

LEARNING MADE EASY



QuickBooks® 2019

ALL-IN-ONE

for
dummies[®]
A Wiley Brand



8
Books
in one!

Stephen L. Nelson

MBA, CPA, MS in Taxation
Author of *QuickBooks 2018*
For Dummies



QuickBooks® 2019

ALL-IN-ONE

by Stephen Nelson, MBA, CPA, MS
in Taxation

for
dummies®
A Wiley Brand

QuickBooks® 2019 All-in-One For Dummies®

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

Copyright © 2019 by John Wiley & Sons, Inc., Hoboken, New Jersey

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, For Dummies, the Dummies Man logo, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and may not be used without written permission. QuickBooks is a registered trademark of Intuit, Inc. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc. is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002. For technical support, please visit <https://hub.wiley.com/community/support/dummies>.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Control Number: 2018962322

ISBN: 978-1-119-52374-1 (pbk); 978-1-119-52371-0 (ebk); 978-1-119-52377-2 (ebk)

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1

Contents at a Glance

Introduction	1
Book 1: An Accounting Primer	5
CHAPTER 1: Principles of Accounting	7
CHAPTER 2: Double-Entry Bookkeeping	27
CHAPTER 3: Special Accounting Problems	47
Book 2: Getting Ready to Use QuickBooks	71
CHAPTER 1: Setting Up QuickBooks	73
CHAPTER 2: Loading the Master File Lists	91
CHAPTER 3: Fine-Tuning QuickBooks	115
Book 3: Bookkeeping Chores	147
CHAPTER 1: Invoicing Customers	149
CHAPTER 2: Paying Vendors	183
CHAPTER 3: Tracking Inventory and Items	203
CHAPTER 4: Managing Cash and Bank Accounts	233
CHAPTER 5: Paying Employees	263
Book 4: Accounting Chores	275
CHAPTER 1: For Accountants Only	277
CHAPTER 2: Preparing Financial Statements and Reports	293
CHAPTER 3: Preparing a Budget	315
CHAPTER 4: Using Activity-Based Costing	327
CHAPTER 5: Setting Up Project and Job Costing Systems	343
Book 5: Financial Management	355
CHAPTER 1: Ratio Analysis	357
CHAPTER 2: Economic Value Added Analysis	375
CHAPTER 3: Capital Budgeting in a Nutshell	389
Book 6: Business Plans	405
CHAPTER 1: Profit-Volume-Cost Analysis	407
CHAPTER 2: Creating a Business Plan Forecast	427
CHAPTER 3: Writing a Business Plan	465

Book 7: Care and Maintenance	479
CHAPTER 1: Administering QuickBooks	481
CHAPTER 2: Protecting Your Data	499
CHAPTER 3: Troubleshooting	517
Book 8: Appendixes	523
APPENDIX A: A Crash Course in Excel	525
APPENDIX B: Government Web Resources for Businesses	541
APPENDIX C: Glossary of Accounting and Financial Terms	559
Index	589

Table of Contents

INTRODUCTION	1
About This Book	1
Foolish Assumptions	2
Icons Used in This Book	3
Beyond the Book	3
Where to Go from Here	3
BOOK 1: AN ACCOUNTING PRIMER	5
CHAPTER 1: Principles of Accounting	7
The Purpose of Accounting	7
The big picture	8
Managers, investors, and entrepreneurs	8
External creditors	9
Government agencies	9
Business form generation	10
Reviewing the Common Financial Statements	10
The income statement	10
Balance sheet	13
Statement of cash flows	17
Other accounting statements	20
Putting it all together	21
The Philosophy of Accounting	23
Revenue principle	23
Expense principle	23
Matching principle	24
Cost principle	24
Objectivity principle	24
Continuity assumption	25
Unit-of-measure assumption	25
Separate-entity assumption	26
A Few Words about Tax Accounting	26
CHAPTER 2: Double-Entry Bookkeeping	27
The Fiddle-Faddle Method of Accounting	28
How Double-Entry Bookkeeping Works	31
The accounting model	31
Talking mechanics	33
Almost a Real-Life Example	37
Recording rent expense	37
Recording wages expense	38
Recording supplies expense	38

