Lesson Blueprint

Computerized Accounting with QuickBooks® 2019

# Chapter 3: Customers

## Introduction

* QuickBooks allows you to track all customer transactions.
* A customer is a person or business that the company sells goods or services to, either on account or for cash.
* A file for each customer must be established prior to entering transactions for a particular customer.
* The collection of all the customer files comprises the Customer Center (Lists/Centers).
* Once a customer file is established, transactions (Activities) such as creating an invoice for a customer, receiving payment from that customer, or making a cash sale can be entered in the following windows:
  + Create Invoices
  + Receive Payments
  + Enter Sales Receipts
  + Make Deposits
* As transactions are recorded in these activities windows, QuickBooks will simultaneously update the information about the transactions for the particular customer in
  + the Customer Center and
  + any related reports (Reports).
* In this chapter, the sample company Kristin Raina Interior Designs is used to
  + create invoices for design and decorating services,
  + receive payments for invoices,
  + make cash sales,
  + deposit funds.

## QuickBooks versus Manual Accounting: Customer Transactions

* In a manual accounting system, all sales of goods on account are recorded in a multi-column sales journal.
  + At the conclusion of the month, the totals are posted to the accounts receivable and revenue accounts affected by the transactions.
  + As each sales transaction is recorded, the appropriate customer’s account in the accounts receivable subsidiary ledger is updated for the new receivable on a daily basis.
* Collections of open accounts receivable balances and cash sales of goods/services are recorded in a multi-column cash receipts journal.
  + As was done with the sales journal, monthly totals are posted to the general ledger accounts while payment information is recorded daily in the customer’s subsidiary ledger record.
* In QuickBooks, the Customer Center serves as the accounts receivable subsidiary ledger for the company.
  + The Customer Center includes all companies and individuals to whom the company sells goods and services.
  + Relevant information, such as name, address, contact, and credit limit, is entered at the time the customer’s file is created in the Customer Center
* When the company creates an invoice for goods or services, the invoice is created in the Create Invoices window.
  + The Create Invoices window is equivalent to the multi-column sales journal.
  + This transaction automatically updates the Chart of Accounts List and general ledger while at the same time updating the customer’s file in the Customer Center for the new receivable.
* When the customer pays the invoice, the company enters this transaction in the Receive Payments window.
  + The Receive Payments window is equivalent to the part of the cash receipts journal that records collection of open accounts receivable.
  + QuickBooks automatically updates the Chart of Accounts and general ledger while at the same time updating the customer’s file in the Customer Center for the payment of the receivable.
* To record a check received for an invoice not previously entered, the Enter Sales Receipts window is used.
  + This window is equivalent to the remainder of the cash receipts journal, which records all cash receipts other than collection of accounts receivable.
  + Again, the Chart of Accounts and general ledger and the customer’s file in the Customer Center will be simultaneously updated.
* Below is a comparison of manual accounting ledger and journals with QuickBooks functions:

|  |  |
| --- | --- |
| Manual Accounting System | QuickBooks |
| Accounts Receivable Subsidiary Ledger | Customer Center |
| Sales Journal | Create Invoices window |
| Cash Receipts Journal | Receive Payments window  Enter Sales Receipts window |

## System Default Accounts

* To process transactions expeditiously and organize data for reporting, QuickBooks establishes specific general ledger accounts as default accounts in each window.
* When you enter transactions, QuickBooks automatically increases or decreases certain account balances depending on the nature of the transaction.
  + For vendors:
    - When you enter a transaction in the Enter Bills window, QuickBooks automatically increases (credits) the Accounts Payable account.
    - When you pay the bills in the Pay Bills window, QuickBooks automatically decreases (debits) the Accounts Payable account.
  + Similarly, for customers:
    - When you enter a transaction in the Create Invoices window, QuickBooks automatically increases (debits) the Accounts Receivable account because the Create Invoices window is used to record sales on account.
    - When you record a collection of accounts receivable in the Receive Payments window, QuickBooks automatically decreases (credits) the Accounts Receivable account.
* Therefore, you do not have to enter the account number or name for these default accounts because they have been pre-established by QuickBooks.

