Lesson Blueprint

Computerized Accounting with QuickBooks® 2019

# Chapter 2: Vendors

## Introduction

* QuickBooks allows you to track all vendor transactions.
* A vendor is someone from whom the company buys goods or services, either on account or for cash.
* You should establish a file for each vendor prior to entering transactions for that vendor.
* The collection of all the vendor files comprises the Vendor Center (Lists/Centers).
* Once a vendor file is established, transactions (Activities) such as receiving a bill from a vendor, paying that bill, or making a cash purchase can be entered in these windows:
* Enter Bills
* Pay Bills
* Write Checks
* As transactions are recorded in the activities windows, QuickBooks will simultaneously update with the information about the transactions for the particular vendor in:
* the Vendor Center
* any related reports (Reports)
* In this chapter, you will:
* record and pay bills received by our sample company, Kristin Raina Interior Designs, for non-inventory purchases of goods and services, such as operating expenses and assets acquisitions.
* record cash purchases when bills have not been previously received or entered.

## QuickBooks versus Manual Accounting: Vendor Transactions

* In a manual accounting system, all purchases of goods on account are recorded in a multicolumn purchases journal.
* At the conclusion of the month, the totals are posted to the asset, expense, and liability (Accounts Payable) accounts affected by the transactions.
* As each purchase transaction is recorded, the appropriate vendor’s account in the accounts payable subsidiary ledger is updated for the new liability on a daily basis.
* Payments for open accounts payable balances and payments for cash purchases of goods/services are recorded in a multicolumn cash payments journal.
* As with the purchases journal, monthly totals are posted to the general ledger accounts while payment information is recorded daily in the vendor’s subsidiary ledger record.
* In QuickBooks, the Vendor Center serves as the accounts payable subsidiary ledger for the company.
* It includes all companies and individuals from whom the company buys goods and services.
* Relevant information, such as name, address, contact person, and credit limit, is entered at the time the vendor’s file is created on the Vendor Center.
* When the company receives a bill for goods or services, the bill is recorded in the Enter Bills window.
* It is equivalent to the multicolumn purchases journal.
* QuickBooks automatically updates the Chart of Accounts and general ledger and at the same time updates the vendor’s file in the Vendor Center for the new liability.
* When the bill is to be paid, you enter the transaction in the Pay Bills window.
* It is equivalent to the part of the cash payments journal that records payment of open accounts payable.
* This transaction also updates the Chart of Accounts and general ledger and at the same time updates the vendor’s file in the Vendor Center for the payment of the liability.
* For a cash payment for a bill not previously entered, you use the Write Checks window.
* It is equivalent to the part of the cash payments journal that records payment for cash purchases of goods/services.
* Again, the Chart of Accounts List, general ledger, and the vendor’s file in the Vendor Center will be updated simultaneously.
* Below is a comparison of manual accounting ledger and journals with QuickBooks functions:

|  |  |
| --- | --- |
| **Manual Accounting System**  | **QuickBooks**  |
| Accounts Payable Subsidiary Ledger | Vendor Center |
| Purchases Journal | Enter Bills window |
| Cash Payments Journal | Pay Bills windowWrite Checks window |

## System Default Accounts

* To process transactions expeditiously and organize data for reporting, QuickBooks establishes specific general ledger accounts as default accounts in each activity window.
* When you enter transactions, QuickBooks automatically increases or decreases certain account balances depending on the nature of the transaction, for example:
* when you enter a vendor invoice in the Enter Bills window, QuickBooks automatically increases (credits) the Accounts Payable account because the Enter Bills window is used to record purchases on account.
* when you write a check in the Pay Bills window, QuickBooks automatically decreases (debits) the Accounts Payable account.
* Therefore, you do not have to enter the account numbers or names for these default accounts because they have been pre-established by QuickBooks.
* Throughout the textbook, the default accounts are identified for each type of transaction, such as vendor, customer, inventory, and payroll.

