
Decisions to make before you start

In QuickBooks, a "company file" contains all the financial records for a single business. Before you can use QuickBooks, you need to tell QuickBooks about your business so that it can set up your company file.

QuickBooks Professional Advisors Programme

Tip: A QuickBooks Professional Advisor can set up your company file for you. Intuit's referral service is free – you simply pay the Professional Advisors' fee for the specific services you need.

QuickBooks Professional Advisors are accounting and IT professionals who use QuickBooks regularly in their accounting or consulting practise. They possess the tools, resources, and knowledge to help you set up, maintain and optimise QuickBooks so that you can manage your business better.

You can locate a Professional Advisor in your area by using our online referral service on our Web site at <http://www.quickbooks.co.uk>. It is recommended that you select two or three advisors and ring each one to determine who would be right for your business. The QuickBooks Professional Advisors Programme referral service is free. The advisor you select, however, will provide you with information about their fees. Intuit is not liable for any loss, damage or expense arising in any manner out of, or in connection with the Professional Advisors programme.

How many companies should you set up?

If you operate a business, Inland Revenue expects you to clearly show all sources of income, and to document any business expenses you claim as deductions. For tax purposes, it's usually best to set up a separate QuickBooks company for each business that files its own tax return.

For more information about using classes, see [Tracking income and expenses with classes](#) on page 30.

What accounting method should I use?

Cash versus accrual bookkeeping

There are two common methods of bookkeeping: cash and accrual. Your method determines how you report income and expenses on your tax forms. When you begin your business, you need to decide which bookkeeping method to use.

It's best not to switch to a different accounting system after you choose one. However, you can switch between cash and accrual reports in QuickBooks at any time, without affecting your accounting. By default, QuickBooks creates reports on an accrual basis. To change reports (except a transaction report) to cash basis, search the Help index for "Reports: cash vs. accrual."

Cash basis

Some small businesses record income when they receive the money and expenses when they pay the bills. This method is known as bookkeeping on a cash basis. If you've been recording deposits of your customers' payments but haven't been including the money customers owe you as part of your income, you've been using cash basis accounting. Similarly, if you've been tracking expenses at the time you pay them, rather than at the time you first receive the bills, you've been using cash basis accounting.

Accrual basis

In accrual-basis bookkeeping, you record income at the time you make the sale, not at the time you receive the payment from the customer. Similarly, you enter expenses when you receive the bill, not when you pay it. Most accountants feel that the accrual method gives you a truer picture of your business's finances.

How your bookkeeping method affects QuickBooks

QuickBooks allows you to enter your transactions the same way no matter which method you use for taxes. When you first install QuickBooks, it uses accrual-basis accounting by default. For example, it shows income on a profit and loss statement for invoices as soon as you record them, even if you haven't yet received payment. It shows expenses as soon as you record bills, even if they are unpaid.

You can see any report (except transaction reports) on a cash basis by changing the reporting preference. (For more information, search the Help index for "Reports: cash vs. accrual.")

What accounting do I need to know?

Using QuickBooks requires very little accounting knowledge. All you need to understand is what a chart of accounts is and the different types of accounts on it.

Your company's chart of accounts

When you keep books for a business or enterprise, you want to track where your income comes from, where you put it, what your expenses are for, and how you pay them. You track this flow of money through a list of accounts called the chart of accounts. Your QuickBooks chart of accounts can have:

- Balance sheet accounts
- Income accounts
- Expense accounts
- Cost of Goods Sold accounts
- Non-posting accounts (includes purchase orders and estimates, which do not appear on your balance sheet)

Some of these accounts are created for you automatically. For example, the first time you create an invoice, QuickBooks automatically creates an accounts receivable (A/R) account. You'll add other accounts, such as your current account, during setup using the EasyStep Interview. And, you can create and modify your accounts as needed at any time.

Types of accounts

Balance sheet accounts

Your chart of accounts includes *balance sheet accounts*. These accounts track the following:

- What you have (assets)
- What people owe you (accounts receivable)
- What your company owes to other people (accounts payable and other liabilities)
- The net worth of your company (equity)

The following table describes the various types of QuickBooks balance sheet accounts.