## Chapter Problem

* In this chapter you will continue with the sample company, Kristin Raina Interior Designs, by entering and tracking customer transactions.
  + Kristin Raina provides interior design and decorating services both on account and for cash.
  + Customers and clients remit payment for invoices.
  + These funds are periodically deposited in the company checking account.
  + Information for several customers has been entered in the Customer:Job List.
  + This information, along with February 1, 2021, beginning balances and vendor activity from Chapter 2, are contained in the company file CH3 Kristin Raina Interior Designs.
* See text for steps to open CH3 Kristin Raina Interior Designs.
* See text for steps to make backup copy and restore that copy.
  + Use EX3 *[Your Name]* Kristin Raina Interior Designs.
* See text for steps to change the company name.
  + EX3 *[Your Name]* Kristin Raina Interior Designs

## Lists/Centers: The Customer Center

* The Customer Center contains important information on each customer, such as company name, address, contact person, type of customer, terms, credit limit, preferred payment method, and current balance owed.
* All customers the company does business with should be included in the Customer Center.
* Recall from Chapter 1 that the second level of operation in QuickBooks is recording background information in Lists/Centers.
* Lists/Centers are revised periodically when
  + new customers are added
  + customers not used in the business are deleted
  + background information on a customer changes
* These adjustments to the customer files are referred to as *updating* the Customer Center.
* You should try to enter the information for each customer in the Customer Center prior to recording transactions.
  + If you inadvertently omit a customer, you can add that customer during the Activities level of operation.
* Kristin Raina has entered information for existing and anticipated customers in the Customer Center.
* See text for steps to review the Customer Center.
* The Customer Center contains the following parts:

|  |  |
| --- | --- |
| **Customers & Jobs tab** | Lists all customers and jobs with current balance due. |
| Displays all customers, active customers, or only customers with balances. |
| **Transactions tab** | Lists all transactions for listed customers. |
| **New Customer & Job button** | Used to add a new customer or job. |
| **New Transactions** | Used to create an invoice, enter sales receipt, payments and credit memos, etc. |
| **Customer Information** | Displays background and transaction information for the customer selected in the Customer & Jobs tab. |
| **Attach icon** | Used to attach documents. |
| **Edit icon** | Used to edit background information for the customer selected on the Customer & Jobs tab. |
| **Contacts tab** | Used to add a contact name for this customer by clicking the 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 customer. |
| **To Do’s tab** | Used to view the To Do List for this customer. |
| **Reports for this Customer** | Lists the reports available in the Customer Center. |

* Once a customer is selected, you can right-click the mouse on the Customer tab to display a shortcut menu to accomplish most customer-related activities.
* The customer file contains six parts:

|  |  |
| --- | --- |
| Name page | Displays the customer’s name and three command buttons: OK, Cancel, and Help. |
| Address Info tab | Used to enter the customer’s company name, billing and shipping address, contact person, telephone and mobile phone numbers, and email address. |
| Edit icon can be used to edit address information. |
| Payment Settings tab | Allows you to enter information such as the customer’s account number, credit limit, payment terms, and preferred payment method |
| Sales Tax Settings tab | Allows you to enter the customer’s sales tax code and resale number. |
| Additional Info tab | Allows you to enter the customer type and gives you the ability to create customized fields. |
| Job Info tab | Allows you to enter information such as job status and start and end dates for a job for this customer. |

### Adding a Customer

* See text for steps for adding a customer.

### Deleting a Customer

* See text for steps for deleting a customer.
* A customer with a balance or a customer who has been part of a transaction for the current accounting period cannot be deleted but can be marked inactive and then deleted at fiscal year-end.

### Editing a Customer

* See text for steps for editing a customer.
* See text for practice exercise.