## Chapter Problem

* In this chapter, you will enter and track vendor transactions for Kristin Raina Interior Designs, a sole proprietorship providing interior decorating and design services to both residential and commercial clients.
* The owner of the business, Kristin Raina, began operations on January 1, 2021 by investing $50,000.
* In January, Kristin Raina devoted most of her time to organizing the business, securing office space, and buying assets.
* Beginning February 1, 2021, she wishes to begin tracking vendor transactions.
* Information for several vendors has been entered in the Vendor Center.
* This information, along with February 1, 2021, beginning balances, is contained in the Company file CH2 Kristin Raina Interior Designs.
* See text for steps to open CH2 Kristin Raina Interior Designs.
* See text for steps to make a backup copy and restore the company file.
* Use the file name EX2 [Your Name] Kristin Raina Interior Designs.
* See text for steps to change the company name to:
* EX2 [Your Name] Kristin Raina Interior Designs

## Lists/Centers: The Vendor Center

* The Vendor Center contains a file for each vendor with which the company does business.
* Examples of vendors could be a utility company that supplies electricity, a company that provides advertising, and a company from which the business’s equipment is purchased.
* The Vendor Center contains important information on each vendor, such as company name, address, contact person, type of vendor, terms, credit limit, tax ID, and current balance owed.
* All vendors with which the company does business should be included in the Vendor Center.
* Information for each vendor should be entered in the Vendor Center prior to recording transactions.
* If you inadvertently omit a vendor, it can be an added vendor during the Activities level of operation with a minimum of disruption.
* Periodically revise the Vendor Center to
* add new vendors
* delete vendors no longer used in the business
* make modifications as background information on vendors changes
* These adjustments to the vendor files in the Vendor Center are referred to as *updating* the Vendor Center.
* part of second level of operation in QuickBooks
* Kristin Raina has entered information for existing and anticipated vendors in the Vendor Center of her company file.
* See text for steps to review the Vendor Center.
* The Vendor Center contains the following parts:

|  |  |
| --- | --- |
| **Vendors tab** | lists all vendors with current balance owed |
| displays all vendors, active vendors, or vendors with balances |
| **Transactions tab** | lists all transactions for listed vendors |
| **New Vendor button** | used to add a new vendor, or multiple vendors |
| **New Transactions button** | used to enter a bill or pay a bill |
| **Vendor Information section** | displays background and transaction information for the vendor selected on the Vendor tab |
| **Edit icon** | used to edit background information for the vendor selected on the Vendor tab |
| **Contacts tab** | Used to add a contact name for this vendor by clickingthe Manage Contacts drop-down arrow and choosing*Add New.* You can designate the contact as primary,secondary, or additional. |
| **Notes tab** | used to include narrative information specific to a vendor |
| **To Do’s tab** | used to view the To Do list for a vendor |
| **Reports for this Vendor** | lists the reports available in the Vendor Center |
| **Attach icon** | used to attach documents via QuickBooks Document Management feature |

* Once a vendor is selected, you can right-click the vendor’s name on the Vendor tab to display a shortcut menu to accomplish most vendor-related activities.
* The vendor’s file contains six parts:

|  |  |
| --- | --- |
| **Name Page**  | displays vendor’s name and three command buttons: OK, Cancel, and Help |
| **Address Info tab** | allows you to enter the vendor’s company name, address, contact person, telephone, fax numbers, and email address |
| edit icon can be used to edit address information |
| **Payment Settings tab** | allows you to enter information, such as the vendor’s account number, credit limit, payment terms, and name to be printed on checks |
| **Tax Settings tab** | allows you to enter the vendor’s tax identification number (TIN) and indicate if the vendor is to receive IRS Form 1099 |
| **Account Settings tab** | allows you to identify up to three default general ledger posting accounts for each vendor |
| Once a vendor is selected in an activity window, the first account listed will be identified as the general ledger posting account for that transaction. The use of this tab is optional. |
| **Additional Info tab** | allows you to enter the vendor type and gives you the ability to create customized fields |