Balance sheet account type	QuickBooks account type	Use to track
Asset		What you have and what people owe you
	Bank	Transactions in current, savings, and term deposit accounts. You can also use this type of account for petty cash.
	Accounts Receivable (A/R)	Transactions between you and your customers, including invoices, payments from customers, deposits of customer payments, refunds, and credit memos. QuickBooks automatically creates an A/R account when you first create an invoice.
	Other Current Asset	Assets that are likely to be converted to cash or used up within one year, such as the value of your stock on hand, promissory notes due within a year, prepaid expenses, and security deposits.
	Fixed Asset	Depreciable assets your business owns that aren't liquid (not likely to be converted into cash within a year), such as equipment, furniture, or a building.
	Other Asset	Any asset that is neither a current asset nor a fixed asset, such as long-term promissory notes.
Liability		What your company owes to other people
	Accounts Payable (A/P)	Outstanding bills. When you first enter a bill, QuickBooks automatically creates an A/P account.
	Credit Card	Credit card transactions for your business expenses. One account per credit card.
	Other Current Liability	Liabilities that are scheduled to be paid within one year, such as VAT, payroll taxes, accrued or deferred salaries, and short-term loans. Some businesses include the current portion of long-term liabilities in this kind of account.
	Long-Term Liability	Liabilities such as loans or mortgages scheduled to be paid over periods longer than one year.
Equity		Net worth of your company (equity = assets - liabilities)
	Equity	A company builds equity from three sources: <ul style="list-style-type: none"> ■ Investment of capital in the business by the owners ■ Net profit from operating the business during the current accounting period ■ Retained earnings, or net profits from earlier periods that are carried forward into the current tax year and that have not been distributed to the owners

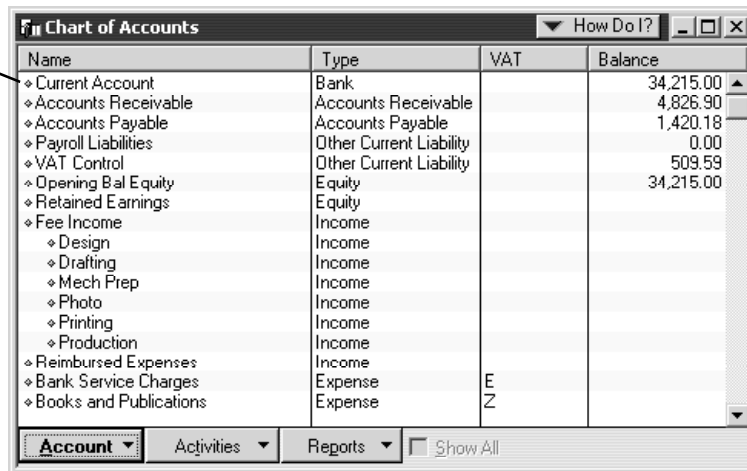
Balances for balance sheet accounts

The Chart of Accounts window shows a balance for each balance sheet account (except for the special equity account, Retained Earnings).

One of the first things you should do when you open a business is open a business current account.

If you have multicurrency turned on, the Chart of Accounts also shows the currency denomination of the account.

For more information on multicurrency, see [Doing business internationally](#) on page 157.