Recording sales revenue	38
Recording cost of goods sold.	39
Recording the payoff of accounts payable	40
Recording the payoff of a loan	40
Calculating account balance	40
Using T-account analysis results	43
A Few Words about How QuickBooks Works	44
CHAPTER 3: Special Accounting Problems.	47
Working with Accounts Receivable	48
Recording a sale.	48
Recording a payment	48
Estimating bad-debt expense	49
Removing uncollectible accounts receivable.	50
Recording Accounts Payable Transactions	51
Recording a bill	52
Paying a bill.	52
Taking some other accounts payable pointers.	53
Inventory Accounting	54
Dealing with obsolete inventory	54
Disposing of obsolete inventory	55
Dealing with inventory shrinkage	56
Accounting for Fixed Assets.	58
Purchasing a fixed asset.	58
Dealing with depreciation	58
Disposing of a fixed asset.	59
Recognizing Liabilities.	61
Borrowing money	62
Making a loan payment	62
Accruing liabilities	63
Closing Out Revenue and Expense Accounts	66
The traditional close	66
The QuickBooks close.	68
One More Thing	69
BOOK 2: GETTING READY TO USE QUICKBOOKS.	71
CHAPTER 1: Setting Up QuickBooks	73
Planning Your New QuickBooks System	73
What accounting does	74
What accounting systems do.	74
What QuickBooks does.	74
And now for the bad news.	75

Installing QuickBooks	76
Dealing with the Presetup Jitters.	77
Preparing for setup	78
Seeing what happens during setup	79
Running the QuickBooks Setup Wizard	79
Getting the big welcome.	79
Supplying company information.	81
Customizing QuickBooks	82
Setting your start date	83
Reviewing the suggested chart of accounts	84
Adding your information to the company file.	85
Identifying the Starting Trial Balance	87
A simple example to start	87
A real-life example to finish	89
 CHAPTER 2: Loading the Master File Lists	 91
Setting Up the Chart of Accounts List.	92
Setting Up the Item List	96
Working with the Price Level List	97
Using Sales Tax Codes	97
Setting Up a Payroll Item List.	98
Setting Up Classes.	99
Setting Up a Customer List.	101
Setting Up the Vendor List.	105
Setting Up a Fixed Assets List	109
Setting Up a Price Level List.	110
Setting Up a Billing Rate Level List	110
Setting Up Your Employees	111
Setting Up an Other Names List	111
Setting Up the Profile Lists.	112
 CHAPTER 3: Fine-Tuning QuickBooks	 115
Accessing the Preferences Settings	116
Setting the Accounting Preferences	118
Using account numbers	118
Setting general accounting options	119
Setting the Bills Preferences	121
Setting the Calendar Preferences	121
Setting the Checking Preferences	121
Changing the Desktop View	123
Setting Finance Charge Calculation Rules	125
Setting General Preferences	125
Controlling Integrated Applications	127

Controlling Inventory	128
Controlling How Jobs and Estimates Work	130
Dealing with Multiple Currencies	131
Starting Integrated Payment Processing	131
Controlling How Payroll Works	132
Telling QuickBooks How Reminders Should Work	134
Specifying Reports & Graphs Preferences	135
Setting Sales & Customers Preferences	138
Specifying How Sales Are Taxed	139
Setting the Search Preferences	141
Setting the Send Forms Preferences	141
Fine-Tuning the Service Connection	142
Controlling Spell Checking	143
Controlling How 1099 Tax Reporting Works	144
Setting Time & Expenses Preferences	145
BOOK 3: BOOKKEEPING CHORES.....	147
CHAPTER 1: Invoicing Customers	149
Choosing an Invoice Form	149
Customizing an Invoice Form	150
Choosing a template to customize	150
Reviewing the Additional Customization options	150
Moving on to Basic Customization	154
Working with the Layout Designer tool	157
Working with the web-based Forms Customization tool	160
Invoicing a Customer	160
Billing for Time	166
Using a weekly time sheet	166
Timing single activities	167
Including billable time on an invoice	168
Printing Invoices	170
Emailing Invoices	171
Recording Sales Receipts	172
Recording Credit Memos	174
Receiving Customer Payments	176
Assessing Finance Charges	178
Setting up finance-charge rules	179
Calculating finance charges	180
Using Odds and Ends on the Customers Menu	180
CHAPTER 2: Paying Vendors.....	183
Creating a Purchase Order	183
Creating a real purchase order	184
Using some purchase order tips and tricks	187

