Supplemental Guide

Module 2: Maximize QuickBooks Online
Trademarks

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About the Author

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Visit MB on Facebook

MB (Mary Beth) Raimondi, CPA, CITP, MS Taxation is an Advanced QuickBooks Certified ProAdvisor in both QuickBooks Desktop and QuickBooks Online as well as being certified in Enterprise and Point of Sale.

She has been teaching QuickBooks nationally to both end users and accountants/consultants since 1999. She is a charter member of the Intuit Trainer/Writer Network.

The focus of her practice in CT is mainly QuickBooks consulting and training, specializing in strategizing, researching and installing third-party add-ons and conversions to QuickBooks from other accounting software.

She’s part of the Intuit Premier Reseller program, getting great deals on Intuit products and services.

MB was named the Top QuickBooks Online ProAdvisor, 2015 by Insightful Accountant and has been in the Top 100 ProAdvisors for 2014-2016.
About the Team

It does take a village to complete a project of this magnitude. My heartfelt thanks goes out to the following team members and fellow ProAdvisors as well as Intuit employees, Linsay Ransom and Trudie Folsom for all their long hours and dedication.

Michelle L. Long, CPA, MBA
Long for Success, LLC
QB Power Hour

Michelle’s been providing QuickBooks training since 1999. She is an International Trainer for Intuit and speaker at many conferences. She is co-host of QB Power Hour (free bi-weekly webinar).

Michelle is the owner of Long for Success, LLC specializing in QuickBooks training and consulting. Plus, she consults with developers regarding feedback and input on app development, understanding and reaching the market and more.

She is co-author of the Advanced Certifications for QuickBooks (both QuickBooks Online and desktop) and author of numerous courses for Intuit’s Accountant University.

Michelle is the author of five Books: How to Start a Home-Based Bookkeeping Business, QuickBooks Practice Set, QuickBooks Online Practice Set, QuickBooks 2014: on Demand, and Successful QuickBooks Consulting – all are available on Amazon.

Michelle’s recognition includes: CPA Practice Advisor Most Powerful Women, Top 10 ProAdvisor for Trainer/Writer and Social Media, Top 100 ProAdvisor, Small Business Influencer Champion, Stevie Gold Winner for Women in Business and more.
Laura Redmond

Redmond Accounting Inc.
Aero Workflow

Laura Redmond is a financial controller and IT manager turned cloud accounting advocate and app designer. She is a QuickBooks Online power user, Advanced Certified QuickBooks ProAdvisor, member of the Intuit Trainer/Writer Network, and co-author of QuickBooks Online training and certification courses. Laura has been awarded Top 100 ProAdvisor and Leading QuickBooks Online Practice.

Laura runs Redmond Accounting Inc., a boutique cloud accounting and consulting firm selected by Intuit as a Top 20 Firm of the Future. Their service delivery is centered solely on QuickBooks Online and its eco-system of apps. Laura co-created the AERO Workflow app used by accounting firms to manage their knowledge capital and service delivery. The Aero Library includes step-by-step instructions and procedures for many of today’s most popular apps in the QuickBooks Online ecosystem.
Heather has been helping users learn and use QuickBooks since the late 1990s. Her passion is helping others improve their business accounting processes through the use of QuickBooks and related apps, and spreading her knowledge and experience with others through blog articles, live events and webinars.

As owner and founder of Satterley Training & Consulting, LLC, Heather works with accounting professionals to create accounting systems and procedures using QuickBooks and related applications that simplify and streamline their day to day workflows.

She is Advanced Certified in QuickBooks Desktop and Online as well as POS Desktop and QuickBooks Enterprise. In addition to QuickBooks related services, Heather is also an Enrolled Agent licensed to practice before the IRS and works with clients to resolve tax issues.

Heather was named a Top 100 ProAdvisor by Insightful Accountant in 2014, 2015 and 2016. She is a member of Intuit Trainer/Writer Network.
Supplemental Guide Overview

**Purpose of this Guide**

Many of our small business clients have specialized procedures that require customized workflows in order to perform day-to-day activities and provide the business owner with relevant information. Each of the subjects presented in this guide is intended to help you understand the advanced customizations and workflows available in QuickBooks Online.

Product Update Notification!

QuickBooks Online and QuickBooks Online Accountant are constantly being improved:

- When you log in to [QuickBooks Online.intuit.com](https://www.intuit.com), it may look different from the screenshots originally taken for this supplemental guide.

- Where to go to learn about the latest product updates:
  - [http://quickbooks.intuit.com/blog](http://quickbooks.intuit.com/blog)

**Google Chrome**

*Note:* Screenshots and instructions included in this guide use Google Chrome as the browser.

**Learning Objectives**

- Identify the various categories available in QuickBooks Online
- Recognize the differences between class, location and job tracking and when to apply each
- Identify methods to utilize budgets
- Determine the steps to set up and track quantity on hand for inventory products
- Identify job costing functionality for billable charges
- Determine the steps to utilize advanced features: sales tax, multicurrency, payroll and the preparation and reporting for Forms 1099-Misc
**TRAINING AT A GLANCE**

Use this as a guide to select specific workflows you want to cover.

<table>
<thead>
<tr>
<th>TOPICS</th>
<th>STEP-BY-STEP WORKFLOWS</th>
<th>LEARNING OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. CATEGORIES</strong></td>
<td>Sources and Targets</td>
<td>- Identify the various categories available in QuickBooks Online</td>
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<tr>
<td></td>
<td>Class</td>
<td>- Recognize the differences between class, location and job tracking and when to apply each</td>
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<tr>
<td></td>
<td>Location</td>
<td></td>
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<td>Jobs</td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2. TOOLS &amp; FEATURES</strong></td>
<td>Budgets</td>
<td>- Identify methods to utilize budgets</td>
</tr>
<tr>
<td></td>
<td>Inventory</td>
<td>- Determine the steps to set up and track quantity on hand for inventory products</td>
</tr>
<tr>
<td></td>
<td>Billable Charges</td>
<td>- Identify job costing functionality for billable charges</td>
</tr>
<tr>
<td></td>
<td>Sales Tax</td>
<td>- Determine the steps to utilize advanced features: Sales tax, Multicurrency, Payroll, and the preparation and reporting for Forms 1099-Misc</td>
</tr>
<tr>
<td></td>
<td>Multicurrency</td>
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</tr>
<tr>
<td></td>
<td>Payroll</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1099-Misc</td>
<td></td>
</tr>
</tbody>
</table>
QuickBooks Online Accountant Test Drive

GUIDES

Exercises contained inside this guide can be completed using the QuickBooks Online Sample Company, Craig’s Design and Landscaping Services.

- Open the Sample Company by logging into your QBOA → gear icon → Your Company section → Sample Company
- While you are working in the Sample Company, your work will be saved
- Upon closing the sample company file, QuickBooks Online automatically restores its settings and data. If you log out and log in again, the Sample Company will reset (your work is not saved).
- By default, the Sample Company will sign out if inactive for one hour. You will lose any data and settings, since this sample company resets each time you log in. Give yourself enough time to complete the assignment.
- To increase the maximum hours of inactivity allowed before timing out, in the Sample Company → gear icon → Your Company section → Account and Settings → Advanced Settings → Other preferences → Sign me out if inactive for and select two hours or three hours.

NOTE: The QuickBooks Online Accountant test drive company contains some features that are not available in QuickBooks Online Simple Start, Essentials or Plus. (You may wish to share the QuickBooks Online test drive file with your clients for them to practice without seeing Accountant-only features: https://QuickBooks Online.intuit.com/redir/testdrive.) In addition, some features (such as in-product Help) are not enabled in this test drive file. This is subject to change.
Topic 1: Categories

Introduction to Categories

This module explores advanced concepts regarding the categorization options and workflows available to optimize QuickBooks Online for your clients. It is important to be familiar with them to know what is appropriate for your client. There are lots of options, but not all may be appropriate. Just because you can do something doesn't mean you should. Also, these advanced procedures will only be as successful as the data that is entered. You always want to make sure your client is trained on using QuickBooks Online. For best results, make sure your clients and their staff who are entering the data understand the entire procedure and commit to it. If they are not committed to doing the work required of an advanced process, then perhaps a simpler workflow is best.

QuickBooks Online is a database. You must set up the database structure to provide the results and information the client is seeking. In this module we look at advanced optimizations of QuickBooks Online for your clients by using the categories available.

Categories

QuickBooks Online offers many solutions for categorizing financial transactions. The most common categories used are Chart of Accounts and product and service items. Additional lists are available to categorize financial activity to further optimize QuickBooks Online for your client. Class, location and customer categories let you track the income, expense and net profit of different segments of a business, such as departments, product lines, stores, regions and projects. Here are a few examples of how these categories are used:

- Nonprofits raise funds for specific programs and must associate all dollars coming in and out to a specific fund
- Real estate brokers track sales and expense by agent
- Designers track sales and purchases related to their customer projects

You can use one of these mechanisms or all of them.

To understand how financial activity is organized, we’ll explore the components of a transaction – source and targets. QuickBooks Online uses this concept of source and targets to build transactions and reports. Understanding the concept will help you set up the accounting workflow appropriately for a particular company.
The source of a transaction is the summary information about the transaction and includes the transaction date, transaction type, reference number, name, memo, account, location, and the total amount of the entire transaction. Each element of source data occurs only once in the transaction. The source account is always a balance sheet account. On an invoice, the source data is found in the header section of the screen and the source account for an invoice is accounts receivable.

The targets of a transaction provide the information about how the transaction is distributed in the general ledger and include memos, accounts, amounts, location, class and job. Each element of the target data set can appear multiple times in the transaction. The target accounts can be balance sheet or P&L accounts. On an invoice, the target data is found on the line item grid in the middle of the screen and the target accounts for an invoice are related to each of those product/service items and any related inventory costs.

You can determine the source and target information of an existing transaction by viewing a Transaction Journal report. Each transaction that affects general ledger accounts has a Transaction Journal report. Open a Transaction Journal report from an existing transaction in QuickBooks Online by clicking More on the bottom menu then selecting Transaction Journal.

The Transaction Journal shows the amounts debited and credited to general ledger accounts on the underlying journal entry, including accounts that were not visible on the transaction screen itself, such as inventory and COGS. This report shows the source and target information of the transaction.

The information contained in the first line of the report is the source data. See the Accounts Receivable category and the total amount of the invoice? This is considered the source of the transaction.

The rest of the lines are target data. They show how the transaction was distributed to the general ledger. In the case of this invoice, the transaction was distributed to income, cost and asset accounts.
Some of the source data is copied to the target fields. This Transaction Journal report doesn’t show it, and you can see that the target lines do not show a transaction date, type, reference number or name.

From a P&L you can drill down on an income account to view a detail transaction report. Here you’ll see transaction targets distributed to this income account. We can see the target data that was copied from the source, such as transaction date, transaction type, reference number and name, even though the Transaction Journal didn’t show it on the target line.

Now with a better understanding of source and targets, we can explore how transactions are categorized as classes, locations and jobs.
Class Tracking

Class tracking is used to categorize income and expense transactions from different sectors. Classes are often used to track departments, enterprises, properties, product lines, service lines, manufacturers and partners. For example, a construction company might create a class for each service line: General, Site Work, Concrete and Masonry. A farmer might create a class for each enterprise: Corn, Hogs and Soybeans. At the end of an accounting period, the business could create income statements for each class.

Class tracking is activated in Account and Settings.

There are two options for assigning classes – assign one class to the entire transaction or assign one class to each row in a transaction. There is also a setting to warn the user when a transaction isn’t assigned to a class. Class is always called class in QuickBooks Online.

Once class tracking is turned on in the QuickBooks Online company, you add / manage classes from the gear icon by selecting List → All Lists → Classes.
Classes can be hierarchical by creating sub-classes, letting you group and report on logically-related classes together. You can have up to five levels of sub-class, including the top level. A class can have only one parent; you may not assign a sub-class to multiple parent classes. Instead, if you wanted several classes to have a specific sub-class, you would have to create a sub-class under each parent location. Be mindful of your class structure as too many classes or levels of classes can be difficult to read on a report and can be counter-productive to your desired results.

Classes only affect the targets of the transaction. When you set up classes to assign to each row in a transaction, you can write one check for office supplies and split it among multiple classes. Each line item represents a target associated to the office supplies expense account and a different class. The source is associated to the checking account but not to a class.

When you set up classes to assign one class to the entire transaction, all target lines are assigned to the specified class. This is confusing because you enter the one class in the header area – but remember, class is never associated to a source, only targets, even when you assign one class to the entire transaction.

**Class Tracking - Reporting**

You can easily filter a Profit & Loss report to show columns by Class. This can tell you if one class is more profitable than another.

For example, you have a business that offers consulting and installation services. Class tracking is ideal for you if it is typical to have purchases and sales that include both types of work. By specifying the appropriate class on each detail line, you can run a Profit and Loss by Class report that would tell you if your consulting business is more profitable than the installation business.

