode" instead, it's in multi-user mode.

The good news is that you don't have to remember which tasks demand single-user mode; QuickBooks reminds you to switch modes if you try to perform a single-user-mode task when the company file is chugging away in multi-user mode. Because everyone else has to close the company file before you can switch it to single-user mode, you may find it easiest to wait until no one else is working on the company file (early in the morning or after business hours, say).

Here's how you switch from multi-user mode to single-user mode:

1. **If your single-user task can't wait until off hours, ask everyone else to close the company file you want to work on.**

   They can choose File→Close Company/Logoff or simply exit QuickBooks to close the company file.

2. **When everyone else has closed the company file, open it in QuickBooks by choosing File→Open Previous Company, and then selecting the company file in the submenu.**

   If the company file doesn't appear on the Open Previous File submenu, choose File→"Open or Restore Company" instead. In the "Open or Restore Company" dialog box, select the "Open a company file" option, and then click Next. In the "Open a Company" dialog box that appears, navigate to the folder where you store the file, and then double-click its filename.

3. **Choose File→"Switch to Single-user Mode." In the message box that appears telling you the file is in single-user mode, click OK.**

   QuickBooks closes all open windows before it switches to single-user mode. After you click OK, it reopens the windows, and you're ready to work solo on the company file.

4. **After you finish your single-user task, switch back to multi-user mode by choosing File→"Switch to Multi-user Mode." When the message box appears telling you the file is in multi-user mode, click OK.**

   You'll see all the windows in QuickBooks close. After you click OK, they reappear, and the company file is back in multi-user mode.

Don't forget to tell your colleagues that they can log back into the company file.

Backing Up Files

If you already have a backup procedure for *all* your computer files, QuickBooks' Backup feature might seem about as useful as your appendix. Your company-wide backups regularly squirrel your data files away in a safe place, ready to rescue you should disaster strike. Still, QuickBooks Backup complements even the most robust backup plan. And if you run a mom-and-pop business, online backups let you back up all your data without hiring an IT staff. Here are some ways you can put the program's Backup feature to work:

- **Back up one QuickBooks company file**. Before you experiment with a new QuickBooks feature, you don't want to back up *all* your data—just the company file. That way, if the experiment goes terribly wrong, you can restore the backup and try a different approach. You can also call on QuickBooks Backup when you've worked hard on your company file (pasting hundreds of inventory items into the file from Excel [page 654], say) and the thought of losing that work makes you queasy. In both these situations, running a QuickBooks *manual backup* (page 179) creates a backup file immediately.
- **Schedule backups of your QuickBooks data**. If you have trouble remembering to back up your work, QuickBooks' scheduled and automatic backups can help. You can set the program up to automatically back up a company file after you've opened it a certain number of times. That way, if you mangle your data or it gets corrupted in some way, you can use one of these backups to recover. The program can also create company-file backups automatically according to the schedule you specify—Tuesdays through Saturdays at 2:00 a.m., for example.
- **Back up your data online**. Online backups are a handy alternative to setting up your own backup plan—scheduling regular backups, rotating backup media, storing backups offsite, and so on. You can select which data you want to back up and when. That way, when QuickBooks creates the backups, your backup files are encrypted and stored at secure data centers managed by IT professionals. If you don't have IT staff to back up your data and keep it secure, this method may be worth every penny. See the box on page 180 to learn more.

NOTE QuickBooks backup files aren't merely copies of your company files—they're compressed files that take up less space (about 20 to 25 percent less, depending on what you store in your company file).

Whether you want to set up options for your backups, schedule backups, or run a backup immediately, open the Create Backup dialog box by choosing File→Backup Company→Create Local Backup.

NOTE What and how often you back up are up to you (or your company's system administrators). It depends on what information you can't afford to lose and how much data you're willing to recreate in case of a disaster. Most companies back up their data every night and also create additional backup copies daily or weekly to store off site.

If you rely on your company-wide backups, consider testing their reliability at least once a year. Tell the IT folks that you've deleted your QuickBooks company file and see if they can provide you with a recent backup. (Then, bring them donuts the next day as a thank you.)

Choosing Standard Backup Settings

For each company file that you back up, you can choose when, where, and how many backups QuickBooks creates. These standard settings are great timesavers and make for consistent backups. For example, you can tell QuickBooks to ask you about backing up your data after you've closed the company file a specific number of times, or have it automatically append the date and time that you run the backup to the name of the backup file. You simply choose these settings once for each company file, and QuickBooks then uses them for every backup of that file—until you change the settings, of course.

Here's how to choose your backup settings:

1. **Choose File→Backup Company→Create Local Backup.**

   The Create Backup dialog box opens with the "Local backup" option selected.

2. **Click Options.**

   The Backup Options dialog box (Figure 7-1) lays out your choices for backing up the current company file.

3. **In the "Tell us where to save your backup copies (required)" box, click Browse. In the "Browse for Folder" dialog box, choose where you want to save the backup file, and then click OK to return to the Backup Options dialog box.**

   To protect your data from both human error and hardware failure, back up your file to a different hard drive than the one where you company file is stored, or to removable media like a CD, DVD, or USB thumb drive. That way, your backup file will be safe if the hard drive where you keep your company file crashes. For that reason, if you choose a backup location that's on the same drive as where you store your company file, when you click OK in the Backup Options dialog box (step 8 below), QuickBooks displays a dialog box with two buttons: Change Location and "Use this location." As long as you run company-wide backups that store your data on another disk or removable media, backing up your company file to a hard drive is fine for protection during the day; in that case, click "Use this location." To save the backup in a different spot, click Change Location, which returns you to the Backup Options dialog box so you can click Browse again.

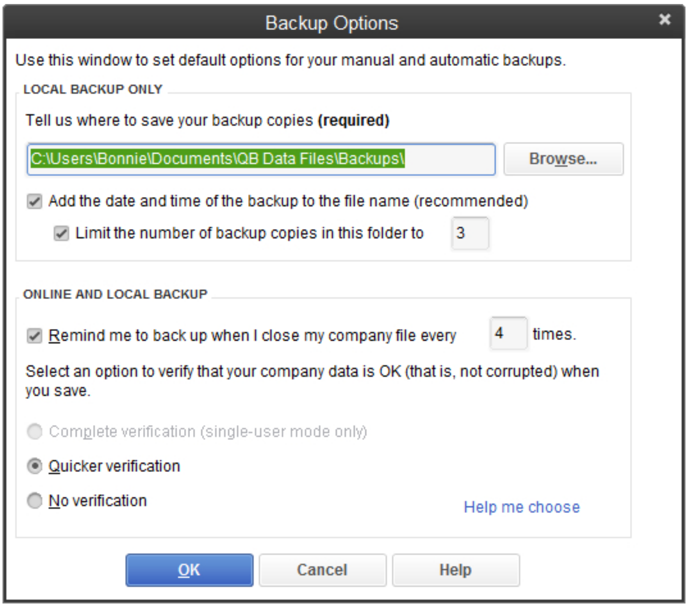


FIGURE 7-1

The top section of this dialog box includes settings that apply only to local backups, like the location and the number of backup copies you want to save. The settings in the "Online and local backup" section, on the other hand, apply whether you create a backup on your computer or use one of Intuit's online backup services (page 180). For example, you can specify how thoroughly you want the program to verify that your data isn't corrupted.

NOTE The "Browse for Folder" dialog box doesn't let you create a new folder. So if you want to save your backups in a folder that doesn't exist yet, click Cancel and create the new folder in Windows Explorer. Then, in the Backup Options dialog box, click Browse.

4. **So that you never overwrite a backup file, make sure the "Add the date and time of the backup to the file name (recommended)" checkbox is turned on.**

   With this setting turned on, when QuickBooks creates the backup file, it tacks a timestamp onto the end of the filename prefix so that the name looks something like *Double Trouble, Inc (Backup Jul 19,2012 08 46 PM).qbb*. That way, unless you make multiple backups within a minute of each other, you can be sure that your filenames are unique.

5. **To cap the number of backup copies you save, keep the "Limit the number of backup copies in this folder to" checkbox turned on and choose a number.**

   With this setting on, QuickBooks takes care of deleting older backup files. QuickBooks automatically sets the limit to three, which is fine if you use a full-fledged backup program to back up all your data including your company files. If you back up your files to an insatiable hard disk, you can change this setting to save up to 99 backups before QuickBooks starts deleting older ones.

NOTE When you create a backup that hits the limit you set for manual backup copies in the folder, QuickBooks displays the Delete Extra Backups? dialog box, which asks you if you want to keep or delete the oldest manual backup file. Click "Yes, Delete" to delete the oldest file, or "No, Don't Delete" if you decide to keep the file after all.

6. **To have QuickBooks nudge you to back up your file every so often, in the "Online and local backup" section, make sure the "Remind me to back up when I close my company file every _ times" checkbox is on.**

   That way, when you've closed the company file that number of times (it's set to four unless you change it), QuickBooks displays the Automatic Backup message box. To create a backup of your company file, click Yes, which takes you to the Create Backup dialog box so you can run a manual backup. If you decide to bypass this automatic backup, click No in the message box instead.

NOTE The "Remind me to back up when I close my company file every _ times" checkbox in the Backup Options dialog box sounds a lot like the "Save backup copy automatically when I close my company file every _ times" checkbox for scheduled backups (page 181), but they do different things. The checkbox in the Backup Options dialog box tells QuickBooks to *ask* you if you want to back up your file after you've closed it that many times, whereas the "Save backup copy automatically when I close my company file every _ times" checkbox for scheduled backups tells QuickBooks to create a backup file automatically—*without asking*—after you close the company file that many times.

7. **Select a verification option.**

   If your company file is in single-user mode, QuickBooks automatically selects "Complete verification." For a file in multi-user mode, the program automatically selects "Quicker verification," because complete verification isn't available for multi-user files. Quicker verification, as its name suggests, is speedier than "Complete verification" but risks letting some corrupted data slip through. If you want to make sure that the data you save isn't corrupt, first switch your company file to single-user mode and then, in the Backup Options dialog box, select the "Complete verification (recommended)" option. At the other extreme, for high speed—and higher risk—select "No verification."

8. **When all the settings look good, click OK to close the Backup Options dialog box.**

   If you see a dialog box that includes a Change Location button, see step 3 for help deciding which option to choose.

9. **Back in the Create Backup dialog box, click Finish to run a backup with the settings you chose.**

   Click Cancel to close the dialog box without running a backup.

Backing Up Manually

If you just spent several hours recording tricky transactions in QuickBooks, you definitely want to save that work. To run a backup right away, here's what you do:

1. **If you want to back up your file to removable media like a CD, or DVD, put the disc in the drive.**

   You don't *have* to put the media in until just before you click Save, but you may as well do it now so you don't forget.

2. **Choose File→Backup Company→Create Local Backup.**

   The Create Backup dialog box opens.

3. **To save the file to your computer, choose "Local backup" (if it isn't already selected), and then click Next.**

   The Create Backup dialog box includes options for backing up your file locally—on your computer—or online. To create an online backup, select (you guessed it) the "Online backup" option. QuickBooks' online backup service isn't free, but it has its advantages, as the box on page 180 explains.

4. **For a local backup, on the "When do you want to save your backup copy?" screen, choose "Save it now" (if it isn't already selected), and then click Next.**

   The Save Backup Copy dialog box opens to the folder you specified in QuickBooks' backup options (page 176), as Figure 7-2 shows. If you want to save the file somewhere else, browse to the folder.

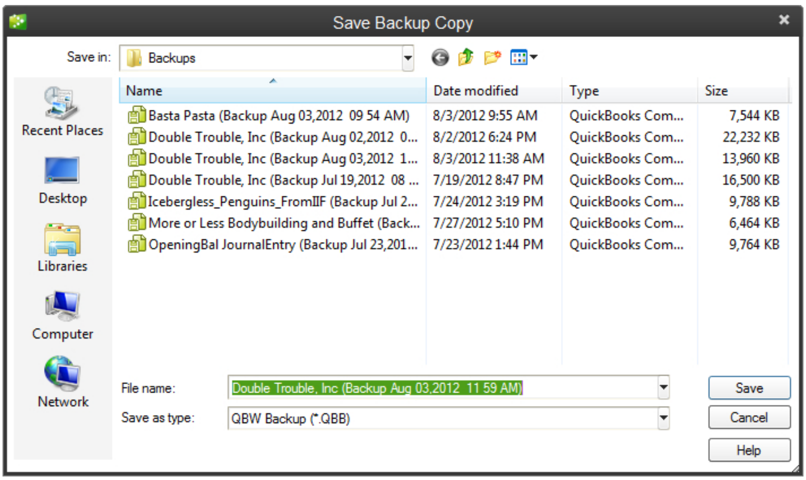


FIGURE 7-2

QuickBooks automatically fills in the "File name" box with the same filename prefix as your company file and adds a timestamp to show when you made the backup—unless you told it not to (see step 4 on page 177). For example, if you're backing up your Double Trouble.qbw file, the backup file prefix is something like "Double Trouble (Backup Aug 03,2012 11 38 AM)." In the "Save as type" box, the program automatically selects "QBW Backup (.QBB)," which is what you want.*

5. **Click Save.**

   The Working message box shows QuickBooks' progress as it verifies the data and creates the backup. When the backup is complete, another message box tells you the backup was successful. Click OK to close the box.

POWER USERS' CLINIC

Backing Up Online

Online backup services cost money, but as long as your Internet connection is relatively fast, an online backup service is usually a worthwhile investment. You can use it to back up *all* your data—databases, documents, and email—so your backups reside in a data center managed by IT experts who live, eat, and breathe effective backup procedures.

Intuit Data Protect (*http://marketplace.intuit.com/AppID-3356-Overview.aspx*) can back up your entire computer and automatically runs backups in the background every day so they don't interrupt your work—even if you have your QuickBooks company file open. Intuit recommends that you run Intuit Data Protect on only one PC. The service costs $4.95 a month to back up one QuickBooks company file or $9.95 a month to back up your entire PC.

You can check out the service with a 30-day free trial. Intuit's backup services aren't the only game in town. If the benefits of backing up online sound good, look at other services before you make your decision. Dropbox (*www.dropbox.com*) is a backup and synchronization service, perfect for financial professionals on the go. When you store files in a special folder on your computer, Dropbox copies them to your online account. If you hit the road with your laptop, Dropbox synchronizes the files onto your laptop when you go online. You get 2 GB of storage for free; 100 GB, 200 GB, or 500 GB of data costs $9.99, $19.99, or $49.99 a month, respectively. SugarSync (*www.sugarsync.com*) is a similar backup and synchronization service, which offers 5 GB of storage free, 30 GB for $4.99 per month, and up to 500 GB for $39.99 per month.

Another option with a different approach is CrashPlan (*www.crashplan.com*), which lets you back up files to the destination of your choice: another hard disk on your computer, from your laptop to your desktop computer, a computer in another location, even from a Mac to a PC. CrashPlan compresses your files, so backups take no time at all. You can download CrashPlan software at no charge, or purchase its online backup service. See *www.crashplan.com* for pricing details.

Automated Backups

QuickBooks can back up your data without your help in two different ways:

- **Automatic backup**. This kind of backup runs after you close a company file a specific number of times, which is great for protecting the work you do in a few back-to-back QuickBooks sessions. You simply close the company file at the end of a session and, if this session hits the magic number, QuickBooks asks if you want to create a backup.
- **Scheduled backups**. You can also schedule backups to run at a specific date and time (typically when you aren't around). A scheduled backup for a single company file is ideal when your QuickBooks data is the *only* data on your computer or you want to back up your books more often than your other data. Otherwise, you're better off using your operating system's backup feature (or an online backup service—see the box on page 180) to schedule a backup that captures *all* your data.

This section explains the differences between these options and how you set up each one.

SETTING UP AUTOMATIC BACKUPS

Automatic backups require a bit of setup. You tell QuickBooks where you want to store the backup files and the number of sessions between backups, and from then on, they spawn themselves quietly in the background. Here's what you do:

1. **Choose File→Backup Company→Create Local Backup. In the Create Backup dialog box, select the "Local backup" option, and then click Next.**

   The "When do you want to save your backup copy?" screen appears.

2. **To tell QuickBooks when to create automatic backups, select the "Only schedule future backups" option, and then click Next.**

   QuickBooks displays the settings you can use to define both automatic and scheduled backups (Figure 7-3).

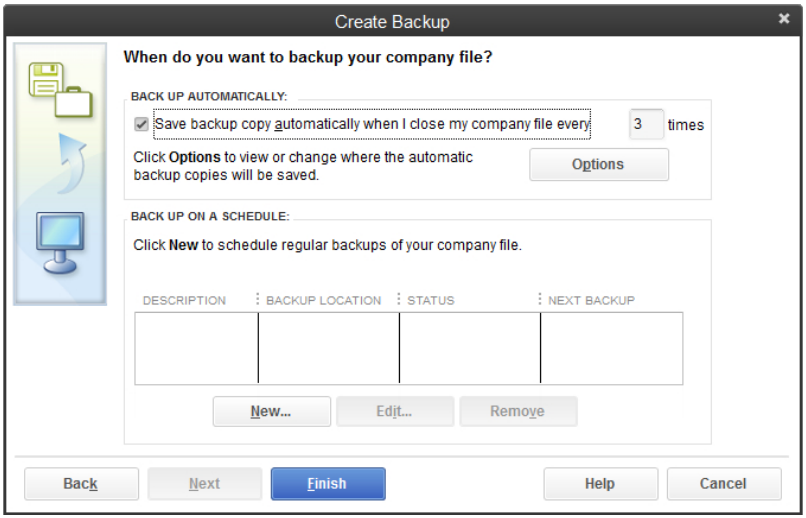


FIGURE 7-3

To change the location and other details of your automatic backups, click the Options button shown here. See page 176 to learn about the settings you can choose.

3. **Turn on the "Save backup copy automatically when I close my company file every _ times" checkbox. In the text box, type the number of sessions you want in between automatic backups.**

   For example, if you type *5*, QuickBooks creates an automatic backup when you close the company file the fifth time since the last backup.

4. **Click Finish.**

   QuickBooks starts counting. After you've completed the number of sessions you specified for the company file, the QuickBooks Automatic Backup message box appears, telling you that it's creating the backup as promised.

The file-naming convention that QuickBooks uses for automatic backup files is:

ABU_0_<company name> <date stamp> <time stamp>

For example, the first automatic backup file might be *ABU_0_Double Trouble, Inc Mar 13,2013 05 17 PM* (ABU stands for "automatic backup"). When QuickBooks creates the next automatic backup, it renames the file that begins with ABU_0 to start with ABU_1 (*ABU_1_Double Trouble, Inc Mar 13,2013 05 17 PM*, for example), renames the ABU_1 file to start with ABU_2, and so on. With this system, you always know that the automatic backup file that starts with ABU_0 is the most recent.

SCHEDULING BACKUPS FOR A SINGLE COMPANY FILE

Although most companies back up all their computers on a regular schedule, you can set up a scheduled backup for your QuickBooks company file for an extra layer of safety. If you back up your data every other day, for example, you may want to back up your company file every night, and a QuickBooks scheduled backup is the ideal way to do that. Here's how you schedule backups:

1. **Choose File→Backup Company→Create Local Backup. In the Create Backup dialog box, select the "Local backup" option, and then click Next.**

   The "When do you want to save your backup copy?" screen appears.

2. **Select the "Only schedule future backups" option, and then click Next.**

   If you want to make a backup right away as well as set up the schedule, select the "Save it now and schedule future backups" option instead. Either way, the screen that appears includes a table showing scheduled backups you've already set up (if any), plus each backup's description, location, status, and next occurrence.

3. **To set up a schedule, below the table, click New.**

   QuickBooks opens the Schedule Backup dialog box (Figure 7-4), which includes all the options you need to set up a regularly scheduled backup.

4. **In the Description box, type a meaningful name for the backup, like *Daily* or *Monthly Offsite*.**

   When you finish defining the schedule, this description will appear in the table in the Create Backup dialog box. Consider including the backup's frequency and location (such as the network drive or offsite location) in the name.

5. **Click Browse to specify the backup location.**

   QuickBooks opens the "Browse for Folder" dialog box. To choose a folder, hard drive, or other location on your computer, expand the Computer or My Computer entry (depending on your operating system), and then choose the location you want. To store the backup on another computer on your network, expand the Network or My Network Places entry instead, and then choose a location. Click OK when you're done.

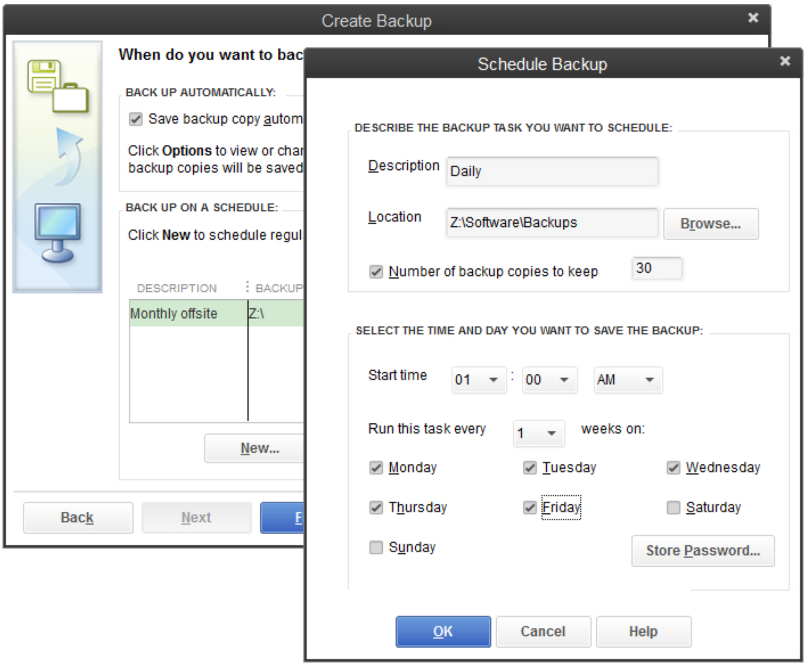


FIGURE 7-4

You won't need more than a few scheduled backups. For instance, you can create one to save your data every weeknight from Monday through Friday, a second to save a weekly backup every Saturday night, and a third to run once a month on Saturday to create a backup DVD that you can store offsite.

WARNING If you've scheduled backups, don't turn off your computer when you go home, or the backups won't work. And if you back up to a hard drive on another computer, leave that computer running, too.

6. **If you back up your company file to a hard drive and don't want to overwrite the previous backup each time the scheduled backup runs, turn on the "Number of backup copies to keep" checkbox and, in the box to the right of the label, type the number of previous backups you want to keep.**

   When you turn on this checkbox, QuickBooks uses the filename *SBU_0_<company name> <date stamp> <time stamp>*. For example, your scheduled backup file might be *SBU_0_Double Trouble, Inc Sep 24,2013 01 00 AM* (SBU stands for "scheduled backup"). Each time QuickBooks creates a new scheduled backup file, it renames the previous backups to the next number in the list, and then replaces the SBU_0 file with the new backup. For example, if you keep four backups, the SBU_2 backup becomes the SBU_3 file; the SBU_1 file becomes the SBU_2 file; the SBU_0 backup file becomes the SBU_1 file; and the new backup becomes the new SBU_0 file. The most recent backup always starts with "SBU_0."

7. **In the "Start time" boxes, choose when you want the backup to run.**

   These boxes work on a 12-hour clock, so specify the hour, the minute, and AM or PM.

TIP It's easy to confuse midnight and noon on a 12-hour clock (midnight is 12:00 a.m., noon is 12:00 p.m.). Avoid this gotcha by running your scheduled backups at 11:00 p.m., 1:00 a.m., or later.

8. **To set the backup's frequency, in the "Run this task every _ weeks on" box, select the number of weeks you want between backups, and then turn on the checkboxes for each day of the week on which you want the backup to happen.**

   For example, for daily backups, in the "Run this task every _ weeks on" box, choose *1*, and then turn on the checkbox for each weekday.

9. **Click Store Password, and then type your Windows user name and password.**

   QuickBooks needs this info so it can log into the computer to run the backup.

10. **When you're done, click OK.**

    QuickBooks adds this backup to your list of scheduled backups.

Restoring Backups

Having backup files can reduce your adrenaline level in a number of situations:

- You merge two customers by mistake or commit some other major faux pas that you want to undo.
- Your company file won't open, which can happen if it's been damaged by a power outage or a power surge.
- You recently assigned a password to your administrator login and can't remember what it is.
- Your hard disk crashes and takes all your data with it.

WARNING Hard disk crashes used to be dramatic events accompanied by impressive grinding noises. With today's smaller, faster hard disks, crashes can be deceptively quiet. So if you hear any odd sounds emanating from your computer—little chirps or squeaks, for instance—stop what you're doing immediately and take it to a computer repair shop to see if they can fix it or recover your data. If you shut down your computer and it won't reboot because of a disk crash, a data-recovery company can sometimes salvage some of your data, but the price is usually in the thousands of dollars. And if smoke wafts from your computer, don't bother with shutting down—just pull the plug and get that puppy to a repair shop.

NOTE QuickBooks 2011 and later versions can restore backup files to a format you can use in QuickBooks 2010 or earlier—if, for example, a client is still using QuickBooks 2009 and asks you for a copy of her company file. The box on page 187 tells you why and how to restore a backup for an earlier QuickBooks version.

Here's how to restore a QuickBooks backup when you need to recover from a mistake or damaged data:

1. **If you backed up your data to removable media, put the disc containing the backup in the appropriate drive.**

   If you backed up your data to another hard drive on your computer or on a network, make sure you have access to that drive.

2. **Choose File→Backup Company→Restore Previous Local Backup, and then choose the backup you want to restore on the submenu that appears.**

   If the backup you want isn't listed in the submenu, choose File→"Open or Restore Company." In the "Open or Restore Company" dialog box, shown in Figure 7-5, select the "Restore a backup copy" option, and then click Next. Select "Local backup," and then click Next. In the Open Backup Copy dialog box, navigate to your backup file and double-click its name.

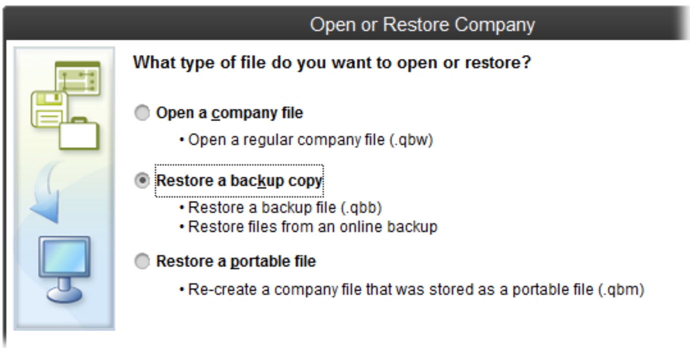


FIGURE 7-5

Similar to when you create backups, you have to tell QuickBooks that you want to restore a backup file and where that file is. From this dialog box, you can open a regular company file, restore a backup, restore a portable file (page 189), or convert an accountant's copy (you'll see this last option only if an accountant's copy [page 490] exists).

3. **In the "Open or Restore Company" dialog box, the "Where do you want to restore the file?" screen makes it clear that you need to choose the restore location carefully. Click Next and, in the "Save Company File as" dialog box, choose the folder where you want to restore the file.**

   If you restore the backup to your regular company-file folder, you run the risk of overwriting your existing company file. If that's what you want, fine. If it's not, that file may be gone for good. To be safe, restore the backup to your desktop. Then, once you know that the restored company file is the one you want, you can move it to the folder where you store your regular company files.

4. **In the "File name" box, type a new name for the file you're about to restore.**

   QuickBooks fills in the "File name" box with the company file's name (minus the timestamp). The safest approach is to modify the name to include a unique identifier, so you don't overwrite your existing company file.

TIP If you give a restored file a different name as a precaution—"Double Trouble Copy," for example—you can trick QuickBooks into renaming the file after you're sure it's the one you want. To do that, create a manual backup of the file (page 179). Then, immediately restore it with the company filename you want ("Double Trouble," in this example).

5. **Click Save.**

   If you're restoring a backup of a company file that already exists and didn't use a unique filename in step 4, QuickBooks warns you that you're about to overwrite an existing file. If the original file is corrupt or won't open for some reason, click Yes because that's exactly what you want to do. In the Delete Entire File dialog box that appears, you also have to type *Yes* to confirm that you want to delete the file. (It's better to take these precautions than to overwrite the wrong file and have to dig out yet another backup.)

If the restored file has a password, you have to log in, just as you do in a regular company file. When you see a message that says your data has been restored successfully, click OK to open the company file and reenter any transactions that the backup doesn't include.

NOTE If restoring a backup copy from removable media (CD, DVD, or USB thumb drive) doesn't work, try copying the contents of the backup media to your hard drive and restoring the backup file from there. If the restore *still* doesn't work, your backup file is probably damaged, so try restoring the next-most-recent backup.

If none of your backups work, Intuit offers data-recovery services to extract data from your backup files. The service isn't free, but it might be cheaper than rebuilding your entire company file. To arrange for this service, choose Help→Support. On the QuickBooks Support web page, click "Contact support" and then call the telephone number listed there. If the support person can't resolve the problem with your file, he or she will transfer you to the Intuit Data Recovery Services team.

Sending Company Files to Others

QuickBooks company files can grow quite large as you add year after year of financial transactions. Fortunately, QuickBooks can create *portable* company files, a slim format that flies through the email ether and slips effortlessly into removable media like USB thumb drives and CDs. You can email a portable company file to your accountant or transfer the file to a colleague before you head out on vacation.

TIP If you intend to work on the company file at the same time as your accountant and want to merge her changes into your copy, create an accountant's copy (page 490) instead of a portable copy. But, before you transmit the file electronically, be sure you've added a password to it so nobody else can intercept it and access your financial data.

For example, a company file that's more than 10 MB in size turns into a portable company file of less than 1 MB. Portable company files have a .qbm file extension, but QuickBooks converts them to regular company files with a .qbw file extension when you open them.

NOTE If the person you send the file to is going to make any changes and send the file back, he needs a username and password to login.

DON'T PANIC

Restoring to an Earlier QuickBooks Version

QuickBooks 2010 and more recent versions use a new and improved method to compress backup files that doesn't work with earlier versions of the program. But, when it converts a company file to work with a new version of the program, QuickBooks backs up your file so you can restore it in case you run into trouble. So if you switch back to an earlier version of the program, you can't restore a QuickBooks 2010 or later backup file *directly* in that earlier version. Here's what to do instead:

1. In QuickBooks 2010 or later, choose File→Utilities→Restore Backup For Earlier QuickBooks Version.
2. In the "Select the backup file you want to restore" section of the Restore Your Company File dialog box, click the ellipsis button (...). The Open Backup Copy dialog box appears, displaying the contents of the folder where you last saved backup files.
3. Select the QuickBooks backup file you want to restore, and then click Open.
4. In the "Where do you want to save the restored file?" section of the Restore Your Company File dialog box, click the ellipsis button (...). The "Save Company File as" dialog box appears showing the contents of the backup folder.
5. Navigate to the folder where you want to save the restored file; for example, you might choose the folder you use to store your company files (page 703).
6. In the "File name" box, type a unique name for the restored file, such as *CompanyFileRestored_01052013*, and then click Save.
7. Back in the Restore Your Company File dialog box, click OK. A message box appears telling you that the file has been restored and where it is. Click OK to close the message box.

Now you can open the restored file as a regular company file in the earlier version of QuickBooks.

Creating a Portable Company File

Creating a portable company file is just a wee bit more complicated than saving a file. (You need to be in single-user mode to create a portable company file, so if you're in multi-user mode, switch to single-user mode as explained on page 173 before getting started.)

Here are the steps:

1. **Choose File→Create Copy.**

   This feature lets you create a backup file, a portable company file, *or* an accountant's copy.

2. **In the "Save Copy or Backup" dialog box, select the "Portable company file" option, and then click Next.**

   QuickBooks opens the Save Portable Company File dialog box (Figure 7-6). It automatically fills in the "File name" box with the name of your company file, followed by "(Portable)," and sets the "Save as type" box to "QuickBooks Portable Company Files (*.QBM)."

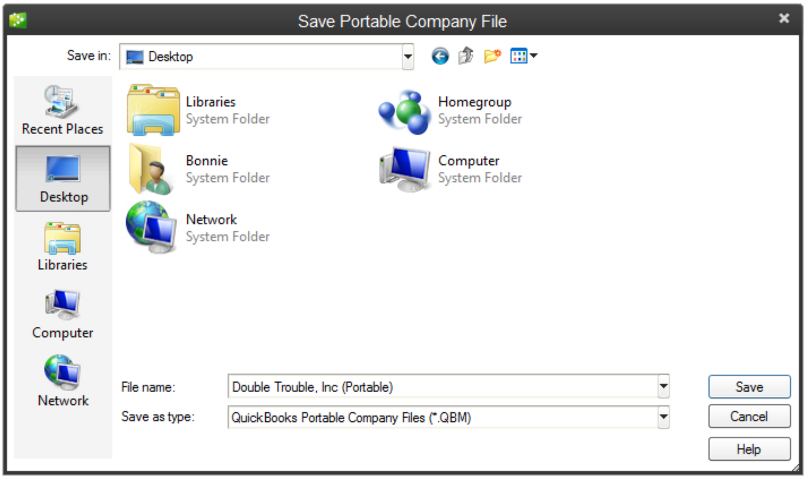


FIGURE 7-6

Unlike the Save Backup Copy dialog box (page 179), the Save Portable Company File dialog box opens to your computer's desktop the first time around. If you want to save the file to a folder, choose the folder. From then on, QuickBooks opens this dialog box to the last folder you selected.

3. **Choose the folder where you want to restore the file.**

   The Save Portable Company File dialog box opens to your computer's desktop the first time you open it. After that, it opens to the last location where you saved a backup file or copy.

4. **If you want to use a different filename, change the name in the "File name" box. Then click Save.**

   The "Close and reopen" dialog box tells you that you need to close and reopen your company file to create a portable file.

5. **Click OK to create the file.**

   A message box appears when QuickBooks finishes creating the portable company file. Click OK to reopen your company file. (You can tell that the company file is open when you see its name in the main QuickBooks window's title bar.

However, you might have to reopen windows such as the Home page or the Chart of Accounts window.)

Feel free to view the portable company file in Windows Explorer and admire its sleek size.

Opening a Portable Company File

Opening a portable company file is almost identical to restoring a backup file, except for a few different setting labels. When you open a portable company file, QuickBooks essentially converts it into a full-size, bona fide company file. Here's what you do:

1. **Choose File→"Open or Restore Company."**

   If the No Company Open window is visible, you can click "Open or restore an existing company." Either method opens the "Open or Restore Company" dialog box.

2. **In the "Open or Restore Company" dialog box, select the "Restore a portable file" option, and then click Next.**

   QuickBooks opens the Open Portable Company File dialog box to the last folder you selected for portable company files. QuickBooks sets the "Files of type" box to "QuickBooks Portable Company Files (*.QBM)" so the dialog box's list shows only portable company files.

3. **Double-click the portable file you want to restore.**

   Alternatively, click its filename and then click Open.

4. **Back in the "Open or Restore Company" dialog box, the "Where do you want to restore the file?" screen makes it clear that you should choose the location carefully. Click Next.**

   If you restore the portable file to your regular company-file folder, you'll overwrite your existing company file. If that's what you want, fine. Otherwise, be sure to choose another folder or change the filename in the next step.

5. **In the "Save Company File as" dialog box, choose the folder to which you want to restore the file. In the "File name" box, type a new name.**

   The dialog box opens to the folder you last chose for portable files. If you want to replace your company file, choose the folder that holds your everyday company file.

   The safest approach is to modify the filename to include a unique identifier, such as "_restoredportable", so you can easily identify the file you restored. You can then rename the file later (page 186 describes a quick way to do so).

6. **Click Save.**

   If you're restoring a portable file for a company file that already exists, QuickBooks warns you that you're about to overwrite an existing file. If that's what you want, click Yes, and then type *Yes* to confirm that you want to delete the existing file.

The Working message box shows its progress (restoring a portable file can take several minutes). When the file is ready, the QuickBooks Login dialog box appears or, if you don't use a password, the file opens.

Verifying Your QuickBooks Data

QuickBooks files hiccup now and then. Perhaps you worked through a spectacular thunderstorm and a power spike zapped a bit of your company file, for example. Fortunately, QuickBooks has a feature that can scan your company files and tell you whether they've suffered any damage: the Verify Data utility.

It's a good idea to run this utility every so often, just to make sure your company file is OK. How often you should run it depends on how hard you work your company file, but monthly verifications are in order for most companies. The utility is indispensable, though, if you notice any of the following symptoms:

- **The company file won't open.** Sometimes, memorized transactions become corrupt, which prevents you from opening the company file.
- **Error messages**. If you see errors in message boxes when you run QuickBooks, you almost certainly have a damaged company file.
- **Discrepancies on reports**. Your balance sheet doesn't show all your accounts, or transactions show negative values instead of positive ones.

TIP If the totals in your reports don't seem right, first check that the report dates are correct and that you're using the right cash or accrual accounting setting (see page 625).

- **Missing transactions and names**. Transactions or names that you're sure you entered don't appear in reports or lists.
- **You can't save transactions**. QuickBooks doesn't save a transaction or shuts down when you try to save a transaction.
- **QuickBooks misbehaves**. It's a good idea to verify your company file if QuickBooks shuts down on its own, your computer crashes, a "Company file in use, please wait" message appears, or you see other strange behavior from QuickBooks or your computer.

Running the Verify Data Utility

Whether you're just giving your company file a checkup or you see signs of problems, the Verify Data utility is easy to use:

1. **Close QuickBooks and then restart it.**

   This makes QuickBooks create a new *QBWIN.log* file, which will contain only the results of the data verification you run in step 3.

NOTE You can verify data in multi-user mode, although no other users will be able to use QuickBooks while it's verifying the company file. In addition, the program can perform a more thorough verification when the file is in single-user mode. So you're best off switching to single-user mode (page 173) before running this utility.

2. **Choose File→Utilities→Verify Data to start the utility. (If any windows are open, click OK to give QuickBooks permission to close them.)**

   You can close all QuickBooks windows before you run the utility by choosing Window→Close All.

3. **If you see the message "Your data has lost integrity," then your company file has some problems. Continue to the next section to learn how to rebuild your data.**

   If QuickBooks displays a message saying that it detected no problems with your data, congratulations—your file is healthy!

Reviewing Problems

If your company file has "lost integrity," the Verify Data utility writes down any errors it finds in a file named *QBWIN.log*. Before you run the Rebuild Data utility (which can help fix the problems QuickBooks found), it's a good idea to take a look at this log file and review your company file's problems. However, you'll need a map to find the log file. Here's how:

1. **Open Windows Explorer and locate the folder where QuickBooks stores *QBWIN.log*.**

   In Windows 7, it's *C:\Users\<your user name>\AppData\Local\Intuit\QuickBooks\log\23.0*.

   In Windows XP, it's *C:\Documents and Settings\<your user name>\Local Settings\Application Data\Intuit\QuickBooks\log\23.0*.

NOTE Windows initially hides application-data folders like the log folder you're looking for here. If you don't see the folder, in Windows Explorer's menu bar, choose Organize→"Folder and search options" (in Windows 7) or Tools→Folder Options (in Windows XP). Then click the View tab. In the "Advanced settings" list, under "Hidden files and folders," select "Show hidden files, folders, and drives."

2. **Open the log file by double-clicking its name.**

   The file opens in Notepad, and you can use Notepad's features to move around the file. (If the file doesn't open, launch Notepad, choose File→Open, and then double-click the *QBWIN.log* filename.)

   When you verify data, QuickBooks automatically renames the previous *QBWIN.log* file to *QBWIN.log.old1* so that the *QBWIN.log* file contains information for only the most recent verification. QuickBooks also renames other old files, changing *QBWIN.log.old1* to *QBWIN.log.old2*, and so on.

Running the Rebuild Data Utility

If your file is damaged, QuickBooks' Rebuild Data utility tries to fix it. Intuit recommends that you run the Rebuild Data utility *only* if an Intuit technical support person tells you to. *Always* make a backup of your company file before trying to rebuild it, and take extra care to prevent overwriting your previous backups—those files might be your only salvation if the rebuild doesn't work.

To run the Rebuild Data utility, choose File→Utilities→Rebuild Data. When the utility is done working, close your company file and reopen it; this refreshes the lists in the company file so you can see if the problems are gone. Then run the Verify Data utility once more to see if any damage remains. If this second Verify Data run still shows errors, then restore a recent backup of your company file (page 184).

Condensing Data

As you add transactions and build lists in QuickBooks, your company file gets larger. Although larger company files aren't too big of a hassle, you might be alarmed when your company file reaches hundreds of megabytes. Backups will take longer and use up more storage space. Meet the Condense Data utility, which creates an archive file and deletes obsolete list items and transactions prior to the date you choose.

WARNING The Condense Data utility removes the audit trail information for transactions that it deletes. So if you're watching transaction activity, print an Audit Trail report and back up your company file *before* condensing.

When QuickBooks condenses data, it replaces the detailed transactions prior to the date you specify with general journal entries that summarize the deleted transactions by month. As a result, some of your financial details are no longer available for running reports, filing taxes, and other accounting activities. Still, there are a couple of compelling reasons to condense your data:

- **You no longer refer to old transactions**. If you're a QuickBooks veteran, you probably *don't* need the finer details from eight or more years ago. And if you ever do need details from the past, you can open an archive file to run reports.
- **You have obsolete list items**. Cleaning up a company file can remove list items that you don't use, like customers you no longer sell to. This option comes in handy if you're nearing the program's limit on the number of names you can store (page 68).

NOTE If Condense Data isn't the housekeeper you hoped for, you have a couple of options. One is to start a fresh company file. That way, you can export all the lists from your existing company file (page 649) and import them (page 657) into the new one so you start with lists but no transactions. Set your accounts' opening balances (page 58) to the values for the start date of the new file. Or, you can hand your company file over to a company that provides file cleanup and repair services, such as "QB or not QB" (*www.qbornotqb.com*).

An archive file created by the Condense Data utility is a regular company file that contains all your transactions, but it's *read-only*, meaning you can't add data to it or edit it, so you can't inadvertently enter new transactions. If QuickBooks runs into trouble condensing your file, it automatically pulls transaction details from the archive file. An archive copy *isn't* a backup file, which means you can't restore it to replace a corrupt company file. So even if you create an archive copy, you still need to back up your data.

If you decide to condense your company file, here's what you can expect to find afterward, depending on the settings you choose:

- **General journal entries that summarize deleted transactions**. QuickBooks replaces all the deleted transactions that happened during each month with one general journal entry. For example, instead of 20 separate invoices for the month of June, you'll see one journal entry transaction with the total income for June for each income account.

NOTE If you see other transactions for the same month, it means that QuickBooks wasn't able to delete those transactions for some reason. For instance, if you tell it not to, QuickBooks won't delete unpaid invoices or other transactions with an open balance, nor will it delete any transactions in the queue to be printed (page 345) or ones that you haven't reconciled (page 426).

