Lesson Blueprint

Computerized Accounting with QuickBooks® 2019

# Chapter 6: New Company Setup—Detailed Start

## Introduction

* In this chapter you will learn how to create a new company file in QuickBooks.
* The four levels of operation for QuickBooks are
  + New Company Setup
  + Lists/Centers
  + Activities
  + Reports
* In Chapters 2 through 5, the Lists/Centers, Activities, and Reports levels for both a service company and a merchandise company were illustrated.
  + In those chapters, you opened an existing company file, updated the Lists/Centers, recorded Activities in the various windows, and viewed and printed Reports.
* In this chapter the first level of operations for QuickBooks—New Company Setup—is illustrated.
* QuickBooks provides two methods of New Company Setup
  + Detailed Start—covered in Chapter 6
  + Express Start—covered in Chapter 7
* QuickBooks provides two windows to help with New Company Setup:
  + EasyStep Interview window
  + QuickBooks Desktop Setup window
* When you use the Detailed Start method of New Company Setup you are moved to the EasyStep Interview window.
* The EasyStep Interview window is designed to assist you in creating and setting up a new company file.
  + involves entering basic company information and answering questions about your company in the EasyStep Interview window
* The QuickBooks Desktop Setup window is first used to select the method of New Company Setup.
* The QuickBooks Desktop Setup window then further assists you in setting up your new company file.
  + allows you to enter information on customers, vendors, service items, and inventory part items
  + You do not have to use the QuickBooks Desktop Setup window after using EasyStep Interview, but it will be used in this chapter.
* Using the EasyStep Interview and QuickBooks Desktop Setup windows is only part of the process of setting up a new company file.
* You then take the information set up in the EasyStep Interview and QuickBooks Desktop Setup windows and customize and update it according to your company’s preferences.
* Finally, the new company file is prepared for the accrual basis of accounting.
* In this chapter you will create and set up a new company file for the sample company, Kristin Raina Interior Designs.
* It is assumed that Kristin Raina Interior Designs was recording accounting activities using a manual accounting system and now will convert the company’s accounting records to QuickBooks.

## QuickBooks versus Manual Accounting: New Company Setup

* In a manual accounting system, a company’s records are set up by creating the Chart of Accounts and the general ledger.
  + The Chart of Accounts is the list of accounts (assets, liabilities, equity, revenues, and expenses) the company intends to use.
  + The general ledger is the book of all accounts with the beginning balance for each.
* If desired, subsidiary ledgers are also created and beginning balances recorded.
  + Subsidiary ledgers typically include accounts receivable and accounts payable.
* If the perpetual inventory system is used, an inventory subsidiary ledger is also created.
* In QuickBooks, a company’s records are set up by creating a new company file and establishing the Chart of Accounts List.
  + As the opening balances are entered, QuickBooks simultaneously sets up the general ledger.
* The Customer Center and Vendor Center are set up.
  + These lists are equivalent to the accounts receivable and accounts payable subsidiary ledgers.
* The Item List is set up, which is equivalent to an inventory subsidiary ledger.
  + In QuickBooks, the Item List includes service revenue items and sales tax items in addition to inventory items.
* In this chapter, you will first use the EasyStep Interview window to create a new company file, establish some preferences, and begin the Chart of Accounts List and the Item List.
* After the company file is created, you leave the EasyStep Interview window and then use the QuickBooks Desktop Setup window to enter information on customers, vendors, and inventory part items.
  + Set up the Customer Center.
  + Set up the Vendor Center.
  + Add to the Item List which begins in EasyStep Interview.
* You will then customize and update the new company file.
* Finally, you will make three journal entries to complete the New Company Setup.
  + One journal entry records opening balances that were not included in the EasyStep Interview or QuickBooks Desktop Setup windows.
  + Two journal entries reverse accounts QuickBooks sets up during New Company Setup that are not used in the accrual basis of accounting.
    - Uncategorized Revenue
    - Uncategorized Expenses

## Chapter Problem

* In this chapter there is no prepared company file to open from the company files.
* Instead, you will create and set up the company file for Kristin Raina Interior Designs.
  + Assume that Kristin Raina began operating her interior design business in January 2021 and has maintained accounting records with a manual accounting system for January through March.
  + Effective April 1, 2021, Kristin Raina has decided to convert the company’s accounting records to QuickBooks using the Detailed Start method.
* Before creating a new company file, gather all the information you need including:
  + company information (name, address, tax identification numbers)
  + general ledger account names and account numbers
  + customer information (name, address, telephone numbers, and so on) and outstanding balances
  + vendor information (name, address, telephone numbers, and so on) and outstanding balances
  + services items and billing amounts
  + inventory part items (name, cost, selling price, and quantity on hand)
  + sales tax information
* Enter this information into QuickBooks as you create and set up the new company file.
* See the text for steps to begin New Company Setup.