When using class tracking, you can specify a class or leave it unspecified. Unspecified transactions will show on a Profit & Loss by Class report under the Not Specified column. Unspecified transactions could represent a mistake or could represent financial activity shared between more than one class. Businesses that require all transactions be classified can create a class to collect shared transactions (such as overhead costs). Then they review their Not Specified class column regularly to catch and reclassify transactions that were mistakenly posted with no class. Shared costs can be allocated between classes at the end of the period. This is covered in Module 3.
### Castle Construction
### PROFIT AND LOSS
#### January - December 2016

<table>
<thead>
<tr>
<th></th>
<th>NEW CONSTRUCTION</th>
<th>OVERHEAD</th>
<th>REMODEL</th>
<th>NOT SPECIFIED</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>40100 Construction Income</td>
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<td>$0.00</td>
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<tr>
<td>40110 Design Income</td>
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<td>1,000.00</td>
<td>750.00</td>
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<td>$4,150.00</td>
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<td>40130 Labor Income</td>
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<td>$16,785.00</td>
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<td>40140 Materials Income</td>
<td>15,933.33</td>
<td>24,519.44</td>
<td>1,600.00</td>
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<td>$41,232.77</td>
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<td>40150 Subcontracted Labor Inc...</td>
<td>43,220.00</td>
<td>142,843.50</td>
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<td>$186,063.50</td>
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<tr>
<td>Total 40100 Construction Income</td>
<td>71,916.83</td>
<td>173,964.44</td>
<td>2,350.00</td>
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<td>$248,231.27</td>
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<tr>
<td>40500 Reimbursement Income</td>
<td></td>
<td></td>
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<td>$0.00</td>
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<tr>
<td>40520 Permit Reimbursement Inc...</td>
<td>830.00</td>
<td>311.75</td>
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<td>Total 40500 Reimbursement Inc...</td>
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<td><strong>Total Income</strong></td>
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<td>$174,276.44</td>
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<td><strong>COST OF GOODS SOLD</strong></td>
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<tr>
<td>50100 Cost of Goods Sold</td>
<td>790.21</td>
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<td>54300 Job Expenses</td>
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<td>0.00</td>
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<td></td>
<td></td>
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<tr>
<td>54300 Job Materials</td>
<td>7,590.62</td>
<td>4,580.98</td>
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<td></td>
<td>$12,171.60</td>
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<tr>
<td>54400 Permits and Licenses</td>
<td>225.00</td>
<td>0.00</td>
<td></td>
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<td>$225.00</td>
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<td>54500 Subcontractors</td>
<td>20,450.00</td>
<td>32,900.00</td>
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<td>Total 54000 Job Expenses</td>
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<td>37,480.98</td>
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<td><strong>Total Cost of Goods Sold</strong></td>
<td>$29,055.83</td>
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<td><strong>GROSS PROFIT</strong></td>
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<td>$131,964.71</td>
<td>2,350.00</td>
<td>$178,010.71</td>
</tr>
</tbody>
</table>

**EXPENSES**
If you were to run a Balance Sheet report and customize it to show columns by class, most balances will be reported under the Not Specified class column since sources are typically recorded to cash, bank, credit card, A/R and A/P accounts and do not contain the class field. Targets recorded to Balance Sheet accounts, such as fixed asset purchases or loan repayments, will show in their class column on the Balance Sheet by Class report if the class was specified. However, it is important to keep in mind that, with sources posted to the unspecified class column and targets posted to specified class columns, the Balance Sheet will not balance per class.

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### Castle Construction

**BALANCE SHEET**  
As of December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>NEW CONSTRUCTION</th>
<th>OVERHEAD</th>
<th>REMODEL</th>
<th>NOT SPECIFIED</th>
<th>TOTAL</th>
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<td><strong>ASSETS</strong></td>
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<td></td>
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<tr>
<td><strong>Current Assets</strong></td>
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<td></td>
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<tr>
<td>- Bank Accounts</td>
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<tr>
<td>10100 Checking</td>
<td>27,874.62</td>
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<td>8,935.54</td>
<td>26,810.16</td>
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<td>10300 Savings</td>
<td>15,600.00</td>
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<td>251.03</td>
<td>15,851.03</td>
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<tr>
<td>10400 Petty Cash</td>
<td>500.00</td>
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<td></td>
<td>500.00</td>
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<tr>
<td>Total Bank Accounts</td>
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<td>$43,974.62</td>
<td>$0.00</td>
<td>$9,216.57</td>
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<td><strong>Accounts Receivable</strong></td>
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<td>11000 Accounts Receivable</td>
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<td>100,206.89</td>
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<td>100,206.89</td>
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<tr>
<td>Total Accounts Receivable</td>
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<td>$0.00</td>
<td>$0.00</td>
<td>$100,206.89</td>
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<tr>
<td><strong>Other Current Assets</strong></td>
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<tr>
<td>12000 Undeposited Funds</td>
<td>9,918.79</td>
<td>1,500.00</td>
<td>18,252.08</td>
<td>19,752.08</td>
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<td>12100 Inventory Asset</td>
<td>5,064.00</td>
<td>-4,395.76</td>
<td>2,180.00</td>
<td>12,757.04</td>
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<td>12800 Employee Advances</td>
<td>770.00</td>
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<td>770.00</td>
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<tr>
<td>13100 Pre-paid Insurance</td>
<td>4,943.02</td>
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<td>4,943.02</td>
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<td>13400 Retainage Receivable</td>
<td>1,241.22</td>
<td>555.50</td>
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<td>1,796.72</td>
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<td>Total Other Current Assets</td>
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<td>15000 Furniture and Equipment</td>
<td>22,826.00</td>
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<td>22,826.00</td>
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<tr>
<td>15100 Vehicles</td>
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<td>76,936.91</td>
<td></td>
</tr>
<tr>
<td>15200 Buildings and Improvements</td>
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<tr>
<td>15300 Construction Equipment</td>
<td>15,300.00</td>
<td></td>
<td></td>
<td>15,300.00</td>
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</tr>
<tr>
<td>16900 Land</td>
<td>90,000.00</td>
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<td>90,000.00</td>
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<td>17000 Accumulated Depreciation</td>
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<td>-70,140.72</td>
<td>$110,344.60</td>
<td></td>
</tr>
<tr>
<td>Total Fixed Assets</td>
<td>$0.00</td>
<td>$491,859.76</td>
<td>$0.00</td>
<td>-70,140.72</td>
<td>$421,718.31</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
All lines on a journal entry transaction are treated as targets. There’s no source line on a journal entry. Adding an adjusting journal entry specifying the class could adjust Balance Sheet account balances for each class column, but this would require a good bit of manual work to adjust and may not be the best way to proceed.

QuickBooks Online Accountant provides a tool to reclassify transactions in batch. On transaction targets, you can reclassify the account and class; this is denoted by a green light icon on the transaction row, ●. When a product/service item is used on a target transaction, the tool will only allow you to reclassify the class, denoted by a yellow light, ☀. Transactions sources cannot be reclassified with this tool at all, denoted by a red light, ○.
**Location Tracking**

Use location tracking to categorize entire financial transactions from different sectors. Location tracking is activated in Account and Settings. In Account and Settings you can select the nomenclature used for the location tracking category in your QuickBooks Online company by selecting from several labels: business, department, division, location, property, store and territory.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Track classes</th>
<th>On</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Warn me when a transaction isn’t assigned a class</td>
<td></td>
</tr>
<tr>
<td>Assign classes</td>
<td>One to each row in transaction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Track locations</td>
<td>On</td>
</tr>
<tr>
<td>Location label</td>
<td>Location</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Department</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Division</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Location</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Property</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Store</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Previously entered content</td>
<td>Off</td>
</tr>
<tr>
<td></td>
<td>Credits</td>
<td>Off</td>
</tr>
<tr>
<td></td>
<td>Unbilled activity</td>
<td>Off</td>
</tr>
<tr>
<td></td>
<td>Invoices</td>
<td>On</td>
</tr>
<tr>
<td></td>
<td>Automatically apply bill payments</td>
<td>Off</td>
</tr>
</tbody>
</table>

Module 2: Maximize QuickBooks Online
Location tracking affords you the ability to view informational reports by location and manage groups of transactions by location. For example, you can limit the Deposits page to show only customer payments for each particular location. This lets you see all the payments received for one location and deposit them as a group.

Once location tracking is turned on in the QuickBooks Online company, you add / manage locations from the gear icon by selecting **List → All Lists → Locations** (or whatever nomenclature you chose).

You can specify sub-locations for hierarchical categorization letting you group and report on logically-related locations together. For example, you can group city locations under a regional parent location which then might be grouped under a state. You can have only five levels of sub-locations, including the top level. A location can have only one parent; you may not assign a sub-location to multiple parent locations. Instead, if you wanted several locations to have a specific sub-location, you would have to create a sub-location under each parent location.
When you set up or edit locations, a pop-up screen gives you options to specify unique settings on sales forms for that location: form title, company name, address, email and phone number. If you specify these settings for a location, it will override whatever is set up in the company tab of Account and Settings.

Locations are assigned in the header of the transaction. That being said, location tracking affects both the source and target lines of a transaction. Remember, you can only assign one location per transaction.

The exception transaction is the journal entry. There is no source to a journal entry, only targets. Therefore you can apply multiple locations to a single journal entry.

**TIP:** Since all lines on a journal entry transaction are treated as targets, it is important to remember that all lines on a journal entry that adjust a specific location should balance in order for the balance sheet to remain in balance. Therefore you must debit and credit the same total amount to a particular location on a journal entry.
### Location Tracking - Reporting

Because locations affect the source of the transaction, you can run a Balance Sheet by Location report and get correct results.

#### Larry's Landscaping & Garden Supply

**BALANCE SHEET**

*As of March 31, 2017*

<table>
<thead>
<tr>
<th></th>
<th>Larry's Landscaping East</th>
<th>Larry's Landscaping West</th>
<th>Program 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10100 Cash Expenditures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1045 Barter</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1071 Bill.com Money In Clearing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1072 Bill.com Money Out Clearing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1099 Barter Account</td>
<td>-64.00</td>
<td>1,305.00</td>
<td></td>
</tr>
<tr>
<td>1100 Chase 1234</td>
<td>791.46</td>
<td>-2,542.20</td>
<td>-21.56</td>
</tr>
<tr>
<td>Chase Checking</td>
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<td></td>
<td>-4,100.00</td>
</tr>
<tr>
<td>Checking</td>
<td>47,315.00</td>
<td>-1,354.85</td>
<td></td>
</tr>
<tr>
<td>Checking 4567</td>
<td></td>
<td></td>
<td>-150.00</td>
</tr>
<tr>
<td>Daily Sales Register</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mileage bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tips Clearing account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Bank Accounts</strong></td>
<td>$45,014.48</td>
<td>$-2,752.05</td>
<td>$-4,121.56</td>
</tr>
<tr>
<td><strong>Accounts Receivable</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1200 Accounts Receivable</td>
<td>-684.14</td>
<td>2,468.64</td>
<td>600.00</td>
</tr>
<tr>
<td><strong>Total Accounts Receivable</strong></td>
<td></td>
<td>$-684.14</td>
<td>$2,468.64</td>
</tr>
<tr>
<td><strong>Other Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1300 Inventory Asset</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Profit & Loss by Location report will tell you how each location performed compared to others, and the same goes for a Cash Flow Statement by Location, Sales by Location and so on.
Furthermore, you can create custom detail reports that group by location, such as:

- Sales by Customer Detail
- Sales by Product/Service Detail
- Transaction List by Customer
- Transaction List by Vendor
- Transaction Detail by Account
- Transaction List by Date
- Recent Transactions

From the Location list, click the Run Report button for a particular location to see all transactions assigned to that location. Click the Run Report button at the top of the screen to run a report with a list of locations.
Supplemental Guide

**Location Tracking - Additional information**

When using location tracking, generally all transactions should be specified with a location – do not leave any transactions with an unspecified location. There is no setting to warn the user when a transaction isn’t assigned a location.

The last location used on a transaction is often the default location on the next new transaction screen. The QuickBooks Online Accountant tool allows you to batch reclassify transactions between accounts and classes, but does not allow reclassification of location. Be sure to verify the location category on every transaction and do not depend on the ability to reclassify in batch. Run your Balance Sheet and Profit & Loss reports by location to look for not specified transactions and click through to assign a location to each.

The location category is commonly found in the header section of the transaction screen. However, some transaction screens do not show a location field. In many cases, QuickBooks Online assigns the location based on the original transaction in the workflow. To avoid unexpected results, use standard workflows in QuickBooks Online.

Standard workflow for sales is to record activity using sales receipts or invoices with received payments, grouped into deposits. You should not enter sales directly to an income account on a deposit. On the Receive Payment screen, the location is determined by the invoice to which the payment is applied. If a single payment is applied to multiple invoices that are coded to different locations, only one location will be assigned to the payment which could give you unexpected results on reports. Also, if the location is assigned to the invoice after the payment has been received, QuickBooks does not go back and assign the location to the payment. Again, unexpected results.

When you follow to the next step of the sales workflow and make a deposit, you can specify which location to show Undeposited Funds for.
Standard workflow for accounts payable is to record activity using bills and bill payments. The location is assigned on the bill. This allows you to filter the Pay Bills screen to show only bills due for a particular location. You will get unexpected results if the bill payment is applied to multiple bills that have different locations, or if the location is assigned to the bill after the payment has been made.

If there are billable expenses added to the invoice that do not have a location assigned or have a different location than the invoice, the payment will not show a location. Billable charges allocated to a particular location will show in the customer's invoice drawer. You must open each charge to see which location it was for in order to determine whether to pull it into the invoice you are creating for this location. Alternately, you can run an Unbilled Charges report where location is a default column.
Additional unsupported transactions are as follows:

- Journal entries with unbalanced locations
- Paychecks allocated to multiple locations
- Payroll liability payments
- Sales tax payments and adjustments
- Prepayments from customers entered in Receive Payments window
- Discount entered in Receive Payments window
- Discount entered in Pay Bills window
- Pay bills with bill credit with different location
- Transfer funds between locations
- Inventory quantity on hand adjustments

If you have a situation where location tracking sounds like a solution, run some tests first to make sure it will work in your scenario. For financial transactions where the location field is not available, such as transfers, statement charges, sales tax payments and adjustments, use journal entries. Familiarize yourself with where to find the location field on different types of transactions.

If you are using any third party apps that sync data to QuickBooks Online, explore whether they sync data to/from the location category. This category is called the DepartmentRef field by the QuickBooks Online API (application programming interface), which is the platform on which third-party apps integrate.

In some multi-location environments, one location pays for a purchase made by another location. For example, you may have a credit card owned by Location #1 that is used for purchases by other locations. In these cases, the transactions should be recorded to a receivable from Location #2 asset account, with the offsetting entry to the Credit Card liability account. Location #1 must be specified in the location field for each transaction recorded – in order for the balance sheet to balance – even if Location #2 was the one which incurred the expense. Then, at some regular interval, an intercompany adjustment must be made to record the expenses for Location #2 and Location #2's payable to Location #1. Location #2 must be specified in the location field on every line of this journal entry.