- **Inventory adjustments that reflect the average cost of items**. If you tell it to, QuickBooks removes inventory transactions that are complete, such as invoices that have been paid in full. Because inventory transactions use the average cost of inventory items, QuickBooks adds an inventory adjustment to set the average cost of the items as of the condense date. When the program finds an inventory transaction that it can't condense (perhaps because the payment is outstanding), it keeps all the inventory transactions from that date forward.
- **Reports might not include the details you want**. You can still generate summary reports because QuickBooks can incorporate the info in the monthly general journal entries. Likewise, sales tax reports still include data about your sales tax liabilities. But detailed reports won't include transaction details before the cutoff date you chose for condensing the file (see page 194). And cash accounting reports (page 625) might not be accurate because they need the dates for detailed transactions. Talk with your accountant to see how your cash basis reports might be affected.
- **You still have payroll info for the current year**. QuickBooks keeps payroll transactions for the current year and the previous year regardless of the cutoff date you chose for condensing the file.
- **QuickBooks deletes estimates for closed jobs**. If a job has any status other than Closed, QuickBooks keeps the estimates for that job. Or, you can tell QuickBooks to remove *all* estimates, sales orders, purchase orders, and pending invoices.
- **QuickBooks retains unbilled expenses, items, time, and mileage**. The program keeps any unbilled charges, unless you tell it to delete those transactions.

Running the Condense Data Utility

If you're ready to condense your company file, first consider *when* to do it. The cleaning process can take several hours for a large company file, and a slow computer or a small amount of memory exacerbates the problem. You might want to condense your file over the weekend so the utility has plenty of time to run before folks come in Monday morning.

Here's how to condense a company file:

1. **If you've created budgets in QuickBooks, export them (page 526) before you condense your data.**

   After you condense your data, you can import them back into your company file (page 529).

2. **Choose File→Utilities→Condense Data.**

   The Condense Data dialog box opens.

3. **Select the "Transactions before a specific date" option.**

   This option deletes old transactions and things like unused accounts and items.

   The "All transactions" option removes transactions but keeps your preferences, lists, and service subscriptions—such as payroll—intact. You won't use this option often, but it comes in handy if, for example, you want to offer your clients a template company file that contains typical list entries but no transactions.

4. **In the "Remove transactions before" box, type or select the ending date for the period you want to condense, and then click Next.**

   If you use an Intuit payroll service (page 409), you can't clean up data for the current year. QuickBooks also won't let you clean up transactions that are newer than the closing date on your company file (page 600). Choosing a date at least two years in the past ensures that you can compare detailed transactions for the current year and the previous year. For example, if it's March 1, 2013, consider using January 1, 2011, or earlier as your cutoff date.

NOTE If there are no transactions to condense before the date you picked, you'll see the message "There are no transactions to remove on or before the date you entered. Please verify the Condense process date." Either pick a date closer to today's date or click Cancel, because there aren't any transactions to condense.

5. **If you see the How Should Transactions Be Summarized screen (you may not), select your preferred method.**

   Your options are to have QuickBooks create one summary journal entry for all the transactions it condensed, create a summary journal entry for each month prior to the date you selected, or not create a summary at all. QuickBooks automatically selects the first option, and you're best off sticking with that so you have a record of your previous transactions without dozens of summary journal entries cluttering your company file.

6. **If you see the How Should Inventory Be Condensed? screen, keep the "Summarize inventory transactions (recommended)" option selected and click Next.**

   This removes inventory transactions that QuickBooks can condense and replaces them with inventory adjustments (page 513).

7. **On the Do You Want To Remove The Following Transactions? screen, turn *off* the appropriate checkboxes if you want to *keep* transactions that the clean-up process would condense, and then click Next.**

   Figure 7-7 shows your choices. QuickBooks turns on all the checkboxes initially. Before you click Next, carefully review your company file to make sure that the settings you choose here won't delete transactions you want to keep.

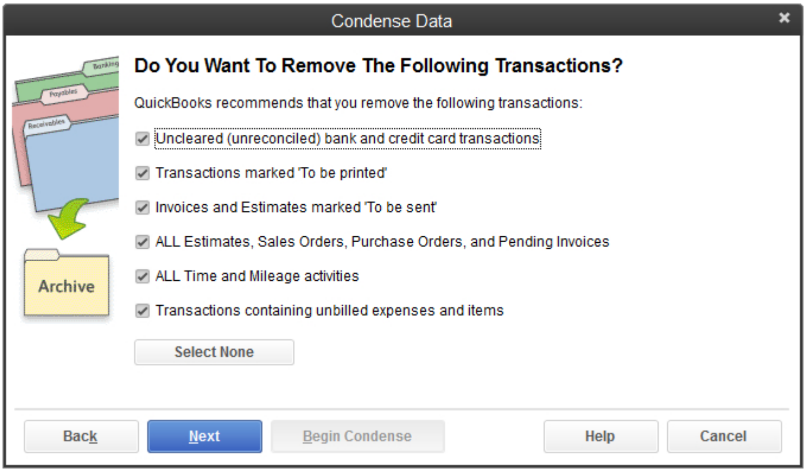


FIGURE 7-7

These checkboxes let you remove transactions that the Condense Data utility would normally leave alone—like transactions marked "To be printed" that you don't need to print. If you have very old, unreconciled transactions, invoices, or estimates marked "To be sent," or transactions with unreimbursed costs, leave the appropriate checkboxes turned on to remove them during the condensing.

8. **On the Do You Want To Remove Unused List Entries? screen, turn off the appropriate checkboxes if you want QuickBooks to keep specific list items. Then click Next.**

   Accounts, customers, vendors, other names, and invoice items might become orphans when you delete old transactions they're linked to. You can neaten your file by removing these list items, which now have no links to the transactions that still remain. QuickBooks initially turns on all the checkboxes on this screen. But keep in mind that you might still work with one of these vendors or customers later. If that's the case, turn off checkboxes to tell the program to keep unused list entries.

9. **On the Begin Condense screen, click Begin Condense.**

   If you're not sure of the options you chose, or if you have any doubts about condensing your file, click Back to return to a previous screen, or click Cancel to exit without condensing.

When you click Begin Condense, QuickBooks first creates an archive copy file (a QuickBooks company file, not a backup file) in the same folder as your original company file. The filename for the archive copy has the format *<company name> mm-dd-yyyy Copy.qbw*, where "mm-dd-yyyy" represents the month, day, and year that you created the file.

As QuickBooks proceeds with the condensing process, it scans your data *three* times. You might see message boxes wink on and off in rapid succession; then again, you might not see anything happen for a while if your file is large. But if your hard disk is working, the condensing process is still in progress. When it's finished, QuickBooks displays a message telling you so and shows you where it stored the archive copy of your company file.

TIP After your file is condensed, run a balance sheet report (page 474) and compare your account balances in the condensed file to those in the uncondensed file.

Cleaning Up after Deleting Files

QuickBooks doesn't include a feature for deleting company files, which is no biggie. If you want to get rid of a practice file you no longer use, you can easily delete it right in Windows. But you'll still have to do some housekeeping to remove all references to that file from QuickBooks. For example, a deleted company file will still appear in QuickBooks' list of previously opened files (page 19), but the program won't be able to find the file if you choose it in the list.

Here's how to delete a company file and eliminate stale entries in the QuickBooks list of previously opened files:

1. **In Windows Explorer, navigate to the folder where your QuickBooks company files are stored, and find the company file you want to delete.**

   What to look for when searching for your company file depends on how you've set up your folder view. If your folder shows the full names of files, look for a file with a .qbw file extension, such as *Double Trouble, Inc.qbw*. If the folder includes a Name column and a Type column, the type you want is QuickBooks Company File.

   Files with .qbx extensions represent accountant's copies (page 490). Files with .qbb file extensions are backup copies of company files. Portable files come with .qbm file extensions. If you delete the company file, go ahead and delete the backups, accountant's copies, and portable files as well if you no longer need them.

2. **Right-click the file and on the shortcut menu, choose Delete.**

   Windows displays the File Delete message box. Click Yes to move the file to the Recycle Bin. If you have second thoughts, click No to keep the file.

3. **In QuickBooks, choose File→Open Previous Company→"Set number of previous companies."**

   If this menu item is grayed out, it means you don't have a company file open. In that case, in the File→Open Previous Company submenu, choose a file *other* than the file you just deleted. Alternatively, if the No Company Open window is visible, open the company file that you typically work with by double-clicking it. Either way, you should now be able to select the "Set number of previous companies" menu item.

4. **In the "How many companies do you want to list (1 to 20)?" box, type *1* and then click OK.**

   If you choose File→Open Previous Company again, you'll notice that only one company appears—the company file you opened last. The No Company Open window also shows only the company file you opened last.

5. **To reset the number of previously opened companies, with a company file open, choose File→Open Previous Company→"Set number of previous companies."**

   In the "How many companies do you want to list (1 to 20)?" box, type the number of companies you'd like to see in the list, and then click OK.

As you open different company files, QuickBooks adds them to the list in the No Company Open window and the Open Previous Company menu.

Chapters 8-14 of *QuickBooks 2013: The Missing Manual* have been omitted from this excerpt. To purchase the full book at a 40-50% discount, go to *http://oreilly.com/go/quickbooks-mm*.

CHAPTER

15

Bank Accounts and Petty Cash

You've opened your mail, plucked out the customer payments, and deposited them in your bank account (Chapter 13). In addition to that, your bills are paid (Chapter 9). Now you can sit back and relax knowing that *most* of the transactions in your bank and credit card accounts are accounted for. What's left?

Some stray transactions might pop up—an insurance claim check to deposit, re-stocking your petty cash drawer, or handling the aftermath and fees from your bank for a customer's bounced check, to name a few. Plus, running a business typically means that money moves between accounts—from interest-bearing accounts to checking accounts or from merchant credit card accounts to savings. For any financial transaction you perform, QuickBooks has a way to enter it, whether you prefer the guidance of transaction windows or the speed of an account-register window.

Reconciling your accounts to your bank statements is another key process you don't want to skip. You and your bank can both make mistakes, and reconciling your accounts is the way to catch these discrepancies. Once the bane of bookkeepers everywhere, reconciling is practically automatic now that you can download transactions electronically and let QuickBooks handle the math.

In this chapter, the section on reconciling (page 426) is the only must-read. And if you want to learn the fastest way to enter any type of bank account transaction, don't skip the first section (page 414). You can read about transferring funds, loans, bounced checks, and other financial arcana covered in this chapter as the need arises.

Entering Transactions in an Account Register

QuickBooks includes windows and dialog boxes for making deposits, writing checks, and transferring funds, but you can also record these transactions right in a bank account's register window. Working in a register window has two advantages over other windows and dialog boxes:

- **Speed**. Entering a transaction in a register window is fast, particularly when keyboard shortcuts (like pressing Tab to move between fields) are second nature.
- **Visibility**. Transaction windows, such as Write Checks, keep you focused on the transaction at hand; but they take up lots of screen real estate, so it's tough to see more than one of these windows at a time. But in a register window, you can look at previous transactions for reference.

Opening a Register Window

You have to open a register window before you can enter transactions in it. Luckily, opening these windows couldn't be easier. Here's how to open *any* kind of account's register window:

1. **If the Chart of Accounts window isn't open, press Ctrl+A (or, on the Home page, click Chart of Accounts) to open it.**

   The window pops open, listing all the accounts in your chart of accounts.

TIP If you use the top icon bar, you can open a bank account or credit card register by double-clicking the account you want to see in the Account Balances section on the right side of the Home page. If you use the left icon bar, click View Balances in its middle section and then, in the View Balances section at the top of the icon bar, double-click the account you want.

2. **In the Chart of Accounts window, double-click the account whose register window you want to open (Figure 15-1).**

   This method can open register windows for more than just bank accounts. See the box on page 418 to learn about different ways to handle credit card accounts.

NOTE Income and expense accounts don't have registers in QuickBooks. When you double-click an income or expense account in the Chart of Accounts window, QuickBooks generates a QuickReport of the transactions for that account. In the report window, you can take a closer look at a transaction by double-clicking it.

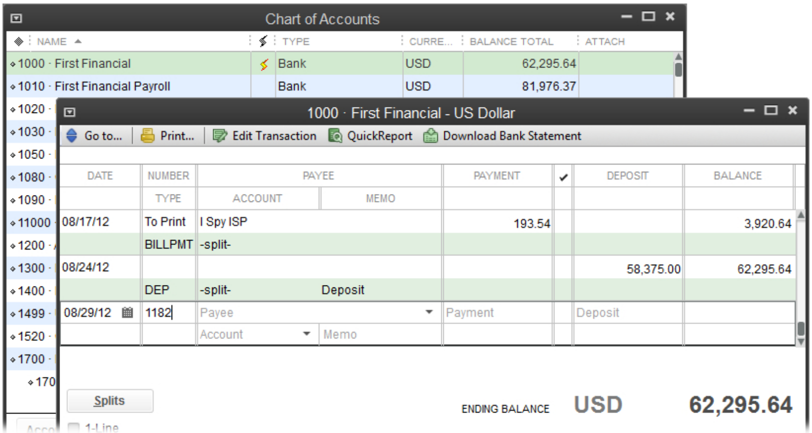


FIGURE 15-1

You can open a register window by double-clicking any type of account that can have a balance, including checking, savings, money market, and petty cash accounts. In fact, double-clicking opens the register for any account on your balance sheet (Accounts Receivable, Accounts Payable, Credit Card, Asset, Liability, and Equity accounts).

Creating a Transaction in an Account Register

The steps for creating a check in your checking account register (page 259) work for deposits and transfers, too, with only a few minor adjustments. Here's how to fill in the cells in the register window to create any kind of bank transaction:

- **Date**. When you first open a bank account's register window, QuickBooks automatically selects the date in the Date field of the first blank transaction. Out of the box, QuickBooks puts the current date in the Date cell, but you can set a preference to have the program fill in the last date you used (page 612). Tweaking the date by a few days is as easy as pressing + or – until the date is the one you want. (To become a master of date-related keyboard shortcuts, read the box on page 416.)
- **Number**. When you jump to the Number cell (by pressing Tab), QuickBooks automatically fills in the next check number for that bank account. If the number doesn't match the paper check you want to write, press + or – until the number is correct.

NOTE For some types of accounts, like credit cards and assets, the register window has a Ref field instead of a Number field. You can fill in a reference number for the transaction or leave it blank.

POWER USERS' CLINIC

Keyboard Shortcuts for Dates

Pressing + or – to increment dates is a great timesaver, but you might also want to add some of the following keyboard shortcuts to your date-selection arsenal. When the cursor is in the Date field, these can help you jump directly to favorite dates:

- **Press T (for Today)** to change the date to today.
- **Press M (for Month)** to select the first day of the current month. Pressing M additional times jumps to the first day of previous months.
- **Press H (for montH)** to select the last day of the current month. Pressing H additional times jumps to the last day of future months.
- **Press W (for Week)** to choose the first day of the current week. Pressing W additional times jumps to the first day of previous weeks.
- **Press K (for weeK)** to choose the last day of the current week. Pressing K additional times jumps to the last day of future weeks.
- **Press Y (for Year)** to choose the first day of the current year. Pressing Y additional times jumps to the first day of previous years.
- **Press R (for yeaR)** to choose the last day of the current year. Pressing R additional times jumps to the last day of future years.

You can press these letters multiple times to pick dates further in the past or the future and combine them with pressing + and – to reach any date you want. But face it: After half a dozen keystrokes, it might be easier to type a numeric date, such as *3/14/13*, or to click the Calendar icon and choose the date.

To make an online payment (see Chapter 22), in the Number cell, type *S*, which QuickBooks promptly changes to *Send* (if you've set up an online payment service, that is.) To enter a deposit, you can bypass the Number and Payment cells regardless of what values they have, as shown in Figure 15-2.

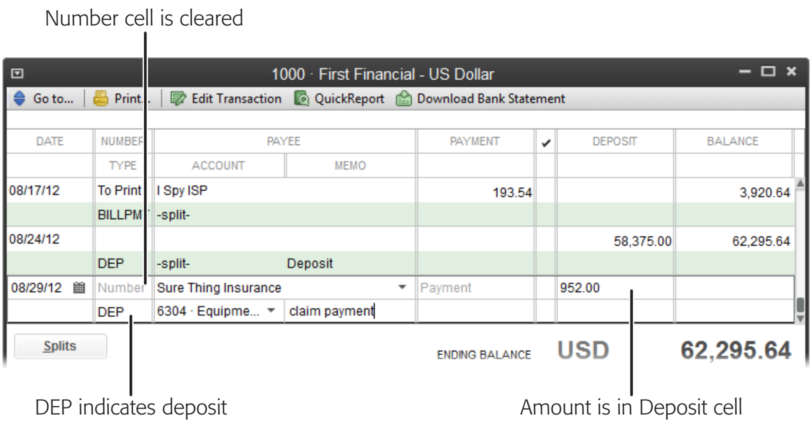


FIGURE 15-2

You aren't alone if you frequently type a deposit amount in the Payment cell by mistake. To record a deposit correctly, be sure to enter its value in the Deposit cell. When you move to another cell, QuickBooks springs into action, automatically clearing the check number out of the Number cell and the value out of the Payment cell. It also replaces the code CHK in the Type cell with DEP for deposit.

NOTE QuickBooks keeps track of handwritten and printed check numbers separately. When you use the register window to create a check, QuickBooks fills in the Number cell by incrementing the last *handwritten* check number. When you choose File→Print Forms→Checks, the program fills in the First Check Number box by incrementing the last *printed* check number.

- **Payee**. QuickBooks doesn't require a value in this cell. In fact, if it's a payee you only occasionally work with, it's better to not type the vendor's or other name in the Payee cell for deposits, transfers, or petty cash transactions so your Vendors list doesn't fill up with names you rarely use. Instead, type a generic name like *Deposit* or *Petty Cash* and then fill in the Memo cell with a description of the transaction, like *Insurance Claim*.

  As you start typing the payee's name, QuickBooks scans the names in the various lists in your company file (Vendors, Customers, Other Names, and so on) and selects the first one it finds that matches the letters you've typed so far. As soon as QuickBooks selects the one you want, press Tab to move to the Payment cell.

- **Payment** or **Charge**. For checks you write, fees that the bank deducts from your account, and petty cash withdrawals, type the amount in the Payment cell. In a credit card register, this field is named Charge for the credit card charges you make.

- **Deposit** or **Payment**. For deposits you make to checking or petty cash, or interest you've earned, type the amount in the Deposit cell. In a credit card register, this field is called Payment, because you make payments *to* a credit card account (the opposite of making payments *from* a checking account).

NOTE In QuickBooks transactions, money either goes out or comes in—there's no in-between. So when you enter a value in the Payment cell, QuickBooks clears the Deposit cell's value, and vice versa.

- **Account**. This cell can play many roles. For instance, when you're creating a check, choose the account for the expense it represents. If you're making a deposit, choose the income or expense account to which you want to post the deposit. (Depositing an insurance claim check that pays for equipment repair reduces the balance of the expense account for equipment maintenance and repair.) If you're transferring money to or from another bank account, choose that account instead.

- **Memo**. Filling in this cell can jog your memory no matter what type of transaction you create. Enter the bank branch for a deposit (in case your deposit ends up in someone else's account), the name of the restaurant for a credit card charge, or the items you purchased with petty cash. The contents of the Memo cell appear in the reports you create.

TIP Remember your accountant's insistence on an audit trail? If you create a transaction by mistake, don't delete it. Although QuickBooks' audit trail keeps track of deleted transactions, the omission can be confusing to others—or to you after some time has passed.

Instead of deleting transactions, void them. That way, the payment or deposit amount changes to zero, but the voided transaction still appears in your company file, so you know that it happened. Because the amount is zero, the transaction doesn't affect any account balances or financial reports. Before you void a transaction, type a note in its Memo cell that explains why you're voiding it. Then, in a register window, right-click a transaction and choose the appropriate Void feature (Void Check, Void Deposit, and so on) on the shortcut menu.

FREQUENTLY ASKED QUESTION

Managing Credit Card Accounts

Are credit cards accounts or vendors?

In QuickBooks, the credit cards you use can be set up as accounts *or* vendors, depending on how you prefer to record your credit card transactions. Here's the deal:

- **Credit card account.** If you prefer to keep your expenditures up-to-date in your company file, create an account for your credit card and enter the charges as they happen (which takes no time at all if you download credit card transactions; page 576 explains how). Then, reconcile the credit card account as you would a checking account (page 426), which is easy in QuickBooks. To prevent credit card charge payee names from filling your Vendor List with entries you don't need, store names in the Memo cell or create more general vendors like Gas, Restaurant, and Office Supplies.
- **Credit card vendor.** If you set up a credit card as a vendor, you don't have an account to reconcile when you receive your credit card statement. In addition, the name of every emporium and establishment you bless with credit card purchases won't fill up your Vendor List. The drawback to this approach is that you still have to allocate the money you spent to the appropriate accounts, and you can't download that split transaction from your credit card company. With statement in hand, open the Write Checks window (page 257) and write a check for the total amount on your credit card statement. Then, on the window's Expenses and Items tabs, add entries to allocate charges to the appropriate expense accounts. (You can also use QuickBooks' Enter Credit Card Charges feature [page 262] to enter a single transaction allocating the total to each of the charges you made. The advantage to this approach is that recording a transaction this way does double duty by reconciling your charges to the statement, which will make your accountant happy.)

Handling Bounced Checks

Bouncing one of your own checks is annoying and embarrassing. It can be expensive, too, since banks charge for each check you bounce (and, often, they craftily pay your larger checks before the smaller ones to rack up as many bounced-check charges as possible). Besides depositing more money to cover the shortfall and paying those bank fees, you have to tell people to redeposit the checks that bounced or write new ones.

When someone pays *your* company with a rubber check, it's just as annoying. In addition to the charges your bank might charge for redepositing a bounced check, you have to do a few things to straighten out your records in QuickBooks when a customer's check bounces:

- Record a transaction that removes the amount of the bounced check from your checking account, because the money never made it there.
- Record any charges that your bank levies on your account for your customer's bounced check.
- Invoice the customer to recover the original payment, your bounced-check charges, and any additional charges you add for your trouble.

The following sections explain the details.

Setting Up QuickBooks to Handle Bounced Checks

Before you can re-invoice your customers, you first need to create items for bounced checks and their associated charges.

BOUNCED CHECK REIMBURSEMENT ITEM

When a check you deposit bounces, you'll see two transactions on your next bank statement: the original deposit and a second transaction that removes the amount when the check bounces. You have to create the same transactions in your company file so you don't overestimate your bank balance and write bad checks of your own. Because the customer hasn't really paid you, the amount of the check should go back into your Accounts Receivable account.

To create an item that removes the amount of the bounced check from your bank account, create an Other Charge item. Here's how:

1. **Choose Lists→Item List to open the Item List window, and then press Ctrl+N.**

   The New Item window opens.

2. **In the Type drop-down list, choose Other Charge.**

   The Other Charge item type is perfect for miscellaneous charges that don't fit any other category.

3. **In the Item Name/Number box, type a name for the item, like *BadCheck*. In the Account drop-down list, choose your bank account, and then click OK.**

   The new item appears in the Item List.

SERVICE CHARGES FOR BOUNCED CHECKS

Companies typically request reimbursement for bounced-check charges, and many companies tack on *additional* service charges for the inconvenience of processing a bounced check. Depending on how you account for these charges, you'll use one or two Other Charge type items:

- **Bounced-check charge reimbursement.** To request reimbursement from a customer for your bank's bounced-check charges, you need an Other Charge item that you can add to an invoice, called something like BadCheck Charge.

(Be sure to choose a nontaxable code for the item so that QuickBooks doesn't calculate sales tax on it.)

QuickBooks doesn't care whether you post this item to an income account or an expense account, but an income account is easier if you plan to charge customers an extra service charge for bounced checks, as you'll learn shortly. You can post reimbursed bounced-check charges to the same income account you use for other types of service charges. Although the customer's reimbursement appears as income, the bank charge you paid is an expense. The effect on your net profit (income minus expenses) is zero.

- **Bounced-check service charge.** If you post your bank's bounced-check charges to an income account (such as a Service Charge account), you can use the same item for any *extra* service charge you apply for the hassle of handling bounced checks.

NOTE Alternatively, you can post bounced-check reimbursements directly to the same expense account you use for bank service charges. Then when you pay your bank's bounced-check charge, it shows up as an expense in the bank service charge account. When the customer pays you back, QuickBooks credits the bank service charge account to reduce your service charge expenses. The effect on net profit is still zero.

When you use this approach, you need an additional item if you ding your customer with a bounced-check service charge. Create an Other Charge type item for the additional service charge, and for the item's Account, choose your service charge income account. Like the bounced-check charge reimbursement item, make this charge nontaxable.

Recording Bank Charges

The easiest place to record a bounced-check charge is in the bank account's register window. This technique works for any charge your bank drops on your account, and for service charges and interest your credit card company levies:

1. **Press Ctrl+A to open the Chart of Accounts window and then, in the window, double-click your bank account to open its register window.**
2. **In the Date cell for the first blank transaction, choose the date when the bank assessed the charge.**

   QuickBooks automatically fills in the Number cell with the next check number. Be sure to delete that number before saving the transaction to keep your QuickBooks check numbers synchronized with your paper checks.
3. **In the Payee cell, type a generic payee name like *Bank Charge*.**

   Alternatively, you can type the name of your bank or credit card company.
4. **Type the details of the charge in the Memo cell, as shown in Figure 15-3.**

   For a bounced check charge, include the name of the customer, a note that their check bounced, and the number of the check that bounced.

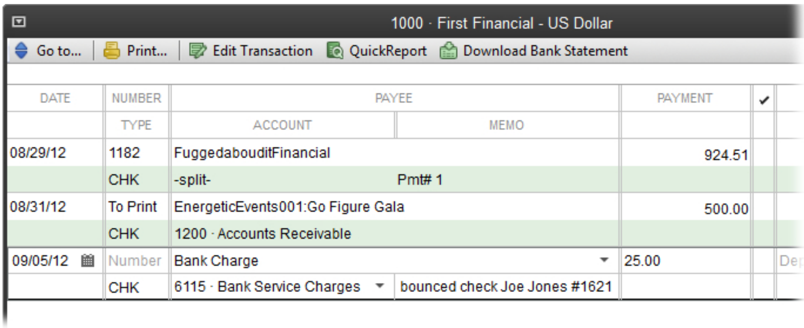


FIGURE 15-3

In the Memo cell, type a description of the bank charge, such as "bounced check charge," "minimum balance charge," the bounced check's number, and so on.

5. **In the Payment cell, type the amount of the charge. In the Account cell, choose the account you use to track bank charges or bounced-check charges.**

   For a bounced-check charge, choose the income or expense account you use for that purpose (page 419). For other bank service charges, choose the corresponding expense account. You have to include a bounced-check charge item on a new invoice in order to recoup this cost, as described in the next section.

TIP The Customer:Job cell provides a shortcut to invoicing a customer for bounced-check charges: While the transaction is still selected in the register window, click Splits to open the Splits table. The Account, Amount, and Memo fields are already filled in with the values you've provided so far. To make the bank charge billable to the customer who bounced the check, in the Customer:Job cell, choose the customer, and in the "Billable?" cell, turn on the checkbox. Then you can add this billable charge along with any others to the customer's next invoice (as described in step 5 on page 422).

6. **Click Record.**

   QuickBooks saves the bank charge in your account.

Re-invoicing for Bounced Checks

With the bounced-check items described on page 419, you can update all the necessary account balances just by re-invoicing the customer for the bounced check. Here's the short-and-sweet approach:

1. **On the Home page, click the Create Invoices icon (or Invoices→Create Invoices if you've set up time-tracking in QuickBooks).** Or simply press Ctrl+I.

   The Create Invoices window opens.

2. **In the Customer:Job box, choose the customer who wrote the bad check.**

   You don't have to bother filling in fields like P.O. No. and Ship.

3. **In the item table, add an item for the bounced check (like the BadCheck item in Figure 15-4).**

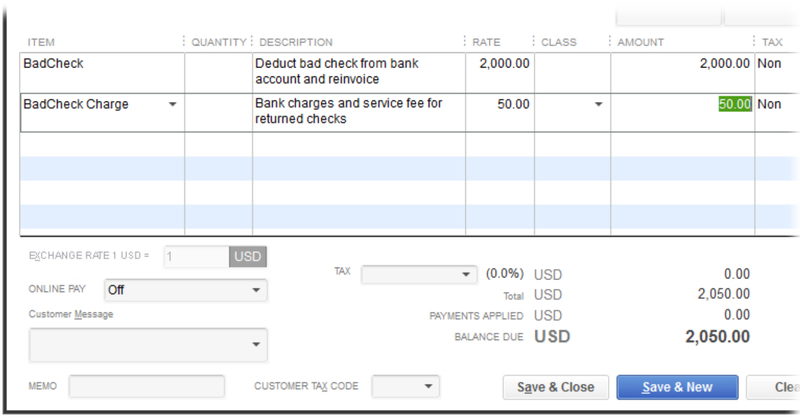


FIGURE 15-4

To re-invoice the customer for the amount of the check that bounced, in the first Item cell, choose the item for a bounced check (BadCheck, in this example). In the Amount cell, type the amount of the bounced check. In the second item cell, choose the item you created for bounced-check charges. This item's amount represents the bank's charge for a bounced check and any additional service fee you charge.

4. **In the Amount cell for the bounced-check item, type the amount of the returned check.**

   Include the full amount of the bounced check.

5. **Add a second item to recoup the bounced-check fees that your bank charged you and any additional service charges you want to include. In the Amount cell for the bad-check-charge item, type the amount you're charging.**

   If you really want to deter customers from writing bad checks, in addition to making them pay your bank fees, you can add on a fee for your trouble. In Figure 15-4, the BadCheck Charge item covers the bank's $25 charge plus an additional $25 fee your company collects.

   If you recorded the bounced-check charge in your bank account as a billable cost to your customer (page 421), the Billable Time/Costs dialog box opens. Keep the "Select the outstanding billable time and costs to add to this invoice" option selected and click OK. In the Choose Billable Time and Costs dialog box, click the Expenses tab and select the bank charge, and then click OK to add that charge to the invoice.

6. **When you save the invoice, QuickBooks updates your bank account and Accounts Receivable account balances, as shown in Figure 15-5.**

   When you first invoice a customer, the invoice amount gets added on to your Accounts Receivable balance. The customer's original payment reduced the Accounts Receivable balance, but the bounced check means you have to remove the original payment amount from your records. By re-invoicing the customer, you reestablish the balance as outstanding and add the invoice amount back into Accounts Receivable.

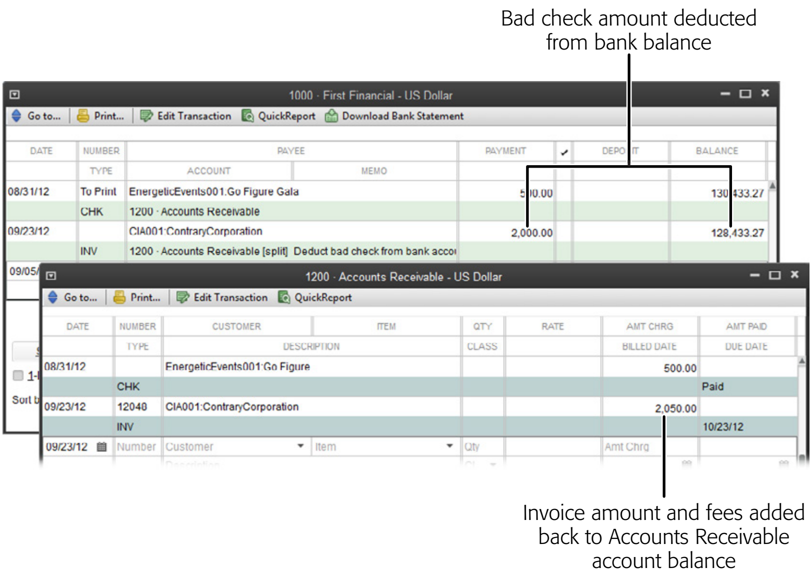


FIGURE 15-5

The item for a bounced check is linked to your bank account, so adding it to an invoice deducts the value of the bad check from your bank account's balance (background). The new invoice adds the amount of the bounced check and service charges back into Accounts Receivable (foreground).

7. **When the customer sends you a check for this new invoice, click the Receive Payments icon on the Home page to apply that check as a payment for the invoice.**

   QuickBooks reduces the Accounts Receivable balance by the amount of the payment. (If your customer and the money they owe you are gone for good, see the box on page 424 to learn what to do next.)

TROUBLESHOOTING MOMENT

Writing Off Bad Debt

If you try contacting a customer about a payment only to find that the phone is disconnected, the forwarding address has expired, and an eviction notice is stapled to the office door, you probably aren't going to get your money. In accounting, admitting that the money is gone for good is called *writing off bad debt*.

The invoice you create for a customer represents income *only if* the customer pays it. So, to write off bad debt, you have to remove the income for the unpaid invoice from your financial records. You do that by offsetting the income with an equal amount of expense—you guessed it: the bad debt.

Suppose you invoiced a customer for $5,000, which means that $5,000 is sitting in your Accounts Receivable account as an asset, but you now realize that you'll never see the money. Here's how to remove that money from the Accounts Receivable account by means of a bad-debt expense:

1. If you don't have an account for bad debt, create an Other Expense type account (page 52) and name it Bad Debt.
2. Create an Other Charge item (page 134) and name it Bad Debt. Point it to the Bad Debt account you created, and be sure to make it nontaxable.
3. On the Home page, click the Refunds & Credits icon.
4. In the Create Credit Memos/Refunds window's Customer:Job box, choose the customer.
5. In the first item cell, choose the Bad Debt item. When the warning about the item being associated with an expense account appears, simply click OK.
6. In the Amount cell, type the amount that you're writing off as bad debt.
7. Click Save & New to save the credit memo. Then, at the top of the window, click the left arrow to display the credit memo you just saved.
8. The Available Credit dialog box opens and asks you what you want to do with the credit. Select the "Apply to an invoice" option and then click OK.
9. In the Apply Credit to Invoices dialog box, turn on the checkmark for the invoice(s) that the customer isn't going to pay.
10. Click Done.
11. Back in the Create Credit Memos/Refunds window, click Save & Close.

When you apply the write-off as a credit against an invoice, QuickBooks removes the money from the Accounts Receivable account, so the program no longer thinks your customer owes the money. And it adds the credit amount to the appropriate income account and to the Bad Debt expense account, so your net profit shows no sign of the income. In addition, if you run a Job Profitability Detail report for that customer, the bad debt appears as a negative number in the Actual Revenue column—that is, a cost that reduces the profitability of the job.

Transferring Funds

With the advent of electronic banking services, transferring funds between accounts has become a staple of account maintenance. Companies stash cash in savings and money market accounts to earn interest and then transfer money into checking right before they pay bills.

Fund transfers have nothing to do with income or expenses—they merely move money from one balance-sheet account to another. For example, if you keep money in savings until you pay bills, the money moves from your savings account (an asset account in your chart of accounts) to your checking account (another asset account). Your income, expenses, and, for that matter, your total assets, remain the same before and after the transfer.

Transferring funds in QuickBooks is easy, whether you use the Transfer Funds dialog box or enter the transaction directly in an account register window. The steps for creating a transaction in an account register appear on page 414. If you create a transfer in a bank account register (a savings account, for example), in the Account field, choose the bank account to which you're transferring funds (checking, say). Here's how to use the Transfer Funds Between Accounts window:

1. **Choose Banking→Transfer Funds.**

   QuickBooks opens the Transfer Funds Between Accounts window (Figure 15-6).

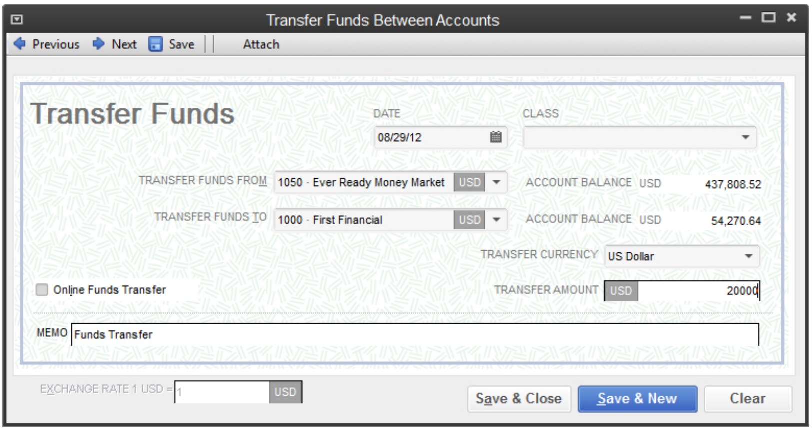


FIGURE 15-6

This window has one advantage over entering transfers in a bank account register: You can't create a payment or deposit by mistake. That's because you can't save a transfer in the window until you specify both the account that contains the money and the account into which you want to transfer the funds. In addition, the Transfer Funds From and Transfer Funds To drop-down menus show only balance-sheet accounts (bank, credit card, asset, liability, and equity accounts).

2. **After you choose the accounts for the transfer, in the Date box, select the date of the transfer and, in the Transfer Amount field, type the amount you're transferring.**

   To record the reason for the transfer, in the Memo box, replace "Funds Transfer" (which QuickBooks adds automatically) with your reason.

   If you track classes, the window includes a Class box, too. Depending on the preferences you've set, the program might warn you if you leave this box blank. However, transfers usually don't require a class assignment, so you can dismiss the warning.

NOTE If the two accounts you select are both set up for online banking at the same financial institution, the Online Funds Transfer checkbox appears in the transfer Funds Between Accounts window. Turn this checkbox on if you want to send the transfer instruction to your bank through QuickBooks.

3. **Click Save & Close. (If you've got more transfers to make, click Save & New instead.)**

   You still have to transfer the funds between your real-world bank accounts, of course. If you turned on the Online Funds Transfer checkbox to send the transfer instructions, you have to open the Online Banking Center (Banking→Online Banking→Online Banking Center) and then click Send/Receive.

   In the account register window for either account in the transfer, QuickBooks identifies the transaction by putting TRANSFR in the Type cell.

Reconciling Accounts

Reconciling a bank statement with a paper check register is tedious and error-prone. Besides checking off items on two different paper documents, the check register and the bank statement never seem to agree—likely due to arithmetic mistakes you've made.

With QuickBooks, you can leave your pencils unsharpened and stow your calculator in a drawer. When all goes well, you can reconcile your account in QuickBooks with just a few mouse clicks. Discrepancies crop up less often because the program does the math without making mistakes. But problems occasionally happen—transactions might be missing or numbers don't match. Fortunately, when your bank statement and QuickBooks account don't agree, the program helps you find the problems.

Preparing for the First Reconciliation

If you didn't set the beginning balance for the QuickBooks account to the beginning balance on a bank statement, you might wonder how you can reconcile the bank account the first time around. The best way to resolve this issue is to enter the transactions that happened between that statement's beginning date and the day you started using QuickBooks. Or you can create a journal entry (page 454) to record the beginning balance. (You'll select these items as part of your first reconciliation, as described on page 427.)

NOTE Alternatively, QuickBooks can align your statement and account the first time you reconcile, as described in the box on page 431. The program generates a transaction that adjusts your account's opening balance to match the balance on your bank statement. Account opening balances post to your Opening Bal Equity account, so these adjustments affect your balance sheet. If you use this method, let your accountant know that you changed the opening balance so she can address that change while closing your books at the end of the year.

Preparing for Every Reconciliation

QuickBooks lets you create and edit transactions in the middle of a reconciliation, but reconciling your account flows more smoothly when your transactions are up-to-date. So take a moment *before* you reconcile to make sure that you've entered all the transactions in your account:

- **Bills**. If you paid bills by writing paper checks and forgot to record them in QuickBooks, then on the program's Home page, click the Pay Bills icon and enter those payments (page 244).
- **Checks**. If you find that checks are not in your checkbook but you don't see check transactions in QuickBooks, chances are that you wrote a paper check and didn't record it in your company file. Create any missing check transactions in the account register (page 414) or choose Banking→Write Checks.
- **Transfers**. Create missing transfers in the account register (page 414) or choose Banking→Transfer Funds.
- **Deposits**. If you forgot to record deposits of customer payments in QuickBooks, on the program's Home page, click the Record Deposits icon to add them to your bank account (page 397). If a deposit appears on your bank statement but doesn't show up in the Payments to Deposit dialog box, you might have forgotten to receive the payment in QuickBooks. For deposits unrelated to customer payments, create the deposit directly in the account's register (page 414).

TIP The easiest way to spot payments you haven't deposited in QuickBooks is to open the register window for the Undeposited Funds account (double-click it in the Chart of Accounts window). If the balance is greater than zero, you haven't deposited all the payments you received.

- **Online transactions**. If you use Online Payment or Online Account Access, download online transactions (page 571).

TIP If you let several months go by without reconciling your account, don't try to reconcile multiple months at once to catch up—doing so makes discrepancies harder to spot, and locating the source of problems will tax your already-overworked brain. Instead, put your bank statements in chronological order and then walk through the reconciliation process for each statement.

Starting a Reconciliation

Reconciling an account is a two-part process, and QuickBooks has separate dialog boxes for each phase. The first phase includes choosing the account you want to reconcile, entering the ending balance from your bank statement, and entering service charges and interest earned during the statement period. Here's how to kick off a reconciliation:

1. **On the Home page, click the Reconcile icon or choose Banking→Reconcile (or Banking→Reconcile Credit Card if you have a credit card account selected in the Chart of Accounts window). In the Begin Reconciliation dialog box's Account drop-down list, choose the account you want to reconcile.**

   The Begin Reconciliation dialog box displays information about the previous reconciliation for this account, as shown in Figure 15-7. The date of the previous reconciliation appears to the right of the Account box. (No date appears if you're reconciling this account for the first time.) QuickBooks fills in the Statement Date box with a date one month after the previous reconciliation date. If that date doesn't match your bank statement's ending date, replace it with the date from your statement.

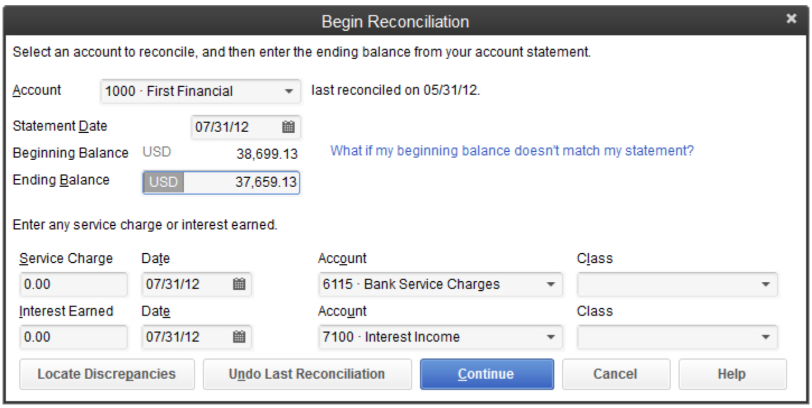


FIGURE 15-7

QuickBooks uses the ending balance from the previous reconciliation to fill in the beginning balance for this reconciliation. If the beginning balance here doesn't match the beginning balance on your bank statement, click Cancel and turn to page 433 to learn how to correct the problem.

