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Stephen L. Nelson,
MBA, CPA, MS in Taxation



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by Stephen L. Nelson, MBA, CPA, MS
in Taxation

for
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QuickBooks® 2018 All-in-One For Dummies®

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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	69
CHAPTER 1: Setting Up QuickBooks	71
CHAPTER 2: Loading the Master File Lists	91
CHAPTER 3: Fine-Tuning QuickBooks	115
Book 3: Bookkeeping Chores	149
CHAPTER 1: Invoicing Customers	151
CHAPTER 2: Paying Vendors	185
CHAPTER 3: Tracking Inventory and Items	205
CHAPTER 4: Managing Cash and Bank Accounts	237
CHAPTER 5: Paying Employees	269
Book 4: Accounting Chores	281
CHAPTER 1: For Accountants Only	283
CHAPTER 2: Preparing Financial Statements and Reports	299
CHAPTER 3: Preparing a Budget	323
CHAPTER 4: Using Activity-Based Costing	337
CHAPTER 5: Setting Up Project and Job Costing Systems	353
Book 5: Financial Management	365
CHAPTER 1: Ratio Analysis	367
CHAPTER 2: Economic Value Added Analysis	385
CHAPTER 3: Capital Budgeting in a Nutshell	399
Book 6: Business Plans	415
CHAPTER 1: Profit-Volume-Cost Analysis	417
CHAPTER 2: Creating a Business Plan Forecast	437
CHAPTER 3: Writing a Business Plan	475

Book 7: Care and Maintenance	489
CHAPTER 1: Administering QuickBooks	491
CHAPTER 2: Protecting Your Data	509
CHAPTER 3: Troubleshooting	529
Book 8: Appendixes	535
APPENDIX A: A Crash Course in Excel	537
APPENDIX B: Government Web Resources for Businesses	553
APPENDIX C: Glossary of Accounting and Financial Terms	571
Index	599

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	30
The accounting model	31
Talking mechanics	33
Almost a Real-Life Example	36
Recording rent expense	37
Recording wages expense	37

	Recording supplies expense	38
	Recording sales revenue	38
	Recording cost of goods sold.	38
	Recording the payoff of accounts payable	39
	Recording the payoff of a loan	40
	Calculating account balance	40
	Using T-account analysis results	42
	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	51
	Paying a bill.	52
	Taking some other accounts payable pointers.	52
	Inventory Accounting	53
	Dealing with obsolete inventory	54
	Disposing of obsolete inventory	55
	Dealing with inventory shrinkage	56
	Accounting for Fixed Assets.	57
	Purchasing a fixed asset.	57
	Dealing with depreciation	58
	Disposing of a fixed asset.	60
	Recognizing Liabilities.	61
	Borrowing money	61
	Making a loan payment	62
	Accruing liabilities	63
	Closing Out Revenue and Expense Accounts	65
	The traditional close	66
	The QuickBooks close.	67
	One More Thing	68
	BOOK 2: GETTING READY TO USE QUICKBOOKS	69
CHAPTER 1:	Setting Up QuickBooks	71
	Planning Your New QuickBooks System	71
	What accounting does	72
	What accounting systems do.	72
	What QuickBooks does.	72
	And now for the bad news.	73
	Installing QuickBooks	74

Dealing with the Presetup Jitters	75
Preparing for setup	76
Seeing what happens during setup	77
Running the QuickBooks Setup Wizard	77
Getting the big welcome	77
Supplying company information	79
Customizing QuickBooks	80
Setting your start date	81
Reviewing the suggested chart of accounts	82
Adding your information to the company file	83
Identifying the Starting Trial Balance	85
A simple example to start	86
A real-life example to finish	88
CHAPTER 2: Loading the Master File Lists	91
Setting Up the Chart of Accounts List	92
Setting Up the Item List	97
Working with the Price Level List	97
Using Sales Tax Codes	98
Setting Up a Payroll Item List	98
Setting Up Classes	99
Setting Up a Customer List	101
Setting Up the Vendor List	106
Setting Up a Fixed Assets List	109
Setting Up a Price Level List	110
Setting Up a Billing Rate Level List	111
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	126
Setting General Preferences	126
Controlling Integrated Applications	128
Controlling Inventory	129
Controlling How Jobs and Estimates Work	130