When transactions are assigned a location, you can produce financial statements for each location. Not all reports include a filter for the location field, such as the Trial Balance report.
JOB TRACKING

Where class and locations are likely more permanent categorizations related to business activity year after year (as is the Chart of Accounts), jobs may be numerous and temporary in nature. If you work on more than one job for a client, use sub-customers to keep track of the details related to each job. Sub-customers create a hierarchical relationship between customers, useful for tracking multiple jobs per customer. Sub-customers can represent many things – from subsets of customers such as multiple customer locations or sub-groups within a larger organization to continuously growing numbers of jobs associated to a customer. For example:

- **Law firms** may track clients as customers and their cases as sub-customers
- **Designers** may track their clients as customers and their projects as sub-customers
- **Nonprofits** may track their donors as customers and their grants as sub-customers
- **Contractors** may track their customer address as customers and projects for that address as sub-customers
- **Wholesalers** may track the “bill to” address as customers and “ship to” location as sub-customers

You can have an unlimited number of sub-customers, but you can only create sub-customers nested to five levels deep, including the first customer. A customer can have only one parent; you may not assign a sub-customer to multiple parent customers. Instead, if you wanted several customers to have a specific sub-customer, you would have to create a sub-customer under each parent customer.

Once you’ve established how you will employ the use of sub-customers to organize your jobs, you can assign financial activity to the jobs and measure their financial performance, referred to as job costing. Job costing tracks any direct expenses incurred on a project against the revenue produced. This will tell you the profitability of each job. Knowing which jobs are profitable and which are not allows you to explore what factors affected these outcomes and take action to engage in the jobs you want in the future.

There is no special set up to track sales by customers/sub-customers. When a sale is recorded using an invoice or sales receipt, the income is automatically associated to the customer job. You can invoice either the customer or the sub-customer.

In the Customer Center, customer balances due include the balances of their sub-customers. If you configure a sub-customer to Bill this customer, you will not see this sub-customer’s invoice on the Receive Payment screen for the parent customer. If you want to see all invoices related to parents and subs, configure the sub-customer to Bill with parent. That way, if the parent pays for a sub-customer invoice as well as a parent invoice, both invoices will show on the Receive Payment screen.
You can also choose eight different labels to call your customers in Account and Settings.
How about on the expense side? How do you assign purchases to customers? You need to set the proper settings in Account and Settings prior to entering transactions.

At the minimum, check the setting to **Track expenses and items by customer**. This will add a customer column to purchase transactions.

When an expenditure is incurred you can associate it to the related customer job by entering that name in the Customer column of the Account or Item details. You can split the expenditure into multiple lines associated to different customer jobs. You can assign a customer either in the Account Details section or the Item Details section. You can assign a customer/job to checks, bills and expenses. You cannot allocate the cost of payroll to a job. The built in payroll services do not allow for job costing (at least at this time). There are workarounds and third-party apps that can help with job costing labor. You might use a zero dollar check to allocate payroll labor. Zero dollar checks will be covered in Module 3.
To get better reporting, the best way to record job costs, outside of inventory, is to use double-sided items, available in QuickBooks Online Plus. In order to that, the other setting you need to make sure is checked is to **Show Items table on expense and purchase forms**.

Then use double-sided items with or without tracking inventory quantity on hand. Double-sided items allow for greater operational analysis of what each company buys and sells and the related gross margin on each product or service.

That being said, you may assign a purchase to an account and a customer even if it’s not associated to a product sold for purchases such as postage or meals that are just pass through expenses.

If you are using the Inventory feature in QuickBooks Online, the invoice that records the sale of product will record the costs of goods sold related to that specific job (sub-customer) for you.

**Job Tracking - Reporting**

With income and expenses posted to the general ledger and associated to specific customer/jobs, you can run informational reports that give you greater control over your business.

You can run a Profit and Loss report several different ways.

One way is to change the Rows/Columns and show the columns by Customer.
This will show each customer in its own column and you can see the net income for each job. The last column before the Total column may say Unspecified for the customer. This reflects transactions that have not been assigned a customer. If you want to use job costing, you may want to set up a job to capture expenses that are not associated with a specific job, such as an Overhead customer. That way, when you look at this report, if there is something in the Not Specified column, you know it’s a mistake. There is no reminder to always assign a job. You probably will not want to print this report as it could get very wide.

Instead, another way to look at the P&L is to filter for a specific job or jobs. That will create a much more manageable report.
If you are choosing multiple jobs, make sure to also show Columns by Customer as in the last example. You might also want to run the report using All Dates, to show the total profitability for the job.
You can also customize a P&L report to show columns by items to track the profitability of products and services. By using product/service items mapped to the correct account in the general ledger, your coding will be more consistent for your financial statements. Run a Profit & Loss by Product/Service to track your margins.
Other reports you can run that may be helpful for analysis are:

- Expenses by Vendor Summary with Columns totaling by Customer (and possibly filtered for a particular customer)
- Purchases by Vendor Detail with a Customer column added
- Purchases by Product/Service Detail with a Customer column added
Topic 2: Tools & Features

In the core certification, you learned about all the basic accounting features and workflows. In this section, you’ll learn about additional features that can help your client run their business.

Your clients depend on you to optimize QuickBooks Online for their particular business.

For example, should they track inventory quantity on hand, perform periodic inventory or use a POS system and enter daily sales? Maybe they learn they now need to charge sales tax. Or perhaps they are expanding globally and need multicurrency.

QuickBooks Online makes it easier for businesses to track every dollar coming in and going out of the organization. This helps them save time and stay organized. QuickBooks Online links related transactions so you can follow a trail to find, for example, the purchase order that created the bill that resulted in the bill payment that downloaded on your banking screen. In this section we’ll explore some advanced tools and features that will help you help your client.

Budgets

Help your clients prepare a budget. Success requires planning. Nearly 50% of new businesses fail within five years. Businesses fail for many reasons, some outside the entrepreneur’s control, but the single largest reason for company failure is being undercapitalized, not having enough cash to pay salaries, bills and grow the business. Cash is king, so chart your clients’ cash inflows and outflows, both current and projected, for the next six to 12 months. An interim target is for inflows to equal outflows – called breakeven. However, breakeven is not the goal – you want to be rewarded for doing the work and taking the risk of starting the business. Estimate future income and expense so that over time you can compare it against actual performance. Budgets force the owner to take the time to look at current numbers and project future numbers. It’s a reality check!

QuickBooks Online budgets are based on the fiscal year set up in Account and Settings. You can only set up budgets for Profit & Loss accounts. There is no budget for Balance Sheet accounts. You can only create budgets one year at a time. QuickBooks Online allows you to create and manage multiple budgets. Profit & Loss budgets are imported when data is converted from QuickBooks Desktop. You must be using QuickBooks Online Plus to create budgets.
Access Budgeting from the gear icon.

If a budget is already set up, you can select an existing budget to edit or you can click **New Budget**.
New budgets in QuickBooks Online can be created from historical information, from scratch or copied from another budget. If you choose to start with actual amounts (historical information), you have the choice of basing it on last year or the current year. For example, if you’re creating a budget in November, 2017 for 2018, you might want to base your budget on the current year (2017), which is probably more relevant than the year before (2016).
Budgets can be subdivided by customers, classes or locations. You need to name the budget to differentiate it from other budgets.

If you are subdividing a budget, select the appropriate subdivision as long as there are fewer than 200 active records for those criteria.

In this example, the budget is subdivided by classes; the class the budget is being created for is Remodel.
Notice also that you can change what items show up in the rows.

You can view the budget by different time periods in the upper right section and also enter the budget by different time periods as shown below.
If you chose to enter by year and show by month, QuickBooks will automatically divide the full year budget evenly by 12.
If you are entering by month or quarter, you can click the **Copy Across** button.

Here’s the result:
Supplemental Guide

Topic 2: Tools & Features

Module 2: Maximize QuickBooks Online

Check and uncheck **Show Blank Rows** to show or hide blank rows.

**NOT CHECKED**

![Screenshot of budget report with Show Blank Rows unchecked]

**CHECKED**

![Screenshot of budget report with Show Blank Rows checked]

Amounts are entered and edited one line at a time. When you finish one line, click on **Save & Next** and move to the next line. Amounts are automatically rounded to the nearest dollar. All budget reports show in whole numbers. When you are finished entering the budget, click on **Finish**.
**Budgets - Reporting**

There are two types of budget reports:

- **Budget Overview** - This report shows a summary of budgeted amounts for a specific budget
- **Budget vs. Actuals** - This report shows a summary of budgeted amounts versus actual amounts and their variances and variance percentages

**Step-by-Step: Set up a Budget Report**

1. Select **Reports → All Reports**.
2. Select **Business Overview**.
3. Click to select **Budget Overview** or **Budget vs. Actuals**.
4. In the header section of the report, you can choose which budget to show. If you are reviewing the Budget vs Actuals report, you can also choose **Cash vs Accrual** and **Period to compare**.
5. **Click the **Customize** button to further refine the report by choosing which grid to show and filter by the available choices.**

<table>
<thead>
<tr>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
</tr>
<tr>
<td>Remodel - FY17 P&amp;I</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Report period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom</td>
</tr>
<tr>
<td>01/01/2017 to 12/31/2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number format</th>
<th>Negative numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divide by 1000</td>
<td>-100</td>
</tr>
<tr>
<td>Without cents</td>
<td>Show in red</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rows/Columns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Show Grid</td>
</tr>
<tr>
<td>Accounts vs. Classes</td>
</tr>
<tr>
<td>Accounts vs. Classes</td>
</tr>
<tr>
<td>Classes vs. Months</td>
</tr>
<tr>
<td>Classes vs. Qtrs</td>
</tr>
<tr>
<td>Classes vs. Total</td>
</tr>
<tr>
<td>Accounts vs. Months</td>
</tr>
<tr>
<td>Accounts vs. Qtrs</td>
</tr>
<tr>
<td>Accounts vs. Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Filter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account</td>
</tr>
<tr>
<td>Class</td>
</tr>
</tbody>
</table>

All
**TIP:** Companies such as remodeling and design companies that fulfill service orders over a period of time benefit from measuring customer estimates against actual job costs. This can be done in QuickBooks Online using budgets. Since QuickBooks Online allows you to create multiple budgets, you can create a budget for each job. Create each budget from scratch, subdivided for a particular customer. Specify the customer job and enter the estimated income and cost details for the particular job. Then run a Budget vs. Actual, renamed Estimate vs. Actual, report. Customize it to filter for the specific customer job. Save this report to regularly monitor the progress of the work. However, remember that a budget can only be created for a fiscal year. If the job spans more than one year, you will have to create multiple budgets for the job.

**INVENTORY**

QuickBooks Online can track the quantity, purchase costs, sales revenue and cost of goods sold for your inventory items. The inventory feature is available in QuickBooks Online Plus. Here are some key points:

- The value of an inventory item in your books is the amount you paid for it
- Recording the purchase of an inventory item increases the Inventory Asset account on your Balance Sheet report by the cost of the item and increases the Quantity on Hand units for that item
- Recording the sale of an inventory item decreases the Inventory Asset account by the original cost of the item and decreases the Quantity on Hand units for that item
- Recording this sale also increases the Cost of Goods Sold account (COGS) by the original cost of the item and increases the Sales of Product Income account by the amount your customer paid for the item. The difference between the income amount and the COGS amount is your gross profit on that item.
Inventory Method

At times you might pay more for some units of a given product than for others due to price fluctuations. When this happens, QuickBooks Online uses a method called FIFO to manage the cost accounting as you sell units of that product. FIFO stands for first in, first out.

As the name implies, QuickBooks Online will always consider the first units purchased to be the first units sold and will adjust your assets and COGS accordingly whenever sales of inventory items are entered.

For example, you decide to sell a product called a widget. You purchase 10 widgets for $10 apiece. While they remain in inventory, the widgets are considered assets and are valued at cost.

- Current Inventory: 10 units at $10 each
- Total Widget Assets: $100
- Total Widget COGS: $0 (since you haven’t sold any yet)

People love your widget. You realize you don’t have enough. You order 20 more widgets, but since your last purchase the price from your wholesaler has gone up to $12 apiece. When you record the purchase, QuickBooks Online adds $240 to your assets.

- Current Inventory: 10 units at $10 each; 20 units at $12 each
- Total Widget Assets: $340
- Total Widget COGS: $0

You meet with the first customer and she purchases eight widgets. Because the $10 units entered your inventory before the $12 units, QuickBooks Online applies the FIFO rule and values all eight units in this order at $10 apiece. When you record the sale, the asset total for widgets is decreased by $80, and the COGS for widgets is increased by $80.

- Current Inventory: 2 units at $10 each; 20 units at $12 each
- Total Widget Assets: $260
- Total Widget COGS: $80
You meet with another customer and he purchases five widgets. When you record the sale, QuickBooks Online applies the FIFO rule and adds the $10 units first. Since only two of those units remain in inventory, the other three units for this order are valued at $12 apiece. Your widget assets are reduced by $56 (2x$10 + 3x$12), and your COGS is increased by $56.

- Current Inventory: 17 units at $12 each
- Total Widget Assets: $204
- Total Widget COGS: $136

If you then sell more widgets from your current inventory to a third customer, they will all be valued at $12 apiece.

FIFO has a consequence for reports that can be confusing unless you know what to expect. When you run a transaction report that includes a transaction on which two different rates occurred for the same inventory item, that transaction will have separate lines on the report for each COGS and asset amount. These are called FIFO layers.

For example, if you recorded an invoice for the second customer in the scenario above, the transaction report would show two line items for that invoice: one with a $20 change in COGS and/or assets, and another with a $36 change in COGS and/or assets. This is the intended behavior and the report totals and subtotals will be correct.