* Adding a Vendor
* See text for steps for adding a vendor.
* Deleting a Vendor
* See text for steps for deleting a vendor.
* QuickBooks cannot delete a vendor who has a balance or a vendor who has been part of a transaction for the period.
* If a vendor will no longer be used but there has been activity to the file for the fiscal period, you can mark the vendor inactive.
* A deleted vendor will no longer appear on reports.
* QuickBooks retains the information, can access if necessary
* Editing a Vendor
* See text for steps for editing a vendor.
* See text for Practice Exercise.

## Activities: The Enter Bills Window

* In QuickBooks, the Enter Bills window is used to record purchases on account.
* This window allows you to identify the:
* vendor sending the bill
* invoice date
* due date
* terms of payment
* nature of purchase (expense, asset, or item)
* QuickBooks uses the default Accounts Payable account from the Chart of Accounts to post all open bill liabilities.
* Certain recurring bills can be set up to be recorded automatically as they become due.
* In addition, you can use this window to record credit memos.
* QuickBooks records a transaction that is a purchase on account as follows:

|  |  |  |
| --- | --- | --- |
| Asset/Expense/Drawings | XXX |  |
| Accounts Payable |  | XXX |

* At the same time, QuickBooks updates the vendor’s file in the Vendor Center to reflect the new liability.
* Recall from Chapter 1 that the third level of operation in QuickBooks is Activities.
* In this case, the Activity is the recording of purchases on account in the Enter Bills window.
* Accounts Payable is the default general ledger posting account.
* All transactions entered in this window will result in a credit to the Accounts Payable account.
* The Account field in this window is used to indicate the asset, expense, or drawings account to be debited.
* See text for the Enter Bills window.
* The Enter Bills window has two tabs: Main and Reports
* The Main tab allows you to select a vendor from the Vendor Center, enter a bill reference number, indicate whether it is a bill or credit, and indicate the expense or item purchased. The Main tab has two sub-tabs; Expenses and Items.
* The Reports tab allows you to access various transaction reports.
* This window allows you to:
* select a vendor from the Vendor Center
* enter a bill reference number
* indicate whether the bill is a credit card charge
* indicate the item of expense purchased
* Most of the data fields are self-explanatory, but take special note of the following fields on the Main tab:

|  |  |
| --- | --- |
| **Find button, Previous/Next arrows** | used to move from current transaction to previous or next transaction |
| current transaction is saved before moving to previous/next window |
| **Bill/Credit Option buttons** | if transaction is a bill received from a vendor, click the Bill button |
| if transaction is a credit memo from a vendor, click the Credit button |
| **BILL RECEIVED check box** | indicates that bill has been received for this expense or item |
| if unchecked, expense or item was received but bill will follow at a later date |
| **Expenses/Items tabs** | For non-item purchases, such as expenses and non-inventory assets, click Expenses. |
| If this is a purchase of an item, such as inventory, click the Items tab. |
| **New button** | used to open a blank transactions window and save current transactions |
| **Delete button** | used to delete or void the transaction |
| **Clear Splits button** | used to erase entries on the Expenses tab |
| **Recalculate button** | used to add up multiple entries on the Expenses and Items tabs to fill the Amount Due field |
| **Pay Bill button** | Used to open the Pay Bills window. |
| **Save & Close button** | used to save (post) the transaction and close the window |
| **Save & New button** | used to save (post) the transaction and clear the window for a new transaction |
| **Clear button** | used to clear the entire screen if errors are made |

|  |  |
| --- | --- |
| **Vendor/Transaction tabs** | displays a summary of information about the vendor, recent transactions, and notes. Click the > arrow to hide the information, and click the < arrow to display it |
| **Edit icon** | allows you to edit vendor information while remaining in the Enter Bills window |
| **SUMMARY section** | lists phone number, email address, and open balance for selected vendor |
| **RECENT TRANSACTIONS section** | displays recent transactions for selected vendor |
| also allows you to access a Quick Report |
| **NOTES section** | Clicking the Edit icon allows you to post notes concerning the selected vendor. |