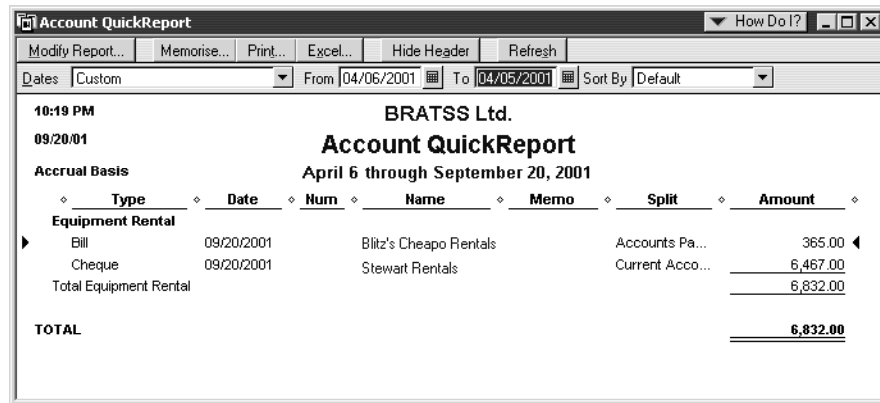


Name	Type	VAT	Balance
Current Account	Bank		34,215.00
Accounts Receivable	Accounts Receivable		4,826.90
Accounts Payable	Accounts Payable		1,420.18
Payroll Liabilities	Other Current Liability		0.00
VAT Control	Other Current Liability		509.59
Opening Bal Equity	Equity		34,215.00
Retained Earnings	Equity		
Fee Income	Income		
Design	Income		
Drafting	Income		
Mech Prep	Income		
Photo	Income		
Printing	Income		
Production	Income		
Reimbursed Expenses	Income		
Bank Service Charges	Expense	E	
Books and Publications	Expense	Z	

Income and expense accounts

Income and expense accounts track the sources of your income and the purpose of each expense. When you record transactions in a balance sheet account, you usually assign the amount of the transaction to one or more income or expense accounts. For example, you not only record that you took money out of your current account, but you keep track of what you spent the money on, such as utilities, advertising, or office supplies.

There are no registers for income and expense accounts, but you can create reports to show totals for these accounts over a period of time. To create a report on an income or expense account, in the chart of accounts, double-click the account for which you want a report.



Cost of Goods Sold (COGS) account

Many businesses that track stock have one cost of goods sold account. A COGS account contains the cost of goods or raw materials that you have sold.

QuickBooks automatically adds this account to your chart of accounts the first time you create a stock item. Your chart of accounts list the type for this account as Cost of Goods Sold. QuickBooks uses this account to track how much you paid for goods and materials held in stock that you eventually sold. After a sale, QuickBooks adjusts your costs of goods sold by multiplying the quantity sold by the average cost of each item.

What is the best way to track my type of detail?

The following table describes situations that require a business to track a particular type of detail. The next table suggests the best way to track this detail in QuickBooks.

Situation	How to record in QuickBooks	Comments	For more...
You need to track details of services you're providing or products you're selling.	Set up items in the Item list for your services and products. Record the sale, using the appropriate items. On sales forms you can edit the item descriptions to add detail you want the customer or client to see.	You can get reports about the items for services and products that you have sold, including quantities and pound amounts by item.	search the Help index for: <ul style="list-style-type: none"> ■ items, Items are important for every business

Situation	How to record in QuickBooks	Comments	For more...
You need to track multiple jobs for the same customer.	Set up jobs for the customer on your Customer:Job list. When entering any sales for a job, enter both the job and customer name in the Customer:Job field.	Reports by customer or by job give subtotals by job and then a total of jobs for the customer.	search the Help index for: ■ jobs, setting up
You need to track expenses by customer or job.	If you don't have QuickBooks Pro or Premier, turn on the preference for tracking expenses by job. When entering any expenses for a customer or job, enter the customer name or the job and customer name in the Customer:Job field.	You can track expenses by customer alone if you don't use jobs. The profit & loss by job report lists both income and expenses with a separate column for each customer and job.	search the Help index for: ■ customers, adding new ■ profit and loss reports
You need to track income and expenses by monies, location, department, or business segment. Examples: Religious and arts organisations, retail stores with multiple locations	Turn on class tracking, and set up a class on your Class list for each fund/monies. On every transaction, enter a class as well as an account (where appropriate).	The profit & loss by class statement has a column for each fund/monies (class), so you can see income and expenses by fund.	search the Help index for: ■ classes, turning on in QuickBooks
You have employees and need to see detail about payroll taxes and other payroll expenses. Example: Any company with employees	Use the QuickBooks payroll feature to track your payroll.	The payroll reports show all your payroll information.	see Setting up payroll: an overview on page 177
You need to track certain details about your customers and suppliers. Example: Payment terms, customer's VAT, customer's shipping to address, tax information, your account number with a supplier	Find and fill in the appropriate field in the New or Edit Customer window or the New or Edit Supplier window. The field you want may be on the Additional Info tab.	If you set up customers and suppliers by using the QuickAdd option, go back later, to add missing information.	search the Help index for: ■ customers, adding new ■ customers, editing information for ■ suppliers, adding, adding a supplier ■ suppliers, editing information for