TIP If the bank account's register window is already open, it's easier to start reconciling by right-clicking the register window and choosing Reconcile on the shortcut menu that appears (or by choosing Banking→Reconcile or Banking→Reconcile Credit Card on the QuickBooks main menu bar). With this approach, the Begin Reconciliation dialog box opens and automatically selects the active bank account.

2. **In the Ending Balance box, type the ending balance from your bank statement.**

   If you turned on multiple currencies, the account's currency appears to the right of the Beginning Balance and Ending Balance labels. For a foreign-currency account, enter the ending balance in the foreign currency, which is the ending balance that appears on your bank statement.

3. **If your bank levies a service charge on your account, in the Service Charge box, type the charge amount. (If you download transactions from your bank, leave this box blank.)**

   In the Date box to the right of the Service Charge box, choose the date that the charge was assessed if it differs from the statement ending date. In the Account box, choose the account to which you want to post the charge (usually Bank Service Charges or something similar). QuickBooks creates a transaction for you.

TIP If you use online banking, chances are you've already downloaded your service charge and interest transactions. In that case, don't enter them in the Begin Reconciliation dialog box or you'll end up with duplicate transactions.

4. **If you're reconciling an account that pays interest, in the Interest Earned box, type the interest you earned from the bank statement.**

   As you did for the service charge, specify the date and the account that you use to track interest.

NOTE If you track service fees and interest earned by class, in the Class boxes, choose the appropriate one. For example, classes might apply if you use them to track performance by region. However, if you use classes to track sales by partner, you don't have to specify a class for interest earned.

5. **Click Continue to start reconciling individual transactions.**

   QuickBooks opens the Reconcile window, where you reconcile the individual transactions, as described in the next section.

Reconciling Transactions

The Reconcile window groups checks and payments on the left side and deposits and other credits on the right side. (For a credit card account, charges and cash advances appear on the left side of the window—since they reduce your balance—and payments and credits appear on the right side.) Marking transactions as cleared is a matter of turning on their checkmarks, as you can see in Figure 15-8. For each transaction that appears on your bank statement, turn on the checkmark for the matching QuickBooks transaction. (If you turn on a checkmark by mistake, just click it again to turn it off.)

NOTE QuickBooks initially sorts transactions by date with the earliest transaction listed first. If you want to sort them by another field, click the column heading for that field. For example, click "Chk #" if you're trying to find the check that's preventing you from reconciling successfully. An up arrow next to the heading indicates that the column is sorted in ascending order (smallest to largest values). Click the column heading again to reverse the order (largest to smallest).

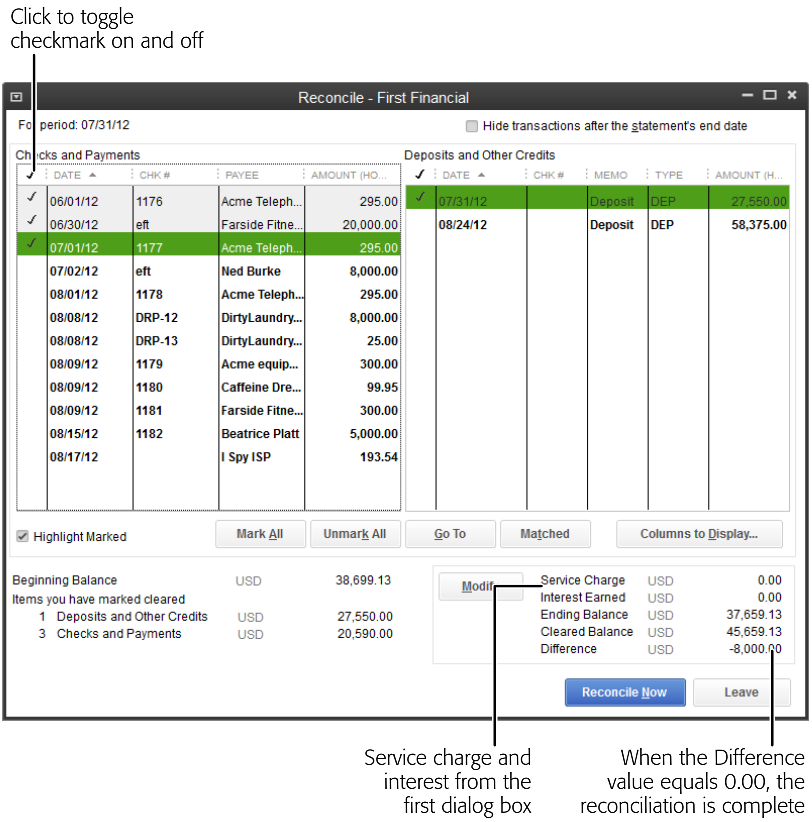


FIGURE 15-8

When you mark transactions as cleared by turning on their checkmarks, the Cleared Balance and Difference values below the table change to reflect the transactions you selected. The Service Charge and Interest Earned values represent the service charge and interest you entered in the Begin Reconciliation dialog box as a reminder that the program created those transactions for you. If you forgot to record the service charge or interest, click Modify to reopen the Begin Reconciliation dialog box.

TIP Initially, the Reconcile window lists *all* uncleared transactions in the account regardless of when they happened. If transactions after the statement ending date are mixed in, you could select unnecessary transactions by mistake. To filter the list to likely candidates for clearing, turn on the "Hide transactions after the statement's end date" checkbox at the top right of the window. If you don't see transactions that appear on your bank statement, turn this checkbox off; you might have created a transaction with the wrong date.

QuickBooks includes several shortcuts for marking a transaction as cleared:

- **Mark All**. If you usually end up clearing most of the transactions in the list, click Mark All below the table to select all the transactions. Then, turn off the checkmarks for the ones that don't appear on your bank statement. If you were distracted and selected several transactions by mistake, click Unmark All to start over.

- **Selecting contiguous transactions**. Dragging down the checkmark column selects every transaction you pass. (This approach isn't that helpful if you compare one transaction at a time or if your transactions don't appear in the same order as those on your bank statement.)
- **Online account access**. If you've set up online banking in QuickBooks, click Matched to automatically clear the transactions that you've already matched from your QuickStatement (see Chapter 22). Enter the ending date from the printed statement, and then click OK.

When the Difference value changes to 0.00, your reconciliation is a success. To officially complete the process, click Reconcile Now. The Select Reconciliation Report dialog box opens. If you don't want to print a reconciliation report, simply click Close.

NOTE When you reconcile a credit card account and click Reconcile Now, QuickBooks opens the Make Payments window. There, you can choose to write a check or enter a bill to make a payment toward your credit card balance.

WORKAROUND WORKSHOP

Adjusting an Account that Won't Reconcile

When the Difference value in the Reconcile dialog box obstinately refuses to change to 0.00, reconciling without finding the problem *is* an option. For example, if you're one penny off and you can't solve the problem with a quick review, that 1 cent isn't worth any more of your time. As you complete the reconciliation, QuickBooks can add an adjustment transaction to make up the difference.

In the Reconcile window, if you click Reconcile Now without zeroing the Difference value, QuickBooks opens the Reconcile Adjustment dialog box. The program tells you what you already know: That there's an unresolved difference between the Ending Balance from your bank statement and the Cleared Balance in QuickBooks. If you want to try to fix the problem, click Return to Reconcile. Or click Leave Reconcile if you want to research the problem. (When you restart the reconciliation, all the work you've done so far will still be there.)

To create an adjustment transaction, click Enter Adjustment, and QuickBooks creates a general journal entry to zero out the balance. If you stumble across the source of the discrepancy later, you can either void the adjustment journal entry or create a reversing entry (page 459).

Reconciliation Reports

After you click Reconcile Now in the Reconcile window, you might notice a short delay while QuickBooks generates your reconciliation reports. These reports may come in handy as a benchmark when you try to locate discrepancies in a future reconciliation.

When the Select Reconciliation Report dialog box opens, you can display or print reconciliation reports. Choose the Summary option for a report that provides the totals for the checks and payments you made, and for the deposits and credits you received. To save the reports for future reference, click Print. Click Close to close the dialog box without printing or viewing the reports. You can look at them later by choosing Reports→Banking→Previous Reconciliation. (If you use QuickBooks

Premier or Enterprise, in the Select Previous Reconciliation Report dialog box, the Statement Ending Date box lists the dates of the previous reconciliations for the account. Click the statement ending date you want and then click Display to run the report.) Figure 15-9 shows what a detailed reconciliation report looks like.

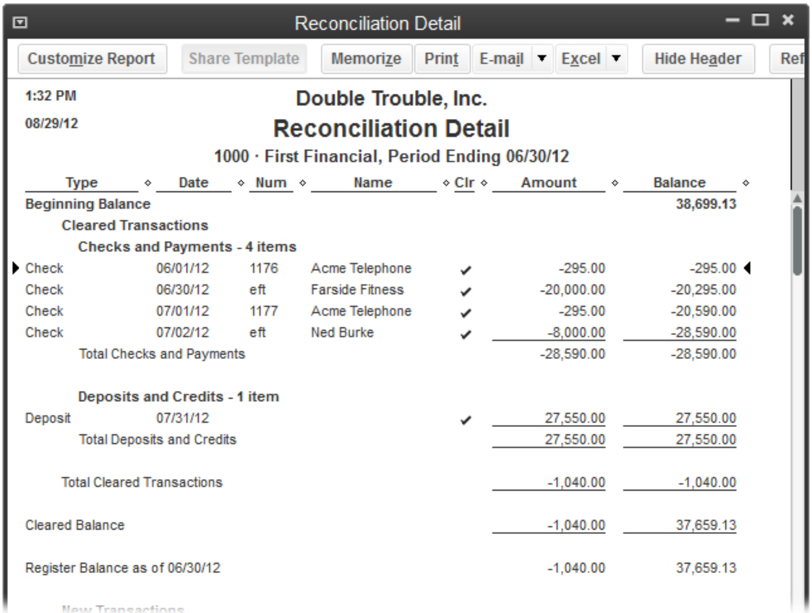


FIGURE 15-9

In the Select Previous Reconciliation Report dialog box, when you choose the Detail option and then click Display, the report shows your beginning and ending balances and every transaction you cleared. You can view a reconciliation report at any time by choosing Reports→Banking→Previous Reconciliation.

Modifying Transactions During Reconciliation

QuickBooks immediately updates the Reconcile window with changes you make in the account register window, so it's easy to complete a reconciliation. Missing transactions? Incorrect amounts? Other discrepancies? No problem. You can jump to the register window and make your changes. Then, when you click back to the Reconcile window, the changes are there.

TIP If you have opened both the register window and the reconciliation window (page 414), click the one you want to work on. If the Open Windows list appears in the navigation bar on the left side of the QuickBooks window (choose View→Open Window List if you use the top icon bar), you can click names there to change the active window or dialog box. If you use the left icon bar, click Open Windows in the bar's middle section to see the same type of list at the top of the bar; simply click the name of the window you want to work with.

Here's how to make changes while reconciling:

- **Adding transactions**. If a transaction appears on your bank statement but isn't in QuickBooks, switch to the account's register window and add the transaction (page 414).

- **Deleting transactions**. If you find duplicate transactions, in the account's register window, right-click the transaction and choose the corresponding Delete entry on the shortcut menu (or select the transaction and press Ctrl+D). When you confirm your decision and QuickBooks deletes the transaction, the transaction also disappears from the Reconcile window.
- **Editing transactions**. If you notice an error in a transaction, in the Reconcile window, double-click the transaction to open its corresponding window (Write Checks for checks, Make Deposits for deposits, and so on). Correct the mistake and then save the transaction by clicking Record or Save, depending on the window.

Stopping and Restarting a Reconciliation

If your head hurts and you need a break, don't worry about losing the reconciliation work you've already done. Here's how to stop and restart a reconciliation:

1. **In the Reconcile window, click Leave.**

   Although QuickBooks closes the window, it remembers what you've done. In the account's register window, you'll see asterisks in the checkmark column for transactions that you've marked as cleared, which indicates that your clearing of that transaction is pending.

2. **When you're reenergized, open the account's register window, right-click it, and then choose Reconcile on the shortcut menu.**

   The Begin Reconciliation dialog box opens with the ending balance, service charge, and interest amounts already filled in.

3. **Click Continue.**

   The transactions you marked are, happily, still marked. Pick up where you left off by marking the rest of the transactions that cleared on your bank statement.

Correcting Discrepancies

If you modify a transaction that you've already reconciled, QuickBooks displays a dialog box warning you that you changed a reconciled transaction and that your change will affect your reconciliation balance. After all, if you cleared a transaction because it appeared on your bank statement, the transaction is complete, and changing it in QuickBooks doesn't change it in your bank account. While you technically *can* change or delete cleared transactions in QuickBooks, doing so is usually a bad idea. (The one situation that usually calls for editing reconciled transactions is when you're trying to correct a reconciliation problem. The box on page 435 provides one example of this type of change.)

Changing previously cleared transactions is the quickest way to cause mayhem when reconciling accounts. For example, in the account register window, clicking a checkmark cell resets the status of that transaction from reconciled (indicated by a checkmark) to cleared (indicated by an asterisk), which then removes that transaction's amount from the Begin Reconciliation dialog box's Beginning Balance when you try to reconcile the account. And *that* means that the Beginning Balance won't match the beginning balance on your bank statement, which is one reason you might be reading this section. The box on page 435 explains how to perform a mini-reconciliation if the Beginning Balance is off because you deleted a reconciled transaction on purpose, and the following sections explain how to hunt down transactions that are causing discrepancies.

THE DISCREPANCY REPORT

If your statement and QuickBooks records don't agree and you don't know why, the Discrepancy Report can help you find the transactions that are the culprits. This report shows you changes that were made to cleared transactions, so you can restore them to their original state.

To run the Discrepancy Report, in the Begin Reconciliation window, click Locate Discrepancies, and then, in the Locate Discrepancies window, click Discrepancy Report. (You can also choose Reports→Banking→Reconciliation Discrepancy.) To edit a transaction listed in the report, double-click the transaction to open its corresponding window or dialog box.

Seeing transactions on the Discrepancy Report is a big step toward correcting reconciliation problems. Here's how to interpret the crucial columns in the report:

- **Entered/Last Modified**. This is the date that the transaction was created or modified, which doesn't help you restore the transaction but might help you figure out who's changing reconciled transactions.
- **Reconciled Amount**. This column shows the value the transaction had when you cleared it during reconciliation. If the transaction's amount has been changed, use this value to restore the transaction to its original value. For example, –99.95 in this column represents a check or charge for $99.95.
- **Type of Change**. This indicates what aspect of the transaction was changed. For example, "Amount" means that the transaction's amount changed, "Uncleared" indicates that someone removed the reconciled checkmark in the account register, and "Deleted" means that the transaction was deleted. (The only way to restore a deleted transaction is to recreate it from scratch.)
- **Effect of Change**. This value indicates how the change affected the beginning balance for your reconciliation. For example, a $99.95 check that was reset added $99.95 to your bank account. When the Beginning Balance is off and the amount in this column matches that discrepancy, you can be sure that restoring these transactions to their original states will fix your problem.

WORKAROUND WORKSHOP

Using a Mini-Reconciliation

Suppose you recorded a transaction by using the wrong form, such as writing a check to remit your sales tax instead of using the Pay Sales Tax dialog box. Then, to make matters worse, you reconcile that incorrect transaction as part of your bank account reconciliation. If you delete the check so you can pay the sales tax using the correct QuickBooks feature, your beginning reconciliation balance won't agree with the one on your bank statement. Fortunately, you can perform a surgical reconciliation to accept your corrected transaction. Here are the steps:

1. In the bank account register window, delete the transaction that you recorded using the wrong method by right-clicking the transaction and choosing "Delete <transaction>" from the shortcut menu. (In this example, the transaction is a check to pay sales tax, so you would choose Delete Check, but it could be a check for payroll or another type of transaction). By deleting this transaction, the beginning balance for your reconciliation will be reduced by the amount of the check. Although the best approach to removing a transaction is to void it, in this case, you delete the transaction, because you'll recreate it in the next step.
2. Recreate the transaction using the correct method (in this case, by choosing Vendors→Sales Tax→Pay Sales Tax).
3. Choose Banking→Reconcile and then, in the Account drop-down list, choose the bank account you want to mini-reconcile (if it isn't already selected).
4. In the Begin Reconciliation dialog box, change the date in Statement Date box to the date on the bank statement that contains the transaction you deleted and recreated. For example, if you made your sales tax payment gaff on September 15, fill in the statement date for your September bank statement.
5. In the Ending Balance box, fill in the ending balance from the bank statement (the September statement, in this example).
6. Click Continue.
7. In the Reconcile window, find the recreated transaction in the Checks and Payments list and click its checkmark cell to turn on its checkmark. By doing so, the Difference value will change to 0.00.
8. Click Reconcile Now to complete the mini-reconciliation.

The next time you reconcile the account, the beginning balance will match the beginning balance on your bank statement.

OTHER WAYS TO FIND DISCREPANCIES

Sometimes, your QuickBooks records don't match your bank's records because of subtle errors in transactions or because you've missed something in the current reconciliation. Try the following techniques to help spot problems:

- **Search for a transaction equal to the amount of the discrepancy**. Press Ctrl+F to open the Find window. On the Advanced tab, in the Choose Filter list, select Amount. Next, choose the = option and type the amount in the text box, and then click Find to run the search.

  You can also use the Search feature to find a transaction for that amount: Press F3 to open the Search window. In the Amount box, type the amount of the discrepancy and then click Go.

NOTE Using Find or Search in this way works only if the discrepancy is caused by *one* transaction that you cleared or uncleared by mistake. If more than one transaction is to blame, the amount you're trying to find is the total of all the erroneously cleared transactions, so these methods won't find a matching value.

- **Look for transactions cleared or uncleared by mistake**. Sometimes, the easiest way to find a discrepancy is to start the reconciliation over. In the Reconcile window, click Unmark All to remove the checkmarks from all the transactions. Then begin checking them off as you compare them to your bank statement. Make sure that every transaction on the statement is cleared in the Reconcile window, and that no *additional* transactions are cleared in that window.
- **Look for duplicate transactions**. If you create transactions in QuickBooks *and* download transactions from your bank's website, it's easy to end up with duplicates. And when you clear both of the duplicates, the mistake is hard to spot. If that's the case, you have to scroll through the register window looking for multiple transactions with the same date, payee, and amount.

TIP Count the number of transactions on your bank statement, and then compare that to the number of cleared transactions displayed on the left side of the Reconcile window (Figure 15-8). Of course, this count won't help if you enter transactions in QuickBooks differently than they appear on your bank statement. For example, if you deposit every payment individually but your bank shows one deposit for every business day, your transaction counts won't match.

- **Look for a deposit entered as a payment or vice versa**. To find an error like this, look for transactions whose amounts are half the discrepancy. For example, if a $500 check becomes a $500 deposit by mistake, your reconciliation will be off by $1,000—$500 because a check is missing and another $500 because you have an extra deposit.
- **Look at each cleared transaction for transposed numbers or other differences between your statement and QuickBooks**. It's easy to type *$95.40* when you meant *$59.40*.

NOTE If these techniques don't uncover the problem, your bank might have made a mistake. See page 437 to learn what to do in that case.

Undoing the Last Reconciliation

If you're having problems with this month's reconciliation but suspect that the guilty party is hiding in *last* month's reconciliation, you can undo the last reconciliation and start over. When you undo a reconciliation, QuickBooks returns the transactions in it to an uncleared state.

In the Begin Reconciliation dialog box (choose Banking→Reconcile), click Undo Last Reconciliation to open the Undo Previous Reconciliation dialog box. (Although the button's label and the dialog box's title don't match, they both represent the same process.) In the dialog box, click Continue. When the Undo Previous Reconciliation message box appears telling you that the previous reconciliation has been successfully undone, click OK.

QuickBooks unclears all the transactions back to the beginning of the previous reconciliation and returns you to the Begin Reconciliation dialog box. Change the values in the dialog box, and then click Continue to try another reconciliation.

NOTE Although QuickBooks removes the cleared status from all the transactions, including service charges and interest, it doesn't remove the service charge and interest transactions that it added. So when you restart the reconciliation, don't re-enter the service charges or interest in the Begin Reconciliation dialog box.

When Your Bank Makes a Mistake

Banks do make mistakes: Digits get transposed, or amounts are flat wrong. When this happens, you can't ignore the difference. In QuickBooks, add an adjustment transaction (page 431) to make up the difference, and be sure to tell your bank about the mistake. (It's always a good idea to be polite in case the error turns out to be yours.)

When you receive your *next* statement, check that the bank made an adjustment to correct its mistake. You can then delete your adjustment transaction or add a reversing journal entry to remove your adjustment and reconcile as you normally would.

TIP For a reminder to check your next statement, create a To Do Note (choose Company→To Do List, and then click Add To Do).

Managing Loans

Unless your business generates cash at an astonishing rate, you'll probably have to borrow money to purchase big-ticket items that you can't afford to do without, such as a deluxe cat-herding machine.

In real life, the asset you purchase and the loan you assume are intimately linked—you can't get the equipment without borrowing the money. But in QuickBooks, loans and the assets they help purchase aren't connected in any way. You create an asset account to track the purchase price of an asset that you buy. If you take out a loan to pay for that asset, you create a liability account to track the balance of what you owe on the loan. With each payment you make on the loan, you pay off a little bit of the loan's principal as well as a chunk of interest.

NOTE On your company's balance sheet, the value of your assets appears in the Assets section, and the balance owed on loans shows up in the Liabilities section. The difference between the asset value and the loan balance is your *equity* in the asset. For example, suppose your cat-herding machine is in primo condition and is worth $70,000 on the open market. If you owe $50,000 on the loan, then your company has $20,000 in equity for that machine.

Most loans *amortize* your payoff, which means that each payment represents a different amount of interest and principal. At the beginning of a loan, amortized payments are mostly interest and very little principal, which means the lender gets more of its money up front, but it's also great for your company's tax deductions. By the end, the payments are almost entirely principal. Making loan payments in which the values change each month would be a nightmare if not for Loan Manager, a separate program that comes with QuickBooks that can gather information from your company file. Loan Manager calculates your loan's amortization schedule, posts the principal and interest for each payment to the appropriate accounts, and handles escrow payments and fees associated with your loans. This section explains how to use Loan Manager.

NOTE Loan Manager doesn't handle loans in which the payment covers only the accrued interest (called *interest-only loans*). For loans like these, you have to set up payments yourself (page 444) and allocate the payment to principal and interest using the values on your monthly loan statement.

Setting Up a Loan

Regardless of whether you use Loan Manager, you have to create accounts to keep track of your loan. You probably already know that you need a liability account for the amount of money you owe. But you also need accounts for the interest you pay on the loan and escrow payments (such as insurance or property tax) that you make:

- **Liability account.** Create a liability account (page 51) to track the money you've borrowed. For mortgages and other loans whose terms are longer than a year, use the Long Term Liability type. For short-term loans (ones with terms of one year or less), use the Other Current Liability type.

  When you create the liability account, forgo the opening balance. The best way to record money you borrow is with a journal entry (see Chapter 16), which credits the liability account for the loan and debits either the bank account where you deposited the money or the fixed asset account for the asset you purchased.

TIP If you've just started using QuickBooks and have a loan that you've partially paid off, fill in the journal entry with what you owed on the loan statement that's dated just before your QuickBooks company file's start date. Then, enter any loan payments you've made since that statement's ending date to get the account to the current balance.

- **Loan interest account.** The interest that you pay on loans is an expense, so create an Expense account (or an Other Expense account if that's the type of account your company uses for interest paid) called something like Interest Paid. (Loan Manager shows Other Expense accounts in its account drop-down lists, although the accounts are listed in alphabetical order, not by type.)
- **Escrow account.** If you make escrow payments for things like property taxes and insurance, create an account to track the escrow you've paid. Because escrow represents money you've paid in advance, use a Current Asset account type.

- **Fees and finance charge expense account.** Chances are you'll pay some sort of fee or finance charge at some point before you pay off the loan. If you don't have an account for finance charges you pay, set up an Expense account for them.

There's one last QuickBooks setup task to complete *before* you start Loan Manager: You have to create the lender in your Vendor List (page 91). The box below tells you what to do if you forgot to perform any of these steps before starting Loan Manager.

WORKAROUND WORKSHOP

Where Are My Accounts and Vendors?

Loan Manager looks like an item in QuickBooks' Banking menu, but it's actually a separate small program. When you start Loan Manager, it gleans information from your company file, such as the liability account you created for the loan and the vendor entry you set up for your lender.

If you forgot to create accounts or your lender in QuickBooks before launching Loan Manager, you'll probably jump to your Chart of Accounts window or Vendor List and create them. Unfortunately, you *still* won't see those new elements in Loan Manager's drop-down lists. To get them to appear, you have to close Loan Manager (losing all the data you've already entered) and create those entries in QuickBooks. Then, after you've created the vendor and all the accounts you need, choose Banking→Loan Manager to restart Loan Manager, which now includes your lender and loan accounts in its drop-down lists.

Adding a Loan to Loan Manager

Loan Manager makes it so easy to track and make payments on amortized loans that it's well worth the steps required to set it up. Before you begin, gather your loan documents like chicks to a mother hen, because Loan Manager wants to know every detail of your loan, as you'll soon see.

BASIC SETUP

With your account and vendor entries complete (see page 438 and the box above), follow these steps to tell Loan Manager about your loan:

1. **Choose Banking→Loan Manager.**

   QuickBooks opens the Loan Manager window.

2. **In the Loan Manager window, click the Add a Loan button.**

   QuickBooks opens the Add Loan dialog box, which has several screens for all the details of your loan. After you fill in each screen, click Next to move to the next one.

3. **In the Account Name drop-down list, choose the liability account you created for the loan.**

   QuickBooks lists only Current Liability and Long Term Liability accounts. After you choose the correct account, Loan Manager displays the current balance for that account.

NOTE If Loan Manager shows the loan's balance as zero, you aren't off the hook for paying back the loan. Loan Manager grabs this balance from the QuickBooks liability account you created for the loan. The loan balance in Loan Manager is zero if you forgot to create a journal entry to set the liability account's opening balance. To correct this, click the Add Loan dialog box's Cancel button, and then close Loan Manager. In QuickBooks, create a journal entry to set the liability account's opening balance, and then restart Loan Manager and set up the loan.

4. **In the Lender drop-down list, choose the vendor you created for the company you're borrowing money from.**

   If you haven't set up the lender as a vendor in QuickBooks, you have to close Loan Manager. After you create the vendor in QuickBooks, choose Banking→Loan Manager to restart Loan Manager, which now shows the lender in the Lender drop-down list.

5. **In the Origination Date box, choose the origination date on your loan documents.**

   Loan Manager uses this date to calculate the number of payments remaining, the interest you owe, and when you'll pay off the loan.

6. **In the Original Amount box, type the total amount you borrowed when you first took out the loan.**

   The Original Amount box is aptly named because it's *always* the amount that you originally borrowed. For new loans, the current balance on the loan and the Original Amount are the same. If you've paid off a portion of a loan, your current balance (shown below the Account Name box in Figure 15-10) is lower than the Original Amount. If the current balance is zero, you forgot to record the money you borrowed in the liability account (page 438).

7. **In the Term boxes, specify the full length of the loan (such as 360 months for a 30-year loan) and then click Next to advance to the screen where you enter payment information (explained next).**

PAYMENT INFORMATION

When you specify a few details about your loan payments, Loan Manager can calculate a payment schedule for you. To make sure you don't forget a loan payment (and incur outrageous late charges), you can tell Loan Manager to create a QuickBooks reminder for your payments. Here's how:

1. **In the Due Date of Next Payment box, choose the next payment date.**

   For a new loan, choose the date of the first payment you'll make. For an existing loan, choose the date of the next payment, which usually appears on your last loan statement.

2. **In the Payment Amount box, type the total amount of your next payment including principal and interest.**

   If you don't know what your payment amount is, you can find it on your loan documents. Loan Manager automatically puts 1 in the Next Payment Number box. For loans that you've made payments on already, replace this with the number of the next payment (this, too, should be on your last loan statement).

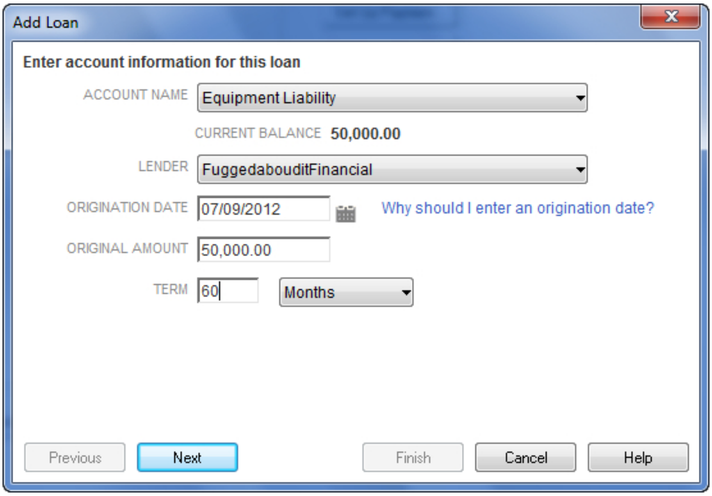


FIGURE 15-10

Loan Manager automatically selects Months in the Term drop-down list. Specifying the number of months for a 30-year loan is a great refresher for your multiplication tables, but you don't want to confuse Loan Manager by making an arithmetic error. If your loan's term is measured in something other than months, in the Term drop-down list, choose the appropriate period (such as Years). Then you can fill in the Term box with the number of periods shown on your loan documents.

3. **In the Payment Period drop-down list, choose the frequency of your payments.**

   Loans typically require monthly payments, even when their terms are in years. Regardless of which period you specified in the first Add Loan screen's Term drop-down list, in the Payment Period drop-down list, choose how often you make loan payments.

4. **If your loan includes an escrow payment, choose the Yes option.**

   Specify the amount of escrow you pay each time and the account to which you want to post the escrow, as shown in Figure 15-11.

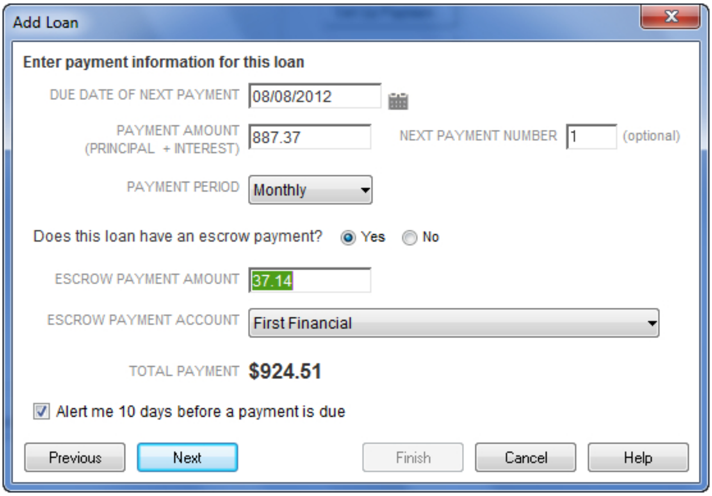


FIGURE 15-11

Most mortgages include an escrow payment for property taxes and property insurance. Escrow accounts are asset accounts because you're setting aside some money to pay expenses later. When you add an escrow payment, Loan Manager updates the Total Payment value to include principal, interest, and escrow.

5. **If you want a reminder before a loan payment is due, leave the "Alert me 10 days before a payment is due" checkbox turned on.**

   Loan Manager then tells QuickBooks how often and when payments are due, so QuickBooks can create a loan-payment reminder in its Reminders List (page 227). You can't set the number of days before a payment is due for the reminder, but 10 days is usually enough to get your payment in on time.

6. **Click Next to advance to the screen for entering interest rate information (explained next).**

INTEREST RATE INFORMATION

For Loan Manager to calculate your amortization schedule (the amount of principal and interest paid with each payment) you have to specify the interest rate. Here's how:

1. **In the Interest Rate box, type the loan's interest rate.**

   Use the rate that appears on your loan documents. For example, although you probably make monthly payments, the documents usually show the interest rate as an annual rate.

2. **In the Compounding Period box, choose either Monthly or Exact Days, depending on how the lender calculates compounding interest.**

   If the lender calculates the interest on your loan once a month, choose Monthly.

   If the lender calculates interest using the annual interest rate divided over a fixed number of days in a year, choose Exact Days instead. When you do, Loan

Manager activates the Compute Period box. In the past, many lenders simplified calculations by assuming that a year had 12 months of 30 days each; if your lender uses this method, choose 365/360 as the Compute Period. Today, lenders often use the number of days in a year; in that case, choose the 365/365 Compute Period option instead.

3. **In the Payment Account drop-down list, choose the account from which you make loan payments, whether you write checks or pay electronically.**

   Loan Manager includes all your bank accounts in this list.

4. **In the Interest Expense Account drop-down list, choose the account you use to track interest you pay. In the Fees/Charges Expense Accounts drop-down list, choose the account you use for fees and late charges you pay.**

   Expense accounts and Other Expense accounts are comingled in these drop-down lists, because they appear in alphabetical order, not sorted by account type.

5. **Click Finish.**

   Loan Manager calculates the payment schedule for the loan and adds it to its list of loans, shown in Figure 15-12.

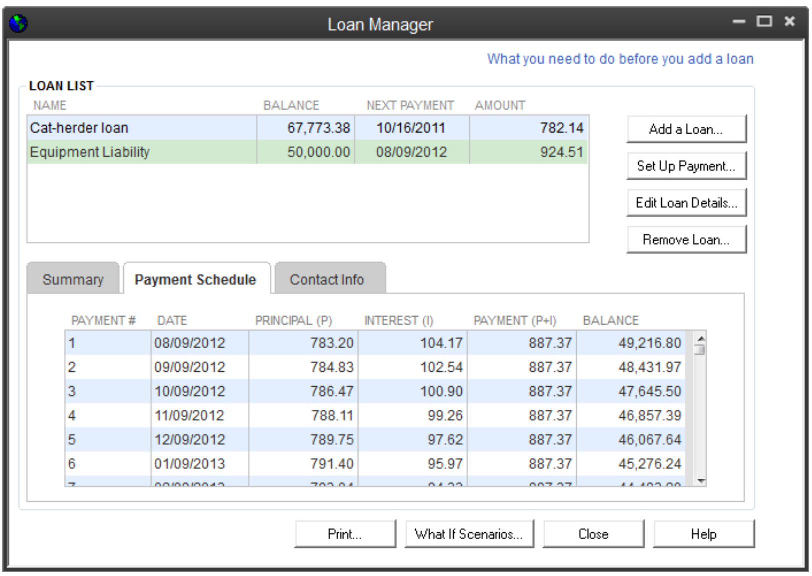


FIGURE 15-12

When you select a loan in the Loan List table, the tabs at the bottom of the Loan Manager window display information about that loan. Most of the information on the Summary tab is stuff you entered, although Loan Manager does calculate the maturity date (the date when you'll pay off the loan). The Payment Schedule tab (shown here) lists every payment and the amount of principal and interest each one represents. The info on the Contact Info tab comes directly from the lender's vendor record in QuickBooks.

Modifying Loan Terms

Some loan characteristics change from time to time. For example, if you have an adjustable-rate mortgage, the interest rate changes every so often. And your escrow payment changes based on your property taxes and insurance premiums. To make changes like these, in the Loan Manager window (choose Banking→Loan Manager), select the loan, and then click Edit Loan Details.

Loan Manager takes you through the same series of screens you saw when you first added the loan (page 439). If you change the interest rate, the program recalculates your payment schedule. For a change in escrow, the program updates your payment to include the new escrow amount.

Setting Up Payments

You can set up a loan payment check or bill in Loan Manager, which hands off the payment info to QuickBooks so the program can record it in your company file. Although Loan Manager can handle this task one payment at a time, it can't create recurring payments to send the payment that's due each month. When you see the QuickBooks reminder for your loan payment, you have to run Loan Manager to generate the payment, like so:

1. **In the Loan Manager window (Banking→Loan Manager), select the loan you want to pay and then click Set Up Payment.**

   Loan Manager opens the Set Up Payment dialog box and fills in the information for the next payment, as you can see in Figure 15-13.

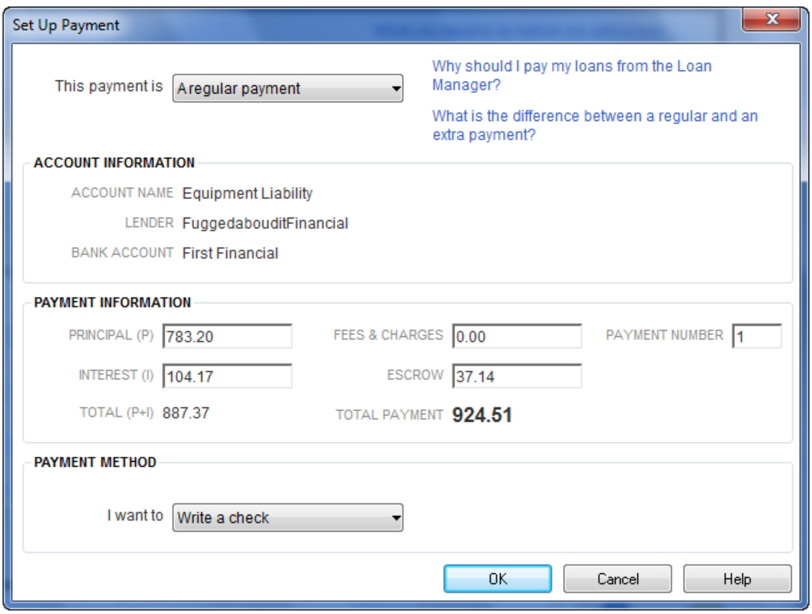


FIGURE 15-13

When you click Set Up Payment, Loan Manager fills in the Payment Information section of this dialog box with the principal and interest amounts from the loan payment schedule for the next payment that's due. It also fills in the Payment Number box with the number of the next payment due.

NOTE If you want to make an extra payment, in the "This payment is" drop-down list, choose "An extra payment." Because extra payments aren't part of the loan's payment schedule, Loan Manager changes the values in the Principal (P), Interest (I), Fees & Charges, and Escrow boxes to zero. If you want to prepay principal on your loan, type the amount that you want to prepay in the Principal (P) box. Or, if you want to pay an annual fee, fill in the Fees & Charges box.

2. **In the "I want to" drop-down list at the bottom of the window, choose "Write a check" or "Enter a bill," and then click OK.**

   Loan Manager opens the QuickBooks Write Checks or Enter Bills window, respectively, and fills in the boxes with the payment information. You can change the payment date or other values if you want.

3. **In the Write Checks or Enter Bills window, click Save & Close.**

   The window closes and you're back in the Loan Manager window, where the value in the loan's Balance cell has been reduced by the amount of principal that the payment paid off.

If you want to print the payment schedule for your loan, in the Loan Manager window, click Print. Or, if you pay off a loan and want to remove it from Loan Manager, select the loan, and then click Remove Loan. (Removing a loan from Loan Manager doesn't delete any loan transactions or loan accounts in QuickBooks.)

NOTE If your loan payments include escrow, each payment deposits the escrow amount into your QuickBooks escrow asset account. When your loan statement shows that the lender paid expenses from escrow—like insurance or property taxes—you can record the corresponding payment in QuickBooks: Open the escrow account's register window (page 414) and, in the first blank transaction, choose the date and the payee, such as the insurance company or the tax agency. In the Decrease field, type the payment amount (because the payment reduces the balance in the escrow account), and then click Record.

What-If Scenarios

Because economic conditions and interest rates change, loans aren't necessarily stable. For example, if you have an adjustable-rate loan, you might want to know what your new payment amount is. Or you might want to find out whether it makes sense to refinance an existing loan when interest rates drop. Loan Manager's What If Scenarios button is your dry-erase board for trying out loan changes before you make up your mind. When you click this button, Loan Manager opens the What If Scenarios dialog box, where you can pick from different loan scenarios depending on whether you've already created a loan:

- **How much will I pay with a new loan?** You don't have to go through the third degree to see what a loan will cost. Choose this scenario to quickly enter the key information for a loan and evaluate the payment, total payments, total interest, and final balloon payment.
- **Evaluate two new loans**. Type in the details of two loans to see which one is better.

- **What if I change my payment amount?** This scenario is listed only if you've already created a loan in QuickBooks. Paying extra principal can shorten the length of your loan and reduce the total interest you pay. Choose this scenario and then, in the Payment Amount box, type the new amount you plan to pay each month. When you click Calculate, Loan Manager calculates your new maturity date, how much you'll pay overall, and how much you'll pay in interest.

NOTE The changes you make in the What If Scenarios dialog box don't change your existing loans. And if you switch to a different scenario or close the dialog box, Loan Manager doesn't save the information you've entered. So if you want a record of different scenarios, click Print.

- **What if I change my interest rate?** If you have an adjustable-rate loan set up in QuickBooks, choose this scenario to preview the changes in payment, interest, and balloon payment for a different rate (higher or lower).

- **What if I refinance my loan?** This scenario is listed only if you've already created a loan in QuickBooks. When interest rates drop, companies and individuals alike consider refinancing their debt to save money on interest. With this scenario, type in a new term, payment, interest rate, and payment date to see whether it's worth refinancing, as shown in Figure 15-14.

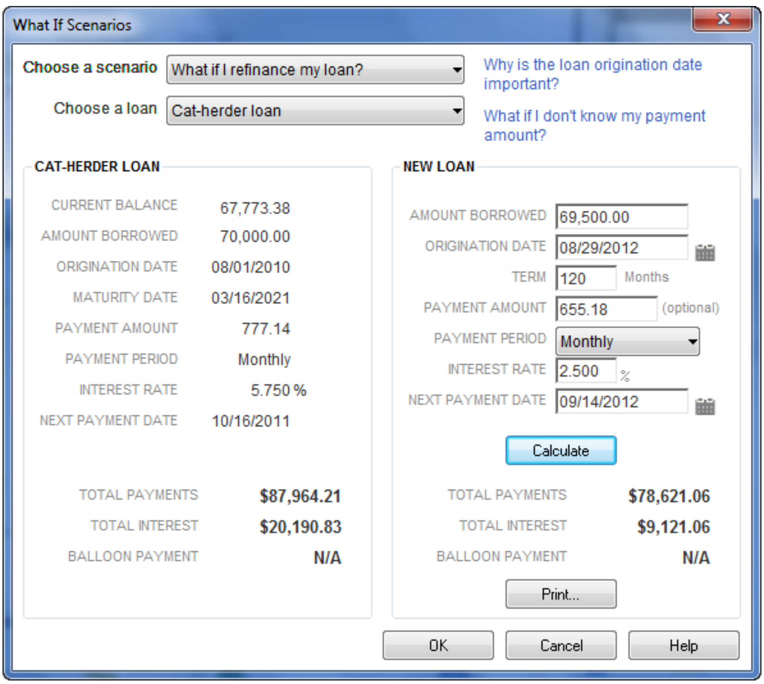


FIGURE 15-14

Loan Manager's refinance calculator doesn't provide everything you need to decide whether to refinance. Many loans come with closing costs that you should take into account. In this example, the new loan costs $78,621.06 over the life of the loan, and the current loan costs $87,964.21. But if the new loan had closing costs of $3,000, that would eat into the savings from switching loans.