## Activities: The Create Invoices Window

* Recall from Chapter 1 that the third level of operation in QuickBooks is Activities.
* In QuickBooks, Activities identified as sales on account are recorded in the Create Invoices window.
* Accounts Receivable is the default general ledger posting account.
* All transactions entered in this window will result in a debit to the Accounts Receivable account.
* The account to be credited, usually a revenue account, is determined based on the item chosen.
* QuickBooks records a sales-on-account transaction as follows:

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | XXX |  |
| Revenue |  | XXX |

* At the same time, QuickBooks updates the customer’s file in the Customer Center to reflect the new receivable.
* In the Create Invoices window, you identify the following:
  + customer who will be invoiced
  + invoice date and number
  + terms of payment
  + items sold or services provided
* You can print the invoice from this window or you can click File and then click *Print Forms.*
* You can change the invoice format based on the type of sale.
* The Create Invoices window allows you to
  + select a customer from the Customer Center
  + create an invoice with an invoice number, description of services provided or product sold, and terms given
* Several different invoice formats are available that you can use depending on the nature of the sale.
* See text for information on the Create Invoices window.
* Most of the data fields are self-explanatory, but take special note of the following fields:

|  |  |
| --- | --- |
| TEMPLATE | QuickBooks allows for eight types of invoice formats |
| choose the one that best describes the items sold |
| for this chapter, Intuit Service Invoice will be used |
| you can also customize or download additional formats. |
| ITEM | Choose an item of service or inventory sold from the drop-down list. |
| Once an item is selected, the description and rate will be filled in automatically based on data entered in the Item List. |
| Customer/Transaction tabs | Displays a summary of information about a customer, recent transactions and notes. |
| Print icon | Allows you to print this invoice immediately rather than using the Print Forms submenu of the File menu. |

* The Previous and Next arrows, and the Save & Close, Save & New, and Clear buttons, all have the same function in this window as in the Enter Bills window.

### Items

* Kristin Raina Interior Designs has established two service revenue items in the Item List: Decorating and Design Services.
  + Decorating Services represent interior decorating consulting and are billed at a rate of $50 per hour.
  + Design Services represent interior design work on specific projects and are billed at a rate of $60 per hour.
* See text for steps to view items.
* Decorating and designing are indicated as service items (rather than inventory or payroll).
* The Edit Item window contains a description, rate per unit (hour), and default general ledger posting account.
  + QuickBooks uses this data when you create an invoice for a customer for this service.

### Creating an Invoice

* See text for steps to create an invoice.
* As stated earlier, the default account to debit in the Create Invoices window is Accounts Receivable.
* An account to be credited is not indicated in this window.
* The item for Decorating Services in the Item List indicated the revenue account that should be credited when entering this item in an activity window.
  + Once you choose the Decorating Services item in the Create Invoices window, QuickBooks knows from the Item List to credit the revenue account Decorating Services for this transaction.
* See text for practice exercise.

## Activities: The Receive Payments Window

* In QuickBooks, the Receive Payments window is used to record the collection of accounts receivable from customers previously invoiced in the Create Invoices window.
* This window displays all open invoices for a specific customer.
* Payment can be in the form of cash, check, e-check, or debit/credit card
  + In addition, customer credit memos can be recorded.
* The Receive Payments window is designed only for collection of existing invoices.
* The default accounts are Accounts Receivable and Cash or Undeposited Funds (discussed later in this chapter).
* The transaction is recorded as follows:

|  |  |  |
| --- | --- | --- |
| Cash (or Undeposited Funds) | XXX |  |
| Accounts Receivable |  | XXX |