Situation	How to record in QuickBooks	Comments	For more...
<p>You want to see reports for a particular group of customers, jobs, or suppliers.</p> <p>Examples: Residential vs. commercial customers; remodeling jobs vs. new construction; suppliers that sell materials vs. subcontractors</p>	<p>When setting up a customer, job, or supplier, assign a type. (Job types are available only in QuickBooks Pro and QuickBooks Premier.)</p>	<p>You can filter a relevant report to limit the transactions to those for customers, job, or suppliers of the type (or types) you specify.</p> <p>You can filter a report of your Customer: Job list or Supplier list to limit the names to those for the type (or types) you specify.</p>	<p>search the Help index for:</p> <ul style="list-style-type: none"> ■ customer types ■ job types ■ supplier, adding ■ report customisation
<p>On your Item list, you want to group similar items together.</p> <p>Example: A school store wants to group clothing items and also group book items</p>	<p>Set up a main, or parent, item (for example, clothing). Then set up subitems of the parent item (for example, T-shirt, cap).</p> <p>Use the appropriate subitem when entering a sale or purchase of items.</p>	<p>On reports that summarise amounts by item, QuickBooks provides an amount for each subitem, and then a subtotal for all subitems of the same item.</p>	<p>search the Help index for:</p> <ul style="list-style-type: none"> ■ subtotals, on sales forms
<p>You want to track information that QuickBooks doesn't already track for customers, suppliers, employees, or the items you sell.</p> <p>Examples: Patient's insurance company, item size or colour</p>	<p>Set up a custom field for tracking the particular kind of information.</p> <p>Fill in the custom field, where relevant, for new and existing customers, suppliers, employees, or items.</p> <p>To display and print the custom field on sales forms or purchase orders, customise the form to add the new field.</p>	<p>You can use the same custom field for customers, suppliers, and employees if you choose.</p> <p>Custom fields for items are only for items you sell or purchase (services, parts, and other charges).</p> <p>You can filter a relevant report to limit the transactions to forms that have specific text in a custom field.</p>	<p>search the Help index for:</p> <ul style="list-style-type: none"> ■ custom fields, about ■ estimates, customising
<p>On your profit and loss statement, you want to see subtotals for accounts that have something in common.</p> <p>Example: A construction company wants a subtotal for construction income for labour, materials, and subcontractors</p>	<p>Set up a main, or parent, account for the subtotal (for example, construction income). Then set up subaccounts of the parent account (for example, labour, materials, subcontractors).</p> <p>Use the appropriate subaccount when QuickBooks requires you to specify an account.</p>	<p>On reports that summarise amounts by account, QuickBooks provides an amount for each subaccount and then a subtotal for all subaccounts of the same account.</p>	<p>search the Help index for:</p> <ul style="list-style-type: none"> ■ subaccounts, then click the link Why use subaccounts?

Tracking income and expenses with classes

Do you need to track income and expenses for separate parts of your business or organisation? The following table has examples of what you can track by using classes in QuickBooks. (The word *class* has nothing to do with teaching or learning – instead, it is a way of tracking income or expenses *in addition to* assigning an income or expense account. For example, you might use classes to break down your company data by department, project or location.)