Tracking Petty Cash

Dashing out to buy an extension cord so you can present a pitch to a potential client? Chances are you'll get money from the petty cash drawer at your office. *Petty cash* is the familiar term for money spent on small purchases, typically less than $20.

Many companies keep a cash drawer at the office and dole out dollars for small, company-related purchases that employees make. But for the small business owner with a bank card, getting petty cash is as easy as withdrawing money from an ATM. Either way, petty cash is still company money, and that means you have to keep track of it and how it's spent. The following sections explain how.

Recording ATM Withdrawals and Deposits to Petty Cash

In QuickBooks, adding money to your petty cash account mirrors the real-world transaction: You either write a check made out to Cash (or the trustworthy employee who's cashing the check), or you withdraw money from an ATM. To write a check to withdraw cash for your petty cash account, simply open the Write Checks window (choose Banking→Write Checks or, on the Home page, click the Write Checks icon). If you withdraw cash from an ATM, open the Transfer Funds window (choose Banking→Transfer Funds) instead.

If creating transactions in the account register window is OK with you, here are the steps for replenishing your petty cash with a check:

1. **In the Chart of Accounts window (press Ctrl+A to open it), double-click your checking account to open its register window.**

   QuickBooks selects the date in the first blank transaction. Depending on the date preference you choose (page 612), the program fills in either the current date or the last date you entered in a transaction. If you added money to petty cash on a different day, choose the correct date.

2. **If you're withdrawing money from an ATM, clear the value in the Number cell.**

   If you're writing a check to get petty cash and QuickBooks fills in the Number cell with the correct check number, continue to the Payee cell. Otherwise, type the correct check number in the cell.

3. **Whether you're writing a check or using an ATM, in the Payee cell, type a name such as *Cash* or *Petty Cash*.**

   If you made a check out to one of your employees, in the Payee cell drop-down list, choose that person's name.

4. **In the Payment cell, type the amount that you're moving from the checking account to petty cash.**

   If you track classes in QuickBooks, this is one time to *ignore* the Class cell. You assign classes only when you record purchases made with petty cash (as explained in the next section).

5. **In the Account cell, choose your petty cash account.**

   If you don't already have a petty cash account in your chart of accounts, be sure to choose the Bank type when you create the account here by choosing <Add New>. That way, your petty cash account appears at the top of your balance sheet with your other savings and checking accounts.

6. **Click Record to save the transaction.**

That's it!

TIP If you make a withdrawal from an ATM to get petty cash, use the Transfer Money feature (page 424) to record the transaction. In the Transfer Funds From box, choose your bank account; in the Transfer Funds To box, choose your petty cash account.

Recording Purchases Made with Petty Cash

As long as company cash sits in a petty cash drawer or your wallet, the petty cash account in QuickBooks keeps track of it. But when you spend some of the petty cash in your wallet or an employee brings in a sales receipt for purchases, you have to record what was bought.

The petty cash account's register is as good a place as any to record these purchases. In the Chart of Accounts window, double-click the petty cash account to open its register window. Then, in a blank transaction, follow these guidelines to record your petty cash expenditures:

- **Number cell**. Although petty cash expenditures don't use check numbers, QuickBooks automatically puts the next check number in this cell anyway. The easiest thing to do is ignore the number and move on to the Payee or Payment cell.
- **Payee cell**. You don't have to enter anything here, and for many petty cash transactions, entering a Payee would just clog your lists of names, so leave this cell blank.
- **Memo cell**. Type the vendor's name or details of the purchase here.
- **Payment cell**. Enter the amount that was spent.
- **Account cell**. Choose an account to track the expense.

TIP To distribute the petty cash spent to several accounts, click Splits. In the table that appears, specify the account, amount, customer or job, class, and a memo for each split (page 260).

WORKAROUND WORKSHOP

Petty Cash Advances

Good management practices warn against dishing out petty cash without a receipt. But suppose an employee asks for cash in advance to purchase a new lava lamp for the conference room? There's no receipt, but you really want the lava lamp to impress the CEO of a tie-dye company.

The solution in the real world is to write a paper IOU and place it in the petty cash drawer until the employee coughs up a receipt. In QuickBooks, record the advance as if the purchase were already complete. For the lava lamp, create the transaction using entries like these:

- In the Amount cell, type the amount of money you advanced to the employee.
- In the Account cell, choose the account that corresponds with the expense, such as Office Supplies.
- In the Memo cell, type a note about the employee who received the advance, the IOU in the petty cash drawer, and what the advance is for.

When the employee comes back with a receipt, you can update the transaction's Memo cell to show that the IOU has been repaid. If the employee brings change back, create a deposit to put that money back in the petty cash account.

CHAPTER

16

Making Journal Entries

Most of the time, you don't need to know double-entry accounting (page xxii) to use QuickBooks. When you write checks, receive payments, and perform many other tasks in QuickBooks, the program unobtrusively handles the double-entry accounting for you. But every once in a while, QuickBooks transactions can't help, and your only choice is moving money around directly between accounts.

In the accounting world, these direct manipulations are known as *journal entries*. For example, if you posted income to your only income account but have since decided that you need several income accounts to track the money you make, journal entries are the way to reclassify money in that original income account to the new ones.

The steps for creating a journal entry are deceptively easy; it's assigning money to accounts in the correct way that's maddeningly difficult for weekend accountants. And unfortunately, QuickBooks doesn't have any magic looking glass that makes those assignments crystal clear. This chapter gets you started by showing you how to create journal entries and providing examples of journal entries you're likely to need. However, you'll want to talk to your bookkeeper or accountant about the journal entries you need and the accounts to use in them.

NOTE In the accounting world, you'll hear the term "journal entry" and see it abbreviated JE. Although QuickBooks uses the term "general journal entry" and the corresponding abbreviation GJE, both terms and abbreviations refer to the same account register changes.

Balancing Debit and Credit Amounts

In double-entry accounting, both sides of any transaction have to balance, as the transaction in Figure 16-1 shows. When you move money between accounts, you increase the balance in one account and decrease the balance in the other—just as shaking some money out of your piggy bank decreases your savings balance and increases the money in your pocket. These changes in value are called *debits* and *credits*. If you commit anything about accounting to memory, it should be the definitions of debit and credit, because they're the key to successful journal entries, accurate financial reports, and understanding what your accountant is talking about.

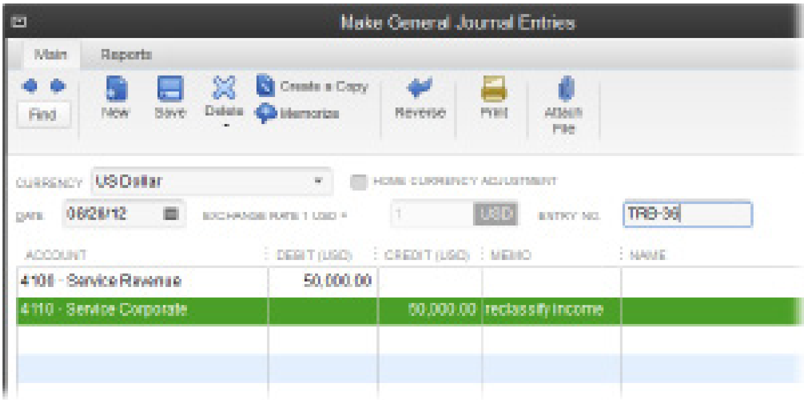


FIGURE 16-1

For each transaction, the total in the Debit column has to equal the total in the Credit column. To transfer money from one income account to another, you debit one account and credit the other. Whether the debit and credit increase or decrease the account balance depends on the type of account, as Table 16-1 shows.

Table 16-1 shows what debits and credits do for different types of accounts and can take some of the pain out of creating journal entries. For example, buying a machine is a debit to the equipment asset account because it increases the value of the equipment (assets) you own. A loan payment is a debit to your loan account because it decreases your loan balance (a liability). And (here's a real mind-bender) a credit card charge is a credit to your credit card liability account because purchases on credit increase the amount you owe.

TABLE 16-1 *How debits and credits change the values in accounts*

ACCOUNT TYPE	DEBIT	CREDIT
Asset	Increases balance	Decreases balance
Liability	Decreases balance	Increases balance
Equity	Decreases balance	Increases balance
Income	Decreases balance	Increases balance
Expense	Increases balance	Decreases balance

NOTE One reason that debits and credits are confusing is that the words have the *exact opposite* meanings when your bank uses them. In your personal banking, a debit to your bank account decreases the balance and a credit to that account increases the balance.

As you'll see in examples in this chapter, you can have more than one debit or credit entry in one journal entry. For example, when you depreciate equipment, you can include one debit for depreciation expense and a separate credit for the depreciation on each piece of equipment.

Some Reasons to Use Journal Entries

Here are a few of the more common reasons that businesses use journal entries:

- **Setting up opening balances in accounts**. You can fill in the opening balanced for most of your balance sheet accounts with a single journal entry based on your trial balance from your previous accounting system. The box on page 457 explains how.
- **Reassigning accounts**. As you work with QuickBooks, you might find that the accounts you originally created don't track your business the way you want. For example, suppose you started with one income account for everything you sell—services and products alike. But now you want two income accounts: one for income from services and another for income from product sales. To move income from your original account to the correct new account, you debit the income from the original account and credit it to the new account, as described on page 459.
- **Correcting account assignments**. If you assigned an expense to the wrong expense account, you or your accountant can create a journal entry to reassign the expense to the correct account. If you've developed a reputation for misassigning income and expenses, your accountant might ask you to assign any transactions you're unsure about to an uncategorized income or expense account. That way, when she gets your company file at the end of the year, she can create journal entries to assign those transactions correctly. You can verify that the assignments and account balances are correct by running a trial balance report (page 484).
- **Reassigning jobs**. If a customer hires you for several jobs, that customer might ask you to apply a payment, credit, or expense from one job to another. For example, if expenses come after one job is complete, your customer might want to apply them to the job still in progress. QuickBooks doesn't have a feature to transfer money between jobs, but a general journal entry does the trick, as page 460 explains.

- **Reassigning classes**. If you use QuickBooks' class feature, journal entries can transfer income or expenses from one class to another. For example, nonprofits often use classes to assign income to programs. If you need to reassign money to a different program, create a journal entry that has debit and credit entries for the same income account, but changes the class (see page 457).
- **Depreciating assets**. Each year that you own a depreciable asset, you decrease its value in the appropriate asset account in your chart of accounts. Because no real cash changes hands, you use a journal entry to handle depreciation of assets. As you'll learn on page 461, a journal entry for depreciation debits the depreciation expense account (increases its value) and credits the asset account (decreases its value).
- **Recording transactions for a payroll service**. If you use a third-party payroll service like Paychex or ADP, the payroll company sends you reports. To get the numbers from those reports into your company file where you need them, you can use journal entries. For example, you can reclassify some of your owners' draw as salary and make other payroll-related transformations, as page 459 explains in detail.
- **Recording year-end transactions**. The end of the year is a popular time for journal entries, whether your accountant is fixing your more creative transactions or you're creating journal entries for non-cash transactions before you prepare your taxes. For example, if you run a small business out of your home, you might want to show a portion of your utility bills as expenses for your home office. When you create a journal entry for this transaction, you debit the office utilities account and credit an equity account for your owner's contributions to the company.

Creating General Journal Entries

In essence, every transaction you create in QuickBooks is a journal entry: When you write checks, the program balances the debits and credits behind the scenes. To *explicitly* create general journal entries in QuickBooks, open the Make General Journal Entries window by choosing Company→Make General Journal Entries. Or, if the Chart of Accounts window is open, right-click anywhere in the window and then choose Make General Journal Entries on the shortcut menu, or click Activities→Make General Journal Entries.

Here are the basic steps for creating a general journal entry in QuickBooks:

1. **In the Make General Journal Entries window, choose the date on which you want the general journal entry to happen.**

   If you're creating a general journal entry to reassign income or an expense to the correct account, you should use today's date. However, when you or your accountant make end-of-year journal entries—to add the current year's depreciation, say—it's common to use the last day of the fiscal year instead.

NOTE If you turn on the multiple currency preference (page 617), the Make General Journal Entries window includes boxes for the currency and the exchange rate. If you select an account that uses a foreign currency in a journal entry line, QuickBooks fills in the exchange rate and asks you to confirm that the rate is correct. If it isn't, open the Currency List (choose Lists→Currency List) and update the exchange rate for that currency.

2. **Although QuickBooks automatically assigns numbers to general journal entries, you can specify a different number by typing it in the Entry No. box.**

   When you type an entry number, QuickBooks fills in the entry number for your *next* entry by incrementing the one you typed. For example, suppose your accountant adds several journal entries at the end of the year and uses the entry numbers ACCT-1, ACCT-2, ACCT-3, and so on. When you begin using the file again, you can type a number to restart your sequence, such as DRP-8. When you create your next journal entry, QuickBooks automatically fills in the Entry No. box with DRP-9.

   Since you can type both letters and numbers in this field, you can also use it to store words that indicate the type of journal entry you're creating. For example, you can label the journal entries that record payroll transactions for your outside payroll service with PAY.

TIP If you don't want QuickBooks to number general journal entries automatically, you can turn off the automatic numbering setting in the Accounting preferences (page 599).

3. **Fill in the first line of your general journal entry, which can be either a debit or a credit. (The next section has details about filling in each field in a general journal entry line.)**

   When you click the Account cell in the next line, QuickBooks automatically enters the offsetting balance, as shown in Figure 16-2.

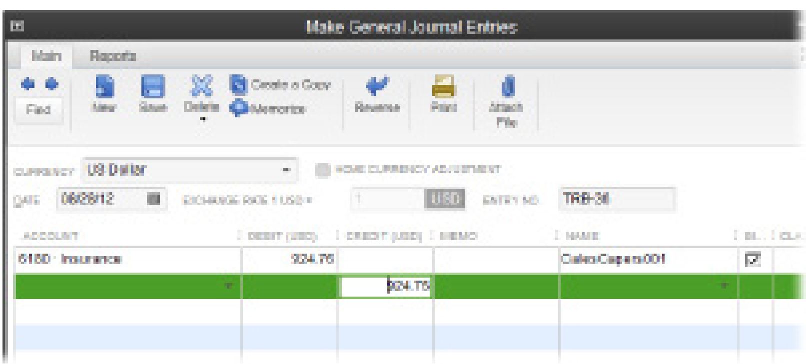


FIGURE 16-2

The total in the Debit column must match the total in the Credit column. If the first line you enter is a debit, QuickBooks helpfully enters the same amount in the Credit column in the second line, as shown here. If your first line is a credit, QuickBooks fills in the second line with the same amount in the Debit column.

4. **Fill in the second line of the general journal entry.**

   If the offsetting value that QuickBooks adds to the second line is what you want, all you have to do is choose the account for that line, and then click Save & Close.

   If the second line doesn't balance the Debit and Credit columns, continue adding additional lines until you've added debit and credit amounts that balance.

5. **When the debit and credit columns are the same, click Save & Close to save the general journal entry and close the Make General Journal Entries window.**

   If you want to create another general journal entry, click Save & New instead.

Filling in General Journal Entry Fields

Each line of a general journal entry includes a number of fields, although for most journal entries, the key fields are Account, Debit or Credit, and Memo. But every field comes in handy at some point, so they're all worth knowing about. Here's what each field does and when you might fill them in:

- **Account**. Choose the account that you want to debit or credit. Every line of every general journal entry has to have an account assigned.
- **Debit**. To debit the account on the line, type the amount of the debit in this field.
- **Credit**. To credit the account on the line, type the amount of the credit in this field.
- **Memo**. Entering a memo is a huge help when you go back to review your journal entries. For example, if you're reclassifying an uncategorized expense, type something like "Reclassify expense to correct account." For depreciation, you can include the dates covered by the journal entry.

NOTE In QuickBooks Premier and Enterprise editions, the "Autofill memo in general journal entry" preference on the My Preferences tab, (Edit→Preferences→Accounting) tells the program to fill each subsequent Memo field with the text from the first one.

- **Name**. If you're debiting or crediting an AR or AP account, you have to choose a name, as explained in the box on page 457. However, you might also fill in this field if you're creating a journal entry for billable expenses and want to assign the expenses to a customer.
- **Billable?** This field lets you designate part of your journal entry as billable expenses. When you choose a name in the Name field, QuickBooks automatically adds a checkmark in this field, as shown in Figure 16-2, which reassigns some of your existing expenses to be billable to the customer. If you don't want to make the value billable to the customer (for example, to assign expenses to a customer's job to reflect its true profitability), then turn off the checkmark in this field.

- **Class**. General journal entries are transactions just like checks and invoices, which means that, if you use classes, you should choose a class for each line to keep your class reports accurate. If you create a general journal entry to reassign income or expenses to a different class, select the same account on each line, but different classes.

TIP You can use the Search and Find features to track down a journal entry. To use Search, choose Edit→Search. In the Search window, click Transactions and then click Journals. To use Find, choose Edit→Find (or press Ctrl+F) to open the Find window. Click the Advanced tab and then, in the window's Filter list, choose Transaction Type. In the Transaction Type drop-down list, choose Journal. Then click Find to display the journal entries you've created.

WORKAROUND WORKSHOP

Creating Opening Balances with Journal Entries

QuickBooks has rules about Accounts Payable (AP) and Accounts Receivable (AR) accounts in general journal entries. Each general journal entry can have only one AP or AR account, and that account can appear on only one line of the journal entry. And if you do add an AP account, you also need to choose a vendor in the Name field. (For AR accounts, you have to choose a *customer's* name in the Name field.)

These rules are a problem only when you want to use general journal entries to set the opening balances for customers or vendors. The hardship, therefore, is minute, because the preferred approach for building opening balances for vendors and customers is to enter bills and customer invoices. These transactions provide the details you need to resolve disputes, determine account status, and track income and expenses.

You can get around QuickBooks' AP and AR limitations by setting up the opening balances in all your accounts with a journal entry based on your trial balance (page 484) from your previous accounting system. Simply create the journal entry without the amounts for accounts payable and accounts receivable, as shown in Figure 16-3.

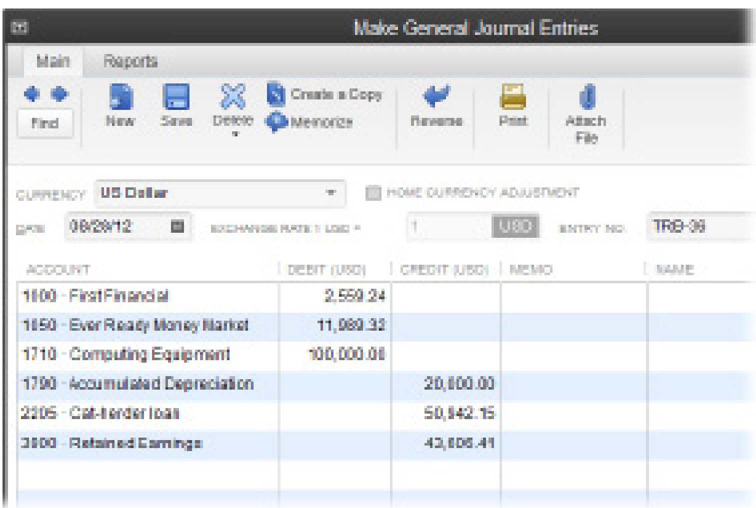


FIGURE 16-3

When you use journal entries to create opening balances, you have to adjust the values in your equity account (like retained earnings) to reflect the omission of AP and AR. Then you can create your open customer invoices and unpaid vendor bills to build the values for accounts receivable and accounts payable. When your AP and AR account balances match the values on the trial balance, the equity account will also match its trial balance value.

Checking General Journal Entries

If you stare off into space and start mumbling "Debit entries increase asset accounts" every time you create a general journal entry, it's wise to check that the journal entry did what you wanted. Those savvy in the ways of accounting can visualize debits and offsetting credits in their heads, but for novices, thinking about the changes you expect in your Profit & Loss report or balance sheet is easier.

For example, if you plan to create a journal entry to reassign expenses in the Uncategorized Expenses account to their proper expense-account homes, you'd expect to see the value in the Uncategorized Expenses account drop to zero and the values in the correct expense accounts increase. Figure 16-4 shows how to use a Profit & Loss report (see page 468) to check your general journal entries.

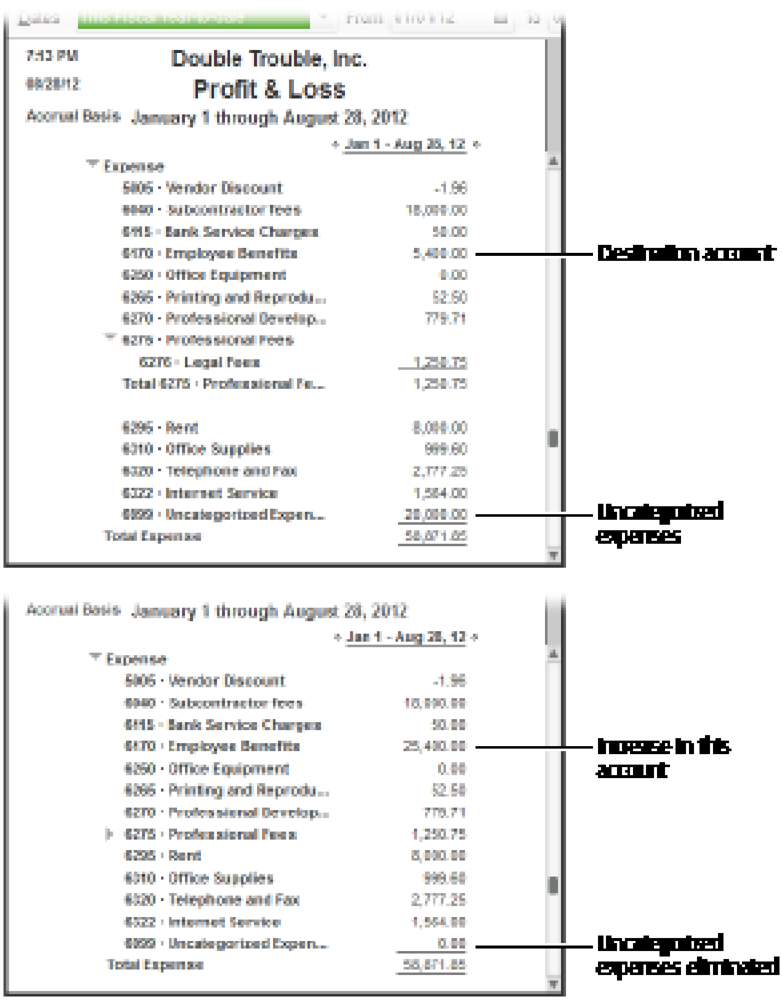


FIGURE 16-4

Top: Before you create a general journal entry, review your Profit & Loss report to look at the accounts that you expect to change. Here, the Uncategorized Expenses account has $20,000 in it and the Employee Benefits account, which is one of the destinations for your uncategorized expenses, has $5,400.

Bottom: After the general journal entry reassigns the expenses, the Uncategorized Expenses account's balance decreases, as you'd expect, and the Employee Benefits account's balance increases.

NOTE Some general journal entries affect both Balance Sheet and Profit & Loss reports. For example, as you'll see on page 461, a depreciation journal entry uses an asset account, which appears only in the Balance Sheet, and an expense account, which appears only in the Profit & Loss report. In situations like this, you have to review both reports to verify your numbers.

Reclassifications and Corrections

As you work with your QuickBooks file, you might realize that you want to use different accounts. For example, as you expand the services you provide, you might switch from one top-level income account to several specific income accounts. Expense accounts are also prone to change—when the Home Office account splits into separate accounts for utilities, insurance, and repairs, for example. Any type of account is a candidate for restructuring, as one building grows into a stable of commercial properties, say, or you move from a single mortgage to a bevy of mortgages, notes, and loans.

Reclassifying Accounts

Whether you want to shift funds between accounts because you decide to categorize your finances differently or you simply made a mistake, you're moving money between accounts of the same type. The benefit to this type of general journal entry is that you only have to think hard about *one* side of the transaction—as long as you pick the debit or credit correctly, QuickBooks handles the other side for you.

Debits and credits work differently for income and expense accounts, and Figure 16-5 shows you how to set them up for different types of adjustments.

Accountants sometimes create what are known as *reversing journal entries*, which are general journal entries that move money in one direction on one date and then move the money back to where it came from on another date. Reversing journal entries are common at the end of the year, when you need your books configured one way to prepare your taxes and another way for your day-to-day bookkeeping.

TIP It's easy enough to create two general journal entries, each using the same accounts, but with opposite assignments for debits and credits. But in QuickBooks Premier edition, the Make General Journal Entries window includes a Reverse feature in the toolbar, which automatically creates a reversing journal entry for you.

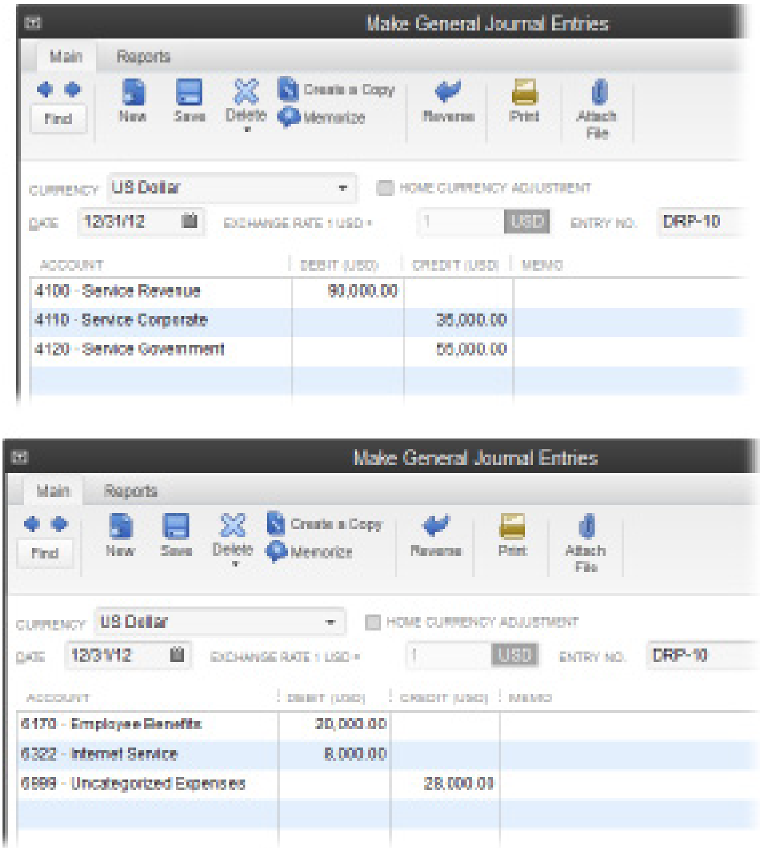


FIGURE 16-5

Top: When you transfer money between income accounts, you debit the original income account to decrease its value and credit the new income accounts to increase their value.

Bottom: Expense accounts are the opposite: You credit the original expense account to decrease its value and debit new expense accounts to increase their value.

Reassigning Jobs

If you need to transfer money between different jobs for the same customer, general journal entries are the answer. For example, your customer might ask you to apply a credit from one job to another because the job with the credit is already complete.

When you move money between jobs, you're transferring that money in and out of Accounts Receivable. Because QuickBooks allows only one AR account per journal entry, you need *two* journal entries to transfer the credit completely. (Figure 13-10 on page 382 shows what these journal entries look like.) You also need a special account to hold the credit transfers; an Other Expense account called something like Clearing Account will do. After you have the holding account in place, here's how the two journal entries work:

- **Transfer the credit from the first job to the holding account**. In the first journal entry, debit accounts receivable for the amount of the credit. (Be sure to choose the customer and job in the Name field.) This half of the journal entry removes the credit from the job's balance. In the second line of the journal entry, choose the holding account. The amount is already in the Credit cell, which is where you want it for moving the amount into the holding account.
- **Transfer the money from the holding account to the second job**. In this journal entry, debit the holding account for the money you're moving. Then the AR account receives the amount in its Credit cell. In the Name cell in the AR account line, choose the customer and the second job. This journal entry transfers the money from the holding account to the second job's balance.

Recording Depreciation with Journal Entries

When you own an asset, such as the Deluxe Cat-o-matic Cat Herder, the machine loses value as it ages and clogs with fur balls. *Depreciation* is an accounting concept, intimately tied to IRS rules, that reduces the value of the machine and lets your financial reports show a more accurate picture of how the money you spend on assets links to the income your company earns. (See the box on page 463 for an example of how depreciation works.)

Typically, you'll calculate depreciation in a spreadsheet so you can also see the asset's current depreciated value and how much more it will depreciate. But depreciation doesn't deal with hard cash, which is why you need to create a general journal entry to enter it. Unlike some other general journal entries, which can use a wide range of accounts, depreciation journal entries are easy to create because the accounts you can choose are limited. Here's how it works:

- The **debit account** is an expense account, usually called Depreciation Expense. (If you don't have a Depreciation Expense account, see page 51 to learn how to create one.)
- The **credit account** is a fixed asset account called something like Less Accumulated Depreciation. Figure 16-6 (top) shows how to set up your fixed asset accounts for things like machinery, vehicles, and furniture. You create a parent fixed asset account called Depreciable Assets and then create separate fixed asset subaccounts within Depreciable Assets so you can see the total value of all your fixed assets on your balance sheet. The Accumulated Depreciation account appears after the depreciable asset accounts at the same level as the parent Depreciable Assets, so you can see how much depreciation you're deducting, as shown in Figure 16-6 (bottom).

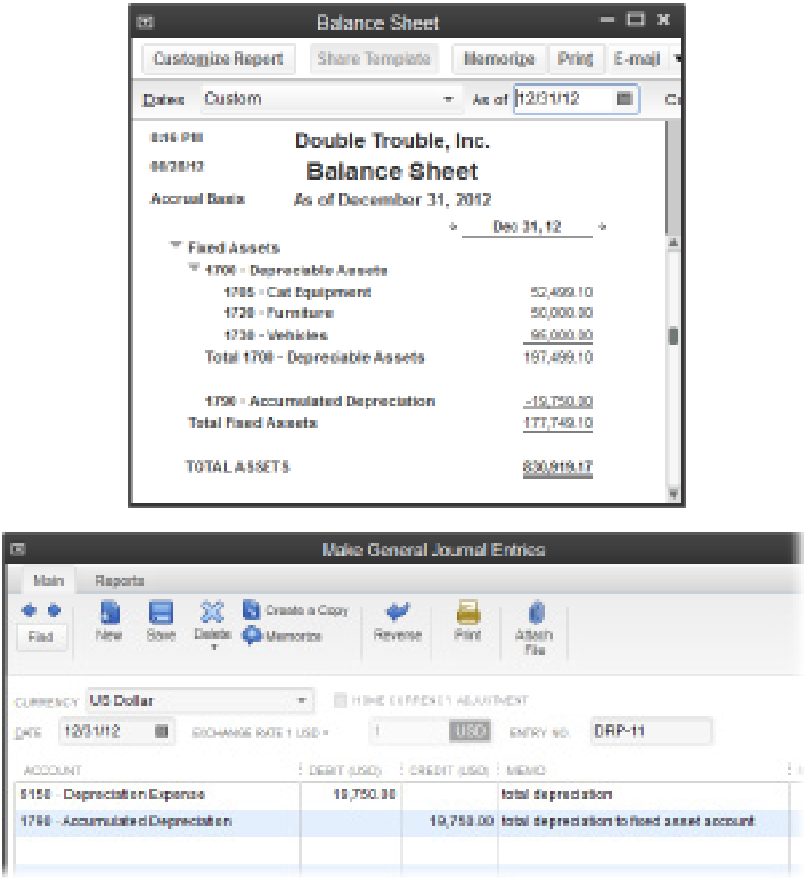


FIGURE 16-6

Top: A parent fixed asset account called Depreciable Assets acts as a container for all your fixed assets, so you can see the total fixed asset value on your balance sheet. The Accumulated Depreciation account follows the parent Depreciable Assets account, so you can see the depreciation you're deducting.

Bottom: If you have several assets to depreciate, the commonly accepted approach is to create a spreadsheet showing the depreciation for each separate asset. In QuickBooks, you simply record a single Depreciation Expense debit for the total of all the depreciation credits, as shown here.

TIP If you depreciate the same amount each year, memorize the first depreciation transaction you create (page 352). The following year, when it's time to enter depreciation, press Ctrl+T to open the Memorized Transaction List window. Select the depreciation transaction, and then click Enter Transaction.

Another way to copy a journal entry is to open the Make General Journal Entries window and then click Previous until you see the journal entry you want. Then right-click the window and choose Duplicate Journal Entry from the shortcut menu. Make the changes you want and then click Save & Close.

For a depreciation general journal entry, you want to reduce the value of the fixed asset account and add value to the Depreciation Expense account. If you remember that debit entries increase the value of expense accounts, you can figure out that the debit goes with the expense account and the credit goes to the fixed asset account. Figure 16-6 shows how depreciation debits and credits work.

UP TO SPEED

How Depreciation Works

When your company depreciates assets, you add dollars here, subtract dollars there, and none of the dollars are real. It sounds like funny money, but depreciation is an accounting concept that presents a more realistic picture of financial performance. To see how it works, here's an example of what happens when a company depreciates a large purchase.

Suppose your company buys a Deep Thought supercomputer for $500,000. You spent $500,000, and you now own an asset worth $500,000. Your company's balance sheet moves that money from your bank account to a fixed asset account, so your total assets remain the same.

The problem arises when you sell the computer, perhaps 10 years later when it would make a fabulous boat anchor. If you don't depreciate the computer, the moment you sell it, its value plummets from $500,000 to your selling price—$1,000, say. The decrease in value shows up as an expense, putting a huge dent in your profits for the 10th year. Shareholders don't like it when profits change dramatically from year to year—up *or* down. With depreciation, though, you can spread the cost of a big purchase over several years, which does a better job of matching expenses to the revenue generated by the asset. As a result, shareholders can see how well you use assets to generate income.

Depreciation calculations come in several flavors: straight-line, sum of the years' digits, and double declining balance. Straight-line depreciation is the easiest and most common. To calculate annual straight-line depreciation over the life of the asset, subtract the *salvage* value (how much the asset will be worth when you sell it) from the purchase price, and then divide by the number of years of useful life, like so:

- Purchase price: $500,000
- Expected salvage value after 10 years: $1,000
- Useful life: the 10 years you expect to run the computer
- Annual depreciation: $499,000 divided by 10, which equals $49,900

Every year, you use the computer to make money for your business, and you show $49,900 as an equipment expense associated with that income. On your books, the value of the Deep Thought computer drops by another $49,900 each year, until the balance reaches the $1,000 salvage value at the end of the last year. This decrease in value each year keeps your balance sheet (page 474) more accurate and avoids the sudden drop in asset value in year 10.

The other, more complex methods depreciate your assets faster in the first few years (called *accelerated depreciation*), making for big tax write-offs in a hurry. Page 461 explains how to record journal entries for depreciation, but your best bet is to ask your accountant how to post depreciation in your QuickBooks accounts.

Recording Owners' Contributions

Most attorneys suggest that you contribute some cash to get your company off the ground. However, you might make a non-cash contribution to the company, like your home computer, printer, and other office equipment. Then, as you run your business from your home, you may want to allocate a portion of your mortgage interest, utility bills, homeowners' insurance premiums, home repairs, and other house-related expenses to your company. In both these situations, journal entries are the way to get money into the accounts in your chart of accounts.

TIP If you contribute cash to jump-start your company's checking account balance, simply record a deposit to your checking account (page 396) and assign that deposit to your owners' equity account.

Recording Initial Noncash Contributions

When you contribute equipment to your company, you've already paid for the equipment, so you want the value of your equipment to show up in your company file. You can't use the Write Checks window to make that transfer, but a journal entry can record that contribution:

- Credit the owners' equity account (or common stock account if your company is a corporation) with the value of the equipment you're contributing to the company.
- Debit the equipment asset account so its balance shows the value of the equipment that now belongs to the company.

Recording Home-Office Expenses

If you use a home office for your work, the money you spent on home-office expenses is already out the door, but those expenditures are equivalent to personal funds you contribute to your business. If your company is a corporation, you credit your equity account with the amount of these home-office expenses. Here's how you show this contribution in QuickBooks:

- Credit the total expenses for your home office to an equity account for your shareholders' distribution or owner's contributions to the company.
- Debit the expense accounts for each type of home-office expense, as shown in Figure 16-7.

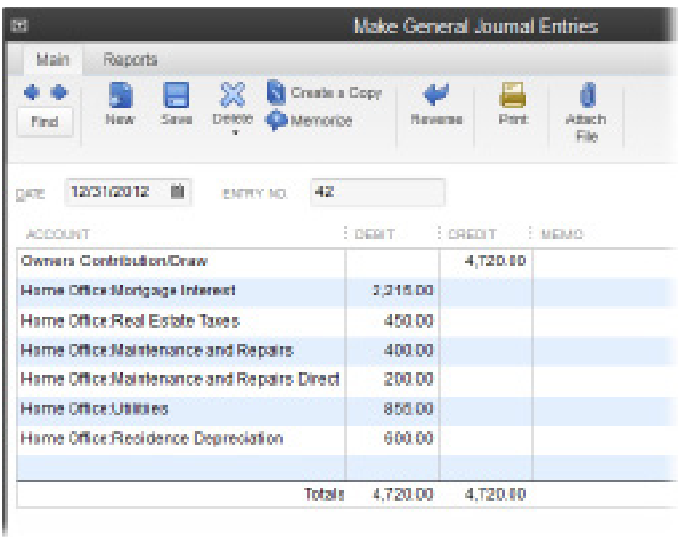


FIGURE 16-7

After you credit the owner's contribution account and debit the home-office expense accounts, your home-office expenses show up in a Profit & Loss report (page 468) and your owner's contribution appears on the Balance Sheet (page 474).

TIP Another way to handle a home office is to charge your company rent for your office space. That way you, as the homeowner, have rental property, so you can depreciate the portion of your home rented to your company. (However, this depreciation complicates things down the road when you sell your home.) If your company is a corporation, it gets to take a tax deduction for rent on its corporate tax return.

If your business is a sole proprietorship, you handle home-office expenses differently: You write business checks to pay all your home expenses. When you do that, your Profit & Loss report will show your total home expenses as business expenses. But only a percentage of those expenses are business related, so you need a way to subtract the expenses that correspond to your personal use of your home. The solution? At the end of the year, create a journal entry to reallocate the personal percentage of home expenses to your owners' draw equity account, so that only the business portion of your home expenses show up on the Profit & Loss report. Then you'll have a section in your Profit & Loss report similar to Table 16-2.

NOTE The "Maintenance and Repairs Direct" line represents expenses *directly* related to the home office, so the full amount goes toward the home-office expenses. Similarly, the Residence Depreciation line is the amount of depreciation for the portion of the home used as a home office.

TABLE 16-2 *Business expenses for a sole proprietorship*

ACCOUNT	EXPENSE AMOUNT
Business Use of Residence	This is a summary account for the accounts starting with Mortgage Interest to Other Utilities.
Mortgage Interest	$9,000.00
Real Estate Taxes	$2,250.00
Real Estate Insurance	$750.00
Maintenance and Repairs	$2,400.00
Maintenance and Repairs Direct	$200
Other Utilities	$3,200.00
Less 80.0% Personal Use	$14,080
Residence Depreciation	$1,000
Total Business Use of Residence	$4,720

CHAPTER

17

Generating Financial Statements

When you keep your company's books day after day, all those invoices, checks, and other transactions blur together. But hidden within that maelstrom of figures is important information for you, your accountant, your investors, and the IRS. When consolidated and presented the right way, your books can tell you a lot about what your company does right, does wrong, could do better, and has to pay in taxes.

Over the years, the Financial Accounting Standards Board (FASB) has nurtured a standard of accounting known as GAAP (generally accepted accounting principles). GAAP includes a trio of financial statements that together paint a portrait of company performance: the income statement (also known as the Profit & Loss report), the balance sheet, and the statement of cash flows.

Generating financial statements in QuickBooks is easy. But unless you understand what these statements tell you and you can spot suspect numbers, you may simply end up generating fodder for your paper shredder. If you're new to business, get started by reading the first part of this chapter, which is about what the income statement, balance sheet, and statement of cash flows show. If you're already an expert in all that, jump to the section on generating these reports in QuickBooks (page 471).

NOTE When you close out a year on your company's books, these three special financial reports are a must. You'll learn how financial statements fit into your year-end procedures in Chapter 18. If you're a business maven and need a bunch of additional reports to manage your business, Chapter 21 has instructions for finding the reports you need and customizing them to your demanding specifications.

The Profit & Loss Report

The Profit & Loss report is more like a video than a snapshot. It covers a period of time (usually a month, a quarter, or a full year) and shows whether your company is making money—or hemorrhaging it.

The money you make selling services or products (called *revenue* or *income*) sits at the top of the Profit & Loss report. Beneath it, your expenses gradually whittle away at that income until you're left with a profit or loss at the bottom. The Profit & Loss report (Reports→Company & Financial→Profit & Loss Standard) and the following list explain the progression from sales to the net income your company earned after paying the bills:

- **Income**. The first category in a Profit & Loss report is income, which is simply the revenue your company generates by selling products and services. Regardless of how you earn revenue (selling services, products, or even charging fees), the report shows all the income accounts in your chart of accounts and how much you brought into each, as shown in Figure 17-1.

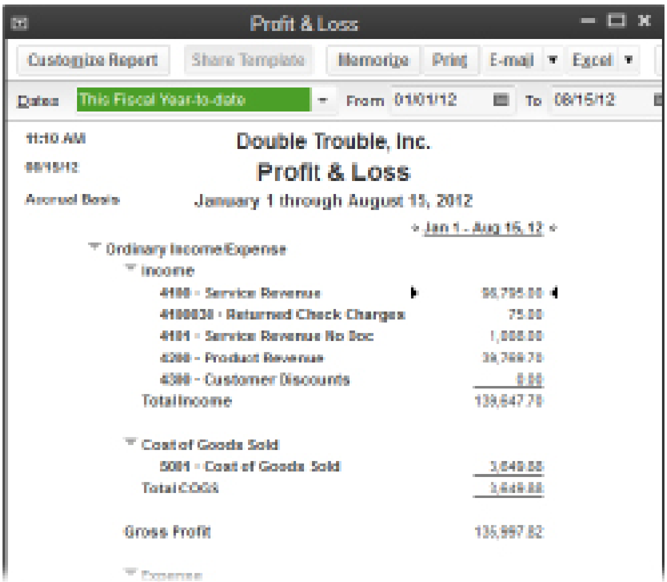


FIGURE 17-1

The Income section at the top of the Profit & Loss report lists the accounts that represent the money you make when you sell to customers. Most companies have to subtract the cost of goods sold from income to figure out how much profit they really made. Cost of goods sold may include the cost of materials and labor to build products, the cost of products you purchase for resale, and the cost of sales activities.

TIP The Profit & Loss report lists accounts in the order they appear in your company file's chart of accounts. If you want to report your income and expenses in a specific order, you can rearrange the accounts in the Chart of Accounts window (press Ctrl+A to open it). To do that, put your cursor over the diamond to the left of an account's name. When the cursor changes to a four-headed arrow, drag the account to where you want it.