The transaction journal seen below has been customized to show the Qty and Rate columns so you can see the exact accounting effect.
Inventory Setup

Step-by-Step: Turn on Inventory Tracking

1. From the gear icon select Account and Settings.
2. In the left sidebar, select Sales.
3. Click the pencil icon next to Products and Services and mark the option Track inventory quantity on hand.
   This will automatically mark all the options under Products and Services.
4. Click Save.
Products & Services Setup

After you've turned on inventory, you'll need to set up your inventory items.

Before a product can be tracked for inventory, three accounts must be assigned: an Asset account, an Income account and a Cost of Goods Sold account.

Step-by-Step: Set up an Inventory Item

1. From the gear icon select Products and Services.
2. Click New and select a type: inventory item.
3. Name the item. This is a mandatory field. You can also enter a SKU and upload an image.
4. You are required to fill in the Initial quantity on hand and the As of date.
   a. Enter zero as the Initial quantity on hand. Be careful, items added with a quantity on hand other than zero will adjust the inventory asset with an offsetting entry to Opening Balance Equity. This should only be done when setting up a new QuickBooks Online company. Use purchase forms instead to record the increase in quantity of new products.
   b. Enter the first date you carried this product. The start date for each product cannot be changed afterward and updates cannot be dated earlier than the start date.
   c. QuickBooks allows you to set a reorder point. A reorder point is the minimum quantity of a product you want to have on hand. To use reorder points, simply tell QuickBooks how many of a particular product you always want to have in stock. When the quantity on hand drops at or below the reorder point, QuickBooks reminds you to order more.
5. Select the Inventory Asset Account. This account must be type Other Current Assets and detail type Inventory in the Chart of Accounts.
6. In the Sales Information section, enter a description to print on sales forms and a default sales rate for this product (optional). Choose an **income account**. This account must be of the detail type **Sales of Product Income**. Sales forms (invoices and sales receipts) using this product/service item will post to the account.

7. In the Purchasing Information section, enter a description to print on purchase forms and a default purchase rate for this item (optional). If the item is an inventory item and you enter a default purchase rate, make sure you have entered a quantity of zero, otherwise QuickBooks Online will multiply the quantity times this rate and record an adjustment to Inventory Asset, offset to Opening Balance Equity. Instead, the purchase of the quantity on hand should be recorded on a purchase form in QuickBooks Online when you record the bill received from your supplier. Choose a **Cost of Goods Sold** type of account from the drop-down field in the **Expense account** field. Purchase forms (checks, expenses and bills) using this product/service will post to the Inventory Asset account, but sales of the item will move the cost from the Inventory asset account to this Cost Of Goods Sold account.

8. Click **Save and Close** or **Save and New**.

Continue this process until all your inventory products are set up.

**NOTE:** You can import inventory items to add new products. Inventory items imported with the same name as existing products will update existing items. (From the gear icon select **Import Data → Products and Services**.) First download a sample file to get the field names. Then update the columns with your correct data and import into QuickBooks Online. (Be sure inventory is turned on and proper GL accounts are set up.)

You cannot change an inventory item type to a non-inventory or service item type. Instead, you can make the item inactive (after adjusting the quantity to zero) and add a new non-inventory item with a different name. Making an item inactive doesn’t affect the transactions that use it. If you change one of the assigned accounts (asset, income, expense) associated to an inventory item, you won’t be given the option to also update this account in historical transactions.

When you make an inventory item inactive and there’s a quantity on hand, QuickBooks Online makes an adjustment to zero out the quantity and posts the adjustment to **Inventory Shrinkage**. If you reactivate the item, it does not reverse the adjustment. To show inactive items, use the filter icon next to the search box on the Products and Services list. You can choose inactive, active or all.
**Product Categories**

You may notice that when you add a new item, you can assign it a category. Product categories were introduced as a means of classifying products and services you sell to customers. They replaced sub-items. Categories can help your client better understand sales volume and what people are buying. Product categories also make it easier for employees to account for inventory correctly and save time when completing transaction forms, since you can search for items by product category.

You can access the product categories lists from All Lists when you click on the gear icon or from the Products & Services screen by clicking on the More drop-down list and choosing *Categories*.

Also, when you create (or edit) an item, you can create a new product category by selecting *Add new*.
You can have up to four hierarchical levels or categories, including a parent. Note that this is different than the categories we were talking about in Topic 1. With class, location and job tracking, you can have five hierarchical levels including the parent. This list only allows four levels including the parent.

**Buy and Sell Inventory**

The process to track inventory occurs as you record the purchase and sale of products.

When you purchase product, use a purchase form such as a bill. Fill out the top part of the bill as you normally would. Then enter the item details. Select the appropriate product and fill in the quantity, rate and any other applicable information.

![Bill #44326](image)
When an inventory purchase is recorded using the inventory item, the transaction is posted to the Inventory Asset account. You’ll see this reflected on the Balance Sheet where it will stay until sold. You’ll also see the quantity of the product increase in the product/service list and inventory valuation reports.

![Journal Entry](image1)

When you record the sale of inventory items, use an invoice or sales receipt and enter the details about each item sold.

![Invoice](image2)
This transaction will record the income and the cost. The cost will be recorded as a decrease to Inventory and increase to Cost of Goods Sold. You’ll also see the quantity of the product decrease in the product/service list and inventory valuation reports.
Adjusting Inventory Quantity

Typically, when tracking inventory, your client will (or should) take a physical inventory on a periodic basis. There is a physical inventory worksheet in the Manage Products and Inventory group of reports.

There are two ways to enter an inventory adjustment.

- One way is to click on **Quick Create (+)** and select **Inventory Qty Adjustment**.

1. Enter date of the adjustment.
2. Select the **inventory adjustment** account.
3. Accept or change the **reference** number.
4. Select the product or products to be adjusted. QuickBooks will enter how many it thinks are on hand. You can enter either a new quantity or the change in quantity. (The system will automatically calculate the other field.

5. Click **Save**.
The other way to get to the same screen is to open the Products and Services list, edit the inventory item and click Quantity next to Adjust.

When you save the inventory adjustment, QuickBooks Online automatically records the inventory adjustment to both the Inventory Asset account and the Inventory Shrinkage COGS account - unless you chose another account. The Inventory Shrinkage COGS account is created automatically by QuickBooks Online. The dollar effect of the adjustment is based on the FIFO layers.
Adjusting Inventory Quantity in Batch

If you have a lot of inventory adjustments to do, you can easily adjust the quantity for multiple items on one screen.

Step-by-Step: Batch Enter Inventory Adjustment

1. Open the Products and Services list.
2. Filter the list for Type = Inventory and click on Apply.
3. Select which items need to be adjusted by placing a check in the box in the left hand column.
4. At the top right hand side of the grid, click on the drop-down under Batch Actions.
5. Select Adjust Quantity. This will list all the selected items on one adjustment form.
6. Enter the new quantity or change the quantity for each item.
7. Make sure to enter the Adjustment date and Inventory adjustment account.
8. Click Save.
Delete an Inventory Adjustment

When reviewing the books, you may find an inventory adjustment was made in error. Inventory adjustments can be deleted.

Step-by-Step: Delete an Inventory Adjustment

1. From Accounting select **Chart of Accounts** (or access from the **gear** icon).
2. Select **Inventory Asset**.
3. Click **View Register**.
4. Identify the inventory adjustment to be deleted.
5. Select that line and click **Delete**.
Prepaid Inventory

Sometimes when you purchase inventory from a vendor you must send payment before you have physically received the inventory. How do you record a purchase without increasing your quantity on hand for the inventory?

Step-by-Step: Prepaid Inventory

Order your product (if this is part of your workflow):

1. Create a purchase order. From Quick Create (+) icon select **Purchase Order**.
2. Select the vendor and fill in the appropriate fields selecting the inventory item you are purchasing.
3. Click **Save**.
Next, pay your vendor:

4. Create a check. From Quick Create select **Check**.

5. Select the vendor. In the Account details section choose an account such as Prepaid Inventory and enter the amount of your payment. Do not add the purchase order from the drawer to the transaction.

6. Click **Save** and send the vendor their payment.

This transaction will increase the Prepaid Inventory account and decrease the bank account.
When the inventory arrives:

7. Create a bill to record the purchase and increase inventory. From Quick Create select **Bill**.

8. Select the vendor then **Add** the purchase order from the drawer.
9. In the Account details section, enter **Prepaid Inventory** as the account and the amount that was prepaid as a negative amount.

10. Click **Save**. Inventory will be increased by that number of units. The Prepaid inventory account will be decreased and the net amount of the bill will be the balance due the vendor. If you prepaid the total amount of the inventory, the amount of the bill will be zero. Also the purchase order will be closed.

**NOTE**: In Module 5 you will learn how to create a report to easily check the prepaid balances per vendor. There is no pop-up that warns you there is a prepayment.
**Donated Inventory**

If you donate or give away product that you track quantity on hand for in QuickBooks Online, there are specific steps you can follow to record it.

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**Step-by-Step: Donated Inventory**

Record the $0 sale.

1. From Quick Create select **Sales Receipt** and create a sales receipt for the item.

2. In the **Product/Service** grid, click the **drop-down** arrow to select the inventory item you are donating.

3. Enter the quantity donated. Click in the **QTY** field for that row to view total available quantity on hand.

4. Change the **Rate** of the selected product/service to zero so the total of the sales receipt is zero.

5. At the top of the sales receipt, select **Deposit to** and choose your bank account or perhaps a clearing account. This will create a zero dollar transaction in your bank register that can be reconciled at any time.

6. Click **Save**.
This sales transaction recorded zero income but it also recorded the associated cost of the inventory. It decreased Inventory Asset and increased Cost of Goods Sold. Run a Transaction Journal report on that sales transaction to find the total cost calculated on the donated inventory.
Next, you’ll create a journal entry to reclassify the cost to an appropriate expense account, such as Charitable Donations Expense.

7. From Quick Create select Journal Entry.

8. In the Account section, choose the expense account used to track charitable contributions (for example, Charitable Donations Expense). Enter the cost of the donation (from the Transaction Journal of the sales receipt) in the Debit field.

9. On the next line, click the drop-down arrow and select the COGS account that was used on the Transaction Journal of the Sales Receipt and enter the cost in the Credit field.

10. Click Save.

NOTE: Check with your tax professional for the proper guidelines for donating inventory for your business type and the appropriate account to record this type of activity for your business.

Advanced Inventory Add-ons

QuickBooks Online Inventory does not track inventory assemblies or sales orders. There are several add-ons available in the QuickBooks Online app store to add more inventory functionality to your clients’ accounting systems, including Salespad Cloud, SOS Inventory, BarCloud Inventory, Stitch Labs, DEAR Inventory, Cin7, and CloudMRP. Search “inventory” on apps.com to learn about different solutions available.

Inventory apps that plug into QuickBooks Online offer advanced inventory capabilities over and above QuickBooks Online’s native inventory functionality, such as assemblies, sales orders, lot and serial number tracking, reorder points by location, landed cost tracking, bar coding, units of measure, back-order reports, RMA process and LIFO/FIFO/Average cost tracking. Understand your client’s inventory needs so that you can help them choose the appropriate add-on.
BILLABLE CHARGES

Some businesses incur expenses or enter time that is associated to a customer and are billable to that customer. Or, they may want to keep track of charges they want to invoice a customer for, but they don’t want to invoice it right away. These types of transactions are called billable charges. There are three types of billable charges:

- Billable expenses
- Billable time
- Delayed charges

These are non-posting transactions that don’t affect the general ledger until brought onto an invoice.

**NOTE:** Potential billable charges only show up in the drawer for an invoice. You cannot create a sales receipt for billable charges.
Billable Expenses

A billable expense is a purchase transaction that is associated with a customer and billable to that customer. QuickBooks Online can track these billable purchases in order to invoice the customer for reimbursement. To activate the feature that allows you to mark an expense as billable to a customer, you must set the proper preferences in Account and Settings prior to entering transactions.

In the Expenses section, check the boxes to **Track expenses and items by customer** and **Make expenses and items billable**. You must be using QuickBooks Online Plus to use this feature.

The first will add a customer column on the purchase transaction. The second will add a billable column on purchase forms. When you record a purchase, specify an account or product/service item. QuickBooks Online will not allow you to post billable expense to an income account. Then check the box in the **Billable** column and specify the associated customer or sub-customer. The transaction will credit the AP or payment account and debit the general ledger account specified on the Account details line or the cost account mapped to the product or service on the Item details line.
In addition to the financial transaction recording the expenditure, when the transaction is marked as billable to a customer, QuickBooks Online creates a billable expense charge.

Billable expense charges are non-posting transactions that are linked to the originating posting expense transaction. Changes to the originating expense transaction update the billable expense charge. If the originating expense transaction is un-checked as billable to a customer, the billable expense charge is deleted.
When an invoice is created for a customer who has any open billable expense charges, the drawer will automatically open suggesting you add the charge(s) to the invoice.

When an invoice is created for a customer who has sub-customers configured to Bill with parent, the drawer on an invoice for the parent will show any charges for these sub-customers so you can easily add them to the invoice. When an invoice is created for a customer who has sub-customers configured to Bill as customer, the drawer on an invoice for the parent will not show any charges for these sub-customers. When an invoice is created for a sub-customer, the drawer will only show charges associated to the sub-customer, not the parent customer.

If the originating billable expense was recorded to an account, when you add the billable expense charge to an invoice, the invoice transaction will debit AR and credit the account specified on the linked originating expense transaction.

**Example #1** – You enter a credit card expense for $400 using an expense account called Travel and make it billable to one of your customers. QuickBooks Online debits the Travel expense account for $400 and credits your credit card liability account for $400. QuickBooks Online creates a billable expense charge for $400. You include that billable expense on the invoice as a charge to that customer. QuickBooks Online debits accounts receivable $400 and credits the Travel expense account $400. The two entries posted to the Travel expense account wash to zero.
If the originating billable expense was recorded using an item, when you add the billable expense charge to an invoice, the invoice transaction will debit AR and credit the product/service item’s assigned sales account. Using double-sided items gives you better control of the accounts affected.

