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**by Stephen L. Nelson, MBA, CPA**

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# Introduction

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**F**ew 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

QuickBooks comes in several flavors, including QuickBooks Simple Start, QuickBooks Pro, QuickBooks Premier, and QuickBooks Enterprise Solutions. This reference talks about QuickBooks 2014 Premier, which is nearly identical to QuickBooks Enterprise Solutions and is a superset of QuickBooks Pro. If you're using QuickBooks Simple Start — which is the simplest, most bare-bones version of QuickBooks — you shouldn't use this book. Sorry. Fortunately, I have a solution of sorts for you. You may want to get another book I've written: *QuickBooks Simple Start For Dummies*. That book covers the Simple Start version of QuickBooks in friendly detail.

On the other hand, even though this book is written for QuickBooks Enterprise Solutions and QuickBooks Premier, if you're using 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 2014, such as QuickBooks 2013 or QuickBooks 2015. Although this reference is about QuickBooks 2014, it also works just fine for the 2012, 2013, and probably 2015 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 2012, 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 Accountants Edition and QuickBooks Contractors, also work almost identically to QuickBooks Premier.



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 version of QuickBooks.



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.



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 XP Service Pack 2 or later, Windows Vista, Windows 7, or Windows 8. (I took pictures of the QuickBooks windows and dialog boxes in Windows 8, 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.

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



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



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



The Warning icon tells you to watch out! It marks important information that may save you headaches when using QuickBooks 2014.

## Beyond the Book

*QuickBooks 2014 All-in-One For Dummies* includes some extra content that you bought with your book but didn't actually get inside the book. Okay, I know that sounds bad at first blush. But don't worry. This extra, premium stuff is available online:

◆ **Online articles covering additional topics at**

[www.dummies.com/extras/quickbooks2014aio](http://www.dummies.com/extras/quickbooks2014aio)

Here, you'll find easy-to-digest articles that cover a variety of topics related to more smoothly implementing QuickBooks in your small business.

◆ **The Cheat Sheet for this book is at**

[www.dummies.com/cheatsheet/quickbooks2014aio](http://www.dummies.com/cheatsheet/quickbooks2014aio)

◆ **Updates to this book, if we have any, are at**

[www.dummies.com/extras/quickbooks2014aio](http://www.dummies.com/extras/quickbooks2014aio)

## 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 page or 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 Stieg Larsson 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 to do this. Instead, I discuss in detail alternative, superior approaches to business planning and budgeting (using spreadsheets) in Book VI. (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 on this. 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 III, 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 page 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 I and then read Book II to find out what you need to do first.

Book I

# Getting Started with an Accounting Primer

getting started  
with

**an accounting  
primer**



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# Chapter 1: Principles of Accounting

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## *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

**A**ny 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 would receive in an introductory college accounting course. Of course, I tailor the entire discussion 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 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. However, if you're new to accounting and business bookkeeping, take the time to read this chapter carefully. I start the chapter by giving 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 named "Introduction to the Big Picture." In the next section, I describe the "big picture" of accounting. At its very 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. For example, 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. For example, banks want to know about the financial affairs and financial condition of a firm before lending money. The accounting system needs to produce the financial information that a bank requires in order 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 easily repay debt. 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 is that vendors sometimes require special accounting. For example, one of the categories 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 revenues. Retailers may perform special accounting and reporting in order 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. For example, every business in the United States needs to report on its revenues, 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. For example, an accounting system almost always produces the checks needed to pay vendors. 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, sales receipts, and so forth.



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. The income statement is also known as a profit and loss statement. An income statement summarizes a firm's revenues and expenses for a particular period of time. *Revenues* represent 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 revenues that exceed its expenses, the firm earns a profit. If expenses exceed revenues, 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 of time. These two tables provide all the information necessary to construct an income statement.

<b>Table 1-1</b>	<b>A Sales Journal</b>
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

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.

Sales revenue	\$13,000
Less: Cost of goods sold	3,000
Gross margin	\$10,000
<i>Operating expenses</i>	
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 sales revenue 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, and Jeremy (the fifth, sixth, and seventh customers listed) may not have even paid for their purchases at the time the goods or services were provided. These customers may have simply promised to pay for the purchases at some later date. However, this timing of the payment for goods or services doesn't matter.

## 12 *Reviewing the Common Financial Statements*

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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 on 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.

In this case, the actual items that you sell — hot dogs and buns — are shown separately on the income statement as cost of goods sold. By separately showing the cost of the goods sold, the income statement can show what is called a gross margin. The *gross margin* is the amount of revenue left over after paying for the cost of goods. In Table 1-3, the cost of goods sold equals \$3,000 for purchases of dogs and buns. The difference between the \$13,000 of sales revenue and the \$3,000 of cost of goods sold equals \$10,000, which is the gross margin.



Knowing how to calculate gross margin allows you to estimate firm break-even points and to perform profit, volume, and cost analyses. All these techniques are extremely useful for thinking about the financial affairs of your business. In fact, Book VI, Chapter 1 describes how you can perform these analyses.

The *operating expenses* portion of the simple income statement shown in Table 1-3 repeats the other information listed in the Expenses Journal. The \$1,000 of rent, the \$4,000 of wages, and the \$1,000 of supplies get totaled. These operating expenses are then subtracted from the gross.

Do you see, then, what an income statement does? An income statement reports on the revenues that a firm has generated. It shows the cost of goods sold and calculates the gross margin. It identifies and shows operating expenses, and finally shows the profits of the business.

One other important point: Income statements summarize revenues, expenses, and profits for a particular period of time. Some managers and entrepreneurs, for example, may want to prepare income statements on a daily basis. Public companies are required to prepare income statements on a quarterly and annual basis. And taxing authorities, such as the Internal Revenue Service (IRS), require tax return preparation both quarterly and annually.



Technically speaking, the quarterly statements required by the IRS don't need to report revenue. The IRS requires quarterly statements only of wages paid to employees. Only the annual income statements required by the IRS report both revenue and expenses. These are the income statements produced to prepare an annual income tax return.