* At the same time, the customer’s file in the Customer Center is updated to reflect the payment.
* See text for the Receive Payments window.
* Once a customer is identified, a list of open invoices will be displayed.
* Note the following fields:

|  |  |
| --- | --- |
| *CUSTOMER BALANCE* field | Indicates the balance owed by this customer for all open invoices. |
| CASH, CHECK, CREDIT/DEBIT, e-CHECK. MORE buttons | Indicates whether customer is paying invoice by check, cash, e-check, or credit card. |
| Auto Apply/Un-Apply Payments button | Auto Apply is the default button. |
| If no invoice has been selected, clicking Auto Apply will automatically apply payment to the oldest invoice. |
| When a payment is applied, the button switches to Clear Payments, which allows you to erase all fields of information. |
| Discounts and Credits button | Used to apply discounts for early payments and unused credits. |
| Look up Customer/Invoice button | Used to search for all open invoices. |
| Search can be by invoice number, customer name, amount, date, and so on. |
| *PAYMENT AMOUNT* field | Used to enter the current payment. |
| When an amount is entered, it will be applied to the oldest invoice, with a check mark appearing to the left of the invoice line. If you wish to have the payment applied to an alternate invoice, you need to select that invoice by inserting a check mark to the left of it. |

* Activities identified as sale on account were recorded in the Create Invoices window.
* Subsequently, Activities identified as collection of an outstanding accounts receivable (previously recorded in the Create Invoices window) are now recorded in the Receive Payments window.
* Cash or Undeposited Funds and Accounts Receivable are the default general ledger posting accounts.
* All transactions entered in this window will result in a debit to the Cash or Undeposited Funds account and a credit to the Accounts Receivable account.

### Receiving a Payment in Full

* See text for steps of receiving a payment in full.
* Clicking Save & Close returns you to the main window.
* If you wish to remain in the Receive Payments window after posting, click the Save & New button or the Next arrow.
* This posts the transaction and clears the window for the next entry.

### Entering a Partial Payment of an Invoice

* The Receive Payments window allows you to record partial payments of open invoices.
* See text for steps of receiving a partial payment.

### Receiving Payment for More Than One Invoice

* QuickBooks allows you to record a payment of several invoices at the same time.
* See text for steps of receiving payment for more than one invoice.
* See text for practice exercise.

## Activities: The Enter Sales Receipts Window

* In QuickBooks, you use the Enter Sales Receipts window to record sales for which payment is received immediately.
* You don’t use Accounts Receivable, so you record a cash sale in one step.
* The data fields in this window are similar to those of the Create Invoices window:
  + customer, date, item sold, service provided, and so on
* The Enter Sales Receipts window is used for all cash sales of goods and services.
* The default account is Cash or Undeposited Funds.
* The transaction is recorded as follows:

|  |  |  |
| --- | --- | --- |
| Cash (or Undeposited Funds) | XXX |  |
| Revenue |  | XXX |

* A transaction entered in this window is not tracked through the Accounts Receivable or Customer reports.
* Activities identified as cash sales are recorded in the Enter Sales Receipts window.
* All transactions entered in this window will result in a debit to the Undeposited Funds account.
* The account to be credited is based on the item selected.
* As in the Create Invoices window, when an item is selected, QuickBooks uses the information from the Item List to determine which account should be credited.
* See text for steps to record a cash sale.

## Activities: The Make Deposits Window

* In most accounting textbooks, it is usually assumed that when cash is received it is immediately posted to a Cash account; however, many businesses post to the Cash account only when funds are actually deposited in the checking account, which may be several days after the funds are received.
* For these businesses, the receipt of funds is posted to a current asset account titled “Undeposited Funds” until a deposit is made.
* At that point, a second transaction is recorded to show the undeposited funds transferred to the Cash-Operating account.
* Debits to the Cash-Operating account should coincide with deposits recorded on the bank statement.
* This allows the company to more easily track deposits during the month-end bank reconciliation process.
* When the Undeposited Funds account is utilized, cash receipts are recorded as follows:

|  |  |  |
| --- | --- | --- |
| Undeposited Funds | XXX |  |
| Accounts Receivable/Revenue |  | XXX |

* This entry results from activities entered in the Receive Payments and Enter Sales Receipts windows.
* When funds previously received and recorded in the Receive Payments or Enter Sales Receipts windows are subsequently deposited in the bank, the Make Deposits window is used.
* The default accounts are Cash and Undeposited Funds.
* The transaction is recorded as follows:

|  |  |  |
| --- | --- | --- |
| Cash | XXX |  |
| Undeposited Funds |  | XXX |

* Activities identified as a deposit of funds are recorded in the Make Deposits window.
* In this window, Cash and Undeposited Funds are the default general ledger posting accounts.
* All transactions entered in this window will result in a debit to the Cash account and a credit to the Undeposited Funds account.
* See text for steps to deposit all cash receipts.
* If you make an error on the deposit, use the Previous arrow to display the deposit, click Edit, and then click *Delete Deposit*.