Dealing with Multiple Currencies	132
Starting Integrated Payment Processing	132
Controlling How Payroll Works	133
Telling QuickBooks How Reminders Should Work	135
Specifying Reports & Graphs Preferences	136
Setting Sales & Customers Preferences	140
Specifying How Sales Are Taxed	141
Setting the Search Preferences	142
Setting the Send Forms Preferences	143
Fine-Tuning the Service Connection	144
Controlling Spell Checking	145
Controlling How 1099 Tax Reporting Works	146
Setting Time & Expenses Preferences	146
BOOK 3: BOOKKEEPING CHORES	149
CHAPTER 1: Invoicing Customers	151
Choosing an Invoice Form	151
Customizing an Invoice Form	152
Choosing a template to customize	152
Reviewing the Additional Customization options	152
Moving on to Basic Customization	157
Working with the Layout Designer tool	159
Working with the web-based Forms Customization tool	162
Invoicing a Customer	162
Billing for Time	168
Using a weekly time sheet	168
Timing single activities	169
Including billable time on an invoice	171
Printing Invoices	173
Emailing Invoices	173
Recording Sales Receipts	174
Recording Credit Memos	177
Receiving Customer Payments	179
Assessing Finance Charges	181
Setting up finance charge rules	181
Calculating finance charges	182
Using Odds and Ends on the Customers Menu	183
CHAPTER 2: Paying Vendors	185
Creating a Purchase Order	185
Creating a real purchase order	186
Using some purchase order tips and tricks	189
Recording the Receipt of Items	189
Simultaneously Recording the Receipt and the Bill	192

Entering a Bill	194
If you haven't previously recorded an item receipt	194
If you have previously recorded an item receipt	196
Paying Bills	198
Reviewing the Other Vendor Menu Commands	201
Vendor Center	202
Sales Tax menu commands	202
Inventory Activities menu commands	203
Print/E-file 1099s	204
Item List	204
CHAPTER 3: Tracking Inventory and Items	205
Looking at Your Item List	206
Using the Item Code column	206
Using the Item List window	207
Using inventory reports	208
Adding Items to the Item List	208
Adding an item: Basic steps	209
Adding a service item	210
Adding an inventory part	211
Adding a noninventory part	213
Adding an other-charge item	213
Adding a subtotal item	216
Adding a group item	217
Adding a discount item	217
Adding a payment item	219
Adding a sales tax item	219
Setting up a sales tax group	220
Adding custom fields to items	222
Editing Items	223
Adjusting Physical Counts and Inventory Values	224
Adjusting Prices and Price Levels	227
Using the Change Item Prices command	227
Using price levels	228
Enabling advanced pricing	230
Managing Inventory in a Manufacturing Firm	231
Handling manufactured inventory the simple way	231
Performing inventory accounting in QuickBooks	232
Managing multiple inventory locations	235
CHAPTER 4: Managing Cash and Bank Accounts	237
Writing Checks	238
Recording and printing a check	238
Customizing the check form	244
Making Bank Deposits	246

Transferring Money between Bank Accounts	249
Working with the Register	251
Recording register transactions	251
Using Register window commands and buttons	254
Using Edit Menu Commands	258
Reconciling the Bank Account	262
Reviewing the Other Banking Commands	266
Order Checks & Envelopes command	266
Enter Credit Card Charges command	266
Bank Feeds command	268
Loan Manager	268
Other Names list	268
CHAPTER 5: Paying Employees	269
Setting Up Basic Payroll	269
Signing up for a payroll service	271
Setting up employees	271
Setting up year-to-date amounts	275
Checking your payroll setup data	276
Scheduling Payroll Runs	276
Paying Employees	276
Editing and Voiding Paychecks	278
Paying Payroll Liabilities	279
BOOK 4: ACCOUNTING CHORES	281
CHAPTER 1: For Accountants Only	283
Working with QuickBooks Journal Entries	283
Recording a journal entry	284
Reversing a journal entry	285
Editing journal entries	286
Updating Company Information	286
Working with Memorized Transactions	286
Reviewing the Accountant & Taxes Reports	287
Creating an Accountant's Copy of the QuickBooks Data File	289
Creating an accountant's copy	290
Using an accountant's copy	294
Reusing an accountant's copy	294
Exporting client changes	295
Importing accountant's changes	295
Canceling accountant's changes	297
Troubleshooting accountant's copy transfers	297
Using the Client Data Review Commands	297