Use classes to track the following	Industry examples
Account executives (particularly useful if you plan on using an employee incentive program linked to the employee's business goals and profitability)	<ul style="list-style-type: none"> ■ Advertising ■ PR ■ Consulting
Construction industry standard categories (General, Site Work, Concrete, Masonry, and so on)	<ul style="list-style-type: none"> ■ Construction contractors
Departments	<ul style="list-style-type: none"> ■ Businesses that budget by department ■ Retailers
Monies (General, Building, Outreach, and so on) You could start with two main classes for restricted and unrestricted funds, and then make each fund a subclass of a main class.	<ul style="list-style-type: none"> ■ Nonprofit organisations ■ Religious groups
Locations (if the business has more than one)	<ul style="list-style-type: none"> ■ Restaurants ■ Retailers ■ Service businesses
Manufacturers	<ul style="list-style-type: none"> ■ Distributors ■ Manufacturing reps
Partners	<ul style="list-style-type: none"> ■ Law firms ■ Consulting ■ Any other partnerships
Product lines	<ul style="list-style-type: none"> ■ Distributors ■ Manufacturing reps ■ Sales agents

After you set up classes, you can enter them on any income or expense transaction including payroll transactions.

You can't assign classes to transactions that involve only balance sheet accounts (for example, transfers from current to savings, setup of stock, setup of fixed assets).

You can set up subclasses of existing classes if you need to subtotal information about classes on reports.



To learn about

Turning on the preference for using classes

Entering a class on a transaction

Adding classes and subclasses

Search the Help index for

classes, turning on in QuickBooks

classes, assigning to a transaction

classes, adding

Should I use classes, jobs, or types?

Ask yourself: Am I trying to track income or expense activity associated with a particular customer or group of customers or group of jobs?

If your answer is Yes, then you use jobs, customer types, or job types or track expenses by job. The following table shows what you can do with each of these.

If you are tracking a segment of your business that is independent of your customers and jobs, set up a class for the particular business segment. Then enter the class name in the Class field of every income or expense transaction for that segment.

To do the following	Do this in QuickBooks	Examples of reports to use
Keep track of sales for separate jobs or projects for one customer.	Set up and use jobs for the customer on the Customer:Job list.	Sales by customer summary (which shows each job separately)
See income or expenses for one type of customer, as distinguished from another type. Example: A PR writer wants to compare a restaurant with retail clients.	When entering or editing a customer, assign a customer type.	Sales by customer summary, filtered for one customer type Profit & loss by job, filtered for one customer type
(QuickBooks Pro and Premier only) See income or expenses for one type of job, as distinguished from another type. (Jobs of the same type can be for different customers.) Example: A construction contractor compares kitchen remodels with office remodels.	When entering or editing a job, assign a job type.	Sales by customer summary, filtered for one job type Profit & loss by job, filtered for one job type

To do the following	Do this in QuickBooks	Examples of reports to use
Assign expenses to a customer (or to a particular job for a customer).	On every expense transaction for that customer or job, enter the customer name (or the customer and job name) in the Customer:Job field.	The following reports always break down amounts by customer. If you have jobs, they also break down amounts by job. Profit & loss by job Job profitability (QuickBooks Pro and Premier only) Profit & loss budget vs. actual

Reports that measure profitability

The value and performance of your company can be summarised by two reports: the balance sheet and the profit and loss statement. How you set up your accounts will greatly influence the level of detail you can get on these reports. You may also want to create the statement of cash flows report, which details the net change in your cash during a period.

The balance sheet

A balance sheet is a financial snapshot of your company on one given date. This report is useful when applying for a business loan or at year-end to get an account of your company's equity, assets, and liabilities.

Assets include what you have and what people owe you. Examples include:

- cash on hand
- money in your current account
- money you are owed
- furniture
- vehicles

total assets = total liabilities + equity

Liabilities include what your company owes to other people or your company debts. Examples include:

- unpaid bills
- money you owe on credit cards
- loans
- VAT you owe

Equity is the net worth of your company:
equity = assets - liabilities

Grangeworth Kitchens Ltd Balance Sheet As of March 31, 2003	
ASSETS	
Current Assets	
Current/Savings	29,454.55
Accounts Receivable	94,246.05
Other Current Assets	93.19
Total Current Assets	123,793.79
Fixed Assets	43,900.00
TOTAL ASSETS	167,693.79
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	44,118.16
Credit Cards	1,129.36
Other Current Liabilities	2,655.72
Total Current Liabilities	47,903.24
Long Term Liabilities	8,470.96
Total Liabilities	56,374.20
Equity	111,319.59
TOTAL LIABILITIES & EQUITY	167,693.79

The profit and loss statement

A profit and loss statement, also called an income and expenditure statement, shows your revenue, expenses, and net profit or loss (that is, income minus expenses), summarising the revenue and expenses of your business by category (first income, then expenses).