**Example #2** - You enter a credit card expense for $400 using a product item called Reimbursable Travel and make it billable to one of your customers. QuickBooks Online debits the cost account set up for this product, Reimbursable Travel Cost, $400 and credits your credit card liability account for $400. QuickBooks Online creates a billable expense charge for $400. You include that billable expense on the invoice as a charge to that customer. QuickBooks Online debits accounts receivable $400 and credits the sales account set up for this product, Reimbursable Travel Income, $400. Using product/service items allows you to post the billable expense and income to different accounts.

Some practitioners prefer to record all income to income accounts for the sake of transparency, including reimbursements received. Other practitioners prefer to record both income and expense to two expense sub-accounts – Billable: Income and Billable: Expense. Double-sided items allow for both of these workflows. When deciding which procedure is best, consider reporting requirements and local tax regulations, such as business license tax reporting on gross receipts. If reimbursements received are excluded from the tax basis, then you’ll want the ability to calculate gross income in such a way that excludes income related to reimbursement.

Billable expense charges added to an invoice can be changed once pulled onto the invoice and will still remain linked to the billable expense charge. QuickBooks Online offers additional settings associated with billable expenses to optimize QuickBooks Online for some common accounting processes: markups, track as income and charging sales tax.
Markups

If you want to set QuickBooks Online to add a default markup to billable expenses automatically, select **Account and Settings → Expenses** then check the box **Make expenses and items billable**. Check the box **Markup with a default rate of x%** then specify the default markup rate. This will add a Markup % column to your expense and purchase transaction screens. Many companies include a markup to cover handling and administrative charges. In the Item details section you will also see a new sales amount column.

**NOTE:** If you are not using the markup feature, make sure the default rate is zero or else the markup will continue to calculate on billable expense charges even without the markup column showing.

Navigate to **Account and Settings → Advanced → Chart of Accounts** to specify which account to record this markup income.
When recording a purchase billable to the customer, the marked up charge will be calculated based on your default rate. You can override this at the time you enter the expenditure in the account or item details section by changing the markup rate. In the item details section you can see the marked up amount calculated in the sales amount column. The billable expense charge will be created for the marked up amount.
When an invoice is created for the customer, the billable expense charge will appear in the drawer. Adding it to the invoice will show on screen as two lines – the original charge and the markup. You can modify the markup amount on the invoice.

If you view a print preview, you will notice the customer only sees one line for each marked up product/service.
When the invoice transaction is saved, the amount of the original billable expense will be recorded to the account or item specified in the original expenditure. The overage amount associated to the markup will post to the income account specified in your settings.

### Track as Income

When recording a purchase with a billable charge you are not allowed to post it to an income account. When you post it to an expense account, and when the billable expense charge is added to an invoice, the sale is recorded to the same account – the expense account. What if you want to post the sale to an income account? Using a product or service item is one way to override that setting.

If you want to do this for billable expenses posted to accounts instead of using items, configure Account and Settings to track as income. From Account and Settings select Expenses then check the box **Make expenses and items billable.** Also check the box **Track billable expenses and items as income** and specify whether to a single account or multiple accounts.
If you choose **In a single account** then you must specify the billable expense income account by going to Account and **Settings → Advanced → Chart of Accounts → Billable expense income account**.

When you record a purchase using the Account details, the expense will post to the account specified, but the associated invoice will post to this pre-determined billable expense income account, even without using product/service items.

- **Example #3** - You enter a credit card expense for $400 using an expense account called Travel and make it billable to one of your customers. QuickBooks Online debits the Travel expense account for $400 and credits your credit card liability account for $400. QuickBooks Online creates a billable expense charge for $400. You include that billable expense on the invoice as a charge to that customer. QuickBooks Online debits accounts receivable $400 and credits Billable Expense Income $400, since that is the income account you specified in Account and Settings.
If you choose **In multiple accounts**, then you must specify the income account on each expense account in the Chart of Accounts.

Go to the Chart of Accounts and edit each account that would generate a billable expense. This feature is only available on cost of goods sold and expense types of accounts. Now when you post a billable expense to one of these expense accounts, the associated billable charge sale will be posted to the income account you specified for that expense account.
**WARNING:** Normally you can record a billable expense to account types other than cost of goods sold and expense accounts, such as another current asset account called Wash: Billable Expenses. But if you have Multiple Accounts turned on you will get an error message when you try to save the expense. This *is because you can’t assign a billable income account to any account types other than cost of goods sold and expense.* If you try and post to another account type you will get an error when you try to save the account: An account you chose for a billable expense doesn’t have an income account associated with it.

- **Example #4** - You enter a credit card expense for $400 using an expense account called Travel and make it billable to one of your customers. QuickBooks Online debits the Travel expense account for $400 and credits your credit card liability account for $400. QuickBooks Online creates a billable expense charge for $400. You include that billable expense on the invoice as a charge to that customer. QuickBooks Online debits accounts receivable $400 and credits Reimbursable Travel Income $400, since that is the income account you associated to the Travel expense account.

**Charge Sales Tax**

If you charge and collect sales tax, you may want to set the default to charge sales tax for billable expenses. From Account and Settings select *Expenses* then check the box *Make expenses and items billable* and check the box *Charge sales tax.*
It determines whether to add sales tax to the billable expense you include on the invoice to your customer. It doesn't mean your vendor charged you sales tax for the expense. If you do not have this setting turned on, you still have the option to check the sales tax box when you specify an expense as billable. This company setting only controls the default.

**Example #5** - Suppose you purchase a window shade from a vendor for $100. You plan to install the window shade in a customer's home. Your state charges 7.75% sales tax and you don't charge a markup. If the vendor accepts your reseller number, you won't pay sales tax to the vendor. You'll need to report this expense as taxable income when you charge sales tax to your customer. Therefore, on the vendor bill you should enter the amount as $100 and select the Sales Tax checkbox. If you do pay sales tax to the vendor at the time of purchase, you should enter the amount as $108 and don't select the Sales Tax checkbox. In both cases, the customer will be billed $108 when you include this billable expense on an invoice. If you charge a markup and select the Sales Tax checkbox, your customer will be charged sales tax on the total amount, including markup.
Module 2: Maximize QuickBooks Online
**Billable Time**

Many businesses invoice customers for services based on time. QuickBooks Online Plus includes unlimited time tracking users for staff or contractors to enter details about the work they perform. At a minimum, staff can enter date, hours and description of work. Configure appropriate settings on the Advanced tab of Account and Settings for Time tracking to add more options:

- **Add Service field to timesheets** shows a drop-down field on the timesheet with your product/service items. Inventory items and bundles do not show on the drop down list; service and non-inventory items do show up on the drop down list

- **Add Customer field to timesheets** associates the work to the customer; the Single and Weekly Timesheets show a billable checkbox and billing rate to mark it as billable

- **Show billing rate to users entering time** to show or hide the customer’s billing rate from timesheet-only users on the timesheet.

  Also, you can choose the first day of the work week which is really asking you what’s the first day of the week you want to see on the weekly timesheet.

Also, you can choose the first day of the work week, which is asking what is the first day of the week you want to see on the weekly timesheet.

![Time tracking settings](image)
Time activities are non-posting transactions. You can enter time by accessing either the Single Activity or Weekly Timesheet from Quick Create. Unless you are a time tracking only user, you will see the fields listed below. Here are some comments:

- You can enter time for an employee or a vendor
- You have the option to enter the billable rate and taxable status either on the time activity or on the invoice itself
- Although you can enter start and end time, QuickBooks converts it to number of hours and minutes
- You can enter time using a decimal and QuickBooks will convert the time to hours and minutes
- You can enter more than 24 hours in a day. You may want to do this if you are entering total number of hours for a week or for a month. This allows you to make a time entry for each customer and/or service item on one time sheet for the affected time period.
- If you are using QuickBooks Online Payroll, the sum of hours for each employee in a particular pay period flows to the paycheck making it easy to pay hourly staff (if that preference is set – see the Payroll section later).
When you save a time activity that is marked as billable to a customer, QuickBooks Online creates a time charge. Time charges are non-posting transactions linked to the originating time activity. Changes to the originating time activity update the time charge. If the originating time activity transaction is un-checked as billable to a customer, the time charge is deleted.

The invoicing process for time charges to customers is similar to billable expense charges. When an invoice is created for a customer who has open billable time charges, the drawer will automatically show on the invoice suggesting you add the time (and any other billable charges) to the invoice. If the service item was not specified on the time activity, then QuickBooks Online will use its default Hours service item. The income will be recorded based on the sales account configured on those service items. If you change the service item, it will overwrite the description, quantity, rate and tax, but remain linked to the time tracking entry.
**Time Tracking Reports**

Tracking time helps business owners understand their resources for both retrospective study and future planning purposes. QuickBooks Online includes the following time tracking reports:

- Recent/Edited Time Activities
- Time Activities by Customer Detail
- Time Activities by Employee Detail
- Unbilled Time

**Delayed Charges**

When a business needs to record a charge (or credit) to a customer that is not prompted by a purchase or a time entry, you can enter a delayed charge or delayed credit from the Quick Create menu. Delayed charges are non-posting transactions. It allows the business to record the delayed charge when the charge is incurred but only invoice on a periodic basis.

For example, your client might run a lawn mowing and landscape service. The business does not want to invoice every time a lawn is cut. They only want to invoice once a month. On the other hand, they don’t want to forget to charge their customers for each time they cut the lawn. Additionally, they charge a flat fee for lawn cutting, no matter how much time it takes to cut the lawn. A delayed charge can be entered every time the lawn is cut and the invoice can be created once a month.

You can also set up delayed charges as recurring charges. For example, your client runs a daycare center and charges a flat fee every week. He sets up the weekly charge as a recurring charge and creates an invoice once a month.
The invoicing process for delayed charges to customers is similar to billable expense charges and time charges. When an invoice is created for a customer who has open delayed charges, the drawer will automatically open on the invoice suggesting you add the charge(s) to the invoice.

**View Unbilled Charges**

There are several ways to view unbilled charges, whether they are billable expenses, time charges or delayed charges. Navigate to the Customer dashboard and click the **Unbilled Activity** segment of the money bar. This will show all customers with unbilled charges waiting to be invoiced.

If you navigate to the Sales Center, you can filter the money bar for unbilled activity and see a different view in the grid.
You can also run the Unbilled Charges report in the Review Sales category.
And when you prepare an invoice for a customer who has billable expense charges, time charges or delayed charges, you will find them in the drawer waiting to add to the invoice. Note that you can filter by the different types of billable charges.

**MANAGE SALES TAX**

When you first create a QuickBooks Online company, you were asked if the company collects sales tax. If you did not select this option, you can enable sales tax by going to the Sales Tax Center and clicking **Edit Sales Tax Settings**.

You can also set the default tax rate and indicate if new customers and/or new products and services should be made taxable by default.
Once enabled, manage your sales tax setting and set up your sales tax rates in the Sales Tax Center. The Sales Tax Center in QuickBooks Online helps businesses track sales tax collected from customers that must be remitted to the state agencies. QuickBooks Online allows for single and multiple sales tax items paid to the same agency.

Here are a few special considerations about the Sales Tax in QuickBooks Online:

- Sales tax payments are different transaction types than other expenditure types and can only be deleted from the Sales Tax Center.
- Sales tax agencies are different from vendors and can only be managed here (if a sales tax vendor is set up on the Vendor list, it will be re-set up as a Sales Tax Agency.)
- You can rename the agency by clicking Rename under the agency name.
- You can rename the sales tax rate name that shows on the invoice by clicking Add/edit tax rates and agencies, clicking on the tax rate name then clicking Edit. Change the name in the Tax name box.
- You can change the sales tax rate by clicking Add/edit tax rates and agencies; clicking on the sales tax name then clicking on Edit. Change the rate in the Rate box.
- Gross sales displayed in the Sales Tax Center are the full amount of sales for the tax period and include both taxable and nontaxable sales – all agencies report the same amount of gross sales but will report only their share of taxable sales, tax amount, adjustments, payments and balance.

After turning on sales tax set up the appropriate sales tax items:

1. Click Add/edit tax rates and agencies from within the Sales Tax Center then click New.
2. Select Single tax rate if you are setting up one tax rate to be paid to one taxing agency.
3. Select Combined tax rate if, the taxing agency requires you to report parts of the tax separately or, if parts of the tax are paid to separate reporting agencies. Add the individual components on the Combined Tax Rate screen.
Each sales tax vendor has its own liability account in the Chart of Accounts with a detail type of Sales Tax Payable. Even if there are multiple rates, if they’re paid to the same sales tax vendor, it’s still one account on the Chart of Accounts.

After you have set up your Sales Tax items, you will need to assign them to your Customers and Products and Services.
When you add or edit a customer, there is a Tax info tab where you mark the customer as taxable and set the default tax code.

When you add a new product or service, check the taxable box if the item is ever subject to sales tax.
**TIP:** If you need to charge sales tax on billable expenses, you must enable this setting under **Account and Settings → Expenses → Bills and expenses → Make expenses and items billable → Charge Sales Tax.**

![Account and Settings](image)
Step-by-Step: Sales Tax Workflow

Now that you have learned how to set up sales tax, let's go through a sample workflow to see how QuickBooks tracks taxes collected and paid.

1. Create an invoice or sales receipt with sales tax. When the transaction is saved, the liability account for the agency is credited for the amount of the tax assessed or collected. The tax column on the form indicates whether the item is subject to sales tax and the sales tax item determines the rate to apply.

The Transaction Journal shows the credit to the Tax Agency Sales Tax Payable account.
Sales tax for the period is shown in the Sales Tax Center. You can record a sales tax payment and view reports in this screen. It also displays recent sales tax payments.
2. Record a tax payment for each agency. Choose the bank account from which the payment will be made. You can change the dates displayed, if necessary. You have the option to queue the check to be printed later and enter a note about the payment.