Recording the Receipt of Items	187
Simultaneously Recording the Receipt and the Bill	191
Entering a Bill	192
If you haven't previously recorded an item receipt	192
If you have previously recorded an item receipt	194
Paying Bills	196
Reviewing the Other Vendor Menu Commands	199
Vendor Center	199
Sales Tax menu commands	200
Inventory Activities menu commands	201
Print/E-file 1099s	201
Item List	202
CHAPTER 3: Tracking Inventory and Items	203
Looking at Your Item List	204
Using the Item Code column	204
Using the Item List window	205
Using inventory reports	206
Adding Items to the Item List	206
Adding an item: Basic steps	207
Adding a service item	208
Adding an inventory part	209
Adding a noninventory part	211
Adding an other-charge item	212
Adding a subtotal item	213
Adding a group item	214
Adding a discount item	215
Adding a payment item	216
Adding a sales tax item	217
Setting up a sales tax group	217
Adding custom fields to items	218
Editing Items	220
Adjusting Physical Counts and Inventory Values	220
Adjusting Prices and Price Levels	223
Using the Change Item Prices command	223
Using price levels	224
Enabling advanced pricing	226
Managing Inventory in a Manufacturing Firm	227
Handling manufactured inventory the simple way	227
Performing inventory accounting in QuickBooks	228
Managing multiple inventory locations	231

CHAPTER 4:	Managing Cash and Bank Accounts	233
	Writing Checks	233
	Recording and printing a check	234
	Customizing the check form	239
	Making Bank Deposits	241
	Transferring Money between Bank Accounts	244
	Working with the Register	245
	Recording register transactions	245
	Using Register window commands and buttons	248
	Using Edit Menu Commands	251
	Reconciling the Bank Account	255
	Reviewing the Other Banking Commands	260
	Order Checks & Envelopes command	260
	Enter Credit Card Charges command	260
	Bank Feeds command	261
	Loan Manager command	262
	Other Names list	262
CHAPTER 5:	Paying Employees	263
	Setting Up Basic Payroll	264
	Signing up for a payroll service	265
	Setting up employees	265
	Setting up year-to-date amounts	269
	Checking your payroll setup data	269
	Scheduling Payroll Runs	270
	Paying Employees	270
	Editing and Voiding Paychecks	272
	Paying Payroll Liabilities	272
	BOOK 4: ACCOUNTING CHORES	275
CHAPTER 1:	For Accountants Only	277
	Working with QuickBooks Journal Entries	277
	Recording a journal entry	278
	Reversing a journal entry	279
	Editing journal entries	280
	Updating Company Information	280
	Working with Memorized Transactions	280
	Reviewing the Accountant & Taxes Reports	281
	Creating an Accountant's Copy of the QuickBooks Data File	283
	Creating an accountant's copy	284
	Using an accountant's copy	288
	Reusing an accountant's copy	288

	Exporting client changes	288
	Importing accountant's changes	289
	Canceling accountant's changes	290
	Troubleshooting accountant's copy transfers	290
	Using the Client Data Review Commands	291
CHAPTER 2:	Preparing Financial Statements and Reports	293
	Some Wise Words Up Front	294
	Producing a Report	294
	Working with the Report Window	295
	Working with Report window buttons	295
	Using the Report window boxes	301
	Modifying a Report	304
	Using the Display tab	304
	Using the Filters tab	306
	Using the Header/Footer tab	308
	Formatting fonts and numbers	309
	Processing Multiple Reports	310
	A Few Words about Document Retention	311
CHAPTER 3:	Preparing a Budget	315
	Reviewing Common Budgeting Tactics	315
	Top-line budgeting	316
	Zero-based budgeting	316
	Benchmarking	317
	Putting it all together	318
	Taking a Practical Approach to Budgeting	319
	Using the Set Up Budgets Window	319
	Creating a new budget	319
	Working with an existing budget	321
	Managing with a Budget	323
	Some Wrap-Up Comments on Budgeting	325
CHAPTER 4:	Using Activity-Based Costing	327
	Reviewing Traditional Overhead Allocation	328
	Understanding How ABC Works	330
	The ABC product-line income statement	330
	ABC in a small firm	334
	Implementing a Simple ABC System	335
	Seeing How QuickBooks Supports ABC	337
	Turning On Class Tracking	337
	Using Classes for ABC	338
	Setting up your classes	338
	Classifying revenue amounts	339

	Classifying expense amounts	339
	After-the-fact classifications.....	341
	Producing ABC reports	342
CHAPTER 5:	Setting Up Project and Job Costing Systems	343
	Setting Up a QuickBooks Job	343
	Tracking Job or Project Costs.....	346
	Job Cost Reporting.....	349
	Using Job Estimates.....	350
	Progress Billing	352
	BOOK 5: FINANCIAL MANAGEMENT	355
CHAPTER 1:	Ratio Analysis	357
	Some Caveats about Ratio Analysis	358
	Liquidity Ratios.....	359
	Current ratio.....	359
	Acid test ratio.....	360
	Leverage Ratios	361
	Debt ratio	361
	Debt equity ratio	362
	Times interest earned ratio	363
	Fixed-charges coverage ratio.....	364
	Activity Ratios.....	365
	Inventory turnover ratio.....	366
	Days of inventory ratio	367
	Average collection period ratio	367
	Fixed-asset turnover ratio	368
	Total assets turnover ratio.....	369
	Profitability Ratios	369
	Gross margin percentage.....	370
	Operating income/sales	370
	Profit margin percentage	371
	Return on assets	371
	Return on equity	372
CHAPTER 2:	Economic Value Added Analysis	375
	Introducing the Logic of EVA	375
	Seeing EVA in Action	376
	An example of EVA	378
	Another example of EVA.....	379
	Reviewing Some Important Points about EVA.....	379
	Using EVA When Your Business Has Debt.....	381
	The first example of the modified EVA formula	381
	Another EVA with debt example	383