- **Cost of Goods Sold**. Unless you gather rocks from your yard and then sell them as alien amulets, the products you sell carry some initial cost. For example, with products you purchase for resale, the cost of those goods includes the original price you paid for them, the shipping costs you incurred to get them, and so on. In the Profit & Loss report, the Cost of Goods Sold section adds up the underlying costs associated with your product sales.

NOTE If you don't sell inventory items, you might not have a Cost of Goods Sold section in your report. QuickBooks creates a Cost of Goods Sold account when you create your first inventory item. However, if you want to track other costs associated with selling goods—such as how much you paid for the labor required to build the products you sell, the cost of shipping, the cost of sales, and so on—you can create as many additional Cost of Goods Sold accounts as you want (page 51).

- **Gross Profit**. Gross profit is the profit you make after subtracting the cost of goods sold from your total income. For example, if you paid $60,000 to purchase equipment and then sold that equipment for $100,000, your gross profit is $40,000. The box on page 470 explains how to see whether your gross profit is in line with your industry.
- **Expense**. The next and longest section is for expenses—all the things you spend money on running your business, which are sometimes called *overhead*. For example, office rent, telephone service, and bank fees all fall into the overhead expense bucket. The name of the game is to keep these expenses as low as possible without hindering your ability to make money.
- **Net Ordinary Income**. QuickBooks uses the term "net ordinary income" to describe the money that's left over after you pay the bills. (You've probably also run across this measure referred to as *net profit* or *net earnings*.) Figure 17-2 shows the expenses and net ordinary income portions of a Profit & Loss report.
- **Other Income/Expense**. Income and expenses that don't relate to your primary business fall into this category. The most common entrants are the interest income you earn from your savings at the bank, the interest you pay on loans, and bad debt. In this category, income and expense are bundled together and offset each other. The result is called net other income. For example, if you have only a smidgeon of cash in savings but a honking big mortgage, your net other income will be a negative number.
- **Net Income**. At long last, you reach the end of the report. Net income is the money that's left after subtracting all the costs and expenses you incur. If this number is positive, congratulations—your company made money! If it's negative, your expenses were more than your income, and something's gotta give.

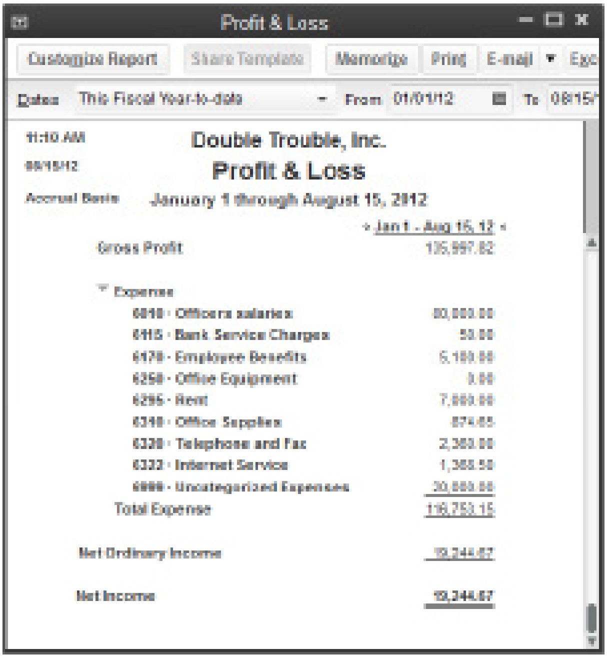


FIGURE 17-2

If your company makes more money than it spends, your net income (also called net profit) is a positive number, as shown here. Profit Profit & Loss reports don't label your result a loss when your company spends more than it makes. Instead, a loss shows up as a negative net income number, whether it's net ordinary, other, or overall net income.

UP TO SPEED

Profit Percentage

There's no question that sales are important. But the *percentage gross profit* you achieve is the real test of whether you're keeping up with your competitors. Compare the ratio of gross profit to sales to see if your company is in line with your industry. For example, in construction, gross profit between 40 and 60 percent is typical. (The business reference section of your local library is a great place to find industry statistics, and many libraries offer online access to their reference materials.)

QuickBooks is happy to calculate percentage gross profit for you. Here's what you do:

1. In the Profit & Loss report window's menu bar, click Customize Report.
2. In the Modify Report: Profit & Loss dialog box, click the Display tab (if it isn't already selected).
3. Turn on the "% of Income" checkbox at the bottom right of the dialog box, and then click OK.

QuickBooks adds another column to the report showing the percentage of income that each row in the report represents, as you can see in Figure 17-3. The Gross Profit value in the "% of Income" column is your gross profit.

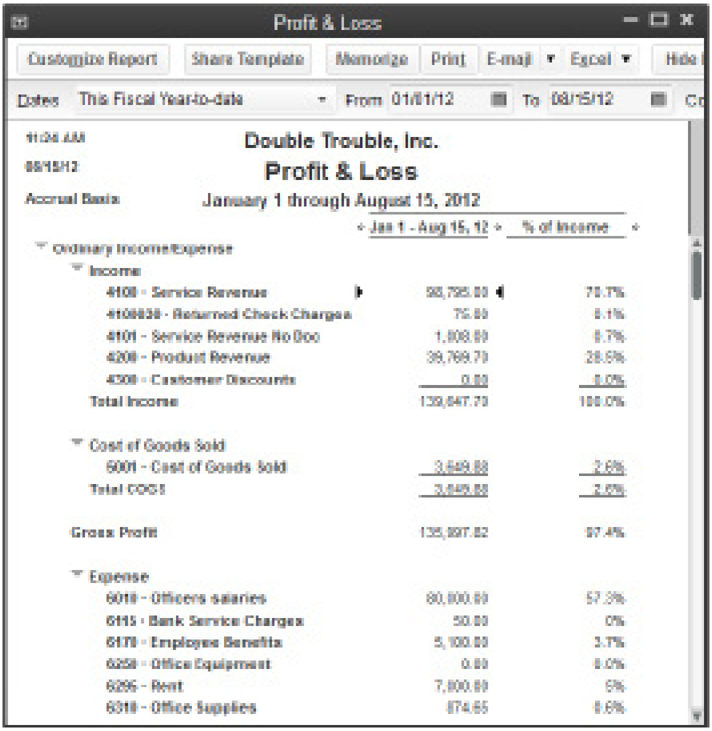


FIGURE 17-3

You can use the percentages in the "% of Income" column to analyze company performance in various ways. For example, when you're trying to find places to cut costs, look for expense accounts that take up a large percentage of your income. Or compare the percentage of net profit to the average for your industry.

Generating a Profit & Loss Report

If you choose Reports→Company & Financial, QuickBooks gives you several built-in Profit & Loss reports to choose from. Choose Profit & Loss Standard to see a month-to-date report, which, if you've built your mom-and-pop shop into a merchandising monster, might be just the one you want.

NOTE Before you generate your first financial statements, be sure that QuickBooks reports your numbers by using your company's accounting basis. The Summary Reports Basis preference (page 625) sets your reports to either accrual or cash accounting. If you choose the Cash option, your Profit & Loss reports show income only after you receive customer payments, and show expenses only after you pay bills. With the Accrual option, income appears in Profit & Loss reports as soon as you record an invoice or other type of sale, and expenses show up as soon as you enter bills.

But for many small companies, month-to-date numbers can be rather sparse. You can change the month-to-date Profit & Loss report that QuickBooks produces into a quarter-to-date or year-to-date report instead, as described in Figure 17-4. (Page 563 tells you how to save a Profit & Loss report after you tweak it to look the way you want.)

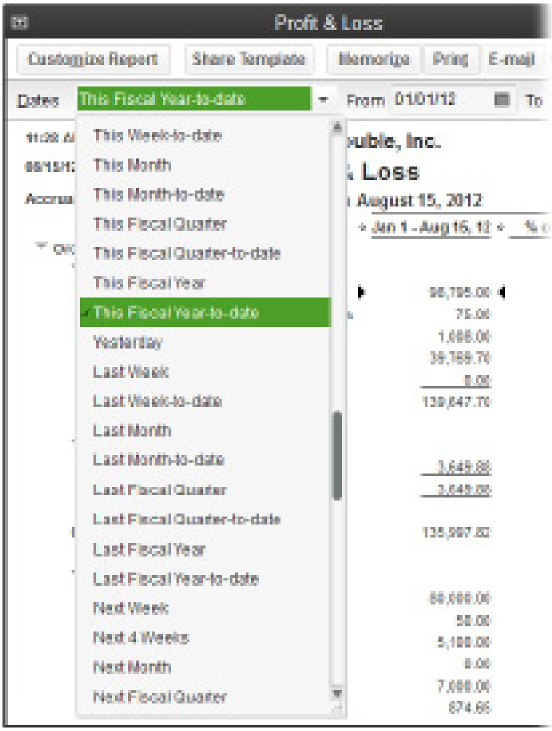


FIGURE 17-4

The Dates drop-down list includes dozens of commonly used date ranges for the current and previous fiscal year. If you choose "This Fiscal Year-to-date," for example, the dates in the From and To boxes change to the first day of your fiscal year and today's date, respectively. To select specific dates, in the From and To boxes, type or choose the dates you want.

Other Profit & Loss Reports

If the Profit & Loss Standard report described in the previous section isn't what you want, take a few minutes to see if any of the other built-in reports fit the bill. Here's a guide to the other Profit & Loss reports on the Reports→Company & Financial menu and when you might use them:

- **Profit & Loss Detail**. Only the tiniest of companies—or the most persnickety of bookkeepers—uses this report regularly. It's a year-to-date report that includes a separate line for every service and product you sold, every other charge that produced revenue, and every item on every bill you paid. It comes in handy when, for example, you restore a backup copy of your company file and want to look at your previous company file to identify the transactions you have to recreate in the restored backup.

TIP If you spot a questionable number in a Profit & Loss report, double-click the number for a closer inspection. When you put your cursor over a number, it changes to an icon that looks like a Z (for zoom) inside a magnifying glass; that's your clue that double-clicking the number will drill down into the details. For example, if you double-click a number in a Profit & Loss Standard report, QuickBooks displays a Transaction Detail By Account report that lists each transaction that contributed to the total. In a Profit & Loss Detail report, double-clicking a transaction opens the Create Invoices window (or corresponding window) so you can view that transaction.

- **Profit & Loss YTD Comparison**. This report puts the profit and loss results for two periods side by side: the current month to date and the year to date. However, most businesses compare a period to its predecessor from the previous year to see business trends more clearly, as the next report does.
- **Profit & Loss Prev Year Comparison**. If you own a gift shop or other seasonal business, you know that sales are highest during your peak season around the holidays. If you compare the last quarter of one year to the first quarter of the next, the Profit & Loss report would look pretty grim: Sales would be down and possibly exacerbated by returns from holiday purchases. To see whether your business is growing, compare your previous year to the current year with this report (shown in Figure 17-5).

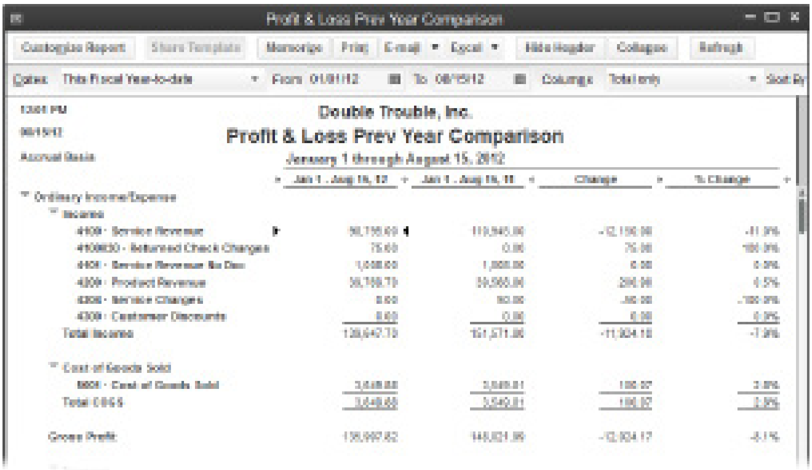


FIGURE 17-5

This report sets the Dates box to "This Fiscal Year-to-date" and shows your results for the first current year in the first column and those from the previous year in the second column. If you want to see where growth is strong or stagnant, include columns that show the change in dollars or percentages (page 555). Right after your fiscal year ends, you can change the Dates box to Last Fiscal Year to compare the year you just finished to the one before it.

- **Profit & Loss by Job**. If you suspect that some of your customers and jobs are less profitable than others—and you want to learn from your mistakes—run this report. It displays each of your customers and jobs in its own column so you can compare how much profit you made for each. The box page 474 tells you how to compare apples to apples in this report.

- **Profit & Loss by Class**. If you use classes to track performance for different business units or locations, use this report to produce a Profit & Loss report for each class. It includes a column for each class. If you'd rather generate a Profit & Loss report that displays only one class, modify this report to filter for that class. The last column in this report is Unclassified, which shows all the transactions that don't have a class assignment.
- **Profit & Loss Unclassified**. Before you pretty up and print your class-based Profit & Loss reports, run this one to see the numbers for transactions without class assignments. Depending on how you use classes, unclassified transactions might be perfectly acceptable. For example, if you track income by partner, overhead expenses aren't related to individual partners. In that situation, most income accounts should have values, but some expense accounts could have zero balances.

UP TO SPEED

Comparing Profitability

Because jobs vary in size, it's hard to compare profitability by looking at the raw numbers. For example, one job may produce $50,000 in total income with $10,000 in net income. Another job also produces $50,000 in total income, but only $5,000 in net income. To see how profitable customers and jobs truly are, percentages are the answer. For example, suppose each job's total income represents 10 percent of your total income for the year. The job with $10,000 in net income may represent 15 percent of your net income, while the other job, at $5,000 net income, is only 7.5 percent.

To add columns that show the percentage that a job contributes to your overall income and profit, do the following:

1. In the Profit & Loss by Job report window's menu bar, click Customize Report.
2. In the Modify Report: Profit & Loss dialog box, click the Display tab (if it isn't already selected).
3. Turn on the "% of Income" checkbox and then click OK.

QuickBooks adds another column for each job showing the percentage of income that each number in the job column represents. The Net Income value at the bottom of the "% of Income" column shows the net profit margin for a job. That's the number you want to focus on. When a job's net income percentage is higher than the total income percentage, that customer is more profitable than average.

The Balance Sheet

If a Profit & Loss report is like a video, a balance sheet is more like a portrait. This report (Reports→Company & Financial→Balance Sheet Standard) shows how much your company owns (assets), how much it owes (liabilities), and the resulting equity in the company at a given point in time. While a Profit & Loss report tells you whether you're making money, the balance sheet helps you analyze your company's financial strength.

Understanding the Balance Sheet

One thing you can count on with a balance sheet is that there's a steady relationship among the total assets, total liabilities, and equity, as you can see in Figure 17-6. The Balance Sheet report earns its name from math, not magic; here's the formula that puts the "balance" into balance sheets:

```
Assets - Liabilities = Equity
```

As you buy more or borrow more, the value of your equity changes to make up the difference between the value of your assets and liabilities. Another way to look at this equation is that your asset value equals the sum of your liabilities and equity.

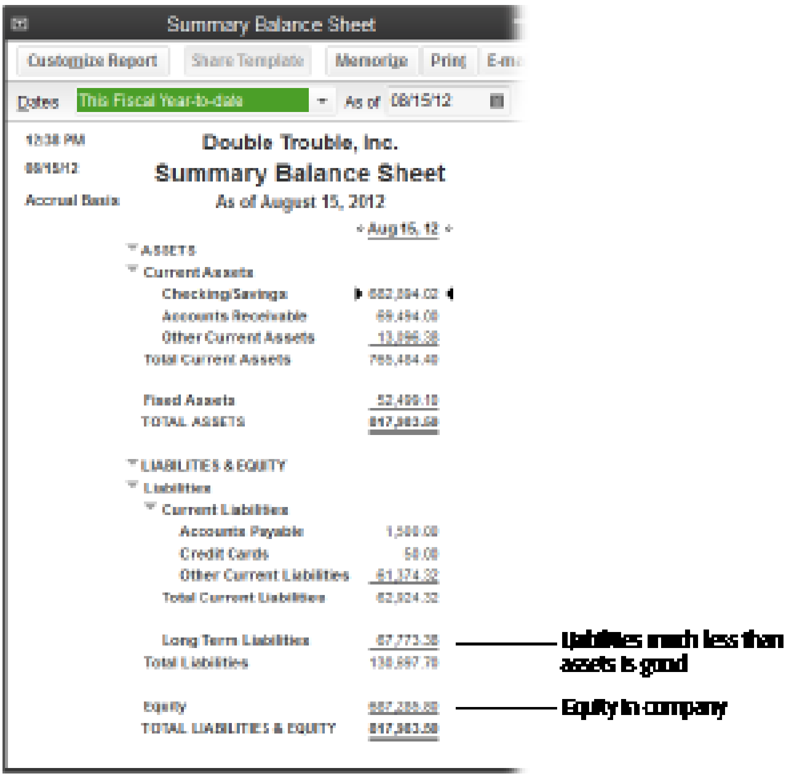


FIGURE 17-6

The key to a good-looking balance sheet is not having too much debt. How much is too much? It depends on the industry you're in, but the acid test is if you closed up shop today and sold all your assets, would you have enough money to pay off your liabilities? If the answer is no, you'll have a hard time finding a bank willing to lend you more money. A balance sheet is strong when it shows a lot of assets and few liabilities.

Here's what to look for in each section of a balance sheet:

- **Assets**. Assets are things of value that a company owns, such as equipment, land, product inventory, accounts receivable, cash, and even brand names. On a balance sheet, you want to see significantly more money in the Assets section than in the Liabilities section.

NOTE Even with assets, you can have too much of a good thing. Assets aren't corporate collectors' items—companies should use assets to make money. A measure called *return on assets* (the ratio of net income to total assets) shows whether a company is using assets effectively to produce income. Return on assets varies from industry to industry, but, typically, less than 5 percent is poor.

- **Liabilities**. Liabilities include accounts payable (bills you haven't yet paid), unpaid expenses, loans, mortgages, and even future expenses such as pensions. Debt on its own isn't bad; it's *too much* debt that can drag a company down, particularly when business is slow, since debt payments are due every month whether your business produced revenue or not.
- **Equity**. Equity on a balance sheet is the corporate counterpart of the equity you have in your house. When you buy a house, your initial equity is the down payment you make. But both the decreasing balance on your mortgage and any increase in the value of your house contribute to an increase in your equity. Equity in a company is the dollar value that remains after you subtract liabilities from assets.

Generating a Balance Sheet Report

A balance sheet is a snapshot of accounts on a given date. The various built-in Balance Sheet reports that QuickBooks offers differ in whether they show only account balances or all the transactions that make up those balances. Choose Reports→Company & Financial, and you can pick from any of the following reports:

- **Balance Sheet Standard**. This report includes every asset, liability, and equity account in your chart of accounts except for ones with zero balances, as shown in Figure 17-6. QuickBooks automatically sets the Dates box to "This Fiscal Year-to-date" so the report shows your balance sheet for the current date. If you want to see the balance sheet for the end of a quarter or end of the year, in the Dates box, choose This Fiscal Quarter, This Fiscal Year, or Last Fiscal Year.
- **Balance Sheet Detail**. This report shows the transactions over a period in each of your asset, liability, and equity accounts. If a number on your Balance Sheet Standard report looks odd, use this report to verify your transactions. Double-click a transaction's value to open the corresponding window, such as Enter Bills.
- **Balance Sheet Summary**. If you want to see the key numbers in your balance sheet without scanning past the individual accounts in each section, this report shows subtotals for each category of a balance sheet.
- **Balance Sheet Prev Year Comparison**. If you want to compare your financial strength from year to year, this report has four columns at your service: one each for the current and previous years, one for the dollar change, and the fourth for the percentage change.

NOTE When you review your Balance Sheet Prev Year Comparison report, you typically want to see decreasing liabilities. If liabilities have *increased*, then assets should have increased as well, because you don't want to see more debt without more assets to show for the trouble. Equity is the value of your—and your shareholders'—ownership in the company, so it should increase each year. (If you use QuickBooks to keep the books for your one-person consulting company, the equity may not increase each year if, for example, you don't have many company assets and you withdraw most of the profit you make as your salary.)

- **Balance Sheet by Class**. This report lists your asset, liability, and equity accounts, and includes a column for each class. However, to obtain accurate results from this report, you have to enter transactions in a specific way (for example, using only one class in each transaction, and recording transactions using QuickBooks features like Create Invoices and Receive Payments). To learn more about this report, search QuickBooks Help for "balance sheet by class report."

The Statement of Cash Flows

Thanks to noncash accounting anomalies like accrual reporting and depreciation, Profit & Loss reports don't tell you how much cash you have on hand. Looking at your cash flow helps you figure out whether your company generates enough cash to keep the doors open. Your balance sheet might look great—$10 million in assets and only $500,000 in liabilities, say—but if a $50,000 payment is due and you have only $3,000 in the bank, you have cash flow problems.

Understanding the Statement of Cash Flows

The concept of cash flow is easy to understand. In the words of every film-noir detective, follow the money. Cash flow is nothing more than the real money that flows in and out of your company—not the noncash transactions, such as depreciation, that you see on a Profit & Loss report. Figure 17-7 shows sources of cash in a sample Statement of Cash Flows.

WARNING When you sell an asset (which is an investing activity), it shows up as a gain or loss on the Profit & Loss report, which *temporarily* increases or reduces your net income. Beware: The effect of investing activities on the Profit & Loss report can hide problems brewing in your operations, which is why you should examine the Statement of Cash Flows report. If your income derives mainly from investing and financing activities instead of operating activities, you've got a problem.

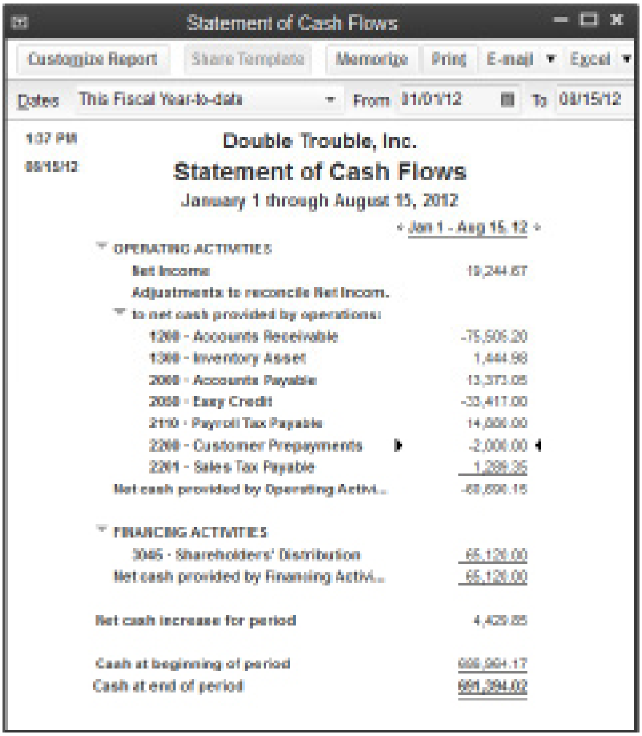


FIGURE 17-7

A Statement of Cash Flows report organizes transactions into various activity categories. Cash from operating activities is the most desirable; when a company's ongoing operations generate cash, the business can sustain itself without cash coming from other sources. Buying and selling buildings or making money in the stock market by using company money are investing activities. Borrowing money or selling stock in your company brings in cash from outside sources, called financing activities. (New companies often have no other source of cash.)

Generating a Statement of Cash Flows

To create a Statement of Cash Flows, QuickBooks automatically assigns the accounts that appear in your company's balance sheet to one of the three cash flow categories—operating, investing, or financing—and the program almost always gets those assignments right. For example, Accounts Receivable and Inventory appear as operating accounts, fixed asset accounts show up as investing, and accounts for loans fall under financing. Unless you're a financial expert or your accountant gives you explicit instructions about a change, you're better off leaving QuickBooks' account classifications alone. If you need to reassign accounts for your Statement of Cash Flows report, this section tells you how.

Generating a Statement of Cash Flows is easy because you have only one report to choose from. Simply choose Reports→Company & Financial→Statement of Cash Flows, and QuickBooks creates a report like the one shown in Figure 17-7, displaying your cash flow for your fiscal year to date. To view the Statement of Cash Flows report for a quarter or a year, in the Dates box, choose This Fiscal Quarter or This Fiscal Year.

NOTE The Operating Activities section of the report includes the label "Adjustments to reconcile Net Income to net cash provided by operations." If you're wondering what that means in non-accounting language, QuickBooks calculates the net income at the top of the Statement of Cash Flows report on an accrual basis (meaning income appears as of the invoice date, not the day the customer pays). But the Statement of Cash Flows is by nature a cash-based report, so the program has to add and subtract transactions to get net income on a cash basis.

The account assignments for the Statement of Cash Flows report are controlled by a collection of preferences you can find in the Preferences dialog box. Here's how to view the account assignments or change them:

1. **In the Statement of Cash Flows report window's toolbar, click the Classify Cash button.**

   The Preferences dialog box opens to the Reports & Graphs section and selects the Company Preferences tab (as long as you have QuickBooks administrator privileges, that is). You can also open this dialog box by choosing Edit→Preferences→Reports & Graphs.

2. **Click the Classify Cash button.**

   QuickBooks opens the Classify Cash dialog box. As Figure 17-8 explains, this is where you change your account categories.

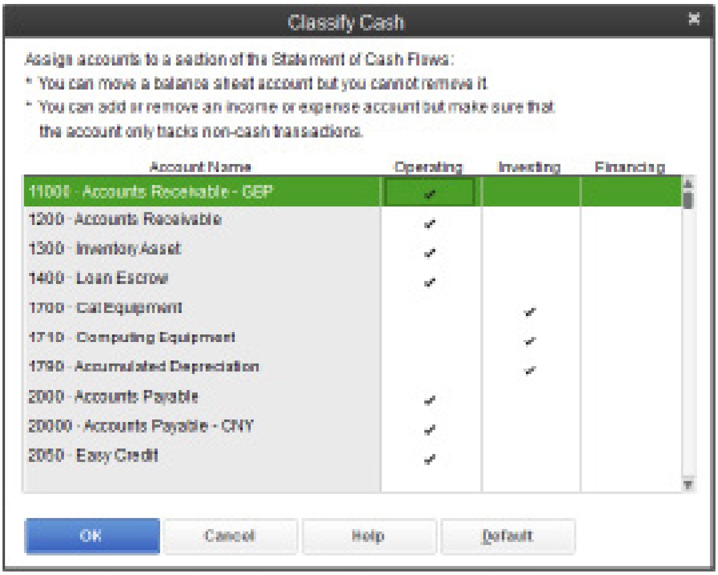


FIGURE 17-8

To change the category to which an account belongs, click the cell in the column for the new category. If you made changes and fear you've mangled the settings beyond repair, click Default to reset the categories to the ones QuickBooks used initially.

3. **When the assignments are the way you want, click OK to close the dialog box.**

   That's it—you've reassigned the accounts.

POWER USERS' CLINIC

Expert Cash Flow Analysis

Thanks to today's accounting rules, cash isn't always connected to revenues and expenses. And a dollar in sales isn't necessarily a dollar of cash. Here's what financial analysts look for when they evaluate a company's health based on its statement of cash flows:

- Net income on the Profit & Loss report that's close to the cash from operating activities means net income is mostly from business operations and the company can support itself.
- Cash from operations that's growing at the same rate or faster than the growth of net income indicates that the company is maintaining—or even improving—its ability to sustain business.
- Cash that's increasing means the company won't have to resort to financing to keep the business going.
- Negative cash flow is often the sign of a rapidly growing company—without financing, the company grows only as fast as it can generate cash from operations. If a company isn't growing quickly and *still* can't generate cash, something's wrong.
- If an increase in cash comes primarily from selling assets, the company's future looks grim. Selling assets to raise cash sometimes means the company can't borrow any more because banks don't like what they see. Because assets often produce sales, selling assets means less cash generated in the future—and you can see where that leads.

Other Helpful Financial Reports

Although financial statements are the ones that people like shareholders and the IRS want to see, other financial reports help you, the business owner, keep tabs on how your enterprise is doing. Here are a few QuickBooks reports that can help you evaluate your business's performance:

NOTE Reports that apply to specific bookkeeping and accounting tasks are explained in the chapters about those tasks, such as accounts receivable reports in Chapter 13.

- **Reviewing income and sales.** If you're introducing enhanced services to keep your best customers—or you're looking for the customers you *want* your competition to steal—use the Income by Customer Summary report (Reports→Company & Financial→Income by Customer Summary). It shows total income for each of your customers; that is, the total dollar amount from all of a customer's invoices and statement charges. Customers with low income totals might be good targets for more energetic sales pitches. If you find that most of your income comes from only a few customers, you may want to protect your income stream by lining up more customers. (One thing this report *doesn't* show is how profitable your sales to customers are; the box on page 474 explains how to see that.)

TIP If you want to produce a report showing performance over several years to evaluate trends, you can set a report's date range to include the years you want to compare. Then modify the report as explained on page 555 to include columns for each year.

- **Reviewing expenses.** On the expense side, the Expenses by Vendor Summary report (Reports→Company & Financial→Expenses by Vendor Summary) shows how much you spend with each vendor. If you spend tons with certain vendors, maybe it's time to negotiate volume discounts, find additional vendors as backups, or set up electronic ordering to speed up deliveries.
- **Comparing income and expenses.** The Income & Expense Graph (Reports→Company & Financial→Income & Expense Graph) includes a bar graph that shows income and expenses by month and a pie chart that breaks down either income or expenses (click Income or Expense at the bottom of the report's to choose which pie chart is displayed). To specify how income or expense is broken down, click By Account, By Customer, or By Class in the window's icon bar. You can't change the time periods for each set of bars on the graph.
- **What you've sold.** Most companies analyze their sales to find ways to improve. Maybe you want to beef up sales to customers who haven't bought from you in a while, turn good customers into great ones, or check how well your stuff is selling. The Sales by Customer Summary report (Reports→Sales→Sales by Customer Summary) is a terse listing of customers and how much you've sold to each one during the timeframe you specify; it initially shows "This Month-to-date" figures.

  The Sales Graph (Reports→Sales→Sales Graph), on the other hand, presents sales data in a cheery rainbow of colors, and you can quickly switch the graph to show the breakdown of sales by customer, item, and sales rep. The bar graph shows sales by month for the year to date. If you want to change the duration covered by the graph, click Dates and specify the date range you want. The pie chart shows sales slices based on the category you choose. In the window's toolbar, click By Item, By Customer, or By Rep to switch between seeing pie slices for items, customers, or sales reps.

  The Sales by Item Summary report (Reports→Sales→Sales by Item Summary) shows how much you sell of each item in your Item List, starting with inventory items, then non-inventory parts, and finally service items. This report includes a column for average cost of goods sold (COGS) and gross margin, which apply only to inventory items you sell.
- **Forecasting cash flow.** You may be wondering whether you have any invoices due that will cover a big credit card bill that's coming up or whether income over the next few weeks is enough to meet payroll. At times like that, use the Cash Flow Forecast report (Reports→Company & Financial→Cash Flow Forecast) to see how much cash you should have over the next four weeks, as shown in Figure 17-9. The Beginning Balance line shows the current balance for your Accounts Receivable, Accounts Payable, and bank accounts. The Proj Balance

column shows how much money you should have in your bank accounts at the end of each week (or longer if you choose a different period in the Periods drop-down list). If a number in the column starts flirting with zero, you're about to run out of cash. You'll have to speed up some customer payments, transfer cash from another account, or look into a short-term loan.

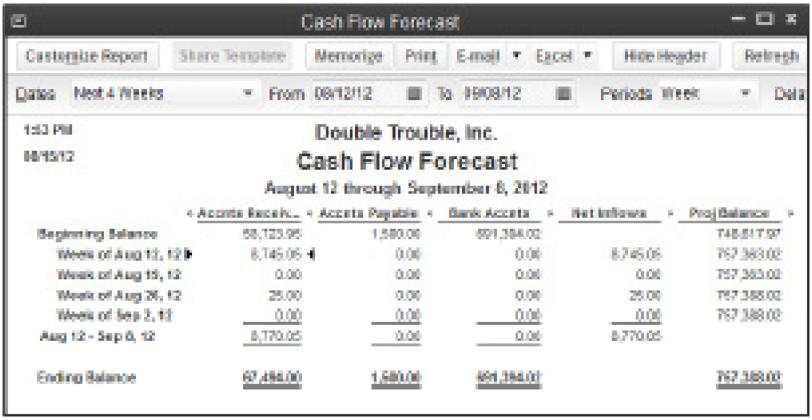


FIGURE 17-9

To view more than four weeks, type the date range you want in the From and To boxes or, in the Dates drop-down list, choose Next Fiscal Quarter or Next Fiscal Year. To change the length of each period in the report, in the Periods drop-down list, choose from Week, Two Weeks, Month, and so on.

POWER USERS' CLINIC

Realized Gains and Losses

If you work with more than one currency, changes in exchange rates can lead to gains or losses on your transactions. Say you send a customer an invoice for €1,000 when the euro-to-dollar exchange rate is 1.459 (that is, 1 euro equals 1.459 dollars). The invoice total in your home currency (dollars, in this example) is $1,459. However, by the time you deposit the customer's payment, the euro-to-dollar exchange rate is 1.325, which means each euro is worth fewer dollars. At that exchange rate, your bank records a deposit of $1,325 in your account, and you've lost $134 on the transaction.

To see how much you've gained or lost on foreign currency transactions, choose Reports→Company & Financial→Realized Gains & Losses. To see *potential* gains or losses based on the latest exchange rate, choose Reports→Company & Financial→Unrealized Gains & Losses. In the Enter Exchange Rates dialog box, type the exchange rates you want to apply. When you click Continue, the Unrealized Gains & Losses report shows gains and losses for the balances in your AR and AP accounts.

To report your financial results accurately, you have to adjust the value of accounts set up in foreign currencies (page 482) based on the exchange rate as of the end date for the report. You can download the most recent exchange rates by choosing Company→Manage Currency→Download Latest Exchange Rates. Or, to find exchange rates for a given date, point your web browser to *www.xe.com/ict*. Then, in QuickBooks, you can choose Lists→Currency List and edit the currencies to enter the exchange rates you found online.

To adjust account values, choose Company→Manage Currency→Home Currency Adjustment. In the Home Currency Adjustment window, select the date for the adjustment, and then pick the currency and the exchange rate you want to use. Click Calculate Adjustment, and customers and vendors who use that currency appear in the window's table. Select the ones you want to adjust, and then click Save & Close.

CHAPTER

18

Performing End-of-Year Tasks

As if your typical workday isn't hectic enough, the end of the year brings an assortment of additional bookkeeping and accounting tasks. As long as you've kept on top of your bookkeeping during the year, you can delegate most of these year-end tasks to QuickBooks with a few mouse clicks. (If you shrugged off your data entry during the year, even the mighty QuickBooks can't help.) This chapter describes the tasks you have to perform at the end of each fiscal year (or other fiscal period, for that matter) and how to delegate them to QuickBooks. (The box on page 484 describes a QuickBooks feature that helps you remember these various tasks.)

Checking for Problems

If you work with an accountant, you may never run a report from the Reports→Accountant & Taxes submenu unless your accountant asks you to. But if you prepare your own tax returns, running the following reports at the end of each year will help sniff out any problems:

- Run the **Audit Trail** report, especially if several people work on your company file, to watch for suspicious transactions, like deleted invoices or modifications to transactions after they've been reconciled. People make mistakes, and this report is also good for spotting inadvertent changes to transactions. QuickBooks initially includes only transactions entered or modified today, but you can choose a different date range to review changes since your last review (in the Audit Trail report's window, choose a date range in the Date Entered/Last Modified drop-down list, or type dates in the From and To boxes).

- The **Voided/Deleted Transactions Summary** and **Voided/Deleted Transactions Details** reports focus on transactions that—you guessed it—have been voided or deleted.

NOTE The QuickBooks Accountant edition (page xxi) has a host of features that help accountants and bookkeepers spiff up your books at the end of the year. For example, the Client Data Review tool lists review and cleanup tasks to perform. If your accountant finds any issues, she can add notes about what she plans to do. If you didn't classify transactions correctly, your accountant can use the Reclassify Transactions features to correct classifications in a jiffy.

GEM IN THE ROUGH

QuickBooks' Year-End Guide

QuickBooks Help contains a guide to typical year-end tasks, which is especially handy if you aren't familiar with what you have to do to wrap up a year for your business. When you choose Help→Year-End Guide, the program opens a special browser window displaying the Year-End Guide (Figure 18-1). It includes a list of activities related to general tax preparation and end-of-year dealings with subcontractors or employees. You may find some end-of-year tasks you didn't know you had!

The first time you view the guide, turn on the checkmarks for each issue that pertains to your organization. Since the guide is an HTML document, it works just like a web page. If you need help with the steps for an activity, click its link to open the corresponding QuickBooks Help topic. Click Save Checkmarks to make QuickBooks remember your choices—a handy reminder of your to-do list for the next fiscal year.

Viewing Your Trial Balance

The *Trial Balance* report is named after the report's original purpose: totaling the balances of every account in the debit and credit columns to see whether the pluses and minuses balanced. If they didn't, the bookkeeper had to track down the mistakes and try again.

QuickBooks doesn't make arithmetic mistakes, so you don't need a trial balance to make sure that debits and credits match. Nonetheless, the Trial Balance report is still handy. Accountants like to examine it for errant account assignments before diving into tax preparation or giving financial advice—and for good reason: The Trial Balance report is the only place in QuickBooks where you can see all your accounts *and* their balances in the same place, as shown in Figure 18-2.

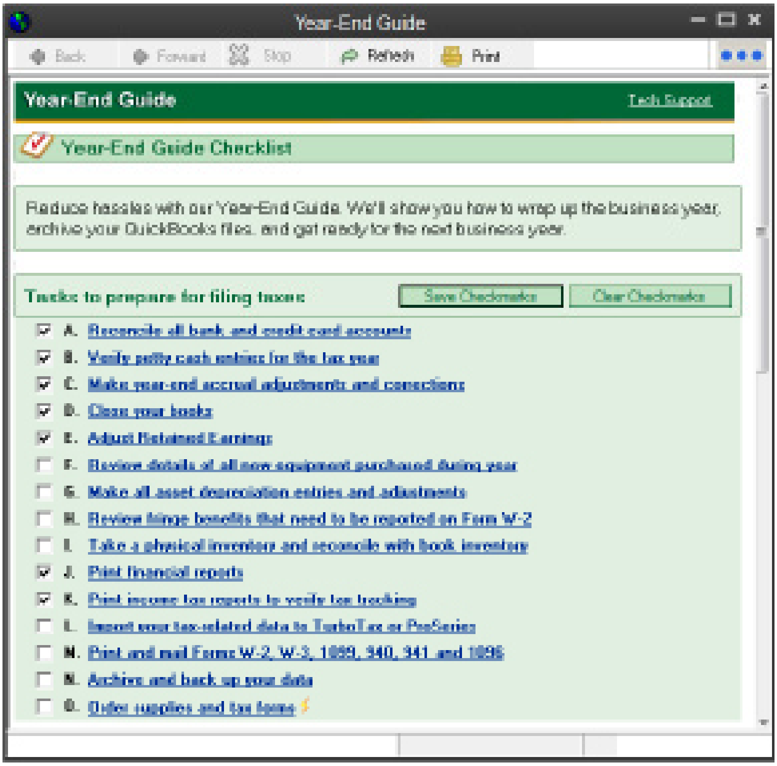
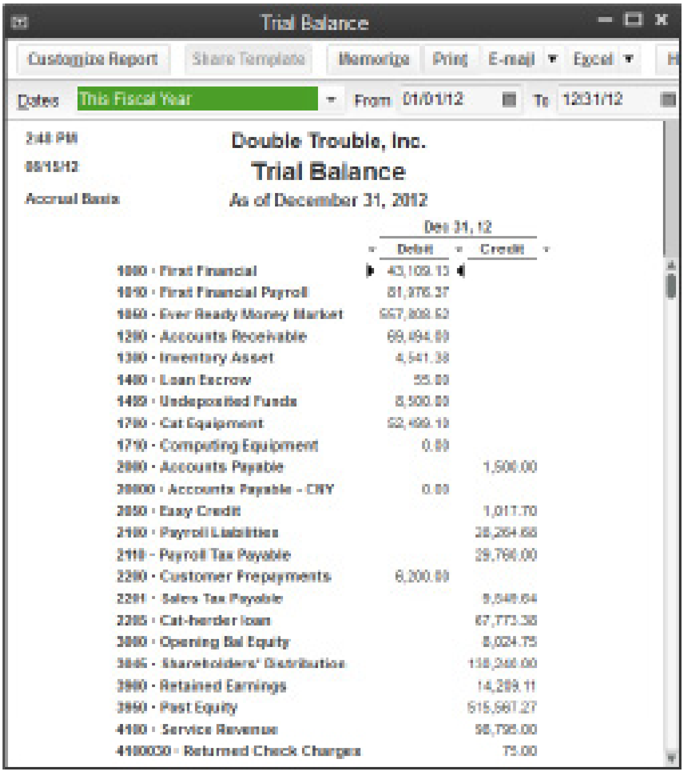


FIGURE 18-1

Click Save Checkmarks to store your choices. That way, when you open the Year-End Guide again next fiscal year, the checkmarks will be there to remind you of your to-do list.

To display this report, choose Reports→Accountant & Taxes→Trial Balance. QuickBooks then generates a Trial Balance report for the previous month. If you want to see the trial balance for your entire fiscal year, choose This Fiscal Year in the Dates box. The accounts appear in the same order that they're listed in the Chart of Accounts window (page 47).



	Dec 31, 12	
	Debit	Credit
1000 · First Financial	43,109.13	
1010 · First Financial Payroll	81,976.37	
1060 · Ever Ready Money Market	667,808.63	
1200 · Accounts Receivable	69,494.80	
1300 · Inventory Asset	4,541.38	
1400 · Loan Escrow	55.00	
1499 · Undeposited Funds	8,500.00	
1700 · Cat Equipment	52,498.10	
1710 · Computing Equipment	0.00	
2000 · Accounts Payable		1,500.00
20000 · Accounts Payable - CRY	0.00	
2050 · Easy Credit		1,017.70
2100 · Payroll Liabilities		28,264.68
2110 - Payroll Tax Payable		29,768.00
2200 · Customer Prepayments	6,200.00	
2201 · Sales Tax Payable		9,549.64
2205 · Cat-herder loan		67,773.38
3000 · Opening Bal Equity		8,024.75
3045 · Shareholders' Distribution		138,248.00
3900 · Retained Earnings		14,289.11
3950 · Past Equity		615,687.27
4100 · Service Revenue		58,795.00
4100030 · Returned Check Charges		75.00

FIGURE 18-2

If the account balances in your Trial Balance report look a little off, check the heading at the report's top left. If you see the words "Accrual Basis" in the heading but you use cash accounting for your business (see page 625 to learn how to set this preference), you've found the culprit. The same goes if the heading says "Cash Basis" but you use accrual accounting. To set things right, click Customize Report in the report window's menu bar. In the Modify Report dialog box that appears, on the Display tab, choose the Accrual or Cash option, and then click OK.