![Record Sales Tax Payment](image)

Sometimes you may need to adjust the sales tax. Here are possible scenarios:

- Early payment discount from your state
- Penalty needs to be added
- Use tax needs to be added
- You need to adjust up or down because of rounding; your state might only accept whole dollars.

When recording a sales tax payment, you can click the **Make Adjustment** box. Then put in the adjustment amount, reason and posting account.
3. Create reports as backup for payments.
The Sales Tax Liability Report can be run from the Sales Tax Center. Other reports related to sales tax can be found in the **Report Center → Manage Sales Tax** and include the Taxable Sales Summary and Taxable Sales Detail Reports.

**Step-by-Step: Sales Tax Report Customizations for Checking Sales Tax**

If you want to spot check sales tax activity before paying the sales tax, customize the Taxable Sales Detail report using the following settings to help you review whether sales tax was charged appropriately:

1. From the Report Center, select **All Reports > Manage Sales Tax > Taxable Sales Detail Report**.

2. **Customize** the report.
   a. Select the appropriate reporting period and accounting basis for your situation.
   b. Change columns to add **Tax Amount**.
   c. Set Filter:Distribution Account to All Income Accounts.
   d. (Optional) set **Filter:Product/Service** to **Specified** (to leave out transactions posted without items).
   e. Change **Filter:Product/Service Taxable** to **All** (so you can see all on one report).

3. Review the Tax Amount column for all transactions in each product grouping. Look for transactions that have inappropriate tax activity and make modifications, as needed.

**TIP:** If you want supporting documentation for the amount of taxable sales you report, change the Product/Service Taxable status back to Taxable then run the report and save as a PDF. This is helpful when you find historical transactions often change and disrupt the reporting base. You can do the same for non-taxable status.
Troubleshooting

If changes are made to sales tax liability from a previous period that has already had a sales tax payment recorded, that period in the Sales Tax Center will still show a balance. For example, a customer was charged sales tax erroneously and your client (after the sales tax was paid), just deleted the sales tax from the invoice. Fixing this depends on whether the balance is positive (owe tax) or negative (overpaid tax).

- If the tax liability has increased (owe tax), the balance will show a positive amount. Select the row and click **Record Tax Payment** to make an additional tax payment for the additional amount due (after verifying that the amount is correct).

- If the tax liability has decreased, meaning the sales tax was over collected, the Balance column will show a negative amount for the period. Verify that whatever caused it to go negative was correct.
  
  a. Select the period that shows a negative balance and record a tax payment.
  
  b. You can’t record a negative amount, so you need to enter an adjustment to an expense account, for the same amount, to make the net payment zero.
  
  c. QuickBooks Online will require you use an expense account for a positive adjustment.
  
  d. In the next reporting period that shows a balance due, make an adjustment when paying the tax to reduce the balance due by the amount overpaid in the previous period. QuickBooks Online will require that you use an income account for a negative adjustment.

![Sales Tax Owed Table](image)

The table above shows the sales tax owed by different agencies for different months and years. The **Record Tax Payment** and **View Report** buttons are visible at the bottom of the table.
MULTICURRENCY

The Multicurrency feature was added to QuickBooks Online (Essentials and Plus) in June 2015 and allows users to create transactions and prepare reports in multiple currencies. This helps mitigate risk when dealing in foreign currencies and it quantifies that risk for clients. This can also help with pricing and other financial decisions. QuickBooks also calculates gain or loss on foreign exchange.

Things you need to know:

- Multicurrency is only available in the Essentials and Plus subscription levels
- The feature is not enabled by default and must be turned on
- Exchange rates are updated automatically every four hours (but can be manually changed)
- Home currency is USD by default – if you need your home currency to be different, you have the ability to change it only when you turn it on

Considerations before you implement:

- Once turned on, you can’t turn it off
- If you are using apps with QuickBooks, confirm how they will work with foreign currencies and the extra fields associated with them
- QuickBooks Desktop conversion tool now supports converting QuickBooks Desktop files with Multicurrency enabled
**Enabling Multicurrency**

To turn on Multicurrency in QuickBooks, from the gear icon select **Account and Settings → Advanced → Currency** then check the box for **Multicurrency**. If you do not want USD to be your home currency, choose the correct home currency. You must then check the box stating **I understand I can’t undo Multicurrency** and click **Save**.

![Multicurrency setting in QuickBooks](image)

Again – in the US version of QuickBooks Online, QuickBooks assumes you want to use USD as your home currency. Only when you are first turning on multicurrency can you change the home currency. Once you check **I understand I can’t undo Multicurrency**, the choice to change the home currency will not be there.
Currencies List

Once enabled, a new list appears in QuickBooks Online: The Currencies list. This contains all the world’s currencies, including Bitcoin. To access the Currencies list, from the gear icon select **Lists → Currencies**.

Your home currency is displayed at the top of the Currencies list; the other currencies will be displayed below. Add currencies by clicking the button at the top right.

All currencies selected will automatically have exchange rates populated for all previous dates up to the current date. No maintenance of exchange rates is required. Any transaction’s default exchange rate can be overridden, however, and the overriding rate can replace that date’s populated rate. You can override either on the list itself or at the transaction level. This allows for forced exchange rates, such as those mandated by bank transfers or foreign credit card charges. QuickBooks Online allows for exchange rates, accurate up to seven digits.
Effect on the Chart of Accounts and Other Lists

Any general ledger accounts, as well as customers and vendors who were already in QuickBooks Online prior to turning on Multicurrency, are all automatically assigned the home currency. Any new balance sheet accounts (other than equity accounts), customers and vendors can now be assigned a currency. Unlike QuickBooks Desktop, you can assign foreign currencies to all balance sheet accounts except equity type accounts. There is no need to add accounts receivable or accounts payable accounts for each currency, these accounts will be automatically added once a transaction is recorded in that currency.
Choose the correct currency in the field **This customer pays me with.**

What happens if you have an existing account, customer or vendor created prior to enabling Multicurrency that should be assigned a foreign currency? You need to create a new customer (with a little different name) and assign it to the new currency. If there is a balance in the USD customer that should be assigned to the new foreign customer, you need to zero out the USD balance and reset up the transaction(s) in the foreign currency.

Also:

- Sub-names must have the same currency as the parent
- If you deal with an entity in multiple currencies, create a new name (customer or vendor) for each currency and append the name to reflect the currency (e.g., Customer A - CAD)

**IMPORTANT:** When you create a list name, it will default to the home currency and once a currency is assigned and saved, it can’t be changed.
Accounts Added by QuickBooks Online

The following accounts are automatically added to QuickBooks when Multicurrency is enabled:

- **Exchange Gain or Loss**

- **Accounts receivable and accounts payable for each currency you have enabled** (this does not happen until you create a transaction in the new foreign currency)

Effect on User Interface

All three lists (Chart of Accounts, Customer and Vendor) will now include a Currency column and the balances displayed in the lists will be in their designated currency as opposed to the home currency.

The money bars at the top of the Customer and Vendor Centers display total amounts for each colored bar category in the home currency, based on the home currency value of each transaction making up the balance. The balances for each name in the Customer and Vendor Centers, as well as individual transaction balances in these centers, are denominated in the native foreign currency.
Another great feature of Multicurrency accounting in QuickBooks is that it not only tracks the home currency value of each transaction, but also displays the foreign account registers denominated in the foreign currency attached to that account. This is very useful for bank and credit card accounts because it allows you to reconcile these accounts in their native currency (comparing the numbers in the Reconciliation window to those on paper statements or online banking reports) without worrying about what they’re worth in the home currency. And it’s useful for A/R and A/P because it enables you to discuss balances owed for foreign customers and vendors in their native currency, basically comparing apples with apples.

![A/R Register](image)

There is one other user cosmetic difference in QuickBooks Online once Multicurrency is enabled: all forms with templates (invoices, purchase orders, etc.) that are sent to a Customer or Vendor now include the currency symbol in the total, even if the transaction is denominated in the home currency. There is no way to turn this off.
The Accounting Behind Multicurrency Transactions

When a transaction is recorded in a foreign currency, QuickBooks records the debits and credits in both the foreign currency values and the home currency values. It also records the name of the currency and the exchange rate for that transaction. The exchange rate comes from the Currency list, which is populated automatically by real-time exchange rates that are looked up every four hours.

The exchange rate on any transaction can be overridden by the user, if required. QuickBooks will ask whether this override exchange rate is to be the new rate in force for that date, or if it is to be in force only for that transaction. The current day’s exchange rate can be overridden in the Currency list too.

**NOTE:** In some cases (obscure currencies), the exchange rate will not be available automatically and you will be prompted to enter it on the face of the transaction screen.
You can modify a Transaction Journal report (found on the bottom of a transaction or in Accountant Reports Group) to show both entries behind the scenes of the transaction by adding the Currency, Exchange Rate and Foreign Debit and Credit columns.

Multi-step Transactions

When a payment is recorded for a foreign currency transaction (customer payment or bill payment), the difference between the exchange rate at time of sale or purchase and the exchange rate at time of payment is recorded as a debit or credit to the Exchange Gain or Loss account that was automatically created when you enabled Multicurrency. If you utilize Undeposited Funds for a customer payment, you may see an additional adjustment to the Exchange Gain or Loss account when you record the deposit to move the funds to the bank account.
Step-by-Step: Multicurrency Transaction Workflow

Let’s take a look at how the Multicurrency feature works in QuickBooks when making transactions. We’ll walk through an accrual method sales cycle: create an invoice, receive a payment and make a deposit to our bank.

1. Create an invoice for a Canadian customer for $1,000 CAD.

Notice on the invoice below that the exchange rate is displayed in the top left underneath the customer name (in our example, the exchange rate is .74540). The exchange rate can be overridden right on the invoice, if necessary, and the amount of the invoice in both the home currency and the foreign currency are displayed at the bottom of the Invoice screen. The foreign customer will see only the foreign currency amount listed on the printed or PDF version of the invoice.
Behind the scenes, QuickBooks records the transactions in both the home and foreign currency and captures the currency and exchange rate for each transaction. You can modify a Transaction Journal report (found in Accountant Reports Group) to show both entries behind the scenes of the transaction by adding the Currency, Exchange Rate and Foreign Debit and Credit columns.

2. Receive a payment from the customer at a later date and change the exchange rate so you can see what QuickBooks does behind the scenes. In our example the exchange rate is .95877. Because exchange rates change all the time, QuickBooks must account for the difference between the home currency value at the time of sale and the home currency value on the date of the payment. Post the payment to Undeposited Funds.

Notice the USD amount changed from $745.41 on the invoice to $958.77 on the Receive Payment screen.

The Transaction Journal shows how QuickBooks accounts for it.
The difference between the exchange rates on the two dates is posted to the Exchange Gain or Loss account.

3. Make a deposit. If the foreign payment was debited directly to the bank account, the cycle is complete. In this case, you posted to Undeposited Funds, so you need to make a deposit. Change the exchange rate again. If the exchange rate has changed between the time the payment is received and the money is deposited to the bank, an additional adjustment will be made to Exchange Gain or Loss account automatically by QuickBooks when the deposit is recorded.

Here’s the transaction journal.

In this case, because the exchange rate decreased, it created a loss (debit) to the Exchange Gain or Loss account.

**Note:** The same principles discussed in the sales workflow above apply to Accounts Payable expense transactions. However, in that case, using the same amounts (bill is worth $745.41 US and bill payment is worth $958.77 US due to the exchange rate fluctuation), the Exchange Gain or Loss would result in a loss.
Revalue Home Currency Values

The balance sheet always shows balances in USD (assuming that's your home currency). The USD balances are calculated based on the exchange rates at the time of the foreign transactions. Many businesses want to see their USD balances based on the exchange rate as of the date they run the report, i.e., year end. In that case, create a Home Currency adjustment.

Home currency adjustments change the home currency value of your foreign balances, recalculating them based on a new rate. These adjustments affect your balance sheet accounts. We recommend that you work with an accounting professional before entering these adjustments.

Until the home currency value of your foreign balances is recalculated using current exchange rates, your reports show the home currency value based on the exchange rates used at the time of each transaction.

Revaluing the home currency enables you to change the home currency value of foreign balances without changing the number of foreign currency units (yen, euro, peso, etc.), which would otherwise mess up the bank reconciliations of these foreign accounts.

Step-by-Step: Home Currency Adjustments

1. Access the Revalue Currency screen, from the gear icon select Lists → Currencies.
2. Click the **drop-down** arrow under the Action column next to the currency you want to revalue.

![Currency List](image)

3. Enter the date of the revaluation and choose either the exchange rate provided by QuickBooks or enter your own rate by clicking **Your rate** and entering a value.

![Revalue EUR against USD](image)

Check the customers or vendors you want to revalue and click **Revalue**. The revalued amount shows in its own column when you check the names.

4. The exchange gain/loss is unrealized until you **save** the transaction. If you don’t want to record the adjustment but wish to accrue unrealized gains or losses, use the numbers provided to record a journal entry for the current period and reverse it on the first day of the next accounting period. To record a realized gain or loss, click **Save** and the adjustment will be reflected in the financial reports.

**NOTE:** Home currency adjustments do not affect foreign balance amounts.
The Exchange Gains or Losses account should contain only two types of transactions:

- Automatic calculations by QuickBooks of gains or losses based on opening (invoicing or billing) and closing receivables and payables transactions (receiving payments / depositing and paying bills)

- Revaluation adjustment transactions, which are initiated by the QuickBooks user who wishes to revalue foreign balances

Revaluation adjustments appear as journal entries, but do not try to use a regular Journal Entry window to revalue foreign balances. You must use the Revaluation Adjustment screen; otherwise you will alter the foreign balance as well as the home currency balance of any account you're adjusting.

**NOTE:** If there are any transactions in the Exchange Gains or Losses account that are not related to receiving foreign customer payments on invoices, depositing foreign customer payments from Undeposited funds and paying foreign bills or revaluation adjustments means that someone has made entries affecting this account. These transactions should be investigated and corrected.