## Reports: Customer and Accounting reports

* Recall from Chapter 1 that Reports, the fourth level of operation, display the information and activities recorded in the various Lists/Centers and Activities windows.
* 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.

### Customer Reports from the Reports Menu

* The Accounts Receivable and customer-related reports help the company to manage its collections, control cash flow, and retain an accurate record of all customer-related transactions.
* Among these reports are the *Open Invoices* report, the *Customer Balance Detail* report and the *Customer Contact List* report.

**Open Invoices report**

* The *Open Invoices* report lists all unpaid invoices for each customer at a specific date.
* The report will list each open invoice, with date and invoice number, for a customer, along with the terms and due date.
* The report may be customized to show all customers or only those with outstanding bills.
* See text for steps to view and print the *Open Invoices* report.

**Customer Balance Detail report**

* The *Customer Balance Detail* report displays all transactions for each customer with the remaining balance owed.
* This report is similar to an accounts receivable subsidiary ledger in a manual accounting system.
* See text for example of how to view and print the *Customer Balance Detail* report.
* Click and drag with your mouse on the diamond between the titles to change the width of a column.

**Customer Contact List report**

* The *Customer Contact List* report displays information that has been entered in each customer’s file in the Customer Center.
* This report displays the name of the customer, billing address, contact person, main phone and fax numbers, and the present balance due.

### 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.
* You can display and print standard accounting reports showing this activity, 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.
* Remember, transaction numbers are assigned by QuickBooks and cannot be changed.
  + Your transaction numbers may differ from those shown in the text if you deleted transactions.
  + The important thing is to make sure that the journal entries themselves are correct.
* The Type column indicates the window where the activity was recorded.
  + The Invoice type is from the Create Invoices window.
    - Each of these transactions has a debit to Accounts Receivable because this is the default for that account.
  + The Payment type is from the Receive Payments window.
    - All of these transactions are a debit to Undeposited Funds and a credit to Accounts Receivable, which are the default accounts for these windows.
  + The Sales Receipt type is from the Enter Sales Receipts window.
    - All have a debit to Undeposited Funds because that is the default account for this window.
  + The Deposit type is from the Make Deposits window.
    - This transaction by default is a debit to Cash and a credit to Undeposited Funds.
* The following chart summarizes the general journal transaction types.

|  |  |  |  |
| --- | --- | --- | --- |
| **Type** | **Activity Window** | **System Default Account** | |
| **Debit** | **Credit** |
| Invoice | Create Invoices | Accounts Receivable |  |
| Payment | Receive Payments | Undeposited Funds | Accounts Receivable |
| Sales Receipt | Enter Sales Receipts | Undeposited Funds |  |
| Deposit | Make Deposits | Cash | Undeposited Funds |

## Exiting QuickBooks

* Upon completing this session, make a backup copy of your practice exercise company file to a removable storage medium using the Back Up command.
* Change the *Save in* text box to the to the location where you keep your backup files and carefully enter the correct file name.
* Close the company file.

# Chapter 3 Accounting Terms

s

**cash receipts journal** A journal used to record all cash receipt activities including collection of accounts receivable.

**cash sale** A sale for which payment is received immediately.

**collection of accounts receivable** Occurs when a customer pays part or all of the outstanding balance due the company; sometimes referred to as *payment of accounts receivable*.

**customer** A person or business that the company sells goods or services to, either on account or for cash.

**sale on account** Occurs when a company sells goods or services to a customer but does not receive payment until a future date.

**sales journal** A journal used to record all sales of goods on account; it can be in single-column or multi-column format.