	Presenting Two Final Pointers	385
	And Now, a Word to My Critics	386
CHAPTER 3:	Capital Budgeting in a Nutshell	389
	Introducing the Theory of Capital Budgeting	389
	The big thing is the return	390
	One little thing is maturity	390
	Another little thing is risk	391
	The bottom line	391
	Calculating the Rate of Return on Capital	392
	Calculating the investment amount	393
	Estimating the net cash flows	393
	Calculating the return	398
	Measuring Liquidity	402
	Thinking about Risk	403
	What Does All of This Have to Do with QuickBooks?	404
	BOOK 6: BUSINESS PLANS	405
CHAPTER 1:	Profit-Volume-Cost Analysis	407
	Seeing How Profit-Volume-Cost Analysis Works	408
	Calculating Break-Even Points	410
	Using Real QuickBooks Data for Profit-Volume-Cost Analysis	412
	Sales revenue	412
	Gross margin percentage	412
	Fixed costs	414
	Recognizing the Downside of the Profit-Volume-Cost Model	414
	Using the Profit-Volume-Cost Analysis Workbook	416
	Collecting your inputs	416
	Understanding the break-even analysis	419
	Understanding the profit-volume-cost forecast	421
	Looking at the profit-volume-cost charts	423
CHAPTER 2:	Creating a Business Plan Forecast	427
	Reviewing Financial Statements and Ratios	428
	Using the Business Plan Workbook	429
	Understanding the Workbook Calculations	436
	Forecasting inputs	436
	Balance Sheet	436
	Common Size Balance Sheet	444
	Income Statement	445
	Common Size Income Statement	449
	Cash Flow Statement	450
	Financial Ratios Table	456

Customizing the Starter Workbook	462
Changing the number of periods	462
Performing ratio analysis on existing financial statements	462
Calculating taxes for a current net loss before taxes.....	463
Combining this workbook with other workbooks	463
CHAPTER 3: Writing a Business Plan.....	465
What the Term “Business Plan” Means	465
A Few Words about Strategic Plans	466
Cost strategies	466
Differentiated products and services strategies.....	467
Focus strategies.....	467
Look, Ma: No Strategy.....	468
Two comments about tactics.....	469
Six final strategy pointers.....	469
A White-Paper Business Plan.....	470
A New-Venture Plan	473
Is the new venture’s product or service feasible?.....	473
Does the market want the product or service?.....	474
Can the product or service be profitably sold?.....	474
Is the return on the venture adequate for prospective investors?	475
Can existing management run the business?.....	476
Some final thoughts	477
BOOK 7: CARE AND MAINTENANCE	479
CHAPTER 1: Administering QuickBooks	481
Keeping Your Data Confidential	481
Using Windows security	482
Using QuickBooks security.....	482
Using QuickBooks in a Multiuser Environment.....	483
Setting up additional QuickBooks users	484
Changing user rights in Enterprise Solutions	491
Changing user rights in QuickBooks Pro and Premier.....	493
Using Audit Trails.....	493
Enabling Simultaneous Multiuser Access	494
Maintaining Good Accounting Controls.....	495
CHAPTER 2: Protecting Your Data.....	499
Backing Up the QuickBooks Data File.....	499
Backing-up basics	500
What about online backup?.....	503
Some backup tactics	504