Generating Year-End Financial Reports

At the end of every year, tax preparation stimulates a frenzy of financial reporting as companies submit fiscal-year Profit & Loss reports and balance sheets as part of their tax returns. But tax forms aren't the only reason to run year-end reports before you hand over your company file to your accountant or prepare final reports for your tax return.

Run year-end reports for these reasons, too:

- If you work with more than one currency, adjust account balances to reflect the currencies' current values based on exchange rates (page 482 explains how).
- Inspect year-end reports for funny numbers. They might mean that you posted a transaction to the wrong account or created a journal entry incorrectly.
- Analyze your annual results to spot problems with your operations or to look for ways to improve.

After you complete your initial review of the year-end reports and make any corrections to transactions, generate a revised set of year-end reports. (Chapter 17 has the full scoop on generating financial statements.) Then your accountant (if you work with one) is next in line to see your company file (page 490).

FREQUENTLY ASKED QUESTION

Net Income and Retained Earnings

I just changed the date on my Balance Sheet report from December 31 of last year to January 1 of this year, and the Net Income and Retained Earnings numbers are different. What's the deal?

At the end of a fiscal year, account balances go through some changes to get your books ready for another year of commerce. For example, at the end of one fiscal year, your income and expense accounts show how much you earned and spent during that year. But come January 1 (or whatever day your fiscal year starts), all those accounts have to be zero so you can start your new fiscal year fresh. QuickBooks makes this happen by adjusting your net income behind the scenes.

Say your net income on the Profit & Loss report is $18,276.97 on December 31, 2012. That number appears at the bottom of the Balance Sheet report as the value of the Net Income account (in the Equity section). At the beginning of the new fiscal year, QuickBooks automatically moves the previous year's net income into the Retained Earnings equity account, which resets the Net Income account to zero.

Some companies like to keep equity for the current year separate from the equity for all previous years. To do that, you need one additional equity account and one simple journal entry. Create an equity account (page 52) called something like Past Equity with an account number greater than the one you use for Retained Earnings. (For example, if Retained Earnings is 3900, set Past Equity to 3950.) Then, when you close your books at the end of the year, create a journal entry to move the current value ($14,209.11 in this example) from the Retained Earnings account to the Past Equity account. That way, when QuickBooks moves the current year's net income into the Retained Earnings equity account, you can see both current and past equity values, as shown in Figure 18-3.

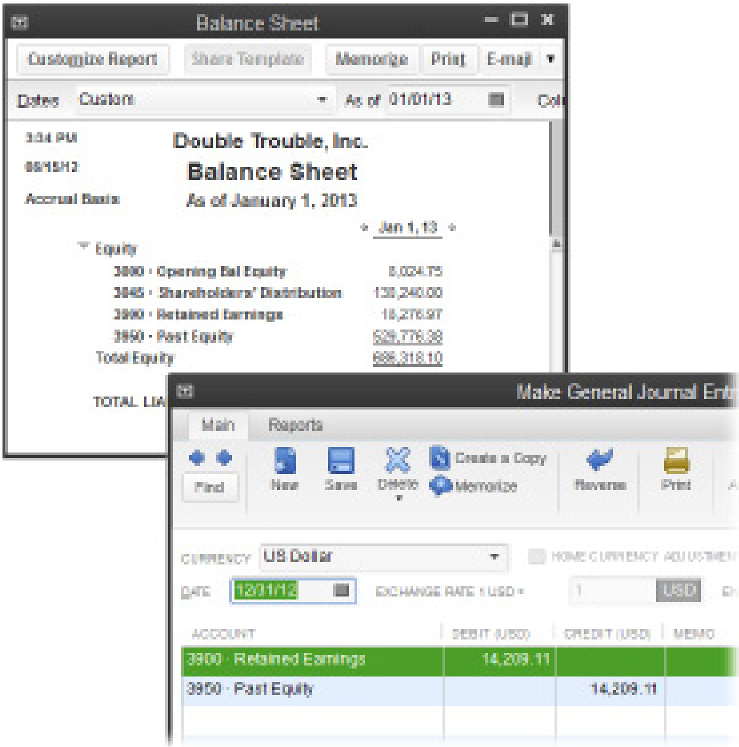


FIGURE 18-3

When you close your books at the end of a fiscal year, you can create a journal entry to transfer the previous year's retained earnings from the Retained Earnings account to the Past Equity account. Date the journal entry the last day of the fiscal year (like 12/31/12, as shown in the foreground here). You debit the Retained Earnings account and credit the Past Equity account. The Balance Sheet report for the first day of the next fiscal year then includes the previous year's retained earnings added to the Past Equity account and the previous year's net income ($18,276.97 here) in the Retained Earnings account.

Generating Tax Reports

Whether your accountant has the honor of preparing your taxes or you keep that excitement for yourself, you can save accountant's fees and your own sanity by making sure your company file is ready for tax season. The key to a smooth transition from QuickBooks to tax preparation is linking each account in your chart of accounts to the correct tax line and tax form.

Reviewing the Income Tax Preparation report (Reports→Accountant & Taxes→Income Tax Preparation) can not only save you money on accountant's fees, but it can also prevent IRS penalties (as well as keep more of your hair attached to your scalp). As shown in Figure 18-4, this report lists the accounts in your chart of accounts and shows the tax lines to which you assigned them. If an account isn't linked to the correct tax line—or worse, not assigned to *any* tax line—the Income Tax Summary report, which lists each line on your tax return with the amount you have to report, won't display the correct values. See page 56 to learn more about choosing tax lines for accounts.

FIGURE 18-4

If you see "<Unassigned>" in the Tax Line column, you'll have to assign a tax line to that account. (The easiest way to identify the correct tax line is to ask your accountant.) To edit an account, press Ctrl+A to display the Chart of Accounts window. Select the account, and then press Ctrl+E to open the Edit Account window. In the Tax Line entry drop-down list, choose the tax form for that account.

When all the accounts in your chart of accounts are assigned to tax lines, you can generate a report with all the values you need for your company's tax return. Choose Reports→Accountant & Taxes→Income Tax Summary. Because you usually run this report after the fiscal year ends and all the numbers are in, QuickBooks automatically fills in the Dates box with Last Tax Year.

NOTE As one last reminder of unassigned accounts, the last two lines of the Income Tax Summary report are "Tax Line Unassigned (balance sheet)" and "Tax Line Unassigned (income/expense)." To see the transactions that make up one of these unassigned values, double-click the number in the corresponding line.

UP TO SPEED

Year-End Journal Entries

Journal entries run rampant at the end of the year. If your accountant makes journal entries for you or gives you instructions, you might be perfectly happy not knowing what these journal entries do. But if you go it alone, you need to know which journal entries to make.

For example, if you purchase fixed assets, you need to create a general journal entry to handle depreciation. You might also create journal entries to record home-office expenses as owners' contributions to your company.

If you aren't an accounting expert, don't waste precious time trying to figure out your journal entry needs; the cost of an accountant's services is piddling in comparison. Once you know what journal entries you need, Chapter 16 explains how to create them.

Sharing a Company File with Your Accountant

If you work with an accountant who uses QuickBooks, there are times when a tug-of-war over your company file is inevitable. You want to perform your day-to-day bookkeeping, but your accountant wants to review your books, correct mistakes you've made, enter journal entries to prepare your books for end-of-quarter or end-of-year reports, and so on. QuickBooks has two ways for you and your accountant to share:

- With an **accountant's review copy**, the two of you can stop squabbling because you each get your own copy of the company file. That way you can work on everyday bookkeeping tasks while your accountant tackles cleaning up earlier periods.
- The **external accountant user** is a super-powered user who can look at anything in your company file—except sensitive customer information like credit card numbers. You set up an external accountant user in your company file for your accountant so he can log into your file, review every nook and cranny of your company's data (with QuickBooks' Client Data Review tool designed specially for accountants), make changes, and keep track of which changes are his and which are yours.

This section explains both these approaches.

Creating an Accountant's Review Copy

The secret to an accountant's review copy is a cutoff date that QuickBooks calls the *dividing date*. Transactions before this date are fair game for your accountant, who can work in the comfort of his own office. Transactions after that date are under your command in your original company file. When your accountant sends a file with changes back to you, the program makes short work of merging his changes into your company file. The box below describes other ways you can collaborate with your accountant.

WORD TO THE WISE

Ways to Work with an Accountant

For most companies, QuickBooks is no substitute for an accountant. As financial professionals, accountants have the inside track on how best to handle your business finances. In addition to (or instead of) giving your accountant a review copy of your company file, here are other ways you can integrate your accountant's advice into your company file:

- **A backup or portable copy**. You can give your accountant *exclusive* access to your company file by sending her a backup or portable copy (page 187) of the file. When she finishes evaluating your books and making the changes she wants, you can either begin using the copy she sends back to you or make adjustments in your company file based on her recommendations. For example, your accountant can send you a document listing the journal entries you have to create to adjust your accounts along with copies of what your income statement and balance sheet should look like. After you create those journal entries, your company file contains all of your transactions and the adjustments she requested. You can confirm that you entered the journal entries correctly by making sure your financial reports match the ones she produced.
- **Working onsite**. An accountant can work on the company file right in your office with a login password from you (the external accountant user feature gives your accountant special tools for working with your data). However, accountants are prone to doing things that require the company file to be in single-user mode, which might disrupt your day-to-day bookkeeping process.
- **The paper method**. If your accountant prefers to work with her own accounting system, you'll have to print the lists and reports that she requires. Then, when she gives you a list of changes and journal entries, you'll have to make those changes in your company file.

In addition to these options, QuickBooks Premier and Enterprise editions include a remote-access service, which lets your accountant access your QuickBooks company file over the Internet. Or you can use a remote-access service like those offered at *www.mypc.com* or *www.logmein.com*.

You have to be in single-user mode to create an accountant's copy. To switch to single-user mode, first make sure that everyone else is logged out of the company file, and then choose File→"Switch to Single-user Mode." After that, creating an accountant's review copy is a lot like creating other kinds of copies of your company file:

TIP If you have a few dozen windows open and laid out just the way you want, there's no need to gnash your teeth as QuickBooks closes all your windows to create the accountant's copy. Before you create the accountant's copy, save the current window arrangement so the program can reopen all those windows for you: Simply choose Edit→Preferences→Desktop View and, on the My Preferences tab, choose the "Save current desktop" option.

1. **Choose File→Accountant's Copy→Save File. In the Save As Accountant's Copy dialog box, which automatically selects the Accountant's Copy option, click Next.**

   If your accountant needs unrestricted access to the file, select the "Portable or Backup File" option instead and see page 187 to learn how to create those types of files.

2. **On the "Set the dividing date" screen shown in Figure 18-5, choose the date when control over transactions changes hands. Click Next and then, in the message box about closing windows, click OK.**

   Use the Dividing Date drop-down list to choose the date you want as the dividing line between your work and your accountant's work. The upper part of the screen explains what each of you can do before and after the dividing date.

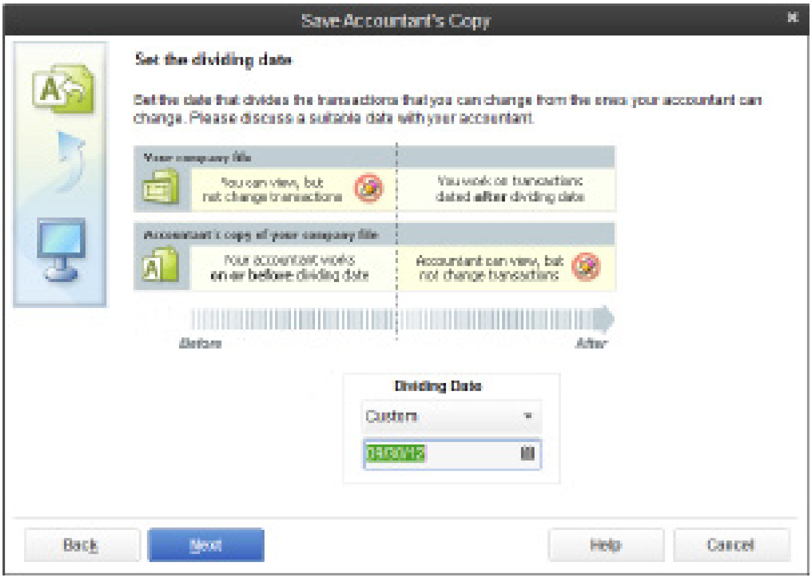


FIGURE 18-5

The dividing date you use is often the end of a fiscal period. The Dividing Date drop-down list gives you only a few choices, one of which is Custom. If you want to specify a date, choose Custom and then type or choose the date in the box that appears. Your other dividing date choices are End of Last Month, 2 Weeks Ago, and 4 Weeks Ago.

3. **Choose the folder or drive where you want to save the copy.**

   QuickBooks sets the "Save as type" box to "QuickBooks Accountant's Copy Transfer Files (*.QBX)," and automatically names the file by using the company file's name followed by "Acct Transfer" and the date and time you created the file. (The extension .qbx stands for QuickBooks Accountant Transfer File.) As usual, you're free to edit the filename. Accountant's review copies use the QuickBooks portable file format, so they're usually small enough to email or save to a USB thumb drive. For example, a 10-megabyte company file may shrink to an accountant's review copy that's less than 1 MB.

4. **To create the accountant's review copy, click Save.**

   Once you create an accountant's copy, QuickBooks reminds you that it exists: In the QuickBooks program window's title bar, you'll see the words "Accountant's Changes Pending" immediately after the company name.

5. **Send the file to your accountant.**

   Email the file to your accountant, or copy it to a CD or a USB thumb drive and send it to him.

NOTE If you use a password on your company file (an excellent idea, no matter how tiny your company is), don't forget to tell your accountant the password for the account you've set up for him.

FREQUENTLY ASKED QUESTION

Bookkeeping During Accountant's Review

Are there any limitations I should know about before I create an accountant's review copy?

QuickBooks locks parts of your company file when an accountant's review copy exists, so both you and your accountant have to live with a few minor restrictions. Fortunately, most of the taboo tasks can wait during the few weeks that your accountant has a copy of your file.

While you're sharing the company file, you can work on transactions after the dividing date, so your bookkeeping duties are unaffected. You can also add entries to lists or edit the information in list entries, but you *can't* merge or delete list entries until you import your accountant's changes. Similarly, you can add accounts, but you can't edit, merge, or deactivate accounts. Adding subaccounts is a no-no, too.

With a few restrictions, your accountant can work on transactions dated on or before the dividing date, whether she's adding, editing, voiding, or deleting transactions. For example, payroll, non-posting transactions (like estimates), transfers, sales tax payments, and inventory assemblies are completely off limits. Because the limitations vary depending on what your accountant is trying to do, QuickBooks highlights fields in an accountant's copy to show the changes she can make that go back to you. (Fields that aren't sent back to you aren't highlighted.)

Your accountant can reconcile periods that end before the dividing date or change the cleared status of these earlier transactions. She can also add accounts to the chart of accounts and add items to some lists. For example, she can add customers, vendors, items, classes, fixed assets, sales tax codes, employees, and other names. Whether she can edit, inactivate, merge, and delete list items depend on the list. However, even if editing the list is off limits, your accountant can still *view* lists.

Sending a Copy Directly to Your Accountant

Intuit is happy to act as a go-between for accountant's review copies. You can tell QuickBooks to create an accountant's review copy *and* send it to your accountant; the copy goes up on a secure Intuit server, and your accountant gets an email that the file is waiting there. This method may be faster than creating and shipping the accountant's copy yourself. Here's how to start the ball rolling:

1. **Choose File→Accountant's Copy→Send to Accountant.**

   The Send Accountant's Copy dialog box opens and tells you about Intuit's Accountant's Copy File Transfer service. Click Next.

2. **On the "Set the dividing date" screen, choose the date that marks when you or your accountant is in charge, and then click Next.**

   The Dividing Date drop-down list has the same options described in Figure 18-5.

3. **Fill out the "Information for sending the file (1 of 2)" screen.**

   In the first and second box, type your accountant's email address. Make sure this address is correct—you don't want to accidentally send your financial information to the wrong person! Type your name and email address in the other boxes, so your accountant knows who the copy came from, and then click Next.

4. **On the "Information for sending the file (2 of 2)" screen, type a password to protect your file.**

   Type the password in the "Reenter password" box to prevent typos from sneaking in. The password has to be strong: at least seven characters, at least one number, and at least one uppercase letter. In the Note box, type any instructions for your accountant. *Don't* include the password in the Note box; instead, tell your accountant what the password is over the phone or in a separate email.

5. **Click Send.**

   QuickBooks closes all its windows and tells you that it's creating and sending an accountant's copy. You'll see a confirmation dialog box in QuickBooks (click OK to close it) and a confirmation email in your inbox when the copy has settled successfully onto Intuit's server.

   Your accountant receives an email that the file is waiting with a link to the download page. (The link is good for 14 days; then Intuit deletes your file from its server.) All you have to do is wait for your accountant to send you a file with changes and then import those changes as described in the next section.

Merging Accountant Changes into Your Company File

The company file your accountant sends back to you will have the file extension .qby instead of .qbx to indicate that it's an accountant's review copy import file. (Y follows X in the alphabet. Get it?) If you've imported data (like customer records) into QuickBooks before (page 654), the following steps should be familiar:

1. **If your company file isn't open, open it and back it up (page 175) before you import your accountant's changes.**

2. **Choose File→Accountant's Copy→Import Accountant's Changes from File. In the Import Changes From Accountant's Copy dialog box, navigate to the disk or folder that contains the accountant's file and then double-click the filename.**

   QuickBooks displays the changes your accountant made, as shown in Figure 18-6. Click the Expand All button to see the entire list. Review the changes to see if any of them conflict with work that you've done while your accountant worked on the copy. Each change comes with an explanation of how to deal with these conflicts.

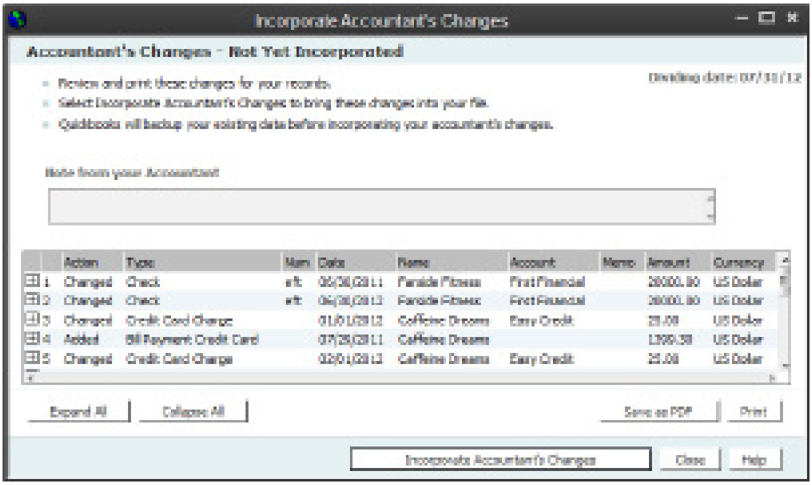


FIGURE 18-6

If you want a record of your accountant's changes, click Print or "Save as PDF."

NOTE If your accountant subscribes to Intuit's file-transfer service, she may tell you that the file she sent you is available on the Web. In that case, choose File→Accountant's Copy→Import Accountant's Changes from Web to retrieve the file.

3. **To make the changes in your company file, click the Incorporate Accountant's Changes button. (If you decide not to import the changes, click Close instead.)**

   QuickBooks backs up your company file and then imports the changes. After you review them, click Close.

Canceling an Accountant's Review Copy

From time to time, you might want to get rid of an accountant's review copy without importing any of the changes. For instance, say you created an accountant's review copy by mistake or your accountant had so few changes that she simply told you what tweaks to make. Unlocking your company file so you can get back to performing any type of task requires nothing more than choosing File→Accountant's Copy→Remove Restrictions. The Remove Restrictions dialog box warns you that you won't be able to import changes from the accountant's review copy if you remove restrictions. To show that you know what you're doing, turn on the "Yes, I want to remove the Accountant's Copy restrictions" checkbox, and then click OK. The words "Accountant's Change Pending" disappear from the QuickBooks window's title bar.

Setting Up an External Accountant User

The *external accountant user* feature lets your accountant peruse your bookkeeping data and make changes while protecting your customers' sensitive financial info. When your accountant logs in as an external accountant user, she can use the Client Data Review tool to look for problems and clean up any she finds. For example, she can look at the changes you've made to lists like the Chart of Accounts and Items List, scan your company file for payments or credits you haven't applied, and find sales taxes or payroll liabilities that you didn't record correctly.

NOTE An external accountant user lets an accountant use the Client Data Review tool from within clients' editions of QuickBooks. When someone logs in as an external accountant user, the Client Data Review item appears in the Company menu in any QuickBooks edition, including Pro and Premier.

Here's how to set up an external accountant user:

1. **Log into your company file as the administrator (page 684).**

   Only an administrator can create an external accountant user (who can perform tasks that even someone with administrator privileges can't, like run the Client Data Review tool).

2. **Choose Company→Set Up Users and Passwords→Set Up Users.**

   After you enter your password, the User List dialog box opens.

3. **Click Add User.**

   The "Set up user password and access" dialog box opens.

4. **In the User Name box, type the name for the external accountant user. In the Password and Confirm Password boxes, type the external accountant user's password and then click Next.**

   The "Access for user" screen appears.

5. **Select the External Accountant option and then click Next.**

   Because the external accountant user is so powerful, QuickBooks asks you to confirm that you want to give that level of access to the person. Click Yes.

6. **Click Finish.**

NOTE You can also change an existing user to an external accountant user. To do that, log into your company file as an administrator and choose Company→Set Up Users and Passwords→Set Up Users. In the User List window that appears, select the person you want to change and then click Edit User. Change the name and password if you want to and then click Next. On the "Access for user" screen, select the External Accountant option, click Next, click Yes, and then click Finish.

1099s

In QuickBooks, paying independent contractors is no different from paying other vendors: You enter bills from your contractors and then you pay those bills. No messy payroll transactions; no fuss with benefits or other regulatory requirements. But at the end of the year, you have to generate 1099s for your independent workers.

If you set up QuickBooks to track 1099 payments (page 632) and your contractors as 1099 vendors (page 92), generating 1099s is a piece of cake. But before you push a stack of 1099 forms through your printer, it's a good idea to make sure your records are up-to-date and accurate.

NOTE If you turn on the preference for QuickBooks payroll, you can print W-2s for your employees by choosing Employees→Payroll Tax Forms & W-2s→Process Payroll Forms.

Generating 1099 Reports

To review the amounts you've paid to 1099 vendors, choose Reports→Vendors & Payables, and then select either of the following reports:

- **1099 Summary**. This report includes each vendor you've set up as a 1099 vendor and the total amount you've paid each vendor. If any amount looks question-able, double-click it to display that vendor's transactions. Although the report lists only the vendors you set up as eligible for 1099 status, as shown in Figure 18-7, you can modify it to make sure you haven't left any 1099 vendors out. In the first 1099 Options drop-down list, choose "All vendors."

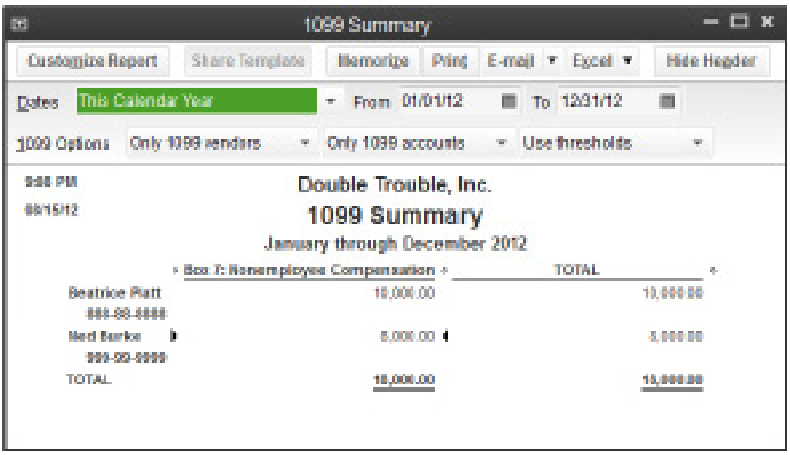


FIGURE 18-7

Regardless of the fiscal year you use for your company, payroll and 1099 tasks run on a calendar year, because your employees and subcon-tractors pay taxes for each calendar year. That's why the Dates drop-down list for the 1099 Summary report includes calendar-year date ranges.

If the 1099 Summary report is empty, your 1099 account mappings may be missing. In the report window's toolbar, in the middle drop-down list, choose "All allowed accounts" to see payments you made to 1099 vendors regardless of the account. If your vendors leap into view, you need to map your accounts to 1099 boxes, as described on page 632.

NOTE The federal government gives you the tiniest of breaks by setting thresholds for total payments to 1099 vendors. If you pay vendors less than the threshold, you don't have to generate 1099s for them. (For nonemployee compensation, the 2012 threshold is $600.)

In the 1099 Summary report's window, QuickBooks sets the last box in the 1099 Options row to "Use thresholds." This choice filters the vendors in the report to those that exceed the government's threshold. If you want to see *all* your 1099 vendors, regardless of what you paid them, choose "Ignore thresholds" instead.

- **1099 Detail**. If you pay your independent contractors on a regular schedule, this report can pinpoint errors because it shows the transactions that produce the vendor's 1099 amount. If you see a gap in the payment schedule or two transactions in the same month, double-click a transaction amount to open the corresponding window, such as Write Checks.

Printing 1099-MISC Forms

The steps to start printing 1099 forms are simple but, as with any printing task, fraught with niggling details:

1. **Order printable 1099-MISC and 1096 forms or purchase them at your local business supply store.**

   1099-MISC and 1096 forms use special ink so that government agencies can scan them. Intuit sells kits with preprinted 1099 forms. In your web browser, go to *http://intuitmarket.intuit.com*. In that page's horizontal navigation bar, point your cursor at Tax Forms, and then click 1099 Kits.

   You can also order 1099 forms directly from the IRS by going to *www.irs.gov* and clicking the Forms & Pubs heading. On the "Forms and Publications" page, under the Order heading, click "Employer forms and instructions." In the value box for the 1099 MISC form (about halfway down the list), type the quantity of forms you need, and then scroll to the bottom of the page and click "Add to Cart."

NOTE You can print 1099-MISC forms for up to 249 vendors. If you've got more than that, the IRS requires you to file 1099 forms electronically. In that case, bypass printing the forms in QuickBooks and use the government's hopefully easy-to-use system instead.

2. **Load your printer with preprinted 1099-MISC forms.**

   If you use a printer that feeds individual sheets, don't bother placing a Copy 2 form after each Copy 1 form so that you can print multiple copies for each vendor. It's a lot easier to load the Copy 1 sheets and print a set of 1099 forms on those sheets and then load the Copy 2 forms and print a second set of 1099 forms. You then send the Copy 1 sheets to the 1099 vendors, and the Copy 2 sheets to the government in one big batch.

3. **Choose Vendors→Print/E-file 1099s. In the QuickBooks 1099 Wizard window that opens, click Get Started.**

   The QuickBooks 1099 wizard helps verify your 1099 information before you print. After you click Get Started, the "Select your 1099 vendors" screen appears.

4. **To transform a vendor into a 1099 vendor, turn on the checkbox in the vendor's Create Form 1099-MISC Column. Click Continue when all the 1099 vendors are selected.**

   Turn off a vendor's checkbox if you don't need to create a 1099 for them.

5. **In the "Verify your 1099 vendors' information" screen, make any changes to the vendors' tax ID, name, address, and phone number. Click Continue when the information is correct.**

   If required information is missing, the wizard outlines the table cell in red. Simply click the cell and type in the needed info.

6. **In the "Map vendor payment accounts" screen, map the accounts in your chart of accounts to the appropriate box on the 1099 form by clicking the down arrow in the "Apply payments to this 1099 box" cell and choosing the appropriate 1099 box. Click Continue when you're done.**

   Most payments to 1099 vendors are mapped to Box 7: Nonemployee Compensation, which is why this screen includes a "Report all payments in Box 7" checkbox. To map all your 1099 vendors to Box 7, simply turn on this checkbox.

7. **In the "Review payments for exclusions" screen, click View Included Payments to see payments you made to vendors by credit card, debit card, gift card, or PayPal. If any payments made with those payment types appear in the Check Payments Included on Forms 1099-MISC report, double-click the transaction to open the Write Checks window. In the No. field, fill in the payment type, such as Debit, Visa, Giftcard, PayPal, and so on.**

   Beginning with the 2011 tax year, you have to exclude payments you made by credit card, debit card, gift card, or third-party payment networks such as PayPal from Form 1099-MISC because they're reported by the card issuers and third-party payment networks on Form 1099-K. You can click View Excluded Payments to see which payments QuickBooks has excluded from Form 1099-MISC.

If you make a payment in the Write Checks or Pay Bills windows, you can fill in the "No. filed" with the payment type (up to 8 characters) so that QuickBooks can automatically exclude that payment from Form 1099-MISC.

8. **When the Check Payments Included on Forms 1099-MISC report shows only check payments, click Continue.**

   After you edit transactions, click Refresh in the report window to view an updated report.

9. **In the "Confirm your 1099 entries" screen, review the vendors and the compensation to make sure it's correct, and then click Continue.**

10. **In the "Choose a filing method" screen, click Print 1099s to print your forms.**

    If you file more than 249 forms, you have to e-file your 1099s. In that case, you can click "Go to Intuit 1099 E-File Service" to use Intuit's e-file service (which costs extra).

11. **In the "Printing 1099-MISC and 1096 Forms" dialog box, click OK.**

    QuickBooks opens the "Select 1099s to Print" dialog box shown in Figure 18-8, and automatically selects every vendor whose pay exceeds the government threshold (page 498).

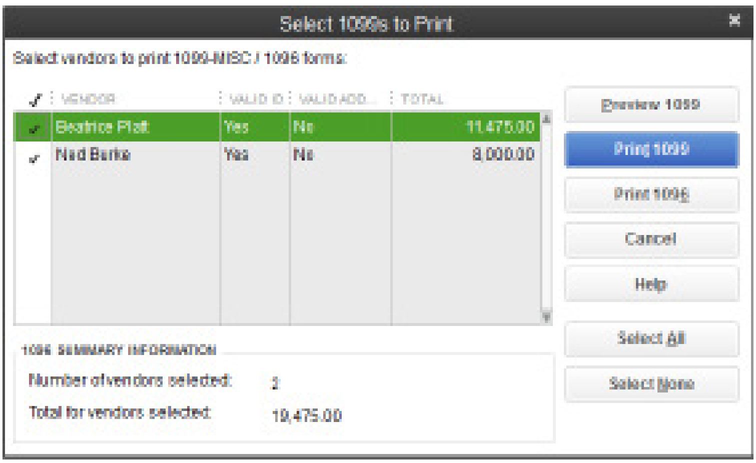


FIGURE 18-8

In addition to columns for the vendor's name and total pay, this table includes the Valid ID and Valid Address columns. If you tend to create vendors on the fly without bothering to enter pesky details like their tax ID numbers or street addresses, scan these columns for the word "No." If you see that in any cell, click Cancel and edit your vendors to add this essential information. Then, repeat steps 7 and 8 and verify that all the Valid ID and Valid Address cells say Yes.

12. **When the Valid ID and Valid Address columns are replete with the word Yes, click Preview 1099 to see the final forms before you print them.**

    In the Print Preview window, click Zoom In (if necessary) to verify the information. When you've reviewed the forms, click Close.

13. **Click Print 1099.**

    QuickBooks opens the Print 1099 window. If the preprinted forms are waiting in a printer other than the one that the program chose, in the "Printer name" box, choose the printer that holds your preprinted forms.

14. **Click Print.**

TIP Preprinted forms usually include Copy 1 for the vendor and Copy 2 for the government. But you'll also want a copy for your files. Instead of printing a third set of 1099s, run one of the printed sets through your copy machine or printer/scanner/copier.

Closing the Books for the Year

A few months after the end of a fiscal year, when tax returns rest under the gimlet-eyed scrutiny of the tax authorities, most companies close their books for the previous fiscal year. The purpose of closing the books is to lock the transactions that you've already reported on tax returns or in financial results, because the IRS and shareholders alike don't look kindly on changes to the reports they've received.

QuickBooks, on the other hand, doesn't care whether you close the books in your company file. The closing task is mainly to protect you from the consequences of changing the numbers in previous years (like altering the company file so that it no longer matches what you reported to the IRS). But you're free to keep your books open if you're not worried about editing older transactions by mistake.

If you *do* close your books in QuickBooks, you can still edit transactions prior to the closing date. Unlike other bookkeeping programs in which closed means closed, in QuickBooks, folks who know the closing-date password can still change and delete closed transactions to, say, correct an egregious error before you rerun all your end-of-year reports.

Closing the books in QuickBooks takes place in the Preferences dialog box. Switch to single-user mode (page 173). Then, choose Edit→Preferences→Accounting and click the Company Preferences tab. To close the books as of a specific date, click the Set Date/Password button. Figure 18-9 shows what to do next.

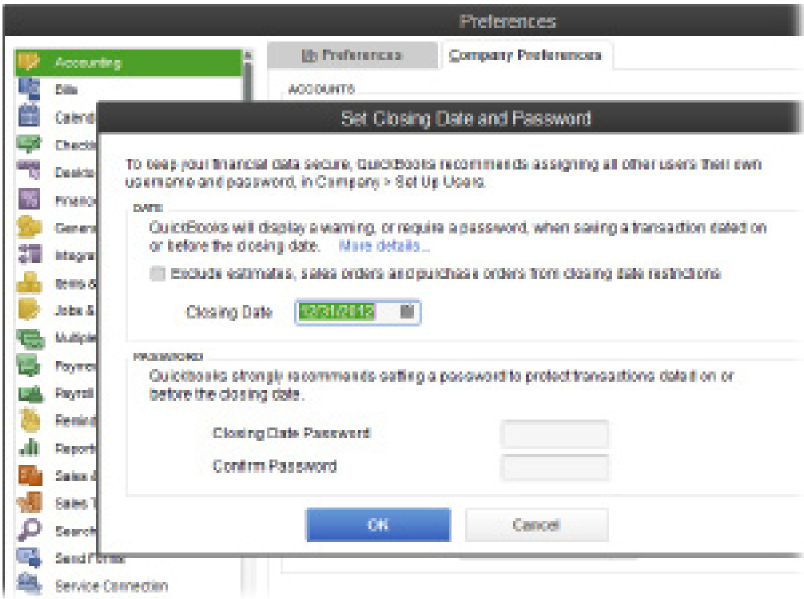


FIGURE 18-9

In the Closing Date box, type or select the last day of the previous fiscal year. If you want to let only authorized people make changes to the closed books, type a password in the Closing Date Password box. Then press Tab and, in the Confirm Password box, type the password a second time.

TIP Don't cut and paste the password from the Closing Date Password box to the Confirm Password box. These boxes display dots instead of the actual characters, which means you can't see typos. So if you set a password with a typo in it, you'll be unlikely to stumble on the correct password, and your closed books will remain shut as tight as a clam.

After you've set a password for the closing date, you'll have to enter that password whenever you want to modify transactions prior to that date. For example, if you try to edit a check that you wrote before the closing date, QuickBooks opens a message box with a Password field in it. Type the closing-date password, and then click OK to complete your edit.

TIP After you've completed all your year-end activities in QuickBooks, create a backup of your company file (page 175). With all the data that contributed to your financial reports and tax forms in this backup, it wouldn't be overkill to create two copies of this backup: one to keep close by in your office and one stored safely offsite in case of emergency.

CHAPTER

19

Managing Inventory

As you record inventory purchases and sales in QuickBooks, the program keeps track of your inventory behind the scenes, just as the point-of-service system at the grocery store does when a cashier scans items. This chapter begins by reviewing the setup tasks that make the program work this magic.

Good inventory management means more than just updating the number of items that QuickBooks thinks you have on hand. To keep the right number of items in stock, you also need to know how many you've sold and how many are on order. And to make decisions like how much to charge or which vendor to use, you have to evaluate your purchases and how much you pay for your inventory. QuickBooks' inventory reports and Inventory Center help you look at your inventory items and transactions. In this chapter, you'll learn how to make the most of both these features.

NOTE The Inventory Center is available only in QuickBooks Premier and Enterprise. If you have QuickBooks Pro, you can run inventory reports, but you don't have access to the center.

Another important aspect of inventory is keeping your QuickBooks records in sync with what's sitting on the shelves in your warehouse. Inventory can go missing due to theft or damage, so you might not have as many products in stock as you think you do. QuickBooks can't help with the dusty business of rifling through boxes and counting carafes, coffee mugs, and the occasional centipede. But after the counting is complete, the program *can* help you adjust its records to match the reality in your warehouse. And adjusting inventory is useful for more than just inventory counts. You can also use this process to write off inventory that you have in your warehouse but can't sell because it's dented, dirty, or too darned ugly.

The QuickBooks Inventory Process

Before you look at the inventory-management tools that QuickBooks offers, here's a quick review of how QuickBooks tracks inventory as you buy and sell products.

Setting Up Inventory Items

As you learned in Chapter 5, you set the stage for item tracking when you turn on the QuickBooks inventory preference and create inventory items in your company file. Inventory items in your Item List include purchase costs, sales prices, and accounts, all of which direct the right amount of money into the right income, expense, and cost of goods sold accounts as you buy and sell inventory.

Here are the fields in an item record that QuickBooks uses to track inventory:

- **Cost**. What you pay for one unit of the item.
- **Sales Price**. The price you typically charge for the item (for the same unit size you used in the Cost field).
- **Asset Account**. The account that holds the value of the inventory stored in your warehouse.
- **Income Account**. The account for the income you receive when you sell this item.
- **COGS Account**. The account to which you post the item's cost when you sell it (known as "cost of goods sold").

NOTE As you sell inventory, QuickBooks deducts dollars from the inventory asset account and adds them to the cost of goods sold account. For a refresher on how inventory postings work, see the box on page 237.

When you run low on inventory, it's time to buy more. For products that you keep in stock, knowing how many you have on hand is essential. Happily, QuickBooks keeps a running total of how many units you've purchased and how many you've sold. The difference between these two numbers conveniently tells you how many should be in your warehouse. The running total of inventory quantity on hand stays with the item in your Item List, as Figure 19-1 shows.

Buying and Selling Inventory

Unless you practice just-in-time inventory management, you need inventory in your warehouse to fill customer orders. Here's a quick review of buying and selling inventory:

- **Ordering inventory**. Companies typically create purchase orders for inventory products they buy. These purchase orders don't change the balances of any accounts in your QuickBooks company file (that's why they're called *non-posting transactions*). But they're useful for verifying that the shipments you receive match what you ordered—not unlike opening a pizza box before you leave the parlor to make sure you didn't get an anchovy and garlic pie by mistake. Chapter 9 explains how to order inventory and then pay for the inventory you receive.

- **Purchasing and receiving inventory**. When you receive a shipment, you record it in QuickBooks so you know you have products to sell. The program increases the number of products on hand by the number in the shipment and adds the value of the shipment to the inventory asset account.

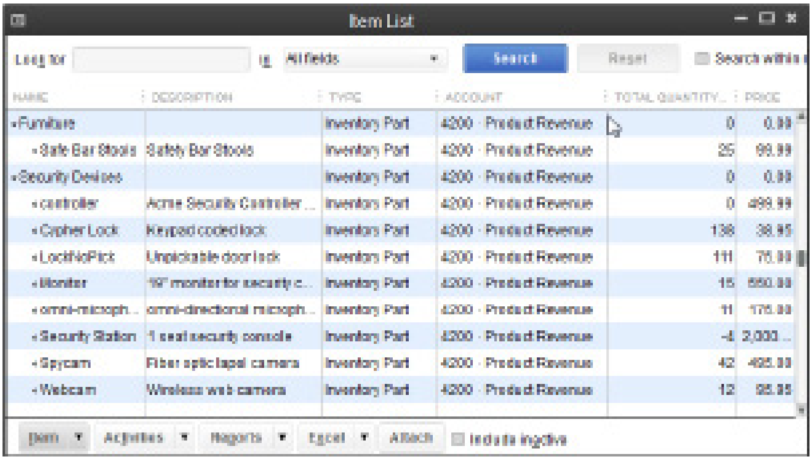


FIGURE 19-1

The Total Quantity On Hand value in the Item List (abbreviated to "Total Quantity..." here) shows you how many of each product you have in stock. As you purchase inventory or sell it to customers, QuickBooks updates this value based on the number you bought or sold.

- **Selling Inventory**. Finally, when you sell some of your inventory, the income makes all your bookkeeping seem worthwhile. When you create invoices (Chapter 10), sales receipts, or other sales forms (Chapter 11), QuickBooks deducts the units you sold from each item's Total Quantity On Hand value. The income from the sale posts to an income account, while the cost of the units you sold moves from the inventory asset account to a cost of goods sold account.

  When you sell inventory, QuickBooks also compares the new Total Quantity On Hand value to your reorder point (page 132). When the inventory on hand drops below this number, the program reminds you that it's time to order more. The box below tells you how to shut off reminders for items you aren't selling at the moment.

TROUBLESHOOTING MOMENT

Managing Seasonal Items

The Item List is home to items for every service and product you sell, and it can get really long really fast, especially if you sell different items at different times of the year. For example, if you stock your store with lawn furniture in the spring, you don't want to scroll past dozens of outdoor items or see reminders to reorder them the other nine months of the year.

Fortunately, you can make seasonal items inactive, which temporarily hides them in the Item List and silences the reminders. In the Item List window (choose Lists→Item List to open it), right-click the item and then choose Make Item Inactive from the shortcut menu. Page 146 explains how to reactivate items when a new season rolls around.

Working with the Inventory Center

The Inventory Center (which is only available in QuickBooks Premier and Enterprise) provides information about items you keep in stock. Similar to the Customer Center and Vendor Center, it's a quick way to answer questions like, "How many items do I have on hand to sell?" and, "What purchase orders and sales orders are open?" To open the Inventory Center (shown in Figure 19-2), choose Vendors→Inventory Activities→Inventory Center. Here's how to use the Center to see what's going on with your inventory:

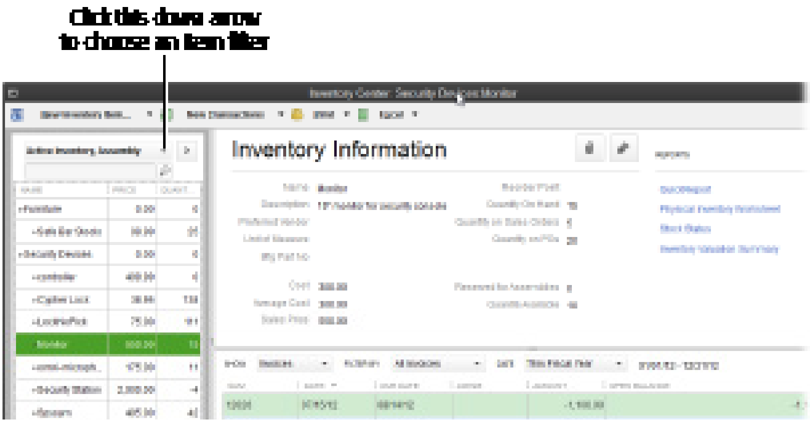


FIGURE 19-2

The panel on the left lists the inventory items in your company file. You can control which fields appear in this panel by right-clicking it and choosing Customize Columns from the shortcut menu. Information about the selected item appears at the top right of the window, and transactions involving that item appear in the table at the bottom right. To edit an item's fields, click the Edit button (the pencil icon). To run inventory reports, click a link in the window's upper right such as Stock Status or Inventory Valuation Summary.

