

Introduction to **QUICKBOOKS® PRO 2002**

**Includes
CD-ROM
with
Templates**



SLEETER

Introduction to
QUICKBOOKS®
PRO 2002

SLEETER



Glencoe
McGraw-Hill

New York, New York Columbus, Ohio Woodland Hills, California Peoria, Illinois

QuickBooks copyright © 2001 Intuit Inc. All rights reserved. All screen captures copyright © Intuit Inc. All rights reserved. Used with permission.

QuickBooks Pro, Intuit, EasyStep, Quicken, TurboTax and QuickBooks are registered trademarks of Intuit Inc. in the United States and other countries. QuickFill, QuickMath, and QuickReport are trademarks of Intuit Inc. in the United States and other countries. All other brands and products are the trademarks or registered trademarks of their respective holders and should be treated as such. *Introduction to QuickBooks® Pro 2002* has not been reviewed, approved or endorsed by Intuit, and Intuit expressly disclaims any responsibility for its content.

Glencoe/McGraw-Hill

A Division of The McGraw-Hill Companies



Copyright ©2003 by Glencoe/McGraw-Hill, a division of the McGraw-Hill Companies. All rights reserved. Except as permitted under the United States Copyright Act, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without prior written permission from the publisher, Glencoe/McGraw-Hill.

Printed in the United States of America.

Send all inquiries to:
Glencoe/McGraw-Hill
21600 Oxnard Street, Suite 500
Woodland Hills, California 91367

ISBN 0-07-829680-3 (Student Edition)
ISBN 0-07-829681-1 (Instructor Manual)

2 3 4 5 6 7 8 9 10 VHG 05 04 03

Preface

FROM THE PUBLISHER

For individuals and small businesses, QuickBooks® is very popular because it is one of the easiest accounting software programs available. Learning how to use QuickBooks is even easier with this textbook, which includes hands-on practices and a CD-ROM with tutorial and problem templates for each chapter.

Using this text, you will gain confidence in every aspect of QuickBooks by trying out each feature as you complete problems and simulations of a “real” business. The well-illustrated text includes step-by-step instructions in the hands-on computer tutorials, which provide you with the practical experience needed to achieve operating skill. You will want to keep this text for reference, and will come back to consult its comprehensive appendix, valuable index, and helpful glossary of terms again and again.

The package was developed by Douglas Sleeter, a leading educator on QuickBooks, along with a consulting team of accounting teachers, business computer specialists, and prominent industry systems managers. In short, this textbook provides you with the tips of the trade by those who know how a business works.

FROM THE AUTHOR

On behalf of our whole team at The Sleeter Group, I would like to thank you for purchasing this text.

We work very hard each year to make *Introduction to QuickBooks® Pro 2002* as understandable, complete, and relevant as possible, and we believe that after completing your study in this book you will be prepared to apply your QuickBooks skills as a bookkeeper or as the owner of a small business.

Throughout the text, we’ve tried to include as many real-world transactions and situations as possible, so you’ll have a chance to work through problems before you con-

front them out there in the business world. Also, we've included many unique and innovative data entry methods to help you streamline your bookkeeping and to ensure the most accurate financial information possible. We hope to save you valuable time in your business by giving you the advantage of our many years of experience with QuickBooks.

I would also like to extend my thanks to the following people for their contributions to this book:

Joe Woodard really made the 2002 edition possible. He dedicated countless hours to rewriting sections of the text, contributing ideas, and testing the material in actual classroom situations. I can't express how grateful I am to him.

Joe Reed contributed significantly to the end-of-chapter exercises and case studies. Donna Sobzak proofed much of the early text and provided support throughout the project. Sherrill, my wife, kept our business running with little help from me, and Thomas, my son, put up with my frequent, though reluctant, absences from our family life.

I would also like to thank the reviewers: L.T. Herrman devised the real world simulation. Cindy Calvin and Doug Buhrer created the glossary. Victoria Pavlik (Ohio State University) developed many of the end-of chapter questions.

Also, I have to thank the editor, Vi Brunson at Glencoe/McGraw-Hill. She kept us all on schedule and made countless suggestions for improving the quality of the book. She is a joy to work with and she provided valuable assistance and support throughout the project. I could not have done this without great support from her.