**NOTE:** There may be changes made to how the home currency adjustments will work. Keep an eye on the QuickBooks Online Blog.
Multicurrency Troubleshooting

Due to the nature of accounting in Multicurrency, it is possible you may see unexpected balances on the balance sheet.

For example, you might have a bank balance of 1,000 euro showing in a euro bank register, but on the balance sheet, you see -$212.50 USD as the home currency value. Or, even more glaring, a euro bank balance of zero euro. It stands to reason that the balance sheet should show $0 USD as its value. But what if the home currency value isn’t zero? Why is the home currency balance wrong and how do you fix it?

First, let’s see how the home currency balance can be wrong. Let’s take a simple example to illustrate:

**Example:**

<table>
<thead>
<tr>
<th>DATE</th>
<th>TRANSACTION TYPE</th>
<th>EXCHANGE RATE</th>
<th>€ VALUE</th>
<th>US$ VALUE</th>
<th>BALANCE SHEET AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/15/17</td>
<td>Deposit</td>
<td>1.5</td>
<td>€1000.00</td>
<td>$US1500.00</td>
<td>$US1500.00</td>
</tr>
<tr>
<td>12/15/17</td>
<td>Pay Bill to € Vendor</td>
<td>2.0</td>
<td>-€1,000.00</td>
<td>-$US2000.00</td>
<td>-$US 500.00</td>
</tr>
</tbody>
</table>

The client receives 1,000 euro at the beginning of the year from the sale of goods to a European customer and, at the time, due to the exchange rate, it was worth $1,500 USD. Let’s also say that you put it into a euro bank account at a US bank or it is held in a petty cash account. Either way, if there are no other transactions, the client still has the 1,000 euro at the end of the year. Let’s say the euro strengthened during the year so it is now worth $2,000 US. Now they have to send 1,000 euro to a European vendor. They are using all the euros to pay this vendor. The euro balance is zero in the euro bank account, yet the balance sheet would show a home currency value of negative $500 USD. Remember, there was a balance worth $1,500 USD in the home currency at the start of the year, then paying the euro vendor at the end of the year depleted that balance by the equivalent of $2,000 USD. So the zero euro account now has a home currency value of -$500 USD.

This is a very simple example using just two transactions. The balance sheet shows the cumulative balance of the account in the home currency based on the home currency value of each of the transactions, using the exchange rate in force for each transaction. Imagine how strange the home currency balance might become with many transactions over time, coupled with wild exchange rate swings.

Use the home currency adjustment to fix this problem.
Unrealized Exchange Gains & Losses

Some businesses want to record unrealized exchange gains and losses rather than creating a home currency adjustment. This can be done with a journal entry and typically a reversing entry at the beginning of the next period. Unrealized gains and losses are the differences between the exchange rate on the books and the exchange rate today.

To see a report of unrealized gains and losses on foreign exchange for a specific currency, start the revaluation adjustment process shown above and review the Exchange Gain/Loss column but do not click Save.

Another way to see unrealized gains and losses on foreign exchange is to run a report, which shows potential gains and losses for all currencies in use.

Step-by-Step: Run an Unrealized Exchange Gains & Losses Report

1. Select Reports → All Reports → Business Overview → Unrealized Exchange Gains & Losses.
2. Choose the valuation date and accept or override any of the default exchange rates for that date. Click Continue. Any unrealized (i.e., potential) exchange gains and losses will appear on this report, account by account, name by name, showing these columns and totals:

<table>
<thead>
<tr>
<th>ACCOUNT</th>
<th>CURRENCY</th>
<th>FOREIGN BALANCE</th>
<th>EXCHANGE RATE</th>
<th>ADJUSTED BALANCE</th>
<th>CURRENT BALANCE</th>
<th>GAIN/LOSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable (A/R) - C</td>
<td>CAD</td>
<td>0.00</td>
<td>0.745406</td>
<td>0.00</td>
<td>-74.73</td>
<td>74.73</td>
</tr>
<tr>
<td>Accounts Receivable (A/R) - E</td>
<td>EUR</td>
<td>563.04</td>
<td>1.066758</td>
<td>600.63</td>
<td>600.63</td>
<td>0.00</td>
</tr>
<tr>
<td>Prepaid Expenses - Euro</td>
<td>EUR</td>
<td>0.00</td>
<td>1.066758</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Accounts Payable (A/P) - EUR</td>
<td>EUR</td>
<td>112.49</td>
<td>1.066758</td>
<td>120.00</td>
<td>120.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>EUR</td>
<td>0.00</td>
<td>1.066758</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Unrealized Gains &amp; Losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$74.73</td>
</tr>
</tbody>
</table>

The information in this report can be used to accrue unrealized exchange gains or losses then reverse the accrual as required.

**NOTE:** If a home currency adjustment was recently entered for all the currencies involved, this report will be empty. That is because these gains or losses are now realized.

**Realized Exchange Gains & Losses**

Another useful report is Realized Exchange Gains & Losses, accessed by selecting Reports $\rightarrow$ All Reports $\rightarrow$ Business Overview $\rightarrow$ Realized Exchange Gains & Losses.
**PAYROLL**

**NOTE:** You will not be able to complete the exercises in the payroll section of this guide in the sample company, Craig’s Design and Landscaping Service. The processes outlined in this section are for reference only.


<table>
<thead>
<tr>
<th>Feature</th>
<th>QUICKBOOKS ONLINE PAYROLL</th>
<th>QUICKBOOKS ONLINE FULL SERVICE PAYROLL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessed inside QuickBooks Online</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Separate user ID’s for accountant and client to collaborate on the same payroll account</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Free expert support</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Easy paychecks, just enter hours</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Pay by check or direct deposit</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Federal and state payroll tax forms automatically calculated</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Intuit files and pays taxes on behalf of client</td>
<td></td>
<td>YES</td>
</tr>
<tr>
<td>Intuit transfers data from previous provider, if needed</td>
<td></td>
<td>YES</td>
</tr>
<tr>
<td>Intuit mails W-2’s to employees at year end</td>
<td></td>
<td>YES</td>
</tr>
</tbody>
</table>
QuickBooks Full Service Payroll is a complete payroll service. It’s the do-it-for-me option.

- Intuit calculates paychecks, makes all payroll deposits and files returns on the client’s behalf
- The annual W-2s are mailed directly to the employees by Intuit on behalf of the client
- Intuit handles any tax notices and assumes responsibility for accuracy and timely deposits
- It includes free direct deposit for employees but the client can choose to print the paychecks from within QuickBooks Online
- Intuit will transfer data from a previous payroll provider if needed at no cost to the client

QuickBooks Online Payroll is the do-it-yourself option

- Intuit calculates paychecks but the client (or accountant) is responsible for making all required tax deposits
- The client (or accountant) must review and submit payroll tax returns that are prepared in QuickBooks Online Payroll and is responsible for filing the returns in a timely manner
- Intuit does not handle any tax notices and does not assume responsibility
- Intuit sends a reminder email when payroll, payroll tax deposits and payroll tax forms are coming due
- Employees can be paid via free direct deposit or by printing checks

NOTE: Intuit also offers Intuit Online Payroll for Accounting Professionals and Intuit Full Service Payroll for Accounting Professionals. These allow you to process payroll outside of QuickBooks Online then export it to QuickBooks Online later. Both of these options let you access all your payroll clients in one dashboard.
Payroll Setup

Step-by-Step: Sign up for QuickBooks Payroll

1. Click the Employees tab within QuickBooks then select Choose your plan at the top right of the screen. (Your experience might be a little different, but you will sign up for payroll from the Employees tab.)

2. Select the features that matter to you and QuickBooks will help you choose a plan
3. If you sign up for QuickBooks Online Payroll, QuickBooks will walk you through a wizard to get everything set up. You may see screens such as the ones below.

This wizard will help you get your employees and appropriate earnings items, deductions, taxes and company contributions set up. Additionally the wizard will show you where to set up tax items, E-pay and E-file services for direct deposit, electronic payroll tax remittance information and form filing. You will also set up pay schedules and assign them to employees.
There is a checklist to help you gather the necessary information to complete the setup http://payroll.intuit.com/support/newuser/start.jsp.

Gather the following information to complete the setup:

- **Company information** - Legal name and bank routing and account numbers

- **Compensation and benefit types** - Salary, hourly, retirement, other deductions

- **Employee information** - Completed W-4s, pay rates, deductions, benefit info

- **Direct deposit information** - Employees’ bank accounts and routing numbers

- **Tax information** - Company FEIN and state agency ID numbers, rate information, required filing frequency and any other tax information for your state

**Step-by-Step: Adding Employees**

Although you add your current employees when going through the payroll setup wizard, you need to know how to add new employees.

1. From the **Employee Center**, click **Add Employee**.

![Employee Center with Add Employee button highlighted](image)
2. **There are three tabs to enter information.** On the first tab, enter the employee’s name and the pay information as shown below:

<table>
<thead>
<tr>
<th>Colleen Ransom</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First name</strong>*</td>
</tr>
<tr>
<td>Colleen</td>
</tr>
</tbody>
</table>

1. **What are Colleen's withholdings?**
   - Enter W-4 form

2. **How often do you pay Colleen?**
   - Biweekly |
   - starting 04/08/2017

3. **How much do you pay Colleen?**
   - Hourly |
   - $ / hour
   - Add additional pay types

4. **Does Colleen have any deductions? (Examples: retirement, health care)**
   - No (most common)

5. **How do you want to pay Colleen?**
   - Paper check
a. Enter W-4 information. If your state requires additional info, you will need to enter it here as well. Click Done.
b. Enter a pay schedule. This is where you determine the pay week ending date and check date. You can set the new payroll schedule as a default here too. Click **Done**.

![Image of pay schedule entry](image)

c. Enter the pay rate. This can be hourly, salary or commission only. If there is only one pay rate, it can be filled in on the general screen. However, click **Add additional pay types** to add more than one pay type.

![Image of pay rate entry](image)
d. Enter any deductions such as retirement or medical insurance. More deduction types can be added in the Payroll Settings which will be covered next.

What deductions or contributions does Colleen have?

Deduction/contribution or garnishment

- Deduction/contribution

Deduction/contribution type

- HSA plans

Type

- (choose one)

---

e. Determine payment method. You can choose from paper check or direct deposit.

5 How do you want to pay Colleen?

- Paper check
- Direct deposit
- Direct deposit to two accounts
- Direct deposit with balance as a check
- Paper check
3. Click the **Profile** tab to fill in additional information about the employee.

![Profile tab](image)

<table>
<thead>
<tr>
<th>Pay</th>
<th>Profile</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home address*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City or town*</td>
<td>State</td>
<td>ZIP code*</td>
</tr>
<tr>
<td>Email</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home</td>
<td>ext.</td>
<td></td>
</tr>
<tr>
<td>Work</td>
<td>ext.</td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>ext.</td>
<td></td>
</tr>
<tr>
<td>Gender*</td>
<td>Birth date</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Click the **Employment** tab to fill in information such as hire date and birth date. These are required fields. You can also change the status of the employee from Active to Paid leave of absence, Unpaid leave of absence, Not on payroll, Terminated or deceased.
Payroll Settings

Once payroll is turned on, there is a new choice when you click on the gear icon: Payroll Settings. You may need to access these settings to make changes.

It is broken out into several sections. Many of these settings will be set up through the wizard when starting payroll. That being said, you may have to make changes.
Payroll

- Add new pay schedules
- Set up vacation, sick and paid time off
- Add additional deductions and company contributions. (You cannot add deductions and company contributions in the Add Employee window; it must be completed here in Payroll Settings.)

Preferences

<table>
<thead>
<tr>
<th>Setup:</th>
<th>E-file and e-pay</th>
<th>Pay Policies</th>
<th>Tax Setup</th>
<th>Deductions</th>
<th>Preferences</th>
</tr>
</thead>
</table>

Create Deductions/Company Contributions

<table>
<thead>
<tr>
<th>Deductions/Company Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To set up a new deduction or company contribution, click the Add a New Deduction/Contribution link. When you're done, you can add another deduction/company contribution or assign the new deduction/company contribution to employees.</td>
</tr>
<tr>
<td>Add a New Deduction/Contribution</td>
</tr>
</tbody>
</table>

Employee Garnishments

<table>
<thead>
<tr>
<th>Garnishments, such as child support and tax levies, apply to specific employees. To set up a garnishment, select the employee here.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add Garnishment for: (choose one) ▼</td>
</tr>
</tbody>
</table>

Bank Accounts

- Change the company bank account related to payroll
- Change employees bank account related to direct deposit

Taxes

Most of the tax information will not change from initial set up. But here is where you can update the state unemployment rates when they change.
Business information

- Change contact information
- Add or edit work locations, (they can be assigned to an employee on the Employment tab in the Employee setup)

Preferences

- **Accounting** - QuickBooks assigns default accounts to the payroll items. This preference allows you to review and/or change mappings, (see Step-by-Step below).
- **Paycheck printing** - Allows you to choose whether to print paychecks on QuickBooks compatible checks or just paystubs, (the paystub choice assumes you will be handwriting the checks)
- **Forms printing** - Asks about printing W-2s on plain paper versus pre-printed forms
- **Emails** - Choose which reminder emails you want to receive
- **Reports** - Choose which reports should be added to the Manage Payroll category of reports

Overview

- When you click on **Employees**, it takes you directly to the Employee center
- **Time sheets** - if time tracking is being done in QuickBooks, there is a choice here to use that time to create paychecks.
Step-by-Step: Change Account Mappings

As mentioned earlier, QuickBooks assigns default accounts to the payroll items. Many accountants prefer to have the wages for different types of employees coded to separate expense accounts. You can choose to assign a different account for groups of employees or for different wages.