- **Display inventory items**. When you first open the Inventory Center, QuickBooks displays your active inventory items (and assembly items if you use them) in the panel on the left. Then, when you click the name of an inventory item in that panel, the Inventory Information section at the window's top right shows info for that item's record.
- **Filter the list of inventory items**. To narrow the item list to those that fit the criteria you want, such as inventory items that are out of stock, click the down arrow on the right side of the unlabeled filter box that's located immediately below the New Inventory Item entry in the Center's toolbar (see Figure 19-2). In the drop-down list, choose one of the entries, like "QOH < = zero" which is shorthand for "quantity on hand is less than zero."

- **Find an inventory item in the list**. If you have scads of inventory items, you can quickly find the one you want with the find box, which is below the filter box. Simply type part of the item's name and then press Enter or click the Search button, which has a magnifying glass on it.
- **Change the fields that appear in the Center's list**. To display different fields in the list, right-click the panel on the left side of the Center, and then choose Customize Columns. In the Customize Columns dialog box's Available Columns list, select the fields you want to display and then click Add to move them to the Chosen Columns list. To remove a column, select it in the Chosen Columns list and click the Remove button. When the Chosen Columns list includes the fields you want, click OK.
- **Review inventory status**. In the upper-right part of the Inventory Center are several links you can use to see various things about your inventory:
  - Click **QuickReport** to see all transactions for the selected item.
  - Click **Stock Status** to generate a Stock Status report (page 510).
  - Click **Inventory Valuation Summary** to generate this report (page 508).
- **Display transactions for an item**. When you select an item in the list on the left side of the Center, the transactions involving that item appear in the table at the bottom right. To see a specific type of transaction, in the Show drop-down list above the table, choose a type like Invoices or Purchase Orders.

TIP You can filter the transactions shown in the table using the same techniques that work in the Customer Center, which are described on page 29.

Running Inventory Reports

Checking the vital signs of your inventory is the best way to keep it healthy. When products are hot, you have to keep them in stock or you'll lose sales. And if products grow cold, you don't want to get stuck holding the bag (or the lime-green luggage).

For all other temperatures, most companies keep tabs on inventory trends and compare them with what's going on in sales. For example, when the value of your inventory asset account is increasing faster than sales, sales could be poor because your prices are too high, competition is encroaching on your market, or the Salvador Dalí Chia Pets simply didn't catch on.

Good inventory management means keeping enough items in stock to meet your sales, but not so many that your inventory grows obsolete before you can sell it. QuickBooks inventory reports aren't fancy, but they tell you most of what you need to know. You can run any of these reports by choosing Reports→Inventory and then picking the one you want. The following sections describe what each report includes.

NOTE QuickBooks inventory reports show only the active inventory items in your Item List. So if you run inventory reports without reactivating all your inventory items (page 145), the inventory values in the reports won't be accurate. By contrast, financial statements such as the Balance Sheet include your *total* inventory value for active and inactive inventory items alike.

How Much Is Inventory Worth?

QuickBooks includes two reports that tell you how much your inventory is worth: Inventory Valuation Summary and Inventory Valuation Detail. Here's what each one does.

INVENTORY VALUATION SUMMARY REPORT

The Inventory Valuation Summary report, shown in Figure 19-3, is an overview of the inventory you have on hand, what it's worth as an asset, and what it will be worth when you sell it. (See page 516 to find out what to do if your inventory isn't worth as much as it used to be.)

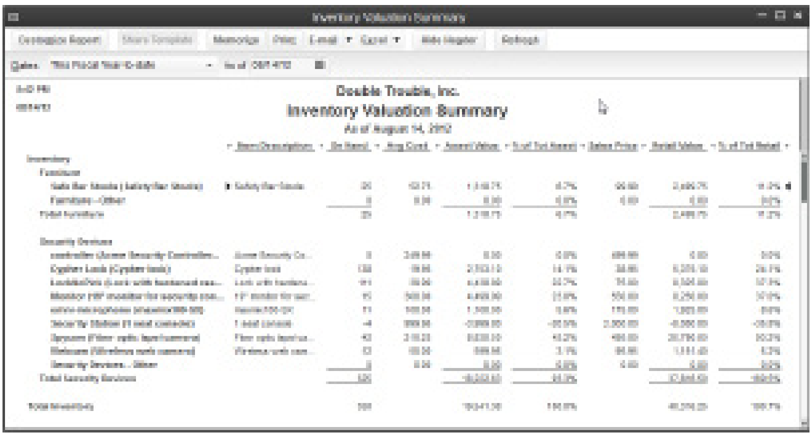


FIGURE 19-3

Because the report is a snapshot of inventory value, month-to-date, quarter-to-date, and year-to-date ranges all produce the same results. But if you want to see the inventory value as of a different date, in the Dates box, choose the date you want.

To run this report, choose Reports→Inventory→Inventory Valuation Summary or (if you have QuickBooks Premier or Enterprise) at the top right of the Inventory Center, click the Inventory Valuation Summary link. QuickBooks initially uses the current month to date as the date range for this report. The first column shows the names of the inventory items from your Item List; subitems appear indented beneath their parent items. Here are the report's other columns and why they are (or aren't so) important to inventory health:

- **Item Description**. This text is the description you entered in the Description on Purchase Transactions box in the item's record. A description doesn't help manage your inventory, but it does identify which item you're looking at, particularly when you use part numbers or abbreviations for item names.

- **On Hand**. To calculate this value, QuickBooks subtracts the number of products you sold and adds the number of products you received. The values in this column can help you quickly check for items that are close to being out of stock. However, because items sell at different rates, the reorder point reminder (page 623) is a better indication that something is perilously close to selling out.

NOTE When you add an out-of-stock item to an invoice, QuickBooks warns that you don't have inventory, but it doesn't prevent you from invoicing for products you don't have. When the On Hand value is negative, you know it's time to order more—and to ask for express shipping.

- **Avg Cost**. Average cost is the only way QuickBooks Pro and Premier value inventory. (QuickBooks Enterprise supports "first in/first out" valuation; see page 518.) To calculate this value, the program uses the price you paid for every unit you've purchased of an inventory item along with any adjustment transactions you've recorded (page 513). If you want to watch price trends so you can adjust your sales prices accordingly, review your most recent bills for inventory purchases.
- **Asset Value**. Asset Value is the item's average cost multiplied by the number on hand. Although changes in asset value over time are more telling, a snapshot of asset value can show trouble brewing. An excessive asset value for one item is a sign that inventory might be obsolete—the item hasn't sold, so you have too many on hand. If you know that the item *is* selling, streamlining your purchasing process can reduce the number you need to keep in the warehouse.
- **% of Tot Asset**. This column shows the percentage of an item's asset value compared with the total asset value of all inventory items. Higher percentages might mean that a product is a significant part of your sales strategy or that it isn't selling well and you have too much in stock. This measurement has meaning only in light of your business strategy and performance.
- **Sales Price**. You set this price in the item's record, but it's meaningless if you regularly change the item's price or charge different prices to different customers. If you didn't set a sales price for an item, you'll see "0.00" in this column.
- **Retail Value**. Because the retail value is the sales price multiplied by the number on hand, this number is useful only if the value in the Sales Price column is the typical sales price for the item.
- **% of Tot Retail**. This percentage is what portion the item's retail value represents of your total inventory's retail value. Different products sell at different profit margins, which you can see when the retail percentage differs from the asset value percentage.

INVENTORY VALUATION DETAIL REPORT

The Inventory Valuation Detail report lists every transaction that increases or decreases the number of items you have on hand. Although it can grow lengthy, this report can help you figure out where your inventory went (and perhaps jog your memory about inventory transactions that you forgot to record in QuickBooks). As in other reports, you can double-click a transaction to see its details.

Inventory Stock Status

As you might expect, the Inventory Stock Status by Item report (Reports→Inventory→Inventory Stock Status by Item) tells you where your inventory stands today and how that will change based on your outstanding purchase orders. This report is a great place to see which items you need to reorder, as Figure 19-4 shows.

TIP If you want to use a barcode reader to scan your inventory, go to Intuit's marketplace (*http://marketplace.intuit.com*). In either Search Apps Now box, type *barcode* to find third-party barcode readers.

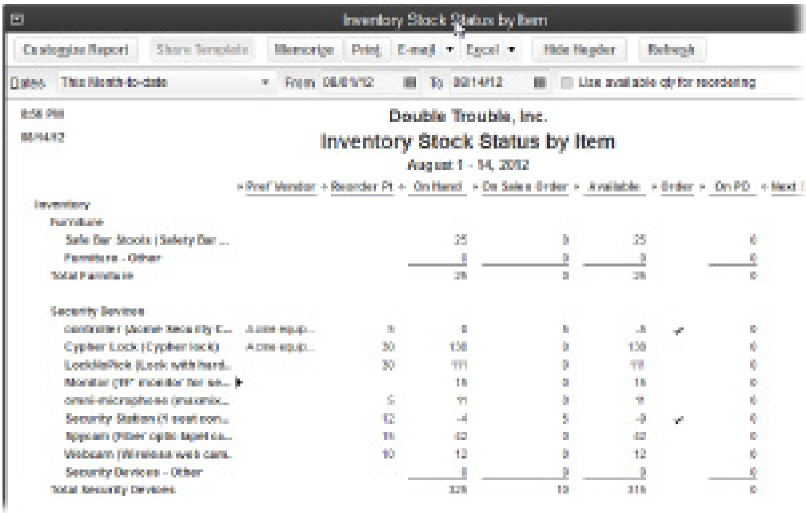


FIGURE 19-4

For every active inventory item, the Inventory Stock Status by Item report shows its reorder point (in the Reorder Pt column), the number you have on hand (On Hand), and how many are available to sell (Available). However, a checkmark in the Order column is the most obvious sign that you need to reorder. If you added an item to a purchase order, you can see whether that shipment is enough to restock your warehouse.

NOTE If you upgrade to QuickBooks Premier or Enterprise, the Inventory Stock Status reports also show how many items you've added to sales orders for future delivery, as shown in the On Sales Order column in Figure 19-4.

You can also run the Inventory Stock Status by Vendor report to see the same information that's in the Inventory Stock Status by Item report, but grouped and subtotaled by vendor. If you seem to run low on products from a particular vendor, you might want to increase the reorder point for those products to fine-tune your lead time.

Viewing One Inventory Item

The Inventory Item QuickReport is a fast yet thorough way to see what's going on with a particular item. To display this report, open the Item List window (Lists→Item List), select the item you want to review, and then press Ctrl+Q or, at the bottom of the window, click Reports→"QuickReport: <item name>." Or, in the Inventory Center, select the item and then click the QuickReport link in the window's upper right.

This report includes purchase and sales transactions for the item, such as bills and invoices (see Figure 19-5). In the On Hand As Of section, invoice transactions represent the sales you've made to customers, so the numbers are negative; bills and item receipts are your purchases from vendors, which increase the number on hand. The On Purchase Order As Of section includes the number of products you've ordered but haven't yet received. At the bottom of the report, the TOTAL As Of figure tells you how many products you'll have in stock when all your purchase orders are filled.

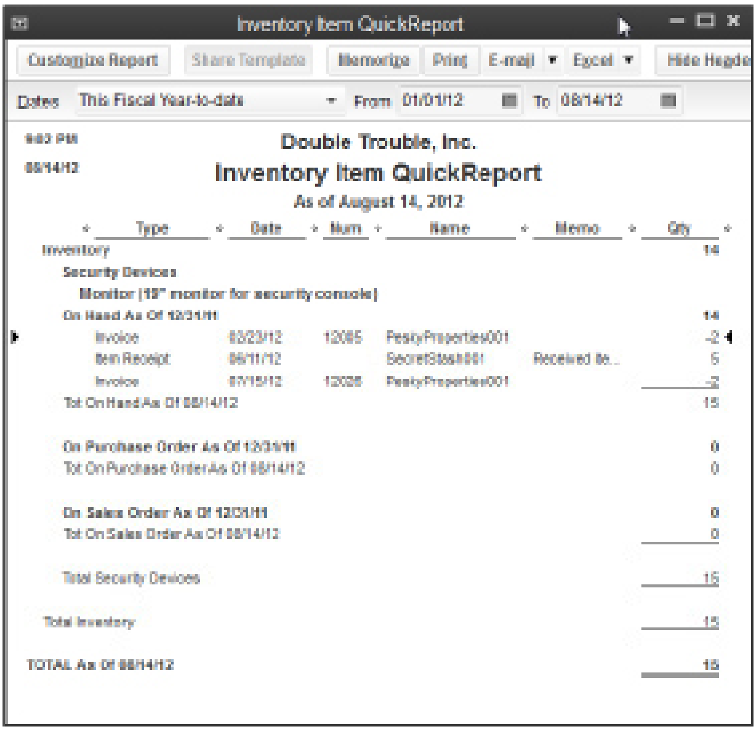


FIGURE 19-5

The Inventory Item QuickReport summarizes how many of an item you have on hand as well as the number that are on order. The headings at the beginning of each section in the Inventory Item QuickReport show the last day of the previous fiscal year, such as "On Hand As Of 12/31/11" as shown here. Then, the report lists the transactions during the current fiscal year which affect a total, such as invoice and item receipts for the On Hand As Of section. The Tot On Hand As Of and TOTAL As Of labels in the report show the actual as-of date for the report along with the final total for the inventory item.

Performing a Physical Inventory

QuickBooks calculates how many products you have on hand based on your purchases and sales, but it has no way of knowing what's actually happening in your warehouse. Employees may help themselves to products; fire can consume some of your inventory; or a burst pipe could turn your India ink sketches into Rorschach tests. Only a physical count of the items in stock can tell you how many units you *really* have to sell.

QuickBooks does the only thing it can to help you count your inventory: provides the Physical Inventory Worksheet report, which lists each inventory item in your Item List and how many units should be on hand. To see it, choose Reports→Inventory→Physical Inventory Worksheet (or click the Physical Inventory Worksheet link in the Inventory Center's upper right.) The Physical Count column has blank lines so you can write in how many you find, as you can see in Figure 19-6. (The box on page 513 explains how to count inventory while business continues to chug along.)

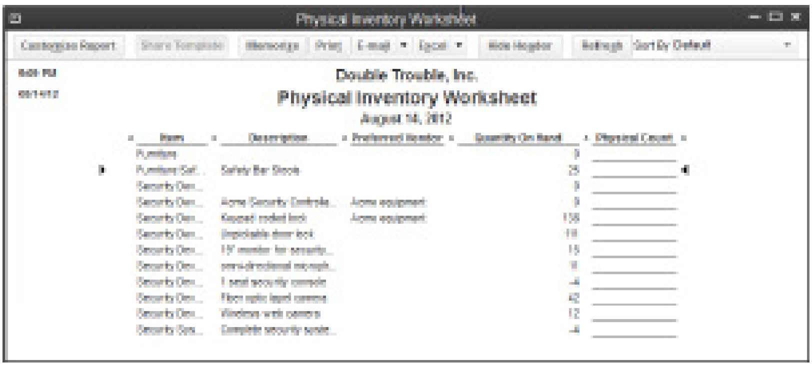


FIGURE 19-6

Your preferred vendor has nothing to do with counting inventory, yet a column with that info appears on this report. To hide that column, click Customize Report in the report window's toolbar. On the Display tab, in the Columns list, click the checkmark to the left of the Preferred Vendor entry to turn it off. If you want to sort the inventory items to list them by the warehouse aisles where they're kept, in the Columns list, turn on the Location field, and then, in the "Sort by" drop-down list, choose Location.

TROUBLESHOOTING MOMENT

Freezing Inventory While You Count

It's sheer madness to ship customer orders out and receive inventory shipments while you're trying to count the products you have on hand. QuickBooks doesn't have a feature for freezing inventory while you perform the physical count, but you can follow procedures that do the same thing.

Because a physical inventory count disrupts business operations, most companies schedule it during slow periods and off hours. To keep the disruption to a minimum, print the Physical Inventory Worksheet just before you start the count. Then, until the count is complete, do the following to keep your inventory stable:

- **Sales**. In QuickBooks, create invoices for inventory sales as you would normally. After you save each invoice, edit it to mark it as pending (page 305). When you finish the count, edit the pending invoices again to mark them as final, fill the orders, and then send the invoices.
- **Purchases**. If you receive inventory shipments during the count, don't unpack the boxes or use any of QuickBooks' features for receiving inventory (page 233) until you complete the physical count.

Adjusting Inventory in QuickBooks

Your inventory records in QuickBooks may not match your real-world inventory for several reasons:

- **Damage**. Inventory can succumb to breakage or damage from a flood, an out-of-control forklift, or a paintball fight in the warehouse. When these accidents happen, the first thing to do is report the loss to your insurance company. Adjusting the quantity of inventory in QuickBooks should follow close behind.
- **Obsolete products**. If you have several cartons of oh-so-passé women's stirrup pants, the *true* value of that inventory is worthless. Although admitting that you made a mistake is painful, writing off that inventory as unsellable turns the inventory into a business expense, which reduces your net profit and, therefore, the taxes you pay. Adjust the inventory in QuickBooks when you take the products to the recycling center.
- **Theft**. An inventory adjustment is in order after almost every physical inventory count you perform, because the quantities for inventory in the real world rarely match the quantities in QuickBooks. *Shrinkage* is the polite term for the typical cause of these discrepancies. To be blunt, employees, repair people, and passersby attracted by an unlocked door may help themselves to a five-finger discount. And you not only take the hit to your bottom line—you're also stuck adjusting QuickBooks' records to account for the theft.

It's no surprise, then, that QuickBooks has a feature for this multipurpose accounting task. You adjust both the quantity of inventory and its value in the aptly named "Adjust Quantity/Value on Hand" window.

You purchase inventory from vendors, so QuickBooks keeps all inventory features in the same place: the Vendors menu. To open the "Adjust Quantity/Value on Hand" window, choose Vendors→Inventory Activities→"Adjust Quantity/Value on Hand" or, on the Home page, in the Company panel, click Inventory Activities→"Adjust Quantity/Value On Hand."

Adjusting Quantities

You need to adjust quantities when you're updating your company file to reflect the number of items in stock or writing off obsolete inventory. When you adjust inventory quantities, QuickBooks fills in or calculates some of the fields for you. Here are guidelines for filling in the remaining fields of the "Adjust Quantity/Value on Hand" window:

- **Adjustment Type**. To adjust inventory items' quantities to match what's in your warehouse or reflect what you're writing off, choose Quantity from this drop-down menu, as shown in Figure 19-7. QuickBooks uses the average cost of each item to calculate the dollar value that the new quantities represent.
- **Adjustment Date**. QuickBooks puts the current date in this box. If you like to keep your journal entries and other bookkeeping adjustments together at the end of a quarter or year, type the date when you want to record the adjustment.

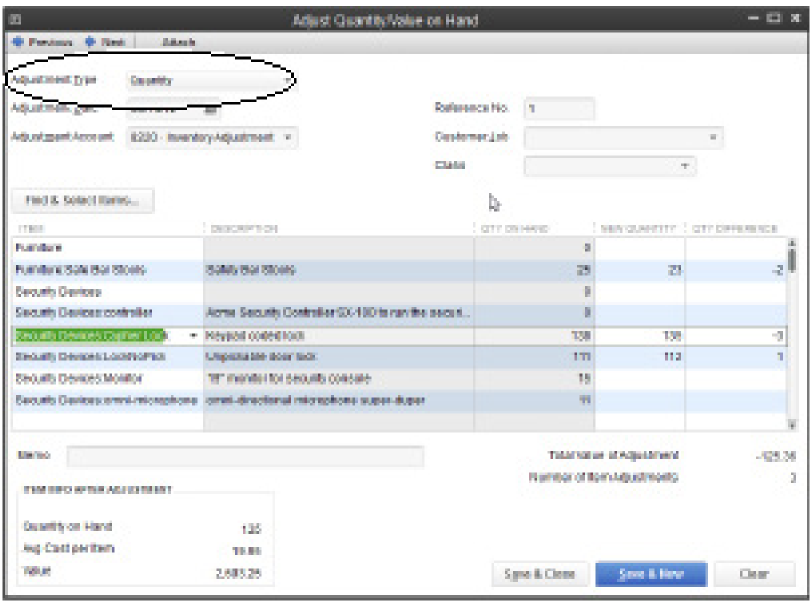


FIGURE 19-7

In this window's table, QuickBooks shades the columns you can't change. When you choose Quantity in the Adjustment Type box, as shown here, the Item, New Quantity, and Qty Difference columns are the only ones you can edit.

- **Adjustment Account**. Choose an expense account you created to track the cost of inventory adjustments. For example, if you adjust an item's quantity to match the physical count, choose an account such as Inventory Adjustment. If you're writing off obsolete or damaged inventory, choose an expense account such as Unsalable Inventory. Because you can assign only one account to each inventory adjustment, adjust the quantity once for physical count changes, and then click Save & New to create a separate adjustment for write-offs.

TIP If the expense account you want to use doesn't exist, at the top of the Adjustment Account drop-down list, choose <Add New> and then fill in the boxes in the Add New Account window. When you click Save & Close, QuickBooks fills in the Adjustment Account box with the account you just created.

- **Reference Number**. You don't have to enter reference numbers, but they come in handy when discussing your books with your accountant. If you don't type anything in this box, QuickBooks increments the number here by one each time you adjust inventory.
- **Customer:Job**. If you want to record products you send to a customer or job at no charge—without adding the items to an invoice—choose that customer or job in this drop-down list. QuickBooks then assigns the cost of the adjustment to that customer or job.

TIP A better way to give products to a customer or job is to add them to an invoice with a price of $0.00. That way, your generosity remains on the record lest your customer forgets.

- **Class**. If you use classes to track sales, choose the appropriate one in the Class box that appears. For example, if one partner handles sales for the item you're adjusting, choose the class for that partner so the expense applies to her.
- **Item**. To adjust a single item, click the first item cell in the table, click the down arrow that appears, and then choose the inventory item you want to adjust. To adjust several items, click the Find & Select Items button above the table. In the Find & Select Items dialog box, turn on the checkmark cells for the items you want to adjust (or click Select All to select all inventory items after a physical count), and then click Add Selected Items.
- **New Quantity/Qty Difference**. When you choose Quantity in the Adjustment Type box, you can type a number in either the New Quantity or the Qty Difference cell. If you're making an adjustment after a physical count, in the New Quantity cell, type the quantity from your physical count worksheet. On the other hand, if you lost four cartons of *Chivalry Today* magazine in a feminist demonstration gone bad, it's easier to type the number you lost as a negative number (such as *–400*) in the Qty Difference cell.

TIP If you're ready to admit that the pet rock fad isn't coming back, you can write off your entire inventory by putting *0* in an item's New Quantity cell. In the Adjustment Account drop-down list, choose an expense account such as Unsalable Inventory.

- **Memo**. To prevent questions from your accountant, in the Memo cell, type the reason for the adjustment, such as "2012 end-of-year physical count."

After you fill in all the boxes, click Save & Close (or Save & New if you want to create a second adjustment for write-offs, say). If you decreased the quantity on hand, QuickBooks decreases the balance in your inventory asset account (using the average cost per item). To keep double-entry bookkeeping principles intact, the decrease in the inventory asset account also shows up as an increase in the expense account you chose. Conversely, if the adjustment increases the quantity or value of your inventory, the inventory asset account's balance increases and the expense account's balance decreases.

Adjusting Quantities and Values

Calculating inventory values by using the items' average cost is convenient—and in QuickBooks Pro and Premier, it's your only option. Using other methods for calculating inventory value, like "first in/first out" (FIFO) and "last in/first out" (LIFO) costing (explained in the box on page 518), quickly turn into a full-time job. But if that's what you want, you can do so manually.

NOTE You can value inventory by using FIFO if you upgrade to QuickBooks Enterprise and subscribe to Advanced Inventory (which costs extra).

Because QuickBooks can handle only average cost for inventory, your sole workaround for achieving LIFO or FIFO costing is to adjust dollar values by hand in the "Adjust Quantity/Value on Hand" window. When you choose Total Value in the window's Adjustment Type box, QuickBooks displays the New Value column. You can then change the asset value of the quantity on hand simply by typing the new value in the New Value cell.

You can also change both quantities *and* values to, for example, make the quantity reflect what's in your warehouse and the value to reflect its poor condition. To do this, in the Adjustment Type box, choose "Quantity and Total Value." QuickBooks then activates the New Quantity, Qty Difference, and New Value columns. To change the number you have, type the value in the New Quantity cell. To adjust the value of one unit of the item, in the New Value column, type the dollar value for a unit.

Mimicking LIFO or FIFO costing takes some effort because you have to review the bills for all your purchases of the inventory item. Here's how to value your inventory using LIFO:

1. **Choose Reports→Purchases→Purchases by Item Detail.**

   QuickBooks generates a report that shows your purchase transactions grouped by inventory item.

2. **For the quantity of the item that you have on hand, add up the prices you paid for your earliest purchases.**

   As shown in Figure 19-8, the Purchases by Item Detail report's Cost Price column shows how much you paid for an item with each purchase. In this example, the first 20 monitors cost $325.00 each and the last 73 cost $300.00 each. So the LIFO value for 80 monitors would be 73 multiplied by $300.00 and 7 multiplied by $325.00, or $24,175.00.

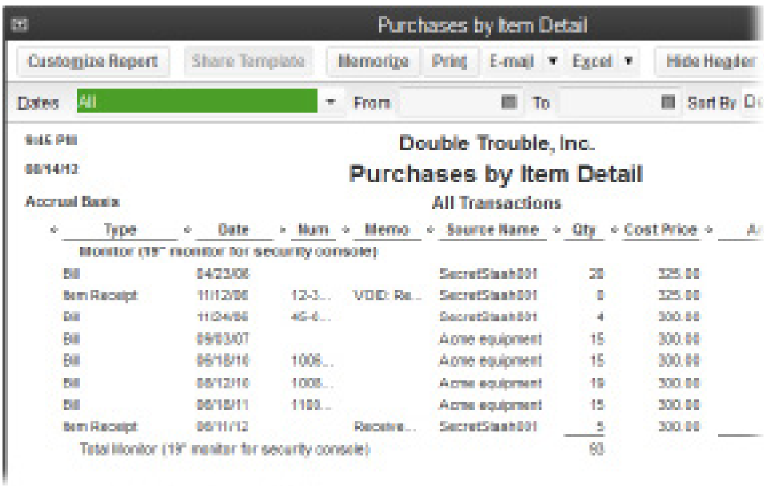


FIGURE 19-8

To value the inventory by using FIFO instead, start with the costs for the items purchased first: 25 monitors at $325.00 and 55 at $300.00, or $24,625.00.

3. **In the "Adjust Quantity/Value on Hand" window (Vendors→Inventory Activities→"Adjust Quantity/Value on Hand"), type the amount you just calculated in the New Value cell.**

   When you click Save & Close, QuickBooks decreases the balance in your inventory asset account using the value in the New Value cell instead of the average cost per item.

UP TO SPEED

FIFO and LIFO Inventory Costing

First in/first out (FIFO) costing means that a company values its inventory as if the first products it receives are the first ones it sells. (Your grocery store always puts the milk closest to its expiration date at the front of the refrigerator, right?)

Last in/first out (LIFO) costing, on the other hand, assumes that the last products in are the first ones sold. This method is like unpacking a moving van: The last valuables you packed are the first ones that come out.

The costing method you use doesn't have to match the order in which you sell products. When you start a business, you can choose whichever costing method you want—but you have to stick with it. For example, when prices are on the rise (as they almost always are), LIFO costing reduces your profit and taxes owed because you're selling the products that cost the most first. However, with the steady decrease in electronics prices, FIFO costing probably produces the least profit. Unless you're sure which method you want to use, you're better off asking your accountant for advice.

Unfortunately, even with the "Adjust Quantity/Value on Hand" window, you can't achieve true LIFO or FIFO costing in QuickBooks Pro or Premier. The program always uses average cost to move money from your inventory asset account to your cost of goods sold account when you add products to an invoice or sales receipt.

CHAPTER

20

Budgeting and Planning

As you've no doubt noticed in business and in life, the activities that cost money almost always seem to outnumber those that bring money in. If you run a small business, you may not need to use a budget. But most companies want to make money and most nonprofits want to do the most with the funds they have, so budgeting and planning are essential business activities.

Like any kind of plan, a budget is an estimate of what's going to happen. Your actual results will never exactly match the numbers you estimate in your budget. (If they do, someone's playing games with your books.) But comparing your actual performance to your budget can tell you that it's time to crack the whip on the sales team, rein in your spending, or both.

Budgeting in QuickBooks is both simple and simplistic. The program handles basic budgets and provides some shortcuts for entering numbers. However, you can't see whether your budget is working as you build it, and playing what-if games with budgets requires some fancy footwork. (The box on page 521 describes one way to create multiple budgets for the same time period.)

The easiest way to handle budgets is to craft them with a spreadsheet program like Excel. You can use all of Excel's commands to massage the numbers and then import your budgetary masterpiece into QuickBooks so you can compare your actual performance to the budget. This chapter explains your budgeting options, teaches you how to import budgets from other programs, and provides an overview of QuickBooks' budget reports.

TIP QuickBooks also includes a Cash Flow Projector (it lives on the Company→Planning & Budgeting submenu). This wizard provides a forecast of cash flow similar to what you can obtain by running a Cash Flow Forecast report (page 481), so it's not covered in this book.

Types of Budgets

To most people, the word "budget" means a profit-and-loss budget—one that estimates what your income and expenses will be over a period of time. QuickBooks profit-and-loss budgets are based on the income and expense accounts in your chart of accounts (see Chapter 3) and typically span your company's fiscal year.

Balance-sheet budgets aren't as common, but you can create them in QuickBooks as well. Balance sheets are snapshots of your assets and liabilities, and balance-sheet budgets follow the same format by showing the ending balances for your asset, liability, and other balance-sheet accounts.

NOTE Most companies plan for major purchases and their accompanying loans outside of the budgeting process. For example, if a company needs an asset to operate, executives usually analyze costs, benefits, payback periods, internal rates of return, and so on before making purchasing decisions. They evaluate cash flow to decide whether to borrow money or use cash generated by operations. But after that, the additional income generated by the asset and the additional interest expense associated with any loans show up in the profit-and-loss budget.

QuickBooks' profit-and-loss budgets come in three flavors, each helpful in its own way:

- **Company profit and loss**. The most common type of budget includes all the income and expenses for your entire company. This is the budget that management strives to follow—whether that's to produce the net profit that keeps shareholders happy or to generate the cash needed to run the company. With QuickBooks' Budget vs. Actual report (page 535), you can compare your actual results to your budget.
- **Customer or job budget**. A customer- or job-based profit-and-loss budget forecasts the income and expenses for a single customer or job. Projects that come with a lot of risk have to offer the potential for lots of profit to be worthwhile. By generating a profit-and-loss budget for a customer or job, you can make sure that the profitability meets your objectives.
- **Class budget**. If you use classes to track income and expenses, you can create profit-and-loss budgets for each class. Class budgets work particularly well when you track income and expenses for independent sections of your company: regions, business units, branches, partners, and so on.

GEM IN THE ROUGH

Budgets and Forecasts

If you have QuickBooks Premier or Enterprise, you'll see the Set Up Forecast entry on the Company→Planning & Budgeting submenu. The dialog box that opens when you choose Set Up Forecast is strikingly similar to the Set Up Budgets dialog box. In fact, other than replacing the word "Budgets" with "Forecast," they're identical. So how do you decide whether to use a budget or a forecast?

You can have only one budget for a given period loaded in QuickBooks—for example, a 2013 profit-and-loss budget. A forecast lets you create another set of planning numbers for the same timeframe. So you can create a profit-and-loss budget for 2013 and a separate forecast for the same fiscal year, using the budget to reflect your most likely results and the forecast to show the numbers under more optimistic (or pessimistic) conditions.

QuickBooks has reports that compare your actual performance to budgets and forecasts (Reports→Budgets & Forecasts), so you can use either feature to compare your estimated numbers with your actual performance.

The bottom line: Use budgets unless you want a second set of planning numbers readily available. If you decide to create forecasts instead of—or in addition to—budgets, the instructions in this chapter apply to them, too.

Ways to Build Budgets

If you've just started a business, you may have a business plan that includes estimates of your income and expenses. Or you may have run your business for a while without a budget and now want to create a budget using past performance as a starting point. Either way, there's a method for building a QuickBooks budget. But the easiest approach is to build your budget outside QuickBooks and import the results. Here are your options and what each has to offer:

- **From data in another program**. The best way to build a budget is to create it in a program like Excel and then import it into QuickBooks. Setting up a spreadsheet for your company budget in Excel or some other program offers several advantages. After you set up the Excel file with rows for each account and columns for months and other fields, you can save it as a template for creating future budgets. If you're an Excel wiz, you can use that program's tools to quickly create and fine-tune your budget. You also can copy that file to create what-if scenarios or next year's budget based on the previous year's budget.

- **From previous year's actual results**. If this is your first budget and you have at least a year's worth of data in QuickBooks, you can use that existing data as a starting point (page 523) and edit only the values that change.

- **From scratch**. This method can be tedious because you have to estimate and fill in all the budget numbers (although, as you'll learn on page 530, QuickBooks does offer some data entry shortcuts). Fortunately you only have to use this approach for your first budget. (Page 522 explains how to start from scratch in QuickBooks and page 525 covers starting from scratch with Excel.)

Creating Budgets in QuickBooks

The Set Up Budgets wizard is command central for profit-and-loss budgets; balance-sheet budgets; budgets for customers, jobs, and classes; and budgets built from scratch or from previous year's data. Even if you use Excel to build your budgets, the Set Up Budgets wizard can help jumpstart your Excel spreadsheet.

Before you dive into building a budget, you have to perform two setup steps if you want your budgets to work properly:

- **Fiscal year**. QuickBooks uses the first month of your fiscal year as the first month of the budget. To check that you defined your fiscal year correctly, choose Company→Company Information. At the bottom of the Company Information dialog box, make sure that the month in the "First month in your Fiscal Year" box is correct.
- **Active accounts**. QuickBooks budgets cover only the accounts that are active in your chart of accounts. To activate any accounts you want to budget, press Ctrl+A to open the Chart of Accounts window, and then turn on the "Include inactive" checkbox. (If no accounts are inactive, the "Include inactive" checkbox is grayed out.) For any inactive account that you want in your budget, click the X to the left of the account's name to reactivate it.

To start the budget wizard, choose Company→Planning & Budgeting→Set Up Budgets. Depending on whether you already have a budget in QuickBooks, the program displays one of two different wizards. The Create New Budget wizard, shown in Figure 20-1, appears if this is your first budget in this company file.

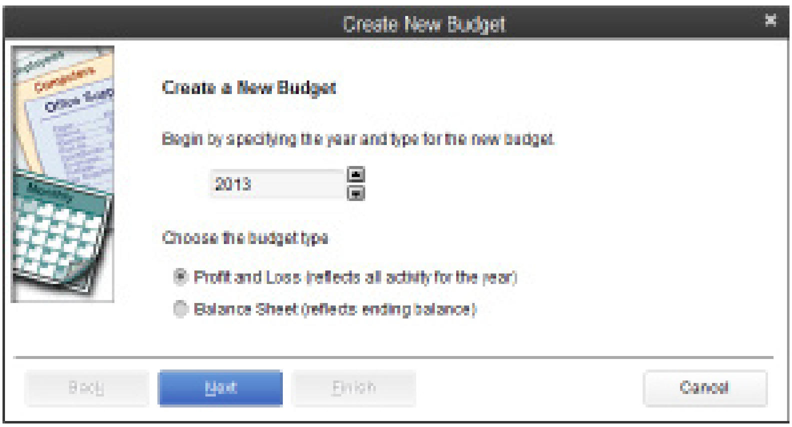


FIGURE 20-1

In the Create New Budget wizard, you first tell QuickBooks about the year and type of budget you want to create. On the second screen, you specify whether the budget works with customers, jobs, or classes.

If you already have at least one budget in your company file, QuickBooks opens the Set Up Budgets wizard instead and displays your most recent budget. To create a new budget in that wizard, click the Create New Budget button to launch the wizard shown here.

The steps for setting up a new budget are the same whether QuickBooks displays the Create New Budget wizard automatically or you click the Create New Budget button in the Set Up Budgets wizard:

1. **On the Create a New Budget screen (Figure 20-1), choose a fiscal year and type for the budget, and then click Next.**

   QuickBooks automatically fills in the next calendar year (perhaps assuming that you're done budgeting for the current year). Click the up and down arrows to the right of the box to choose the fiscal year you're budgeting for.

   Below the year setting, the program automatically selects the Profit and Loss option, because most budgets cover income and expenses for a year. If you want to create a balance-sheet budget instead, select the Balance Sheet option.

NOTE If you create a balance-sheet budget, you don't have to set any additional criteria before you build the budget for your balance-sheet accounts. In the Create New Budget wizard, clicking Next displays a screen that simply tells you to click Finish. When you do, a table containing your balance-sheet accounts appears in the Set Up Budgets window, and you can begin typing ending balances.

2. **On the Additional Profit and Loss Budget Criteria screen, select the flavor of profit-and-loss budget you want, and then click Next.**

   QuickBooks automatically selects the "No additional criteria" option, which creates the most common type of budget: a profit-and-loss budget for the entire company. Choose the Customer:Job option to build a budget for a specific customer or job instead. And if you have classes turned on (page 151), you can choose the Class option to build a class-based budget. (The next section explains how to create Customer:Job and Class budgets.)

3. **On the "Choose how you want to create a budget" screen, pick the kind of budget you want to create.**

   Keep the "Create budget from scratch" option selected if you want to create a blank budget. If you go this route, jump to page 524 to learn how to enter data in the Set Up Budgets wizard.

   If you have actual data that you want to use as a foundation for your budget, select "Create budget from previous year's actual data" instead. This option transfers the monthly income and expense account totals from the previous year into the budget.

4. **Click Finish.**

   QuickBooks opens the Set Up Budgets window, which includes a monstrous table. The rows represent each active account in your chart of accounts; each column is one month of the fiscal year. If you opted to create a budget for a customer, job, or class, the window includes either the Current Customer:Job drop-down list containing all your active customers and jobs, or the Class drop-down list containing all your active classes. Before you start entering values for a customer, job, or class budget, choose the customer, job, or class from this list.

The section "Filling in Budget Values" on page 530 explains how to fill in the cells in this table.

NOTE If your monitor's resolution is less than 1024 x 768, the Set Up Budgets window also includes the Show Next 6 Months button, because your screen can't display the entire year. In that case, QuickBooks initially displays January through June. Click Show Next 6 Months to display July through December (the button's label changes to Show Prev 6 Months).

Creating Additional Customer: Job or Class Budgets

In QuickBooks, there's no way to store several versions of a fiscal-year budget that covers your entire operation. But you *can* create additional budgets for the same fiscal year for different customers and jobs, or for classes.

After you create your first budget, the Set Up Budgets dialog box opens, displaying the most recent fiscal-year budget. But if you've created at least one budget for a customer or job for a fiscal year (see step 2 below), the Budget drop-down list includes an entry like "FY2013 - Profit & Loss By Account and Customer:Job." Class budgets show up in the Budget drop-down list looking something like "FY2013 - Profit & Loss By Account and Class."

NOTE Class budgets work the way Customer:Job budgets do. In fact, if you replace every instance of "Customer:Job" in the following tutorial with "Class," you'll have the instructions for creating Class budgets.

Here's how to create and save additional Customer:Job or Class budgets:

1. **In the Budget drop-down list, choose the Customer:Job budget for the fiscal year you want to budget.**

   QuickBooks adds the Current Customer:Job box to the Set Up Budgets window between the Budget list and the table.

2. **In the Current Customer:Job drop-down list, choose the customer or job that you want to budget, as shown in Figure 20-2.**

   Any budgetary numbers you've previously entered for the customer or job for the selected fiscal year appear in the budget table.

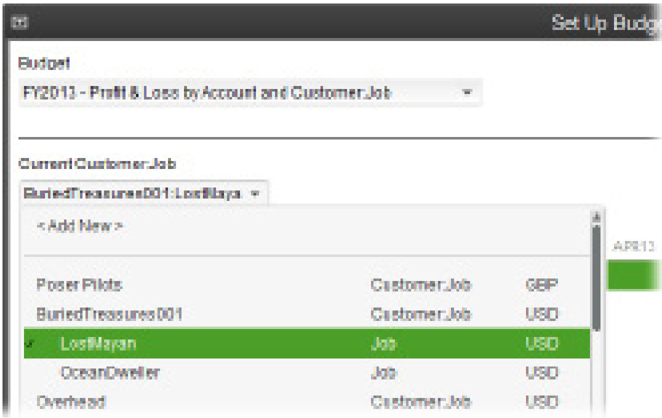


FIGURE 20-2

The Current Customer:Job drop-down list displays both customers and jobs so you can create budgets for customers or specific jobs. Jobs appear beneath their corresponding customers and are indented.

3. **In the budget table, fill in values for the Customer:Job budget.**

   Unlike a budget for your entire operation, Customer:Job budgets may have values for only a few accounts. For example, for a job that includes products, services, and reimbursable expenses, your budget may have values only for income accounts and the expense accounts for reimbursable expenses.

4. **When you're finished entering values, click Save.**

   If you choose another customer or job without clicking Save, QuickBooks asks if you want to record the budget. In the Recording Budget message box, click Yes.

Creating and Copying Budgets with Excel

QuickBooks budget reports can help you plan for the future and evaluate whether your business is going boom or bust. However, the program's tools for building and editing budgets don't compare to what you can do with a program like Excel. QuickBooks keeps only one budget at a time for the same type of budget and time period—for example, the profit-and-loss budget for fiscal year 2013—and it doesn't offer a feature for copying a budget. That's where a spreadsheet program comes in handy. You can easily copy a budget spreadsheet, make the changes you want, and then import the final product into QuickBooks. For example, you might create next year's budget from this year's. Or, you might experiment with what-if scenarios including a bare-bones budget in case a client with shaky finances disappears and a second happy-dance budget if you snag that big new project.

There are three parts to working on budgets with Excel:

1. **Export a budget with the accounts from your company file.**
2. **Edit budget values in Excel.**
3. **Import the final budget into your company file.**

The following sections describe each step in detail.

Exporting Your Budget

Exporting a budget is the quickest way to create an Excel spreadsheet with the accounts from your chart of accounts and the additional information that QuickBooks needs to import the spreadsheet when it's finished. This section begins with the steps for getting the budget ready to export, and then you'll learn how to create the export file.

QuickBooks exports only accounts that contain at least one value. If you have a budget with numbers already, you can skip to the steps for creating the export file (page 527). However, if your budget is blank, you need to add at least one budget value to each account. Here's what you do:

1. **In the Set Up Budgets window (Company→Planning and Budgeting→Set Up Budgets), in the Budget drop-down list, choose the budget you want to add values to.**

   The budget table appears with the accounts in the first column, the annual total in the second column, and columns for each month of the year.