Restoring a QuickBooks Data File	505
Condensing the QuickBooks Company Files	509
Cleanup basics	510
Some cleanup and archiving strategies	514
CHAPTER 3: Troubleshooting	517
Using the QuickBooks Help File and This Book	517
Browsing Intuit's Product-Support Website	519
Checking Another Vendor's Product-Support Website	521
Tapping into Intuit's Online and Expert Communities	521
When All Else Fails	522
BOOK 8: APPENDIXES	523
APPENDIX A: A Crash Course in Excel	525
Starting Excel	525
Stopping Excel	526
Explaining Excel's Workbooks	526
Putting Text, Numbers, and Formulas in Cells	527
Writing Formulas	528
Scrolling through Big Workbooks	529
Copying and Cutting Cell Contents	530
Copying cell contents	530
Moving cell contents	531
Moving and copying formulas	531
Formatting Cell Contents	533
Recognizing That Functions Are Simply Formulas	534
Saving and Opening Workbooks	537
Saving a workbook	537
Opening a workbook	538
Printing Excel Workbooks	539
One Other Thing to Know	540
APPENDIX B: Government Web Resources for Businesses	541
Bureau of Economic Analysis	541
Finding information at the BEA website	542
Downloading a BEA publication	542
Uncompressing a BEA publication	543
Using a BEA publication	544
Bureau of Labor Statistics	544
Finding information at the BLS website	545
Using BLS information	545

Census Bureau.....	548
Finding information at the Census Bureau website.....	549
Using the Census Bureau's publications	550
Using the Census Bureau search engine	550
Using the Census Bureau Subjects index.....	551
Securities and Exchange Commission	551
Finding information through EDGAR	552
Searching the EDGAR database.....	552
Federal Reserve	553
Finding information at the Federal Reserve website	554
Using the Federal Reserve website's information.....	555
Government Publishing Office	555
Information available at the GPO website.....	556
Searching the GPO database.....	556
Internal Revenue Service	557
APPENDIX C: Glossary of Accounting and Financial Terms	559
INDEX	589

Introduction

Few people read introductions to reference books, so I'll make this very brief. I just want to tell you which versions of QuickBooks this book works for, what's in the reference, what it assumes about your existing skills, and what conventions I use.

About This Book

The desktop version of QuickBooks comes in several flavors, including QuickBooks Pro, QuickBooks Premier, and QuickBooks Enterprise Solutions. This reference talks about QuickBooks 19 Enterprise Solutions, which is a superset of QuickBooks 2019 Premier and QuickBooks 2019 Pro. If you're using QuickBooks Self-Employed or QuickBooks Online, you shouldn't use this book. Sorry.

On the other hand, even though this book is written for QuickBooks Enterprise Solutions, if you're using QuickBooks Premier or QuickBooks Pro, don't worry. You're just fine with this book. And don't freak out if you're using some version of QuickBooks that's very similar to QuickBooks 2019, such as QuickBooks 2018 or QuickBooks 2020. Although this reference is about QuickBooks 2019, it also works just fine for the 2017, 2018, and probably 2020 versions of QuickBooks because QuickBooks is a very mature product at this point. The changes from one year to the next are modest. This means that if you're using QuickBooks 2018, stuff may look a little different if you closely compare the images in this book with what you see on your screen, but the information in this reference will still apply to your situation.

Note, too, that specialty versions of QuickBooks, such as QuickBooks Accountant's Edition and QuickBooks Contractor, also work almost identically to QuickBooks Premier.



TIP

If you use QuickBooks Pro and see some whistle or bell that you really want to use but that isn't available in your version of QuickBooks, you'll know that you should upgrade to the Premier or Enterprise Solutions version of QuickBooks.



REMEMBER

The bottom line? Yes, QuickBooks comes in several flavors. Yes, Intuit publishes new editions of its QuickBooks products every year. But you can use this book for any recent version of QuickBooks Pro, Premier, or Enterprise Solutions.

To make the best use of your time and energy, you should know about the conventions I use in this book:

- » When I want you to type something such as **Jennifer**, it's in bold letters.
- » By the way, except for passwords, you don't have to worry about the case of the stuff you type in QuickBooks. If I tell you to type Jennifer, you can type **JENNIFER**. Or you can follow poet e e cummings's lead and type **jennifer**.
- » Whenever I tell you to choose a command from a menu, I say something like Choose Lists ⇨ Items, which simply means to first choose the Lists menu and then choose Items. The ⇨ separates one part of the command from the next part.
- » You can choose menus and commands and select dialog-box elements with the mouse. Just click the thing that you want to select.
- » While I'm on the subject of conventions, let me also mention something about QuickBooks conventions, because it turns out that there's really no good place to point this out. QuickBooks doesn't use document windows the same way that other Windows programs do. Instead, it locks the active window into place and then displays a list of windows in its Navigator pane, which is like another little window. To move to a listed window, you click it.



TIP

You can tell QuickBooks to use windows like every other program does, however, by choosing View ⇨ Multiple Windows. You can even remove the Navigator pane by choosing View ⇨ Open Window List.