Profit and Loss Statement	
◊ <u>Oct - Dec '03</u> ◊	
Ordinary Income/Expense	
Income	
Construction	
Labour	▶ 29,965.75 ◀
Materials	35,540.21
Miscellaneous	3,002.20
Subcontractors	<u>47,946.63</u>
Total Construction	<u>116,454.79</u>
Total Income	116,454.79
Cost of Goods Sold	
Cost of Goods Sold	<u>5,651.38</u>
Total COGS	<u>5,651.38</u>
Gross Profit	110,803.41
Expense	
Automobile	
Fuel	140.35
Repairs and Maintenance	<u>114.75</u>
Total Automobile	255.10
Bad debt	33.99
Bank Service Charges	10.00
Freight & Delivery	70.00
Insurance	
Disability Insurance	150.00
Liability Insurance	1,050.00
Auto	<u>825.00</u>
Total Insurance	2,025.00

Your cost of goods sold account always appears after income accounts and before any other expense accounts, so you can see what your net income is before subtracting your business's indirect expenses, such as utilities and office supplies.

Net income = income - expenses

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◊ <u>Oct - Dec '03</u> ◊	
Interest Expense	
Finance Charge	-5.65
Interest Expense - Other	<u>539.80</u>
Total Interest Expense	534.15
Job Expenses	
Equipment Rental	850.00
Job Materials	18,395.36
Permits and Licenses	700.00
Subcontractors	<u>40,099.00</u>
Total Job Expenses	60,044.36
Payroll Expenses	19,780.38
Professional Fees	
Accounting	<u>250.00</u>
Total Professional Fees	250.00
Rent	2,400.00
Repairs	
Computer Repairs	<u>0.00</u>
Total Repairs	0.00
Tools and Machinery	1,135.00
Utilities	
Gas and Electric	154.40
Telephone	100.71
Water	<u>61.85</u>
Total Utilities	<u>316.96</u>
Total Expense	<u>86,854.94</u>
Net Ordinary Income	23,948.47
Other Income/Expense	
Other Income	
Interest Income	93.42
Other Income	<u>12.50</u>
Total Other Income	<u>105.92</u>
Net Other Income	<u>105.92</u>
Net Income	<u><u>24,054.39</u></u>

Setting up your company in QuickBooks

Determining a start date

New Business

If your business has no financial transactions yet (that is, you are starting up your business at the same time you are setting it up in QuickBooks), your start date is today. You can go on to [Information to collect](#) on page 35.

Existing Business

Your start date is the date on which you begin managing your business finances in QuickBooks. It determines what information you need to enter in the Interview and afterwards.

For example, you could choose today as your start date, in which case you will need to enter how much money you have in each of your accounts and the amounts that your customers owe you and what you owe your suppliers. Or, you could choose an earlier date, in which case you'll also need to enter all the business transactions you've made between your start date and today.

The advantage of choosing today as your start date is that you don't need to enter many historical transactions, which saves you time. The advantage of choosing an earlier date (and entering your business' historical transactions) is that you'll be able to see a lot more detail in your business reports.

To choose a start date that's best for your company, consider these questions:

- When does your company's financial year start?
- How close is today to the end of your financial year?
- Do you have an accurate balance sheet for your current financial year?
- Do you have an accurate profit and loss statement (also called an income statement) for your current financial year?
- How far back in time are you willing to enter historical transactions (old invoices, bills, bank account transactions)?
- Will you be tracking payroll in QuickBooks?

Note: Although you can change your start date later, your start date determines much of your setup. It's much easier to decide on the best start date now than change it later.