PROGRAM RESOURCES

Student Textbook

The textbook consists of 10 chapters that address several accounting and QuickBooks topics. Each chapter is designed to aid understanding, by providing a list of objectives, numerous hands-on tutorial practices, key terms, a chapter summary, and many sidebar features. The end-of-chapter applications include review questions, problems, workplace applications, and a case study, all of which focus on the way QuickBooks functions in the business environment. Additional practice can be found in the Millennium Simulation. At the end of each chapter, you will find information about helpful Web sites in the Internet Connection feature.

The textbook includes a CD-ROM with tutorial and problem templates for every chapter and the simulation. By performing the tutorial and problem steps, students gain hands-on experience with the topics discussed in the chapter.

Academy Glass, Inc. is the model company used throughout the chapters. Students will perform computer practices and solve problems based on the day-to-day operations of this small corporation.

Chapter 1 provides an overview of accounting basics and of the QuickBooks software. Chapters 2 through 9 introduce the QuickBooks approach to fundamental accounting concepts, procedures, and functions, such as Accounts Receivable, Accounts Payable, Cash Receipts, Inventory, Reconciliations, Job Costing, financial reports, Payroll and others. Chapter 10 guides the student through setting up a company.

Following the tutorial chapters, there is a Business Simulation exercise called the *Millennium Financial Planning Business Scenario*, which provides additional “real business” practice through a much broader range of accounting transactions. The Appendix contains information helpful to the student, such as the QuickBooks accounts and menus, and keyboard shortcuts, and also provides the student with detailed instructions on how to back up QuickBooks data files. The Glossary provides a list of definitions for several accounting and QuickBooks-specific terms, and the Index provides comprehensive coverage of terms and topics.

Instructor Manual

This manual contains preparation guidelines to teach the course, teaching strategies, answers to Comprehension Questions, Multiple-Choice Questions, Completion Statements, Workplace Applications and Case Study questions. It also provides printouts of the solutions to the problems and a CD-ROM that includes the solution templates for all problems in the textbook. The Instructor Manual also provides a test bank of multiple-choice questions with answers.

PowerPoint Presentations

The PowerPoint Presentations are available in a separate CD-ROM package. These 10 concise, full-color presentations (one for each chapter) list chapter objectives, important topics with figures, key terms, and comprehension questions.

The PageOut® Distance Learning Tool

PageOut® is McGraw-Hill's custom course website management tool. It allows you to build online courses, add your own content, integrate this textbook content, post announcements, upload files, create quizzes, build a syllabus, hold discussions and maintain a gradebook. You can learn more about PageOut® at www.pageout.net.

The *Introduction to QuickBooks® Pro 2002* PageOut® template and its course material, syllabus, test bank and chapter readings is available for customization to meet the individual teaching needs of each instructor from the McGraw-Hill PageOut® Library at the PageOut® Web site. Simply select "author" from the "Search by" pull-down menu, and type in the author's last name to see a list of the author's book titles. When you see the book title you are interested in, click on that link for the listing of McGraw-Hill Library Course Web sites.

Contents

Chapter 1	Introducing QuickBooks	1
	Accounting 101	2
	What is QuickBooks?	5
	Working with the tutorial and problem templates	6
	Working with the Academy Glass virtual company . .	10
	QuickBooks features	10
	Entering transactions in QuickBooks	20
	QuickBooks items	22
Chapter 2	Managing Revenue	33
	Tracking company sales	34
	Recording customer returns and credits	71
	Writing off a bad debt	80
	Creating customer statements	82
	Assessing finance charges	84
	QuickBooks items and other lists	87
	Custom fields	101
	Modifying sales form templates	103
	Creating sales reports	109
Chapter 3	Managing Expenses	121
	Entering expenses in QuickBooks	122
	Setting up vendors	123
	Activating class tracking	128
	Tracking job costs	130
	Paying vendors	131
	Printer setup	145
	Printing checks	146
	Voiding checks	148
	Applying vendor credits	152

Handling deposits and refunds from vendors	156
Tracking Petty Cash	164
Tracking company credit cards	165
A/P reports	169

Chapter 4 Bank Reconciliation 181

Reconciling bank accounts	182
Bank reconciliation errors	187
When QuickBooks automatically adjusts the balance in your checking account	192
Handling bounced checks	193
Reconciling credit card accounts and paying the bill	197
Setting the beginning balance field on a new account	200

Chapter 5 Reports and Graphs 211

Types of reports	212
Cash versus accrual reports	212
List reports	213
Register reports	217
Summary reports	219
Transaction detail reports	229
Accounts Receivable and Accounts Payable reports	233
QuickBooks graphs	238
Creating budgets and budget reports	240
Building custom reports	241
Memorizing reports	247
Report groups	249
Printing reports	251
Finding transactions	253
Exporting reports to spreadsheets	259