Foolish Assumptions

I'm making only three assumptions about your QuickBooks and accounting skills:

- » You have a PC with Windows 7, Windows 8, or Windows 10. (I took pictures of the QuickBooks windows and dialog boxes in Windows 10, in case you're interested.)
- » You know a little bit about how to work with your computer.
- » You have, or will buy, a copy of QuickBooks Pro, QuickBooks Premier, or QuickBooks Enterprise Solutions for each computer on which you want to run the program.

In other words, I don't assume that you're a computer genius or an MBA, or that you're super-experienced in the arcane rules of accounting. I assume that QuickBooks and accounting are new subjects to you. But I also assume that you want to understand the subjects because you need to do so for your job or your business.

Icons Used in This Book

Like many computer books, this book uses icons, or little pictures, to flag things that don't quite fit into the flow of things.



WARNING

The Warning icon tells you to watch out! It marks important information that may save you headaches when using QuickBooks 2019.



REMEMBER

Remember icons mark the information that's especially important to know. To siphon off the most important information in each chapter, skim these icons.



TIP

The Tip icon marks tips (duh!) and shortcuts that you can use to make QuickBooks easier.



TECHNICAL
STUFF

The Technical Stuff icon marks information of a highly technical nature that you normally can skip.

Beyond the Book

QuickBooks 2019 All-in-One For Dummies includes some extra content that you bought with your book but didn't get inside the book. Okay, I know that sounds bad at first blush. But don't worry. This extra, premium stuff is available online:

» The Cheat Sheet for this book is at

www.dummies.com

In the Search field, type **QuickBooks 2019 All-in-One For Dummies Cheat Sheet** to find the Cheat sheet for this book.

» Updates to this book, if there are any, are also at www.dummies.com. Search for the book's title to find the associated updates.

Where to Go from Here

This reference combines eight short books, including a minibook about accounting, one about setting up the QuickBooks system, one for bookkeepers using QuickBooks, one for accountants and managers using QuickBooks, a minibook

about small-business financial management, a minibook about business planning, a minibook about taking care of a QuickBooks accounting system, and a minibook of appendixes of further useful information.

I'm not going to go into more detail here about what's available in the book. If you have a specific question about what's covered or where some topic is covered, refer to the table of contents in the front of this reference. Also remember that the book provides an index to help you find just the pages that have the information you need.

While I'm on the subject of what's in this book and how to find information, let me make four tangential points:

- » You'll never read this book from cover to cover unless you're someone who has an obsessive-compulsive personality (like me) and many hours to devote to reading. But that's okay. This reference isn't meant to be read from cover to cover like some Val McDermid page-turner. Instead, chapters within the eight minibooks are organized into largely self-contained descriptions of how you do the things that you need to do. You just read the paragraph, page, or chapter that provides the information you want.
- » I haven't discussed in any detail how to use the QuickBooks Premier and QuickBooks Enterprise Solutions features for business planning. The wizard-based approach that QuickBooks Premier and QuickBooks Enterprise Solutions provide for business planning is not, in my humble opinion, the right way. Instead, I discuss in detail alternative, superior approaches to business planning and budgeting (using spreadsheets) in Book 6. (Just so you know: The approach I describe and recommend here is the same one that any business school teaches its students.)
- » At a few points in the book, you'll find me saying things like "Well, I really don't think you should use this part of the product." I just want to explain here, up front, where I'm coming from. First, know that I think QuickBooks is an outstanding product, but not every feature and every command is good. I've already mentioned that the new business planning tools aren't ones that I can recommend. And payroll, very frankly, is another pain-in-the-butt feature that most businesses should avoid. (I do briefly discuss payroll in Book 3, Chapter 5.) So if I think that a particular feature is one that you shouldn't use, I don't take up page space (or much page space) describing the feature. I'd rather use that space to describe other stuff that I believe is going to be valuable to you and other readers.
- » I should also mention one final thing: Accounting software programs require you to do a certain amount of preparation before you can use them to get real work done. If you haven't started to use QuickBooks yet, I recommend that you skim Book 1 and then read Book 2 to find out what you need to do first.

1

An Accounting Primer

Contents at a Glance

CHAPTER 1:	Principles of Accounting	7
	The Purpose of Accounting	7
	Reviewing the Common Financial Statements	10
	The Philosophy of Accounting	23
	A Few Words about Tax Accounting	26
CHAPTER 2:	Double-Entry Bookkeeping	27
	The Fiddle-Faddle Method of Accounting	28
	How Double-Entry Bookkeeping Works	31
	Almost a Real-Life Example	37
	A Few Words about How QuickBooks Works	44
CHAPTER 3:	Special Accounting Problems	47
	Working with Accounts Receivable	48
	Recording Accounts Payable Transactions	51
	Inventory Accounting	54
	Accounting for Fixed Assets	58
	Recognizing Liabilities	61
	Closing Out Revenue and Expense Accounts	66
	One More Thing	69