* Entering a Bill
* See text for steps to enter a bill.
* Recall that Save & Close will save the information and close the window.
* Clicking the Next arrow will save the information and clear the fields for the next transaction.
* Clicking the Previous arrow will display window for previous transaction.
* At first transaction, Previous arrow cannot yet be used.
* Updating the Vendor Center While in an Activities Window
* See text for steps to update a list when in an Activities window.
* Correction of Errors
* There are several ways to correct an error in a recorded transaction:
* One way is to open the window that contains the transaction, use the Previous button to view it, make the necessary correction, and save the transaction by choosing Next, Previous, or Save buttons.
* An alternative is to delete the transaction by using the Delete button and then reentering the transaction correctly.
* See text for steps to correct errors.
* See text for Practice Exercise.
* Processing a Credit Memo
* QuickBooks allows for processing credit memos from vendors using the Enter Bills window.
* The resulting credit will reduce the balance owed to that vendor.
* See text for steps for processing a credit memo.

## Activities: The Pay Bills Window

* In QuickBooks, the Pay Bills window is used to record the payment on account.
* These are the bills previously recorded in the Enter Bills window.
* This window displays all open bills as of a selected date.
* Bills can be paid in full or a partial payment can be made.
* Payment can be in the form of check, credit card, or online payment.
* In addition, several bills can be paid at one time.
* The Pay Bills window is designed only for payments of existing bills.
* Default accounts are Accounts Payable and Cash.
* The transaction is recorded as follows:

|  |  |  |
| --- | --- | --- |
| Accounts Payable | XXX |  |
| Cash |  | XXX |

* At the same time, the vendor’s file in the Vendor Center will also be updated to reflect the payment.
* See text for the QuickBooks Pay Bills window.
* This window allows you to select bill(s) to be paid, pay all or part of each bill, and designate checks to be printed by the computer.
* Note the following:

|  |  |
| --- | --- |
| **Show bills section** | Allows you to display all bills or bills due by a certain date. |
| ***Filter by* field** | Allows you to display bills for all vendors or a selected vendor from the drop-down list. |
| ***Sort By* field** | Allows you to list bills by due date, discount date vendor, or amount. |
| **Go To Bill button** | Allows you to view selected bill in the Enter Bills window. |
| **Set Discount/Set Credit buttons** | Used to activate any discount or credit for bill selected for payment. |
| ***PAYMENT Account* field** | Lists accounts from which this payment can be made. |
| ***PAYMENT Date* field** | Indicates date of payment that will appear on the payment check and on all reports. |

* If you make an error in this window and choose Pay Selected Bills, you cannot correct the error in this window.
* correct the error in the Write Checks window (See next section, “Activities: the Write Checks Window.”)
* Activities identified as purchases on account were recorded in the Enter Bills window.
* Subsequently, Activities identified as payment of the outstanding accounts payable (previously recorded in the Enter Bills window) are then recorded in the Pay Bills window.
* Accounts Payable and Cash are the default general ledger posting accounts.
* All transactions entered in this window will result in a debit to the Accounts Payable account and a credit to the Cash account.

### Paying a Bill in Full

* See text for steps for paying a bill in full.
* Even though a check is not printed, for accounts payable and general ledger purposes, the bill is now considered paid.
* The vendor balance owed has been reduced along with the cash balance.
* Each time you click Pay Selected Bills, the Assign Check Number dialog box appears.
* Assign the first check number.
* Thereafter, you can continue to assign check numbers or you can click the *Let QuickBooks Assign check numbers* option and the software will assign the numbers.
* You will not see a check number in this window but you will see the check number for these transactions in the Write Checks window and reports.