Chapter 6 Inventory 269

Tracking inventory with QuickBooks	270
Activating the Inventory function	271
Setting up inventory items	273
Setting up group items	276
Calculating average cost of inventory	277
Invoicing for inventory items	278
Using purchase orders	280
Receiving inventory	282

Entering bills for received inventory	290
Adjusting inventory	295
Creating inventory reports	298
 Chapter 7 Payroll Setup	 313
Checklist for setting up payroll	314
The Payroll Setup Wizard	318
Setting up employee records	337
Setting up year-to-date payroll amounts	343
Payroll checkup	344
The accounting behind the scenes—Payroll items . . .	353
Adding new payroll items	356
Editing payroll items	363
Medical insurance deduction	372
401(k) employee deduction and company match items .	376
Releasing employees	378
Deactivating employees	379
The Employee Contact List report	380
Mid-year payroll setup	381
 Chapter 8 Payroll Processing	 393
Payroll tax tables	394
Paying employees	395
Editing, voiding, and deleting paychecks	407
Paying payroll liabilities	411
Creating payroll reports	418
Preparing payroll taxes	426
 Chapter 9 Adjustments and Year-End Procedures . .	 449
Processing Form 1099s	450
Editing, voiding, and deleting transactions	455
Recording adjustments and General Journal entries . .	458
Tracking fixed assets	461
Tracking loans	465
Memorizing journal entries	466
Closing the year	470
Setting the closing date to “lock” transactions	475
Importing and exporting data	477

Chapter 10 Company File Setup and Maintenance . .	491
Company file setup: the EasyStep Interview	492
Complete company file setup: a 12-step process	504
Users and passwords	538
 Millennium Financial Planning Business Scenario . .	555
Payroll premises and setup for MFP simulation	555
Customers	556
Vendors	556
Instructions	556
Transactions	557
 Appendix	563
QuickBooks accounts	563
Keyboard shortcuts	564
QuickBooks menus	566
Backing up your data	568
 Glossary	571
 Index	585

Introducing QuickBooks

OBJECTIVES

After completing this chapter, you should be able to:

- 1 Describe the features in QuickBooks.
- 2 Understand how the menus and Navigation System work.
- 3 Describe the process of entering transactions.
- 4 Understand the function of Items.

QuickBooks is one of the most powerful tools you'll use in managing your business. It is much more than a bookkeeping system. It's a management tool. When set up and used properly, QuickBooks provides you with detailed information that is essential to making good business decisions. Throughout this book, you will find tips from the experts on how to set up and use QuickBooks to properly provide managers with the information needed to make informed business decisions.

This chapter teaches the basic functions of QuickBooks Pro 2002. You'll be introduced to a sample business called Academy Glass, which is used throughout the book to teach the examples.

ACCOUNTING 101

Before you begin learning about how QuickBooks can help you manage your business better, let's look at two questions that will prepare you for managing in this way. After all, you probably would not do anything else in your business without understanding why you are doing it, what the benefits are, and what it entails.

The two questions are:

"On what does accounting focus?" and

"Why do I need to do it?"

The answers are not, as you might suppose:

"Money" and

"Because the IRS makes us do it."

Accounting's Focus

Accounting is primarily concerned with accurately counting wealth or net worth. Put another way, accounting's focus is on whether your organization is succeeding and how well it is succeeding.

Your organization's purpose includes a lot of different goals, but among them is producing a net worth, or equity in excess of the cost of operations. This goal is true whether your organization is for-profit or not-for-profit. The difference is that the former has a primary goal of producing profit; the latter needs a profit to continue operations.

Both kinds of organizations need to replace or upgrade equipment, provide income and raises for staff, or invest money to safeguard against shortfalls in income. The examples in this book are about a for-profit company called Academy Glass, but the same need for information and tracking would exist in a not-for-profit organization.