IN THIS CHAPTER

- » Figuring out the purpose of accounting
- » Taking a look at the common financial statements
- » Understanding the philosophy of accounting
- » Discovering income tax accounting and reporting

Chapter 1

Principles of Accounting

Any discussion of how to use QuickBooks to better manage your business begins with a discussion of the basics of accounting. For this reason, in this chapter and the next two, I attempt to provide the same information that you'd receive in an introductory college accounting course. I tailor the entire discussion, of course, to QuickBooks and the small-business environment. What you'll read about here and in the next chapters of this book pretty much describes how accounting works in a small-business setting. When you're using QuickBooks.

If you've had some experience with accounting, if you know how to read an income statement and balance sheet, or if you know how to construct a journal entry, you don't need to read this chapter or the next. But if you're new to accounting and business bookkeeping, take the time to read this chapter carefully. I start the chapter by giving you a high-level overview of the purpose of accounting. Then I review the common financial statements that any accounting system worth its salt produces. I also discuss some of the important principles of accounting and the philosophy of accounting. Finally, I talk a little bit about income tax law and tax accounting.

The Purpose of Accounting

In the movie *Creator*, Peter O'Toole plays an eccentric professor. At one point, O'Toole's character attempts to talk a young student into working as an unpaid

research assistant. When the student protests, noting that he needs 15 credit hours, O'Toole creates a special 15-credit independent-study course named "Introduction to the Big Picture." In the next section, I describe the "big picture" of accounting. At its core, accounting makes perfect, logical sense.

The big picture

The most important thing to understand about accounting is that it provides financial information to stakeholders. *Stakeholders* are the people who do business with or interact with a firm; they include managers, employees, investors, banks, vendors, government authorities, and agencies that may tax a firm. Stakeholders and their information requirements deserve a bit more discussion. Why? Because the information needs of these stakeholders determine what an accounting system must do.

Managers, investors, and entrepreneurs

The first category of stakeholders includes the firm's managers, investors, and entrepreneurs. This group needs financial information to determine whether a business is making money. This group also wants any information that gives insight into whether a business is growing or contracting and how healthy or sick it is. To fulfill its obligations and duties, this group often needs detailed information. A manager or entrepreneur may want to know which customers are particularly profitable — or unprofitable. An active investor may want to know which product lines are growing or contracting.

A related set of information requirements concerns asset and liability record keeping. An *asset* is something that the firm owns, such as cash, inventory, or equipment. A *liability* is some debt or obligation that the firm owes, such as bank loans and accounts payable.

Obviously, someone at a firm — perhaps a manager, bookkeeper, or accountant — needs to have very detailed records of the amount of cash that the firm has in its bank accounts, the inventory that the firm has in its warehouse or on its shelves, and the equipment that the firm owns and uses in its operations.

If you look over the preceding two or three paragraphs, nothing I've said is particularly surprising. It makes sense, right? Someone who works in a business, manages a business, or actively invests in a business needs good general information about the financial affairs of the firm and, in many cases, very detailed information about important assets (such as cash) and liabilities (such as bank loans).

External creditors

A second category of stakeholders includes outside firms that lend money to a business and credit-reporting agencies that supply information to these lenders. Banks want to know about the financial affairs and financial condition of a firm before lending money, for example. The accounting system needs to produce the financial information that a bank requires to consider a loan request.

What information do lenders want? Lenders want to know that a business is profitable and enjoys a positive cash flow. Profits and positive cash flows allow a business to repay debt easily. A bank or other lender also wants to see assets that could be liquidated, in a worst-case scenario, to pay a loan — and other debts that may represent a claim on the firm's assets.

Vendors also typically require financial information from a firm. A vendor often lends money to a firm by extending trade credit. What's noteworthy about this fact is that vendors sometimes require special accounting. One category of vendors that a company such as John Wiley & Sons, Inc., deals with is authors. To pay an author the royalty that he or she is entitled to, Wiley puts in a fair amount of work to calculate royalty-per-unit amounts and then reports and remits these amounts to authors.

Other firms sometimes have similar financial reporting requirements for vendors. Franchisees (such as the man or woman who owns and operates the local McDonald's) pay a franchise fee based on revenue. Retailers may perform special accounting and reporting to enjoy rebates and incentives from the manufacturers of the products that they sell.

Government agencies

Predictable stakeholders that require financial information from a business also include the federal and state government agencies with jurisdiction over the firm. Every business in the United States needs to report on its revenue, expenses, and profits so that the firm can correctly calculate income tax due to the federal government (and often the state government too) and then pay that tax.