1. Access the Payroll Settings from the gear icon.

2. Click on Accounting under Preferences.

3. Choose how you want to categorize wage expenses:
   - Choose to have all employees’ wages to in the same account
   - By different groups of employees – QuickBooks will prompt you to assign an expense account to each employee
   - By type of wages – QuickBooks will create expense accounts for each type of wage but you can always choose another account from the drop-down

4. Choose how to categorize employer tax expenses:
   - Map a different account to each type of tax by different groups of employees
   - Map a different account to different groups of taxes

5. Map liability accounts.
If you change the mappings, when you finish, QuickBooks will ask you for the effective date of the changes.

Want to update existing transactions, too?
You just set preferences for future transactions. We can also make the same changes to past transactions (we'll change all accounts except the one in the Bank Account section).

Important: If you use the Closing the Books feature, set your Starting Date to a more recent date than your Closing date.
Running Payroll

Based on the payroll settings, you will get email reminders regarding payroll. If you are an accountant user, you will also see alerts in QuickBooks Online Accountant related to running payroll, paying taxes or filing forms.

Step-by-Step: Run a Payroll

1. Click the Employees tab in the left navigation pane.
2. Click the Run Payroll button. You may be asked to choose a payroll schedule. Only employees assigned to the chosen payroll schedule will show up. If your client has a lot of employees, you can use the gear icon to switch to compact view to increase the number of employees visible.
3. Verify the dates and bank account.
4. Enter the employee hours and other earnings items such as commission or bonus, then select Preview payroll.
5. If the payroll looks correct, click Submit payroll.

TIP: If you need to edit a check, click the pencil icon at the far right to reopen the paycheck screen. You can print your paychecks or paystubs on the next screen. When you’re done, click Finish Payroll.

NOTE: If you are using timesheets in a QuickBooks Online Plus subscription, the timesheet data entered will populate the hours displayed in the Preview payroll screen provided you selected that option in Payroll Settings.

Next you will have the option to print paychecks and paystubs. Or you can have employees set up to automatically receive email notification to view their paystubs securely at paychecks.intuit.com. Direct deposit paychecks must be submitted at least two business days prior to the paycheck date.

NOTE: The payroll mobile app allows clients to run payroll on their phone or tablet. Download the Intuit Online Payroll mobile app from the Apple or Android app store.
Taxes and Forms

The client (or accountant) is responsible for making all required tax deposits when using QuickBooks Online Payroll. The client (or accountant) must review and submit payroll tax returns that are prepared in payroll and is responsible for filing the returns on time.

Both payroll taxes and payroll forms are accessed from the Payroll Tax tab of the Taxes Center, accessed from the left hand navigation bar.
If you need to delete a tax payment, you must do the following:

1. Click the **Payroll Tax** tab in the Taxes Center.
2. Click **View tax payments you have made**.
3. Select the payment you want to delete.
4. Click **Delete**.

**NOTE:** You may have to look at the drop down on the View and Print Form button to find Delete.
Payroll Reports

For businesses using QuickBooks Online Payroll or QuickBooks Full Service Payroll, payroll reports can be found in the Report Center in the Manage Payroll category. Here are three common payroll reports.

- **Payroll Summary report** - Displays information about a single payroll or date range. To change the dates click **Date Range**. You can choose from many options such as last month, this week or by tax filing quarter. You can also filter by employees or work location. To share, print or export your report to Microsoft Excel®, click the **Share** button.
- **Payroll Details report** – Shows a breakdown of both the employee and employer share of taxes as well as any deductions from the employee's gross wages. You can change the date range and filter by employees and work locations here too.

![Payroll Details Report](image-url)
- **Payroll Tax Liability report** - Shows the amount of taxes withheld, paid and owed to each taxing authority. You can filter this report by Date Range and Work Location. Note that this is a static report. You cannot QuickZoom back to the actual tax payment shown in the Tax Paid column.

![Tax Liability Report](Image)

Familiarize yourself with the other payroll reports available.

- Payroll Tax Payments
- Payroll Tax and Wage Summary
- Total Payroll Cost
- Paycheck Lists
- Total Pay
- And more.....
**Use QuickBooks Online to Prepare Forms 1099**

The QuickBooks Online Plus subscription level is the only subscription level of QuickBooks Online that allows you to create and print or efile (for an additional fee) forms 1099-Misc from within the program. First we’ll discuss the steps needed to set up a QuickBooks Online Plus subscription level company to create 1099s. Then we will discuss strategies to compile information in-the Essentials subscription level, using the vendor notes field and customized reports, so you can prepare the forms manually or use another software or service. The features to compile data needed to complete 1099s are not currently available in Simple Start. However, one option would be to export your QuickBooks Online Simple Start data to QuickBooks Desktop and prepare 1099s or generate the reports you need from there.

**Important!** Make sure you review the IRS rules about who should receive forms 1099-MISC; you can find up-to-date rules and filing information at [https://www.irs.gov/uac/About-Form-1099MISC](https://www.irs.gov/uac/About-Form-1099MISC).

**Step-by-Step: Prepare Forms 1099s with QuickBooks Online Plus**

1. To access the 1099 Wizard in QuickBooks, open the Vendor Center and click **Prepare 1099s**. Click **Let’s get started**.

![Vendor Center screen with Prepare 1099s option highlighted](image)
2. Review your company details. If you need to change any information, click on the pencil icon to the right to open the Edit screen. Click Next.

![Image of company details](image)

**TIP:** The legal name that appears on the entity’s tax form is in line 1 of the legal address field. This may be an individual’s name if they file a Schedule C.

3. Assign your vendor payments to 1099 categories.

![Image of vendor payments](image)

**Tip!** The most common 1099 category for small businesses is Box 7: Nonemployee compensation. Not sure which categories to choose?

- **Box 1: Rents**
  - Multiple Accounts ...
  - 54200 Equipment Rental, 63900 Rent
- **Box 2: Royalties**
- **Box 3: Other Income**
- **Box 4: Federal Tax Withheld**
- **Box 5: Fishing Boat Proceeds**
- **Box 6: Medical Payments**
- **Box 7: Nonemployee Compensation**
  - Multiple Accounts ...
  - 60130 Repairs and Maintenance, 54500 Subcontractors, 63600 Professional Fees, 63610 Accounting, 63620 Legal Fees, 64200 Repairs, 64210 Building Repairs, 64220 Computer Repairs, 64230 Equipment Repairs
- **Box 8: Substitute Payments**

Check the box next to each category then select the appropriate expense accounts used in the vendor transactions for that 1099 category (e.g., Box 1: Rents would choose Rent Expense). You can assign multiple accounts to the same box number. Notice when you choose multiple accounts, QuickBooks list the accounts chosen on the right.
4. **Confirm your 1099 vendors.**

![Select 1099 vendors](#)

<table>
<thead>
<tr>
<th>VENDOR NAME</th>
<th>ADDRESS</th>
<th>TAX ID</th>
<th>ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larson Flooring</td>
<td>2780 County Rd</td>
<td>98-7654321</td>
<td>Edit</td>
</tr>
<tr>
<td>Middlefield Drywall</td>
<td>P.O. Box 76</td>
<td>333-33-3334</td>
<td>Edit</td>
</tr>
<tr>
<td>Slawn Roofing</td>
<td>P.O. Box 2431</td>
<td>23-4567891</td>
<td>Edit</td>
</tr>
<tr>
<td>Washuta &amp; Son Painting</td>
<td>P.O. Box 713</td>
<td>98-7654321</td>
<td>Edit</td>
</tr>
<tr>
<td>Wheeler’s Tile Etc.</td>
<td>650 Old Bayshore Rd</td>
<td>99-8677665</td>
<td>Edit</td>
</tr>
<tr>
<td>Mr. Bruce Anderson</td>
<td>P.O. Box 21884</td>
<td>388-09-0909</td>
<td>Edit</td>
</tr>
<tr>
<td>Mr. Bruce Anderson</td>
<td>Bruce’s Office Machines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrick Underdown</td>
<td>P.O. Box 2016</td>
<td>907-45-4321</td>
<td>Edit</td>
</tr>
<tr>
<td>C. U. Electric</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Select vendors eligible for 1099s**

When you select or clear a checkbox, you update the Track payments for 1099 setting in the vendor’s profile.

- VENDOR
  - Mrs. Angela Cheung
  - Bruce’s Office Machines
  - Mr. Bruce Anderson
  - Mr. Butch Brown
  - Carrick Underdown
    - C. U. Electric
  - Chas Keswick
    - Keswick Insulation
  - Mr. Chris Holly
    - Holly Heating and Electric
  - Daniel Appodoca
    - Timberloft Lumber
  - Mrs. Dianne Bradley
    - Dianne’s Auto Shop

[Save button]
Incomplete information will be displayed in red; you can easily click on the vendor line to edit the vendor information.

5. Once your vendor information is complete, click Next.
6. Review 1099 vendors and payments. Every column is a hyperlink that will take you to the underlying information. If you click on the name, it brings up the vendor record. If you click on any dollar amount, it will bring you to a Transaction Detail report which gives you a listing of the transactions that make up that total. Notice also that there may be excluded amounts.

![Image showing a table of 1099 vendors and payments]

7. Click on the excluded amount and review the excluded transactions. These transactions are excluded because they are paid by credit card or debit card. Look at the list following this discussion of the codes for debit card transactions that will trigger a transaction to be excluded from 1099-Misc.

![Image showing excluded payments by vendor]
9. Click **Print Information Sheet** to print a summary of your 1099 (and 1096) info for your records (you can print to PDF if you are paperless). This is the only place you can print a 1099 report. You will not find it in the Reports Center.

![1099 Information Sheet](image)

Once you have prepared your data, you can either use the 1099 E-file service (for an additional fee), or print and mail forms using pre-printed forms you can purchase from Intuit or office supply stores. If you choose to print your forms, you should align your forms in your printer before you attempt to print the actual forms for filing.

![Great! You're done preparing your 1099s. Ready to file?](image)
**NOTE:** When recording expense transactions (or check transactions where you are not physically writing a check), you will need to be careful how you fill in the reference/check number field. Only expenses paid by cash or check should be included on your forms 1099. Payments you made via credit card, debit card or third party system, such as PayPal, should include any one of the following words/abbreviations in the Ref no. / Check no. field to be excluded.

- Debit
- Debitcard
- Dbt
- Dbt card
- Dcard
- Debit cd
- Visa
- Masterc
- Mb
- Mcard
- Chase
- Discover
- Diners
- Paypal

This will make QuickBooks online consider it a debit (or credit card) transaction and exclude it from the 1099-Misc form. If you don’t want the payment to be excluded from 1099s, use “EFT” in the Ref no. / Check no. field and the payment will be included in the 1099-Misc form. Any payments made using a credit card type of account will be excluded.

**NOTE:** This does not constitute tax advice. Consult your tax professional if you have any questions about issuing Forms 1099-Misc.

**Compile Data for 1099 Preparation in Essentials**

As previously mentioned, the 1099 Wizard is included only in QuickBooks Online Plus subscriptions. If your client is using Essentials, you will need to prepare forms 1099 another way. There is at least one app available on Apps.com that can create 1099s from your QuickBooks Online Plus data or Excel spreadsheets.

You can create reports in Essentials that provide you with the information needed for forms 1099, but you will need to complete some steps first in order to create these reports. This method is fine if you only have a few 1099s to prepare. If you have many, it is recommended you upgrade the company to a Plus subscription.

**TIP:** This method will not work for Simple Start companies because the reports necessary are not available in that subscription level.
Vendor Setup

When you create your vendors, make sure you include the information contained on the W-9 you receive from them, including legal name and address as it appears on their tax form. If the vendor must receive a 1099, in the Notes field, enter the text 1099 Vendor. Keep in mind that you will not be able to use the Notes field for any other purpose.

**TIP:** Do not use the Account no. field to store the vendor’s TIN because this field will print on the vendor checks.
Step-by-Step: Create a Customized Vendor Contact Report

1. From the Report Center, run a Vendor Contact List report by selecting All Reports → Review Expenses and Purchases → Vendor Contact List.

2. Click Customize → Rows/Columns.

3. Add Note to the Selected Columns list.


5. Sort by Note from the top of the report

6. Save Customizations.
This gives you a list of your 1099 vendors with your 1099 vendors listed at top. You cannot filter this report by Note.

Step-by-Step: Customize a Transaction Detail by Account Report

1. From the Report Center, run a Transaction Detail by Account Report by clicking All Reports → Accountant Reports → Transaction Detail by Account → Customize.

2. Set the dates for the appropriate reporting period (typically last year).

3. Select Cash Basis as Accounting Method.

4. Rows/Columns - Group by Vendor.

5. Change Columns - select the following columns: Date, transaction type, number, name, memo/description, account, amount.

6. Click the arrow next to Filter.

7. Transaction Type → Select Multiple then choose check and bill payment (don’t include any payments made by credit card).

8. Distribution Account → Select Multiple and choose the accounts that collect transactions that must be reported for 1099 purposes, e.g., Sub-contractors, Professional Fees, Repairs & Maintenance, etc.


10. Save Customizations.

Once you have created these two reports, you can use the information to prepare your forms 1099 with preprinted forms provided by the IRS or a specialized software program.

Tip: Add the report URL to your bookmark bar in Chrome so you can run these customized reports from any QuickBooks Online Essentials company – though their Chart of Accounts might be different so you may have to remap the accounts.
Guide Conclusion

You have just completed Module 2: Maximize QuickBooks Online. This Supplemental Guide, in tandem with its recorded module, has been provided to help prepare you for the QuickBooks Online Advanced Certification Exam. Continue on to the remaining modules and their related guides then proceed to the certification exam.

By completing this module, you should be able to:

- Identify the various categories available in QuickBooks Online
- Recognize the differences between class, location and job tracking and when to apply each
- Identify methods to utilize budgets
- Determine the steps to set up and track quantity on hand for inventory products
- Identify job costing functionality for billable charges
- Determine the steps to utilize advanced features: sales tax, multicurrency, payroll and the preparation and reporting for forms 1099-Misc