Accounting allows all kinds of organizations to assess their position relative to both current and future obligations (liabilities), current capabilities to meet those obligations and continue operations (assets), and the difference between them (net worth or equity). The fundamental equation, called the *accounting equation*, that governs all accounting is

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

$$\text{or Equity} = \text{Assets} - \text{Liabilities.}$$

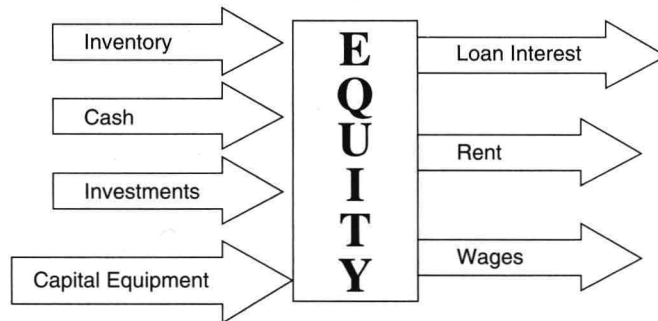
Seems pretty simple, so why do we need a software package to handle it?

Accounts, Accounts, Everywhere Accounts

Many factors go into making an organization work. Money and value are attached to everything that is associated with operating a company—equipment, rent, utilities, salaries and wages, raw materials, merchandise, and so on. For an organization to understand its equity, the money needed has to be counted, summed, and balanced according to the rules of accounting.

Different categories of value are usually tracked separately in different records or ledgers, called *accounts*. The summary of all ledgers in a company is the *General Ledger*, which is the record of everything that happens to money and valuable items in the company. Another term associated with the General Ledger is the “Chart of Accounts.” This chart lists all the accounts in the company. The list is sorted by type: assets first, followed by liabilities, equity, income, and expenses.

Each account represents something that increases or decreases the equity in your organization. (That’s the accounting equation again.) So a picture of your accounts is a picture of your organization.



Tracking all the accounts in your organization can be time-consuming unless you have help. That is where QuickBooks comes in. QuickBooks allows you to manage a much larger number of accounts than you could manage manually in the same amount of time. This means you can get timely information with enough detail to allow you to manage your organization and know what you can and cannot do in the future.

You still need to be careful to set up only those accounts that are really informative to the managers of the company. So, you may track major income categories individually, and you may group less significant ones into one account.

Back to the accounting equation. Every account is either an asset account, a liability account, an income account, an expense account, or an equity account. (Income and expense accounts are tracked throughout the year and are used at the year-end to calculate net income, which increases equity.) Adding up the values of all the accounts in each category lets you know what the overall value is in each category and the overall value of your organization.

Adding up the values of all the accounts also lets you know whether you entered all the information correctly. That is because the accounting equation for your organization will not work if there are errors in an account. If you enter \$1,000 too much in an asset account and do not also show a \$1,000 increase (or decrease) in another account, the accounting equation will be \$1,000 out of balance.

The good news is that QuickBooks will not allow you to make a mistake like this. If you try to enter a transaction that doesn’t balance, QuickBooks won’t let you store it.

Double-Entry Accounting

Sooner or later, someone will ask if you are using double-entry accounting. The short answer is yes, as long as you are using QuickBooks.

Double-entry accounting is a technique that looks at each account as having two sides—one side is a record of transactions that increase the account, and the other side lists all transactions that decrease the account. One side is for debits, and the other is for credits. Depending on the type of account, a debit might increase the account or decrease it. The same is true of credits. So debits are not always bad and credits are not always good. They are just part of a method of accounting.

In double-entry accounting, every transaction creates a debit in one or more accounts and a credit in one or more accounts. That is why it is called *double-entry* accounting. If the debits and credits for any transaction are not equal, an error has been made. The goal is to be sure that transactions are recorded accurately with respect to the accounting equation.

Fortunately, QuickBooks handles this for you. Every transaction you enter in the program automatically becomes a debit to one or more accounts and a credit to one or more other accounts. Thus you can focus on entering transactions by filling out forms like invoices and checks, and the program takes care of the rest. It also means you can create reports that show the transactions in the full double-entry accounting format.

Accounting for the Future: Cash or Accrual?

Another critical aspect of accounting is managing for the future. Many times, your organization will have assets and liabilities that you know about but are not due yet. For example, you may have sold something to a customer and sent an invoice, but the invoice is not yet paid. Also, you may have a bill for electricity that has been received but is not yet due.

A good accounting system tracks these and uses them in evaluating a company's equity. This is called *accrual accounting* because the liabilities and assets are entered when you know about them, and they are used to identify what you need on hand to meet future obligations, both current and known.

Although certain types of organizations can use a cash accounting method instead (many are not allowed to do so under IRS regulations), the accrual method provides the most accurate picture for your organization.

In the cash method, you do not log transactions until cash changes hands. So a sale is not recorded until the customer pays the bill, and a utility bill is not recorded until you write the check. You have to use a system outside your accounting program to track transactions such as open invoices and unpaid bills. Also you cannot generate a complete picture of your organization's status without going to several places to find information.