### Making a Partial Payment of a Bill

* See text for steps for making a partial payment.
* See text for Practice Exercise.

## Activities: The Write Checks Window

* In QuickBooks, the Write Checks window is used to record cash purchases that have not been previously entered into the system.
* The Write Checks window is useful for companies that usually pay on account but occasionally receive bills and remit payments immediately, and for companies that do not purchase goods or services on account and therefore do not need to track vendor data.
* Accounts Payable is not used, which allows for recording of a cash purchase in one step.
* Data fields in this window are similar to those of Enter Bills window
* *PAY TO THE ORDER OF* (vendor name)
* *DATE*
* *Expenses*
* *Asset* or *Item* purchased
* The Write Checks window is used for all cash purchases, whether the payment is by check, Pay Pal, electronic transfer or debit card.
* default account is Cash
* The transaction is recorded as follows:

|  |  |  |
| --- | --- | --- |
| Asset/Expense/Item | XXX |  |
| Cash |  | XXX |

* Transactions entered in this window are not tracked through the Accounts Payable or Vendor reports.
* Activities identified as cash purchases are recorded in the Write Checks window.
* In this window, the Cash account is the default credit posting account because all transactions result in a cash payment by check.
* All transactions entered in this window result in a credit to the Cash account.
* The *ACCOUNT* field in this window is used to indicate the asset, expense, or drawings account to be debited.
* See text for steps in the Write Checks window.
* If you click Previous at this time, you will see the payments recorded in this window as well as the payments recorded in the Pay Bills window.
* Activities recorded in the Pay Bills window are actually checks written that subsequently appear in the Write Checks window in addition to the checks written in the Write Checks window.
* The payments are recorded in check number sequence.
* Since checks are not being printed, the program automatically assigns the next check number.
* If payment is made via a debit card, a transaction identifier other than a check number will be entered in the *No.* field.
* Any errors recorded in the Pay Bills window cannot be corrected in the Pay Bills window, but can be corrected in the Write Checks window.
* To see an example of this, click the Previous arrow several times.
* Each time, notice that the payments include those entered in both the Write Checks and Pay Bills windows.
* As you scroll through the windows, notice that the window is different for payments made in the Write Checks and Pay Bills windows.
* Notice also that the check numbers are in sequence.
* See text for Practice Exercise.

## Reports: Vendor and Accounting Reports

* Reports, the fourth level of operation in QuickBooks, reflect the information and activities recorded in the various Lists and Activities windows.
* QuickBooks can display and print a variety of reports, many of which should be printed on a monthly basis.

### Vendor Reports from the Reports Menu

* Accounts Payable and vendor-related reports help a company manage its liability payments, ensure timely and correct remittances, control cash flow, and retain an accurate record of all vendor-related transactions.
* QuickBooks can display and print a variety of both internal management reports and typical accounting and financial reports, many of which should be printed on a monthly basis.

**Unpaid Bills Report**

* lists all unpaid bills for each vendor at a specific date
* lists each open bill (with date and invoice number) for a vendor, along with any credit memos applied
* may be customized to show all vendors or only those with outstanding bills
* See text for example to view and print *Unpaid Bills* report.
* Along the top of the Unpaid Bills Detail report window are several buttons (Modify Report, Memorize, Print, and so on).

Notice the diamond shape before each of the title headings in the report text; if you wish to change the size of a column, you can click and drag the diamond in either direction.

* At the Print Reports dialog box, settings, fonts, and margins can be changed.
* The orientation of the report may also be changed.
* For most reports the Portrait orientation is fine, but for wider reports, the Landscape orientation may be more useful.
* There is a Preview button if you wish to preview the report before printing.

**Vendor Balance Detail Report**

* displays all transactions for each vendor with the remaining balance owed
* similar to an accounts payable subsidiary ledger in a manual system
* shows all vendor-related transactions, that is, all bills, payments, and credit memos for each vendor in chronological order
* See text for example to view and print *Vendor Balance Detail* report.