CHAPTER 2: Preparing Financial Statements and Reports	299
Some Wise Words Up Front	299
Producing a Report	300
Working with the Report Window	301
Working with Report window buttons	301
Using the Report window boxes	308
Modifying a Report	311
Using the Display tab	311
Using the Filters tab	313
Using the Header/Footer tab	316
Formatting fonts and numbers	317
Processing Multiple Reports	319
A Few Words about Document Retention	320
CHAPTER 3: Preparing a Budget	323
Reviewing Common Budgeting Tactics	323
Top-line budgeting	324
Zero-based budgeting	324
Benchmarking	325
Putting it all together	326
Taking a Practical Approach to Budgeting	327
Using the Set Up Budgets Window	327
Creating a new budget	327
Working with an existing budget	329
Managing with a Budget	332
Some Wrap-Up Comments on Budgeting	334
CHAPTER 4: Using Activity-Based Costing	337
Reviewing Traditional Overhead Allocation	338
Understanding How ABC Works	340
The ABC product-line income statement	340
ABC in a small firm	344
Implementing a Simple ABC System	345
Seeing How QuickBooks Supports ABC	346
Turning On Class Tracking	347
Using Classes for ABC	348
Setting up your classes	348
Classifying revenue amounts	349
Classifying expense amounts	349
After-the-fact classifications	351
Producing ABC reports	352

CHAPTER 5: Setting Up Project and Job Costing Systems	353
Setting Up a QuickBooks Job	353
Tracking Job or Project Costs	356
Job Cost Reporting	359
Using Job Estimates	360
Progress Billing	362
BOOK 5: FINANCIAL MANAGEMENT	365
CHAPTER 1: Ratio Analysis	367
Some Caveats about Ratio Analysis	368
Liquidity Ratios	369
Current ratio	369
Acid test ratio	370
Leverage Ratios	371
Debt ratio	371
Debt equity ratio	372
Times interest earned ratio	373
Fixed-charges coverage ratio	374
Activity Ratios	375
Inventory turnover ratio	376
Days of inventory ratio	377
Average collection period ratio	377
Fixed-asset turnover ratio	378
Total assets turnover ratio	379
Profitability Ratios	379
Gross margin percentage	380
Operating income/sales	380
Profit margin percentage	381
Return on assets	381
Return on equity	382
CHAPTER 2: Economic Value Added Analysis	385
Introducing the Logic of EVA	385
Seeing EVA in Action	386
An example of EVA	388
Another example of EVA	389
Reviewing Some Important Points about EVA	389
Using EVA When Your Business Has Debt	391
The first example of the modified EVA formula	391
Another EVA with debt example	393
Presenting Two Final Pointers	395
And Now, a Word to My Critics	396

CHAPTER 3: Capital Budgeting in a Nutshell	399
Introducing the Theory of Capital Budgeting	399
The big thing is the return	400
One little thing is maturity	400
Another little thing is risk	401
The bottom line	401
Calculating the Rate of Return on Capital	402
Calculating the investment amount	403
Estimating the net cash flows	403
Calculating the return	407
Measuring Liquidity	412
Thinking about Risk	412
What Does All of This Have to Do with QuickBooks?	414
 BOOK 6: BUSINESS PLANS	 415
CHAPTER 1: Profit-Volume-Cost Analysis	417
Seeing How Profit-Volume-Cost Analysis Works	418
Calculating Break-Even Points	420
Using Real QuickBooks Data for Profit-Volume-Cost Analysis	422
Sales revenue	422
Gross margin percentage	422
Fixed costs	424
Recognizing the Downside of the Profit-Volume-Cost Model	424
Using the Profit-Volume-Cost Analysis Workbook	426
Collecting your inputs	426
Understanding the break-even analysis	430
Understanding the profit-volume-cost forecast	431
Looking at the profit-volume-cost charts	433
 CHAPTER 2: Creating a Business Plan Forecast	 437
Reviewing Financial Statements and Ratios	438
Using the Business Plan Workbook	439
Understanding the Workbook Calculations	446
Forecasting inputs	446
Balance Sheet	446
Common Size Balance Sheet	454
Income Statement	455
Common Size Income Statement	459
Cash Flow Statement	460
Financial Ratios Table	466