2. **Fill in a value in the cell for January for each account in the budget, as shown in Figure 20-3.**

   Click the first cell in the January column (labeled something like Jan 13) and type *1* in the cell. Then, fill in the rest of the cells in the column.

3. **When all the cells in the January column contain values, click Save.** Then, click OK to close the Set Up Budgets window.

   That's it! Your budget is ready to export.

NOTE If you have more than one budget in your company file, you can't export only the budget you want to work with—when you export QuickBooks' Budgets list, the export file includes entries for every budget for every fiscal year. So if you created budgets for customers, jobs, and classes, you'll get entries for those, too. When you work on the budgets in a spreadsheet, you can ignore the entries for those other budgets, but the best approach is to delete the extraneous rows so you can focus on one budget at a time.

Here's how to export QuickBooks budgets:

1. **Choose File→Utilities→Export→Lists to IIF Files.**

   QuickBooks opens an Export dialog box with checkboxes for each type of list you can export.

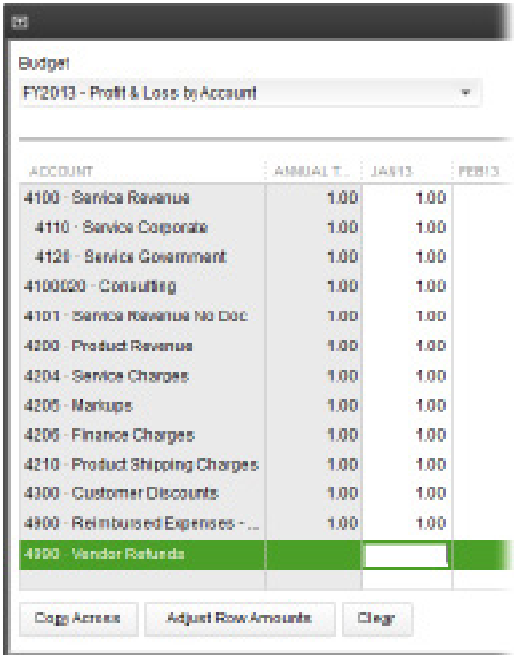


FIGURE 20-3

Using your keyboard is the fastest way to fill in these cells. Click the first cell in the January column and then press the 1 key to enter a placeholder value. Then, press the down arrow to move to the next cell in the column. Press the 1 key again. Rinse and repeat until the entire January column contains values.

2. **In this first Export dialog box, turn on the Budgets checkbox, and then click OK.**

   QuickBooks opens a second Export dialog box, which looks like a Save As dialog box. However, the "Save as type" box is automatically set to "IIF Files (*.IIF)."

3. **In the second Export dialog box, navigate to the folder where you want to save the exported file and, in the "File name" box, replace "*.IIF" with the name for your export file.**

   To keep your files organized, save all your exported files in a single folder called something like *Export_Files*. Name the exported file something like *QBBudgets.iif*.

4. **Click Save to export the budgets.**

   When a QuickBooks Information box appears telling you that the export was successful, click OK to dismiss it.

Working with a Budget in Excel

If your company file contains only one budget, you can open the exported file in Excel and start editing the budget values. On the other hand, if you exported *several* budgets, your work will flow more smoothly if you format the file. Here are the steps for opening and working on a budget in Excel:

1. **In a spreadsheet program like Excel, open the exported file.**

   IIF files are tab-delimited text files (see page 649). To open one in Excel 2010, choose File→Open (in Excel 2007, choose Office→Open). In the Open dialog box, click the down arrow to the right of All Excel Files and choose All Files from the drop-down menu so you can see all the files in your folders (in Excel 2007, head to the "Files of type" box, and then choose All Files). Navigate to the folder that contains the IIF export file and double-click its filename. The Excel Text Import Wizard appears. You don't have to specify any special formats to tell Excel how to read the file; just click Finish to import the file into Excel.

2. **In Excel, to change the order of the budget rows to show budgets by fiscal year, select all the rows below the one that begins with !BUD (Figure 20-4). Then choose Data→Sort and sort the workbook first by start date (STARTDATE) and then by account (ACCNT).**

   Before you sort the data, rows for different years' budgets and account names are in no particular order. By sorting the rows first by start date, you can see all the entries for each fiscal year grouped together. (If you have Customer:Job budgets, you can also sort by the CUSTOMER column.) This sort method intersperses income and expense accounts, but because companies typically have fewer income accounts, you can quickly move the rows for income accounts above the expense accounts. Once you do that, you can add subtotals for your income and expenses, and calculate your net profit.

3. **To edit this file to represent only one budget, delete all the rows for budgets that you aren't changing.**

   The STARTDATE column contains the date that the fiscal year for the budget begins. So, for example, if you want to remove all the budgets except the one for fiscal year 2013, delete all the rows that have a date other than 1/1/2013 in the STARTDATE column.

4. **If you want to use an existing budget to create next year's budget, simply change the year in the STARTDATE column.**

   Use Excel's Replace command (press Ctrl+H) to change the year to the new budget (Figure 20-4). For example, the budget entries for 2012 budgets include "1/1/2012" in the STARTDATE column. To create a budget for 2013, change the contents of these cells to "1/1/2013."

   In Excel 2007 and 2010, you can also choose the Home tab and then click Find & Select→Replace (at the right end of the Ribbon); in Excel 2003, choose Edit→Replace.

To modify budget numbers, edit the budget values in the Excel worksheet.

NOTE If you create several what-if budgets in Excel, be sure to copy just the data for your final budget into a file for importing into QuickBooks. Compare the keywords and column headings in the Budget list export file to those in the file you plan to import to make sure that the data imports the way you want. For example, a row that begins with !BUD lists the keywords that identify columns, such as ACCNT for your accounts and AMOUNT for your budget values. (Rows for budget entries have to begin with a cell containing the keyword BUD.) For more on importing and exporting data, see Chapter 24.

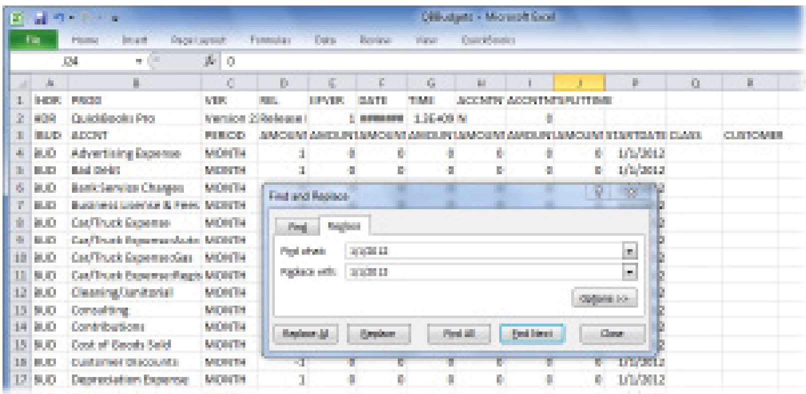


FIGURE 20-4

The entries for 2012 budgets include "1/1/2012" in the STARTDATE column. (Entries for Customer:Job or class budgets include the customer and job name in the CUSTOMER column or the class name in the CLASS column.) To turn an exported 2012 budget into a 2013 budget, change the contents of these cells to "1/1/2013."

5. **In Excel 2010, choose File→Save As. (In Excel 2007, choose Office→Save As.) In the Save As dialog box, save the modified file with a new filename.**

   In the Save As dialog box, leave the file type set to "Text (tab delimited) (*.txt)."

Now you're ready to import the file into QuickBooks.

Importing a Budget into QuickBooks

After you create or edit your budget in Excel, importing the budget is easy. If you're experimenting with several budgets for the same time period, you can import one and then run budget reports to examine it more closely. Just remember to finish by importing the budget you finally decide to use.

Here are the steps for importing a budget file:

1. **To import the modified IIF file into QuickBooks, choose File→Utilities→Import→IIF Files.**

   QuickBooks opens the Import dialog box and automatically chooses "IIF Files (*.IIF)" in the "Files of type" box. If you don't see your file, in the "Files of type" box, choose "All Files (*.*)" instead.

2. **Double-click the name of the IIF file that contains your edited budget.**

   When a QuickBooks Information box appears telling you that the import was successful, click OK to dismiss it.

3. **Choose Company→Planning & Budgeting→Set Up Budgets.**

   If you created a budget for a new fiscal year, in the Set Up Budgets window, the Budget drop-down list now contains an entry for that year's budget. If you used a spreadsheet to edit an existing budget, in the Budget drop-down list, choose the entry for that budget to see the updated values in the budget table.

Filling in Budget Values

Regardless of which type of budget you create, the way you fill in and edit values in QuickBooks is the same. To add budget values to an account, in the Set Up Budgets window's Account column, click the account. When you do, QuickBooks automatically selects the cell in the first month column in that row. If you're filling in the entire year's worth of numbers, type the value for the first month, press Tab to move to the next month, and continue until you've entered values for all 12 months. The Annual Total column displays the total for all months, as shown in Figure 20-5. The box below explains what the buttons at the bottom of the Set Up Budgets window do.

Filling in a few budget cells is usually enough to convince you that data entry shortcuts are in order. Luckily, QuickBooks gives you two ways to enter values faster, both described next.

UP TO SPEED

The Set Up Budgets Buttons

In the Set Up Budgets window, several buttons help you manage the work you do on your budgets in QuickBooks. Although you're probably familiar with their functions based on similar buttons in other dialog boxes, here's a quick overview:

- **Clear.** Click this button to delete *all* the values in a budget—for every account and every month. This is the button to click if you want to start over.
- **Save.** When you've added or updated all the values in a budget, click this button to save your work. You can also click Save so you don't lose the work you've done so far. And don't worry if you forget to click this button: If you click OK or choose another budget, QuickBooks asks whether you want to record the one you've been working on.
- **OK.** Clicking this button records the values you've entered and closes the Set Up Budgets window.
- **Cancel.** Clicking this button closes the window *without* saving your work.

Copy Across Columns

Because budgets are estimates, you don't need extraordinarily detailed or precise values. In the Set Up Budgets window, you can copy a number from one cell in a row to all the cells to its right in the same row, as demonstrated in Figure 20-5.

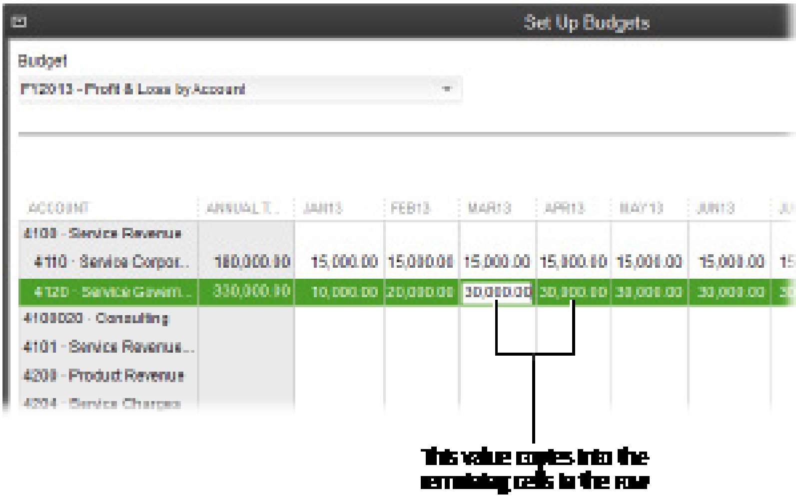


FIGURE 20-5

To copy the value in a cell into the remaining cells in a row, start by selecting the cell, like the cell for Service Government for March 2013 shown here. Then, click Copy Across to make QuickBooks copy "30,000" into the cells for April through December.

TIP If the account names and budget values are hopelessly truncated and you have screen real estate to spare, enlarge the Set Up Budgets window by dragging a corner or maximizing it. The columns show more of the cell contents as you enlarge the window. To resize a specific column to make it wider or narrower, put your cursor over the vertical line to the right of the column's header. When the cursor turns into a two-headed arrow, drag right or left.

This shortcut is fabulous when a monthly expense remains the same throughout the year, like office rent, for example. But it also works if a price changes midyear. For instance, suppose the corporate concierge you've hired to run errands for your employees announces that his rates are going up in May. If your budget contains the old rate in every month, click the cell for May and type the new rate. Then click Copy Across, and QuickBooks lists the new rate for May through December.

TIP If you mistakenly add values to cells that should be blank, Copy Across is the fastest way to empty a row. Clear the first month's cell by selecting its value and then pressing Backspace. Then click Copy Across to have QuickBooks clear all the other cells in that row.

Adjust Row Amounts

The Set Up Budgets window's Adjust Row Amounts button lets you increase or decrease monthly values by a specific dollar amount or percentage. Say you created a budget from the previous year's data, but you want to increase all the values in the current year by 10 percent. Or maybe your company is growing quickly and you want to apply some heat to your sales force by increasing the target income each month. In that case, you can tell QuickBooks to compound the increase, so each month's sales target is a little higher than the previous month's value.

Changing all the cells in a row by a fixed dollar amount isn't as useful as you might think, because Copy Across basically does the same thing in most cases. But when you change budget amounts by percentages or compound increases each month, QuickBooks takes care of the calculations for you. Here's how to adjust row amounts in both of these ways:

1. **Click the row you want to adjust.**

   If you want to start the adjustment in a specific month, click the cell for the starting month.

2. **Click the Adjust Row Amounts button.**

   QuickBooks opens the Adjust Row Amounts dialog box and, in the "Start at" box, automatically selects the option that you chose the last time you opened this dialog box. "1st month" starts adjustments in the first month of the fiscal year. To start with the month you selected instead, choose "Currently selected month" (if you select this option, QuickBooks displays the "Enable compounding" checkbox, which is explained in step 5).

NOTE The Adjust Row Amunts feature is for adjusting *existing* budget values, not filling in blank cells. For example, when you select the "Increase each remaining monthly amount in this row by this dollar amount or percentage" option and type *100* in the text box, QuickBooks adds 100 to the values in the month cells. So if the January cell is set to 1,000, it increases to 1,100. However, if the remaining months' cells are zero (0), they increase to 100.

3. **Select the appropriate option for how the prices change.**

   QuickBooks automatically selects the "Increase each remaining monthly amount in this row by this dollar amount or percentage" option because prices usually go up. But if prices are decreasing, select the "Decrease each remaining monthly amount…" option instead.

4. **In the text box for the option you selected, type the dollar amount or percentage, and then click OK.**

   If the landlord tells you that rent is going up 5 percent, in the box for the Increase option, type *5%*, and QuickBooks increases the value in all the remaining cells by 5 percent. So if your rent was $5,000 a month, the values in all the remaining months change to $5,250.

To add a dollar amount to the remaining cells instead, type that dollar value. For example, to add $1,000 a month to the Rent cells, in the box for this option, type *1000*. Each subsequent cell in the Rent row increases by 1,000. (Of course, you can do the same thing by typing the new rent amount in the cell for the first month to which it applies, and then clicking Copy Across.)

5. **If you set the "Start at" box to "Currently selected month" in step 2, the "Enable compounding" checkbox appeared; turn it on if you want to adjust each month's value based on the previous month's value.**

   When you compound dollar amounts, QuickBooks adds the dollar amount you specify to the next month's value. For example, if January's value is 25,000 and you change the value by 1,000, February's value becomes 26,000, March's value increases by another 1,000 to 27,000, and so on, as shown in Figure 20-6.

   You can also compound by percentage. If you turn on the "Enable compounding" checkbox and type a percentage in the text box, QuickBooks increases the next month's value by the percentage you specify. If January's value is 25,000 and you increase it by 10 percent, February's value becomes 27,500, March's value increases another 10 percent to 30,250, and so on.

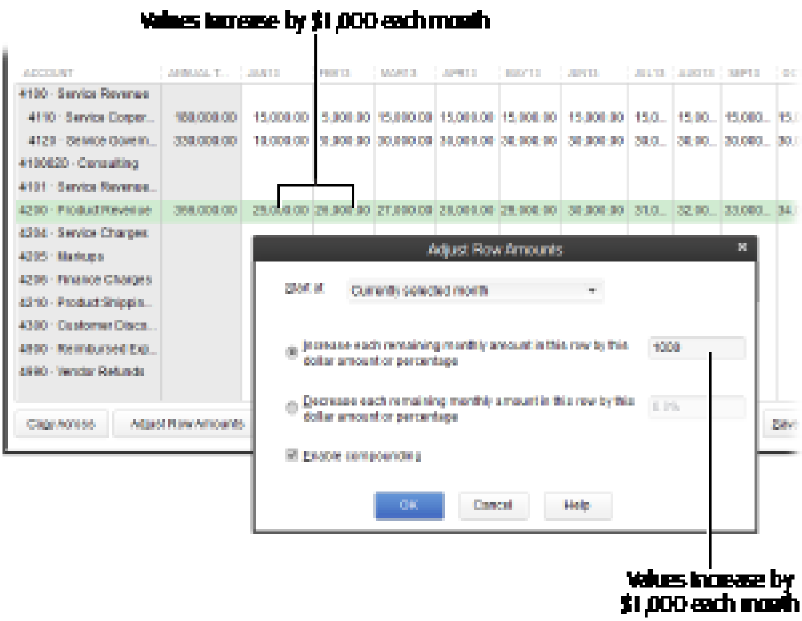


FIGURE 20-6

When you compound values, QuickBooks increases the previous month's value by the amount you specify, as shown here. If January's value is 25,000 and you increase it by $1,000, February's value is 26,000, March's value increases another $1,000 to 27,000, and so on.

Running Budget Reports

A budget gives you a target to aim for. The Set Up Budgets window lets you type values for income and expense accounts, but it doesn't show you whether your budget results in a net profit or loss. For that, you need a budget report (or your budget exported to a spreadsheet, as described on page 526). And to see how your business is doing compared with your budget, you need a budget report that shows budget and actual numbers side by side. QuickBooks provides four types of budget reports: one to review budgets you've created and three to compare your performance to your plan. This section describes the various reports, what they're useful for, and how to create and format them.

NOTE To learn about *all* the options for customizing any QuickBooks report, see Chapter 21.

The Budget Overview Report

The Set Up Budgets window shows your accounts and the values you enter for each month, but not whether your budget produces a profit or loss. The Budget Overview report shows budget numbers for each account and month, too, but it *also* subtotals values if you use top-level accounts and subaccounts in your chart of accounts, as shown in Figure 20-7. To see whether you earn enough income to cover expenses, at the bottom of the report, look for net income (income minus expenses) for each month and for the entire year.

To run the Budget Overview Report, choose Reports→Budgets→Budget Overview. In the Budget Report dialog box, first choose the budget you want to view and then a layout (explained in a moment). When you click Finish, QuickBooks opens the Budget Overview report window. (The Modify Report dialog box might appear depending on the report settings [page 624] you've chosen. Click Cancel to close that dialog box.)

NOTE The Budget Overview report includes only accounts that have budget values.

REPORT LAYOUTS

If you create a report for a profit-and-loss budget for your entire company, the only layout option in the Budget Report dialog box is Account By Month, which lists the accounts in the first column with each subsequent column showing one month of the fiscal year. You can change the columns to different durations in the Profit & Loss Budget Overview window (Figure 20-7).

If you choose a Customer:Job budget in the Budget Report dialog box and then click Next, the Budget Overview Report includes these layout options:

- **Account By Month** lists accounts in the first column and months of the fiscal year in the subsequent columns. The values in the monthly columns represent the totals for *all* the Customer:Job budgets you've created.

- **Account By Customer:Job** lists accounts in the first column and includes additional columns for each customer or job you've budgeted. Each customer and job column shows its annual totals.
- **Customer:Job by Month** adds a row for each customer and additional rows for each job that customer has. The columns are for each month of the fiscal year. The value for a job and month represents the total budgeted value for all accounts.

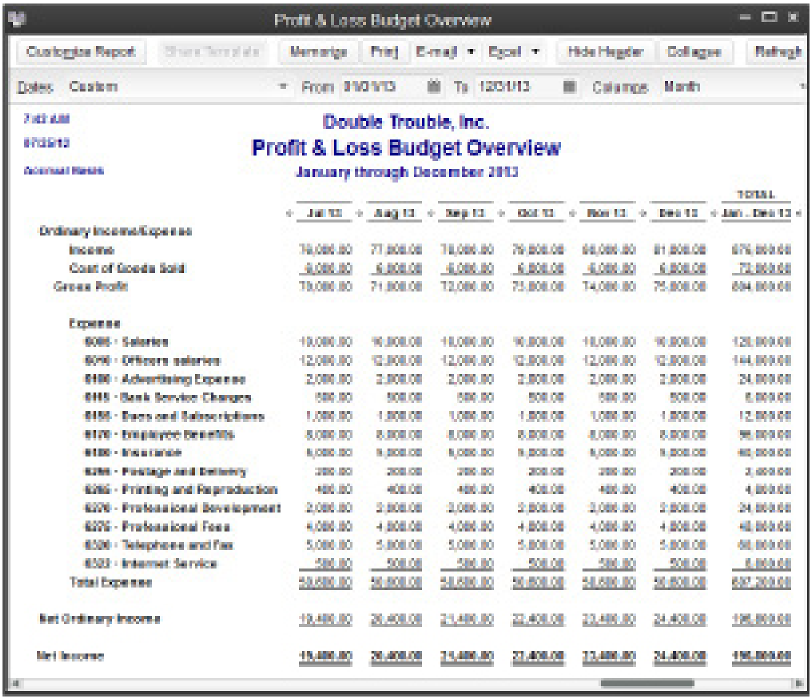


FIGURE 20-7

Although you build budgets month by month, many businesses (particularly ones with shareholders) focus on quarterly performance. To view your budget by quarter instead of by month, in the Columns drop-down list, choose Quarter.

Budget vs. Actual Report

The Budget vs. Actual report (Reports→Budgets→Budget vs. Actual) compares the budget you created to the actual income and expenses your business achieved. Run this report monthly for early warnings that your performance is veering off track. For example, if your income is short of your target, the "% of Budget" column shows percentages less than 100 percent; if you're making more than you planned, this column shows percentages greater than 100 percent. On the other hand, costs greater than 100 percent indicate that expenses are ballooning beyond your budget.

The column with the heading for a month and year (like Jan 13 or, for a quarter, "Jan - Mar 13") is your actual performance. The Budget column includes the budgeted values for the same time period. You can also see the difference between the two values in dollars (in the Over Budget column) and percentage (in the "% of Budget" column).

TIP If the numbers in your report don't seem right, the culprit could be the wrong choice of accrual or cash reporting (page xxiii explains the difference between cash-basis and accrual reporting). Click Customize Report and, on the Display tab, click the Accrual or Cash option to match your reporting style. See page 625 to learn how to change the reporting preference for accrual or cash reporting.

Profit & Loss Budget Performance Report

The Profit & Loss Budget Performance report (Reports→Budgets→Profit & Loss Budget Performance) also compares budgeted and actual values, but initially shows the actual values for the current month so far with the budgeted values for the entire month in the Budget column. Two additional columns show the actual and budgeted values for the year to date. The rightmost column shows the budget for the entire year.

Use this report to check your performance before the end of each month. Because the budget numbers represent the entire month, you shouldn't expect a perfect match between actual and budgeted values. But if your income or expenses are way off the mark, you can take corrective action.

UP TO SPEED

Memorizing Budget Reports

When you generate budget reports, it takes several clicks to specify the budget and layout you want to see. In addition, after the report window opens, you might click Customize Report to change the date range, the columns that appear, and so on. All in all, getting the budget report you really want might require a dozen or more small customizations.

Rather than reapply all these tweaks each time you generate the report, memorize the customized report so you can regenerate it with just one click. Here's how:

1. **In the report's window, click Memorize.** QuickBooks opens the Memorize Report dialog box.
2. **In the Name box, type a name for the customized report,** such as "P&L Budget vs. Actual 2013."
3. **If you want to save the report in a special group, turn on the Save in Memorized Report Group checkbox.** In the drop-down list, choose the group. For example, you might store budget reports in the Company group. If you don't save the report to a special group, QuickBooks adds it to the Memorized Report submenu.
4. **Click OK.**

To run the report, choose Reports→Memorized Reports. If you didn't save the report to a group, choose the report's name on the Memorized Reports submenu. If you *did* save it to a group, in the Memorized Reports submenu, choose the group and then the report's name. To learn how to add this report to your Favorite Reports, see page 544.

Budget vs. Actual Graph

To see a graph comparing your budget to actual performance, choose Reports→Budgets→Budget vs. Actual Graph. Because the report window can't display all the bars at the same time, click Next Group in the window's button bar to display the bars for the next several accounts. This graph displays the differences between your budgeted and actual values in two ways:

- **The upper bar graph** shows the difference between your actual and budgeted net income for each month. When your actual net income exceeds the budgeted value (meaning you made more money than you planned), the bar is blue and appears above the horizontal axis. If the actual net income is less than budgeted, the bar is red and drops below the horizontal axis.
- **The lower bar graph** sorts accounts, customers, or classes (depending on the report you choose by clicking "P&L by Accounts," "P&L by Accounts and Jobs," or "P&L by Accounts and Classes" in the report window's button bar) that are the furthest from your budgeted values (either above or below). For example, if you click "P&L by Accounts and Jobs," the bars show the customers and jobs that exceeded your budget by the largest amount or fell the furthest short.

Chapters 21-26 of *QuickBooks 2013: The Missing Manual* have been omitted from this excerpt. To purchase the full book at a 40-50% discount, go to *http://oreilly.com/go/quickbooks-mm*.

APPENDIX

A

Installing QuickBooks

QuickBooks' installation process offers two basic options: Install the program from scratch or upgrade from a previous version. When you upgrade, you can run both the old and new versions on your computer at the same time, which is essential if you're an accountant or bookkeeper who works with company files from several different clients. Even if you use QuickBooks to run your own business, you might want to keep your old version around in case you decide that you don't like the new version. However, once you open your company file in a new version of QuickBooks, it won't run in the earlier version (see the box on page 698), so be sure to back up your company file before you open it with the new version.

This appendix walks you through both paths of the installation process. You'll also find out how to install QuickBooks 2013 on a company network. (If you have several people who need to access a company file at the same time, everyone has to run the same version of QuickBooks, so set aside time to install the program on all those machines.) You'll also learn where on a network you can store your company file—and which location to choose for best performance.

Before You Install

Intuit recommends a 2.4 GHz processor and 1 GB of RAM for a single user of QuickBooks Pro. Add another 1 GB of RAM for more than one concurrent user—but doubling the recommended RAM (at least 2 GB, as a rule of thumb) will probably bring you closer to acceptable number-crunching speeds. You also need about 2.5 GB of free disk space and a 4x CD/DVD drive to install the program if you bought it on CD rather than downloading it. QuickBooks 2013 can run on Windows XP (Service

Pack 2), Windows Vista (Service Pack 2), Windows 7, and Windows Server 2003 and later versions.

NOTE Sometimes, you may have problems running QuickBooks if your computer has a Windows Home edition installed, particularly if you're working in a multiuser networked environment. The easiest solution (although it might cost you more money) is to install the Pro version of Windows (XP, Vista, or Windows 7) on your computer.

If you're planning to use QuickBooks' integration features, the versions of your other programs matter, too. For example, writing letters and exporting reports requires Microsoft Word and Excel 2003 or later; synchronizing contacts requires Outlook 2002 or later.

If you have several QuickBooks users, plan on upgrading everyone's copy at the same time. Once you've upgraded everyone, you can update the company file to the new version of the program. Then, have everyone make sure they can open the company file with the new version of QuickBooks. (If you update the company file *first*, your colleagues won't be able to work in it until they have the newest version of the program.)

TIP If you have a problem installing QuickBooks, you can look for an answer at *http://support.quickbooks.intuit.com/support/InstallCenter*.

POWER USERS' CLINIC

Installing Multiple QuickBooks Versions

If you work with clients running different versions or editions of QuickBooks, don't panic: Different versions and editions of the program can run on the same computer *mostly* without squabbling with each other.

For example, you can run QuickBooks Pro 2011, QuickBooks Pro 2012, and QuickBooks Premier 2013 all on the same machine. As long as you access each company file with *only one version* or edition of the program, you'll be fine. However, QuickBooks updates company files in two situations, which means you won't be able to use the files in the previous version or edition:

- Opening a company file in a new version updates the file to work with the new version and prevents earlier versions from opening the file. So once you open your company file with QuickBooks 2013, your accountant won't be able to access your data if she's still running QuickBooks 2012.
- Opening a company file in QuickBooks Enterprise edition optimizes the file for faster performance. Once you open a company file in this edition, the file is off limits to QuickBooks Pro and QuickBooks Premier.

Installing QuickBooks

If you have a single-user license for QuickBooks, installing or upgrading the program on a computer running Windows 7 or Windows XP is incredibly simple. Even on a network with a multiuser license, installing QuickBooks is mostly common sense. (If you're installing it on a computer running Windows Vista, search the Intuit QuickBooks Support web page [page 714] for instructions.)

Here are the steps for installing QuickBooks 2013:

1. **Log into Windows as a user with administrator rights.**

   Windows XP, Windows Server, Windows Vista, and Windows 7 require administrator rights to install QuickBooks. If you have trouble installing, try disabling the firewall, too. And shut down any running programs, including your virus-protection program (a good idea when you're installing any software).

2. **Put the QuickBooks CD in your CD drive. (If you downloaded QuickBooks, double-click the file you downloaded instead.)**

   Most of the time, the installation process starts on its own, and QuickBooks' installation dialog box appears on your screen. If the dialog box doesn't appear, use Windows Explorer to open the CD; double-click *setup.exe*, and then follow the onscreen instructions.

3. **In the QuickBooks installation dialog box, click Next.**

   The installation wizard extracts the files it needs to install QuickBooks. You'll see progress bars that give you an idea of how long you have to wait so you can do something else while it's working.

4. **If the installation dialog box asks whether you want to check for and download the latest installation update, leave the Yes option selected, and then click Next.**

   When the program finishes looking for updates, the screen tells you whether any are available. On that screen, click Next. (The program installs any updates it finds along with QuickBooks.)

5. **When the action on the "Welcome to QuickBooks!" screen finishes, click Next.**

   The License Agreement screen appears.

6. **After you read the software agreement carefully, turn on the "I accept the terms of the license agreement" checkbox, and then click Next.**

   Although you can proceed with the installation *without* reading the software agreement, you should always read software license agreements so you know the legal terms you're accepting.

7. **On the Choose Installation Type screen, select either Express or "Custom or Network options," and then click Next.**

   The Express option sets up QuickBooks for single-user access (page 173) and installs the program in *C:\Program Files\Intuit\QuickBooks 2013*. If you choose this option, the installation jumps to a screen that asks for the license and product numbers—and you can continue with step 9. You can change the preference to allow multiple users after QuickBooks is up and running (page 173).

   The "Custom or Network options" setting lets you choose where to install QuickBooks on your computer, install the program and share a company file with others, or set up the computer only to share the company file (page 705).

8. **If you selected the "Custom or Network options" setting, choose a setting on the "Custom and Network Options" screen, and then click Next.**

   If you're the only person who uses QuickBooks, select "I'll be using QuickBooks on this computer," and then click Next. This option installs the program on your computer and sets it up for single-user access to your company file. (You can change this preference to allow multiple users once QuickBooks is up and running—see page 173.)

   If you're going to run QuickBooks and also want to store the company file on this computer to share with other QuickBooks jockeys, select "I'll be using QuickBooks on this computer, AND I'll be storing our company file here so it can be shared over our network."

   The third option, which begins with "I will NOT be using QuickBooks on this computer," is the one to choose when you're installing the program on a computer that acts as a file server; in other words, a computer that stores your company files but won't run QuickBooks (page 705). When you install the program using this option, you don't use up one of your QuickBooks licenses.

9. **Fill in the License Number and Product Number boxes, and then click Next.**

   These numbers are hard to miss—they're printed on the bright yellow sticker on your QuickBooks CD sleeve or are in the confirmation email you received. As you finish typing the digits in one box, QuickBooks automatically jumps to the next box. So if you're confident on the keyboard, you can keep your eyes on the yellow sticker or the email and type all the digits for the license and product numbers without a break.

10. **If you *don't* have a version of QuickBooks installed, the Choose Installation Location screen appears with the installation location set to *C:\Program Files\Intuit\QuickBooks 2013*. Click Next and then continue with step 14.**

11. **If you *do* have a version of QuickBooks installed and want to upgrade that version, in the "Upgrade or Change Installation Location" screen, select the "Replace the version selected below with the version I'm installing now" option and, in the drop-down list, choose the version that you want to upgrade.**

    The path for your current version of QuickBooks appears below the drop-down list.

12. **If you want to install QuickBooks 2013 without upgrading an existing version, select the "Change the install location" option. To choose a different location, click Browse (see Figure A-1, background), select the new folder, and then click OK.**

    If QuickBooks isn't installed on your computer, simply click Browse to change the installation location.

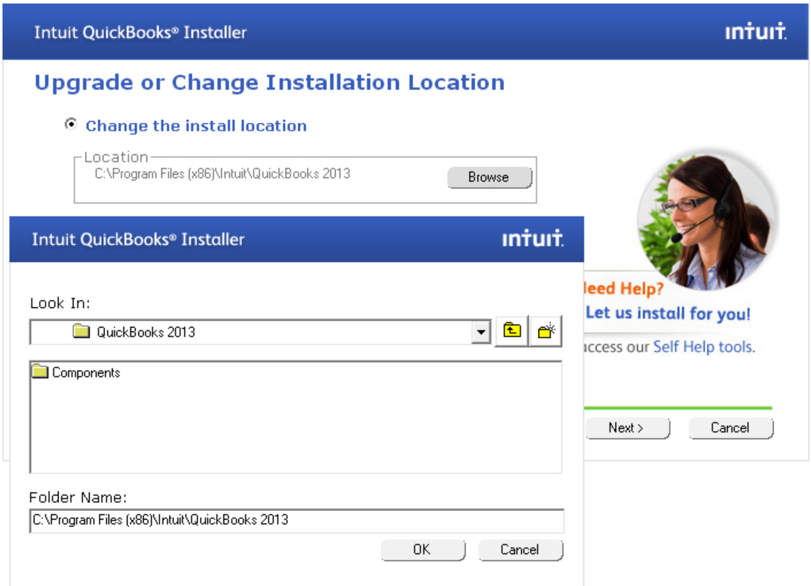


FIGURE A-1

If the folder you want to use doesn't exist, click the New Folder icon, which looks like a stylized folder with a starburst on its corner (foreground). To view the folders one level up, click the icon that looks like a folder containing an up arrow. To select a folder within the box, double-click it.

13. **When the installation location is set the way you want, on the "Upgrade or Change Installation Location" screen (or Choose Installation Location screen), click Next.**

    The "Ready to Install" screen appears with a summary of the program's version, its license and product numbers, and the installation folder you chose. The screen also warns you that the installation could take 15 to 20 minutes.

14. **If you want to change, say, the folder you're installing to, click Back until you get to the appropriate screen and make the changes. Then click Next until you're back at the "Ready to Install" screen.**

    In earlier versions of QuickBooks, you had to tell the installer whether you wanted service and support shortcuts on your desktop. QuickBooks 2013 doesn't ask this question because it doesn't add any shortcuts to your desktop other than one for QuickBooks itself.

15. **Once the settings are correct, on the "Ready to Install" screen, click Install.**

    When you click Install, the CD starts whirring and/or your hard drive makes busy sounds. The wizard shows the installation task it's performing, and progress bars indicate how far it's gotten. When marketing information about new features appears, you know that you have time to take a walk or return phone calls. But eventually, the "Congratulations!" screen appears.

16. **If you're ready to get to work, click Finish. (If you want some help with QuickBooks, make sure the "Help me get started" checkbox is turned on *and then* click Finish.)**

    QuickBooks launches and you're ready to start working. Chapter 1 takes you through launching QuickBooks and opening files for day-to-day work. If you asked for help, a browser window also opens with links that tell you how to create or update company files, set up QuickBooks for more than one user, and find helpful information about the program.

Registering QuickBooks

At some point after you've installed QuickBooks, you'll see the Register QuickBooks dialog box. (You can also start the registration process by choosing Help→Register QuickBooks.) You don't have to register QuickBooks immediately, but you'll need to eventually—the program runs for only 60 days unless you register your copy. When you register your copy of the program, you'll also receive any updates that Intuit releases for this version of the program.

In the Register QuickBooks dialog box, click the Begin Registration button, and a browser window opens to the QuickBooks Registration page and guides you through the steps. Be sure to keep a copy of the license number, product number, telephone number, and Zip code you use for registration. You'll need them if you have to reinstall QuickBooks or install it on a new hard drive.

Setting Up QuickBooks on a Network

For several people to work on the same company file from different computers, you have to perform two separate steps:

1. **Install the QuickBooks database server on the machine where you store your QuickBooks files.**

   When you run the QuickBooks installer on the server, on the "Custom and Network Options" screen, choose the option that begins with "I will NOT be using QuickBooks on this computer" (see page 700). This installs the database server software so that the computer acts as a file server, and doesn't use up one of your QuickBooks licenses.

2. **Install the QuickBooks client application on all the computers that you want to run QuickBooks.**

   You need a separate QuickBooks license for each computer on which you install the program. These computers need to be networked to the machine you use as the QuickBooks database server. They must all run the same version of QuickBooks (QuickBooks 2013, for example) and have permission to read, write, create, and delete in the folder where the company file resides. (A network administrator typically sets up these permissions for each user. If you're responsible for setting up users but you never wanted "network administrator" as your job title, in the Windows taskbar, choose Start→"Help and Support" and then, in the Search box, type *share folder* to find instructions for sharing a folder using your operating system.)

TIP You can simplify access to the company-file folder by mapping a drive to that folder. In Windows' "Help and Support" window (which you get to from your computer's Start menu), search for "Assign drive."

QuickBooks Pro and Premier can handle up to five people accessing a company file at the same time. (Intuit is happy to sell you more than five licenses for QuickBooks to install on other people's computers, but only five of the licensed users can work on the company file simultaneously.) QuickBooks Enterprise comes with 5-, 10-, or 15-user license packs and allows up to 30 simultaneous users.

Where to Store Your Company Files

QuickBooks 2013 has its own favorite spot for company files, but you can save your files where it makes the most sense for your company. For example, if several people work on your company files simultaneously, choose the storage location that gives you the quickest performance (you can read how to do that in the next section). This section explains how to decide where to store your company files.

In Windows 7, QuickBooks automatically sets the company-file folder to *C:\Users\Public\Public Documents\Intuit\QuickBooks\Company Files*. The folder for Windows XP is *C:\Documents and Settings\All Users\Shared Documents\Intuit\QuickBooks\Company Files*. (If you're browsing through folders, the Windows XP path shows up simply as "Shared Documents.")

However, you're free to choose a different folder. QuickBooks lets you store company files anywhere you like, so you may as well keep them with the rest of your documents. It also makes sense to create a dedicated folder for your QuickBooks files since, in addition to company files, you'll probably create backup files, message templates, files that you export from QuickBooks, and files for importing into your company file. With a QuickBooks folder as a container, you can create subfolders for each type of file, as shown in Figure A-2.

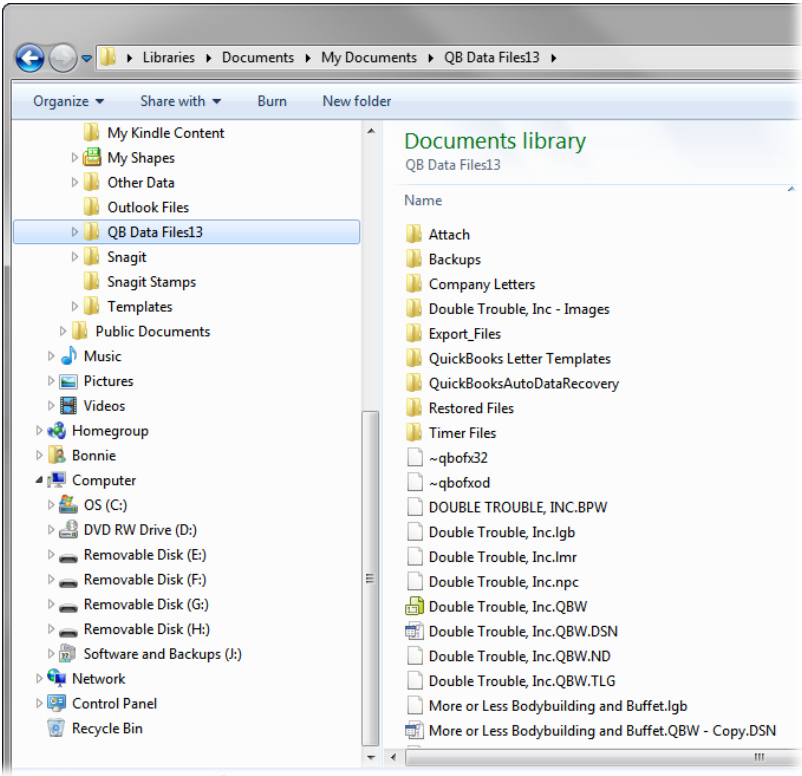


FIGURE A-2

Having a subfolder for each type of QuickBooks-related file (backups, company files, and so on) makes it easy to find what you want. If you save a copy of your company file at the end of each year, you can create subfolders for each year, too.

TIP If you aren't totally at ease working with files in your computer's operating system, *Windows XP Pro: The Missing Manual*, *Windows Vista: The Missing Manual*, or *Windows 7: The Missing Manual* will make you an expert in no time.

Storing Company Files on a Network

If several people work on your company files, where you store those files can determine whether the people who work on them get blisteringly fast responses or nod off waiting for processes to complete. For the best performance, put company files on the network computer with the most memory, the fastest processor, the most available disk space, and—ideally—the least amount of activity. The best location for your company file depends on the type of network you use:

- Peer-to-peer networks don't use dedicated file servers, so you can store your company file on any computer on the network. The computers running QuickBooks need to use Windows XP, Windows Server, Windows Vista, or Windows 7.
- On a client-server network, the company file typically resides on a *file server*, a dedicated computer for sharing files. Every computer on the network that has QuickBooks installed can access the company files, but one of the computers has to host multi-user access (page 700). Intuit recommends installing QuickBooks, QuickBooks Database Manager, and the company files on the server, which has to run Windows XP, Windows Server, Windows Vista, or Windows 7.

However, in some cases, you *can't* install QuickBooks on the computer that holds the company files (if you use a Novell file server, for instance). You have to log into the computer that you want to use as the *host* and open company files in multiuser mode (page 173). When QuickBooks asks if you want this computer to host multiuser access, click Yes. This computer then plays traffic cop for several people working on the company files at the same time.

TIP When you perform resource-gobbling tasks, like running massive reports or reconciling accounts, performance is paramount. On a peer-to-peer network, log into QuickBooks on the computer that holds the company files to perform these tough tasks. On a client-server network, use the fastest computer on the network.

Appendix B and the index of *QuickBooks 2013: The Missing Manual* have been omitted from this excerpt. To purchase the full book at a 40-50% discount, go to *http://oreilly.com/go/quickbooks-mm*.