In contrast, the accrual method provides the most complete picture of the business operation.

QuickBooks can provide reports for either method, so everything you learn about the program will work for you regardless of the method you use for taxes. You should check with your tax accountant to determine which method is best for you.

Your Focus

Letting QuickBooks handle the “accounting behind the scenes” means that you can focus on your organization and identify the important factors that will help you succeed. Once these factors are identified, use QuickBooks to monitor them and provide information that will guide you in managing your operations.

As you think through the examples with Academy Glass, ask yourself what parallels you see to your own organization. Certainly, areas such as salaries, utilities, equipment, and others will be part of your setup; but the names and specifics of the accounts, items, lists, and forms will be different.

WHAT IS QUICKBOOKS?

1. A full-featured accounting program that's very powerful and easy to use
2. A double-entry accounting system
3. An estimating, invoicing, and accounts receivable system
4. A bill paying, check printing, and accounts payable system
5. A purchase order and inventory management system
6. A job-costing system
7. A sales tax tracking system
8. A time tracking and billing system
9. A payroll system

With all of these features, QuickBooks provides nearly everything required by most small businesses. It is so easy to use, it has become the most popular accounting package on the market. While it may not be perfect for every business, it is by far the most widely used.

Updating QuickBooks Releases

Occasionally, errors are found in the QuickBooks software after the product is released for sale. As errors are discovered, Intuit fixes the problem and provides program “patches” via the Internet. Each patch increases the **Release Level** of the QuickBooks application. To see what release level of the software you have, press <Ctrl+1> (or <F2>) while QuickBooks is running.

This textbook is based on QuickBooks Pro version 2002, release 2 and higher. To patch your software with the latest maintenance release, download the latest release by selecting the **File** menu and then choosing **Upgrade QuickBooks**. Follow the instructions on these screens to download and install maintenance releases in QuickBooks via the Internet. This task requires Internet access. Ensure that your **Internet Connection Setup** settings from the **Help** menu are configured correctly to enable you Internet access from within QuickBooks.

If you do not have access to the Internet to update QuickBooks with release 2 or higher, you may see some minor differences between the screens displayed in the textbook and on your screen. All of the functions of QuickBooks will be the same, except for the bank reconciliation reports and the payroll tax calculations.

About QuickBooks Files

QuickBooks has two primary types of files: Data files and Backup files. A QuickBooks data file name always ends with “.QBW” and a QuickBooks backup file name always ends with “.QBB.” For example, if you name your company file ABC, QuickBooks will store the data file on disk as “ABC.QBW.” When you backup your company file using the QuickBooks Backup function, QuickBooks will store your backup file with the name “ABC.QBB.” The letters after the dot (.) are referred to as the file extension. This extension (e.g. QBB, QBW, DOC, etc.) is used by Microsoft Windows to associate files with the appropriate application program.

With QuickBooks, you can only enter data or create reports in a data file with the “.QBW” extension. From inside the QuickBooks program, you can “Open” data files (QBW files), but you must “Restore” backup files (QBB files) and convert them into data files (QBW files) before you can use them.

WORKING WITH THE TUTORIAL AND PROBLEM TEMPLATES

Copying the Template Files from the CD-ROM

QuickBooks tutorial and problem templates are located on the CD-ROM in the back of this book. These files are used for the computer tutorial practices and the end-of-chapter problems.

To easily access these files while working with the textbook, you can create a folder on the server called “QuickBooks Class Files” and copy all of the files from the CD-ROM into this directory.

Tutorial Template Files

In the beginning of each chapter, the Restore This File box instructs you to restore the tutorial template for that chapter (for example, Chapter 1.QBB) to use for the computer tutorial practices. These practices are identified in the textbook with the words “COMPUTER TUTORIAL” and a computer icon. You will use the same tutorial template to complete all computer tutorials throughout the chapter. You restore the template files by following the steps in the *Restoring Backup Files* section on page 7. The tutorial templates are QuickBooks backup files, which you can ONLY RESTORE but you cannot open. Once the file is restored, then you can open it.

Problem Templates

Before you start working on a problem at the end of each chapter, you will be instructed to restore the template file for that problem. You will use these templates to do the problems at the end of every chapter. Each problem usually has its own template (for example, Problem 2-1.QBB). The problem templates are backup files, which you can ONLY RESTORE, but you cannot open. Once the file is restored, then you can open it.