Firms with employees must also report to the federal and state governments on wages paid to those employees and pay payroll taxes based on metrics, such as number of employees, wages paid to employees, and unemployment benefits claimed by past employees.

Providing this sort of financial information to government agencies represents a key duty of a firm's accounting system.

Business form generation

In addition to the financial reporting described in the preceding paragraphs, accounting systems typically perform a key task for businesses: producing business forms. An accounting system almost always produces the checks needed to pay vendors, for example. In addition, an accounting system prepares the invoices and payroll checks. More sophisticated accounting systems, such as those used by large firms, prepare many other business forms, including purchase orders, monthly customer statements, credit memos to customers, and sales receipts.



TIP

Every accounting function that I've described so far is performed ably by each of the versions of QuickBooks: QuickBooks Simple Start, QuickBooks Pro, QuickBooks Premier, and QuickBooks Enterprise.

Reviewing the Common Financial Statements

With the background information just provided, I'm ready to talk about some of the common financial statements or accounting reports that an accounting system like QuickBooks produces. If you understand which reports you want your accounting system to produce, you should find it much easier to collect the raw data necessary to prepare these reports.

In the following sections, I describe the three principal financial statements: the income statement, the balance sheet, and the statement of cash flows. I also briefly describe a fourth, catch-all category: accounting reports.

Don't worry — I go through this material slowly. You need to understand what financial statements your accounting systems are supposed to provide and what data these financial statements supply.

The income statement

Perhaps the most important financial statement that an accounting system produces is the income statement, also known as a profit and loss statement. An income statement summarizes a firm's revenue and expenses for a particular period. *Revenue* represents amounts that a business earns by providing goods and services to its customers. *Expenses* represent amounts that a firm spends providing those goods and services. If a business can provide goods or services to customers

for revenue that exceeds its expenses, the firm earns a profit. If expenses exceed revenue, obviously, the firm suffers a loss.

To show you how this all works — and it's really pretty simple — take a look at Tables 1-1 and 1-2. Table 1-1 summarizes the sales that an imaginary business enjoys. Table 1-2 summarizes the expenses that the same business incurs for the same period. These two tables provide all the information necessary to construct an income statement.

TABLE 1-1

A Sales Journal

Joe	\$1,000
Bob	500
Frank	1,000
Abdul	2,000
Yoshio	2,750
Marie	2,250
Jeremy	1,000
Chang	2,500
Total sales	\$13,000

TABLE 1-2

An Expenses Journal

Purchases of dogs and buns	\$3,000
Rent	1,000
Wages	4,000
Supplies	1,000
Total supplies	\$9,000

Using the information from Tables 1-1 and 1-2, you can construct the simple income statement shown in Table 1-3. Understanding the details of an income statement is key to your understanding of how accounting works and what accounting tries to do. Therefore, I want to go into some detail discussing this income statement.

TABLE 1-3

Simple Income Statement

Sales revenue	\$13,000
Less: Cost of goods sold	3,000
Gross margin	\$10,000
Operating expenses	
Rent	\$1,000
Wages	4,000
Supplies	1,000
Total operating expenses	6,000
Operating profit	\$4,000

The first thing to note about the income statement shown in Table 1-3 is the sales revenue figure of \$13,000. This figure shows the sales generated for a particular period of time. The \$13,000 figure shown in Table 1-3 comes directly from the sales journal shown in Table 1-1.

One important thing to recognize about accounting for sales revenue is that revenue gets counted when goods or services are provided, not when a customer pays for the goods or services. If you look at the list of sales shown in Table 1-1, for example, Joe (the first customer listed) may have paid \$1,000 in cash, but Bob, Frank, and Abdul (the second, third, and fourth customers) may have paid for their purchases with a credit card. Yoshio, Marie, Jeremy, and Chang (the fifth through eighth customers listed) may not have even paid for their purchases at the time the goods or services were provided. These customers may simply have promised to pay for the purchases at some later date. The timing of payment for goods or services doesn't matter, however. Accountants have figured out that you count revenue when goods or services are provided. Information about when customers pay for those goods or services, if you want that information, can come from lists of customer payments.

Cost of goods sold and *gross margins* are two other values that you commonly see in income statements. Before I discuss cost of goods sold and gross margins, however, let me add a little more detail to this example. Suppose that the financial information in Tables 1-1, 1-2, and 1-3 shows the financial results from your business: the hot dog stand that you operate for one day at the major sporting event in the city where you live. Table 1-1 describes sales to hungry customers. Table 1-2 summarizes the one-day expenses of operating your super-duper hot dog stand.