**Vendor Contact List Report**

* displays information for all vendors that has been entered in each vendor’s file
* displays the name of each vendor, account number, address, contact person, telephone and mobile numbers, and the present balance owed
* See text for example to view and print *Vendor Contact List* report.

### Drilling Down to a Transaction Window

* Most of the reports provide a drill-down feature.
* When reviewing a report, QuickBooks, like many computerized accounting programs, allows you to “drill down” from a report to the original window where data has been entered.
* Drilling down provides the opportunity to review the information and make corrections if necessary.
* See text for steps to drill down from a report to view a specific vendor file.
* While viewing reports, it is frequently helpful to see the originating transaction or document that gave rise to the report figures.
* The drill-down feature allows you to move quickly from a report to the related transaction windows and back to the report again.
* If the transaction is incorrect, you can edit or remove the transaction at that time.
* Any changes to the transactions are automatically reflected in subsequent reports.
* See text for steps for drilling down while in a report.

### Accounting Reports

* As activities are entered in the windows, behind-the-scenes accounting activity is recorded in general journal format, posted to the general ledger, and flowed into the financial statements.
* QuickBooks can display and print these standard accounting reports, such as the *Journal* report.
* The *Journal* report displays, in general journal format, all transactions recorded during a specified period of time.
* See text for steps to view and print the *Journal* report.
* QuickBooks automatically assigns transaction numbers (Tran #).
* You cannot change them.
* When the software deletes the transaction, it will move to the next transaction number for the next transaction.
* When comparing work to the solutions, students should not be concerned if they have different transaction numbers as long as they have the correct journal entries.
* The *Type* column indicates the window where activity was recorded.
* Bill type entries represent the transactions entered in the Enter Bills window.

Each of these transactions has a credit to Accounts Payable because this is the default for that account.

* Credit type entries represent credit memos entered in the Enter Bills window.

Recall that when the credit memo option is chosen, the default account becomes a debit to Accounts Payable

* Bill Pmt – Check type entries represent transactions entered in the Pay Bills window.

All of these transactions are a debit to Accounts Payable and a credit to Cash, which are the default accounts for this window

* Check type entries are from the Write Checks window.

All have a credit to Cash because that is the default account for this window.

* The following table summarizes the general journal transaction types

|  |  |  |
| --- | --- | --- |
| **Type** | **Activity Window** | **System Default Account** |
| **Debit** | **Credit** |
| Bill | Enter Bills |  | Accounts Payable |
| Bill Pmt – Check | Pay Bills | Accounts Payable | Cash |
| Check | Write Checks |  | Cash |

## Exiting QuickBooks

* Once this session is completed, you should make a backup copy of your exercise company file to a removable storage device or network directory using the backup procedures explained in Chapter 1.
* When you back up to a removable storage device, be sure to change the *Save in* field to the location where you keep your backup files, and carefully type the correct file name.
* After making a backup copy of the company file, close the company by clicking File and *Close Company*. Exit QuickBooks and return to the Windows desktop by clicking File and then *Exit*.

# Chapter 2 Accounting Terms

cash payments journal A journal used to record all cash payment activities including payment of accounts payable.

**cash purchase** Payment of any bill or item other than accounts payable.

Chart of Accounts List The list of accounts a company uses as it conducts its business.

credit memo A reduction of Accounts Payable as a result of a return or an allowance by a vendor.

Net 30 Days Full payment of an invoice requested within 30 days of the invoice date.

payment on account Payment of an outstanding accounts payable.

purchase on account When a company receives a bill for goods or services from a vendor but plans to pay it at a later date.

purchases journal A journal used to record all purchases of goods on account; can be in a single-column or multicolumn format.

vendor Someone from whom the company buys goods or services, either on account or for cash.