Customizing the Starter Workbook	472
Changing the number of periods	472
Performing ratio analysis on existing financial statements	472
Calculating taxes for a current net loss before taxes.	473
Combining this workbook with other workbooks	473
CHAPTER 3: Writing a Business Plan.	475
What the Term “Business Plan” Means	475
A Few Words about Strategic Plans	476
Cost strategies	476
Differentiated products and services strategies.	477
Focus strategies.	477
Look, Ma: No Strategy.	478
Two comments about tactics.	479
Six final strategy pointers.	479
A White-Paper Business Plan.	480
A New-Venture Plan	483
Is the new venture’s product or service feasible?	483
Does the market want the product or service?	484
Can the product or service be profitably sold?	485
Is the return on the venture adequate for prospective investors?	485
Can existing management run the business?	486
Some final thoughts	487
BOOK 7: CARE AND MAINTENANCE	489
CHAPTER 1: Administering QuickBooks	491
Keeping Your Data Confidential	491
Using Windows security	492
Using QuickBooks security.	492
Using QuickBooks in a Multiuser Environment.	493
Setting up additional QuickBooks users	494
Changing user rights in Enterprise Solutions	501
Changing user rights in QuickBooks Pro and Premier.	503
Using Audit Trails.	503
Producing an Audit Trail report.	504
Enabling Simultaneous Multiuser Access	504
Maintaining Good Accounting Controls.	505
CHAPTER 2: Protecting Your Data	509
Backing Up the QuickBooks Data File.	509
Backing-up basics	510
What about online backup?	514
Some backup tactics	515

Restoring a QuickBooks Data File	515
Condensing the QuickBooks Company Files	520
Cleanup basics	521
Some cleanup and archiving strategies	526
CHAPTER 3: Troubleshooting	529
Using the QuickBooks Help File and This Book	529
Browsing Intuit's Product-Support Website	531
Checking Another Vendor's Product-Support Website	533
Tapping into Intuit's Online and Expert Communities	533
When All Else Fails	534
 BOOK 8: APPENDIXES	 535
APPENDIX A: A Crash Course in Excel	537
Starting Excel	537
Stopping Excel	538
Explaining Excel's Workbooks	538
Putting Text, Numbers, and Formulas in Cells	539
Writing Formulas	540
Scrolling through Big Workbooks	541
Copying and Cutting Cell Contents	542
Copying cell contents	542
Moving cell contents	543
Moving and copying formulas	543
Formatting Cell Contents	544
Recognizing That Functions Are Simply Formulas	546
Saving and Opening Workbooks	549
Saving a workbook	549
Opening a workbook	550
Printing Excel Workbooks	551
One Other Thing to Know	552
 APPENDIX B: Government Web Resources for Businesses	 553
Bureau of Economic Analysis	553
Finding information at the BEA website	553
Downloading a BEA publication	554
Uncompressing a BEA publication	555
Using a BEA publication	556
Bureau of Labor Statistics	556
Finding information at the BLS website	557
Using BLS information	557

Census Bureau	560
Finding information at the Census Bureau website	561
Using the Census Bureau’s publications	562
Using the Census Bureau search engine	562
Using the Census Bureau Subjects index	563
Securities and Exchange Commission	563
Finding information through EDGAR	564
Searching the EDGAR database	564
Federal Reserve	565
Finding information at the Federal Reserve website	566
Using the Federal Reserve website’s information	567
Government Printing Office	567
Information available at the GPO website	568
Searching the GPO database	568
Internal Revenue Service	569
APPENDIX C: Glossary of Accounting and Financial Terms	571
INDEX	599

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 18 Enterprise Solutions, which is a superset of QuickBooks 2018 Premier and QuickBooks 2018 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 2018, such as QuickBooks 2017 or QuickBooks 2019. Although this reference is about QuickBooks 2018, it also works just fine for the 2016, 2017, and probably 2019 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 2017, 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 version 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 superexperienced 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 2018.



REMEMBER

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.



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 2018 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:

» The Cheat Sheet for this book is at

<http://www.dummies.com>

In the Search field, type **QuickBooks 2018 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 <http://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 to do this. 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 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 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	30
Almost a Real-Life Example	36
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	53
Accounting for Fixed Assets	57
Recognizing Liabilities	61
Closing Out Revenue and Expense Accounts	65
One More Thing	68

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 would 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 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 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. 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 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, sales receipts, and so forth.



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. 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. *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 have simply 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.

In this case, the actual items that you sell — hot dogs and buns — are shown separately in the income statement as cost of goods sold. By separately showing