## New Company Setup: Detailed Start and the EasyStep Interview Window

* In New Company Setup, the first level of operation in QuickBooks, you will enter the information needed to create and set up a company file for Kristin Raina Interior Designs using the Detailed Start method and the EasyStep Interview window.
* The EasyStep Interview window is designed to guide you through the steps needed to set up a new company file.
  + EasyStep Interview is not the only way to create a company file in QuickBooks; an alternative method is covered in Chapter 7.
* With the EasyStep Interview you proceed through a series of pages by clicking the Next button.
  + enter basic company information
  + answer questions about the company
* As you answer questions, QuickBooks establishes preferences about your company.
  + Company preferences enable or disable features available in QuickBooks.
  + Enabled features allow for choices to be listed on the drop-down menus and on the Home page.
  + For disabled features, you won’t see that choice on the drop-down menu or Home page.
* Company information can later be edited by clicking Company and then *My Company*.
* Preferences can be edited by clicking Edit and then *Preferences*.
* At any time, you can click the Leave button to leave the EasyStep Interview window.
  + It is advisable not to leave before saving the company file.
  + If you leave the window before saving the company file, all information will be lost.
* If you leave EasyStep Interview, after saving the company file, QuickBooks closes the company file.
  + The next time you open the company file, you return to EasyStep Interview at the same page you left.
* Follow the steps in the text to create a new company file using the Detailed Start method and the EasyStep Interview window.
* QuickBooks provides details for several types of industries to assist in creating your new company file.
  + Based on the industry you select, QuickBooks inquires if you wish to use particular features or recommends using certain features.
  + QuickBooks creates a Chart of Accounts, including some accounts typical for the industry you chose.
  + Later in the EasyStep Interview you have an opportunity to review the suggested revenue and expense accounts in the Chart of Accounts List.
* In business, it is advisable to protect access to financial records with a password.
  + QuickBooks has the ability to password protect not only the entire company file but also specific sections of the company’s file.
  + This allows a company to limit employee access to their respective areas of responsibility.
  + For instance, the accounts receivable bookkeeper may be permitted to access only the information pertaining to the customer’s accounts and the payroll bookkeeper may only be permitted to access the payroll information.
  + If you don’t enter a password at this time, the next time you open the company file, you will be required to enter a password before the company file will be opened.
* The Select a date to start tracking your finances page identifies the date the company began to use QuickBooks.
  + For the sample company Kristin Raina Interior Designs, the fiscal start date is January 1, 2021.
  + QuickBooks start date is April 1, 2021.
  + Balances as of April 1, which represent January 1–March 31 activities, will be entered in the new company file as part of the New Company Setup.
* At the Review income and expenses page, you have the opportunity to select or deselect accounts to be included in the Chart of Accounts.
  + Any account checked will be created in the Chart of Accounts List by QuickBooks.
  + You can select, deselect, or restore recommendations on this page.
  + After you finish the EasyStep Interview window, you can add, delete, and modify any account on the Chart of Accounts List using the procedures presented in Chapter 4.
* After completing the EasyStep Interview, you are then moved to the QuickBooks Desktop Setup window.

## New Company Setup: QuickBooks Desktop Setup Window

* You can use the QuickBooks Desktop Setup window–Get all the details into QuickBooks Desktop page to enter your
  + customers (Customer Center)
  + vendors (Vendor Center)
  + service items and inventory items (Item List)
  + banking (Cash – Operating) information
  + Or you can go directly into QuickBooks (Start Working).
* For Kristin Raina Interior Designs, the QuickBooks Desktop Setup window will be used to continue setting up the new company file and to create the Customer Center, Vendor Center, and add to the Item List which begins in EasyStep Interview.
* If you wish to leave the QuickBooks Desktop Setup window, click the X.
  + You will enter QuickBooks in the new company file.
  + To return to the QuickBooks Desktop Setup window, click *Bulk Enter Business Details* on the Company menu.

### Setting Up the Customer Center

* Customer Center records the information for all customers with whom the company does business.
* Kristin Raina has 10 customers, 2 of which have outstanding balances.
* When you record the outstanding balances, QuickBooks creates the accounts receivable for that customer.
  + When entering a beginning balance for a customer, it is important to have the correct date because a journal entry will be recorded on that date.
* See text for steps to add customers in the QuickBooks Desktop Setup window.
* Exercise care in clicking the *Enter opening balances* link.
  + If you do not click the *Enter opening balances* link here, then you will subsequently have to reenter the customers with balances.

### Setting Up the Vendor Center

* Vendor Center records the information for all vendors with whom the company does business.
* Kristin Raina has 17 vendors, 7 of which have outstanding balances.
* When you record the outstanding balances, QuickBooks creates the accounts payable for that vendor.
  + When entering a beginning balance for a vendor, it is important to have the correct date because a journal entry will be recorded on that date.
* See text for steps to add vendors in the QuickBooks Desktop Setup window.
* Exercise care in clicking the *Enter opening balances* link
  + If you do not click the *Enter opening balances* link here, then you will subsequently have to reenter the vendors with balances.

### Adding to the Item List

* The Item List stores information about the service items, the inventory part items, and the sales tax.
* As transactions are recorded in the Activities windows, QuickBooks uses information in the Item List to record the transaction to the correct accounts.
* Kristin Raina has two service items and four inventory part items.
* When you record the quantity on hand for inventory parts, QuickBooks creates the inventory asset for that inventory part.
  + When entering a quantity on hand for an inventory part item, the total value is computed automatically based on the cost times quantity.
  + It is important to have the correct date because a journal entry will be recorded on that date.
* See text for steps to add service items and inventory part items in the QuickBooks Desktop Setup window.
* Exit the QuickBooks Desktop Setup window by clicking the X.
  + You will enter QuickBooks in the new company file.
  + The New Feature Tour window, the QuickBooks Home page, and the Left Icon bar appear.
  + Close the New Feature Tour window and the Home page by clicking the X in each window and remove the Left Icon bar by clicking View and then clicking *Hide Icon Bar*.
    - You can change the default to the Home page does not appear when opening a company file.
    - Click Edit and then click *Preferences*.
    - Click the Desktop View icon, and on the My Preferences tab, remove the check mark to the left of *Show Home page when opening a company file*.

## Reviewing EasyStep Interview and QuickBooks Desktop Setup Information

* EasyStep Interview created the Chart of Accounts List and the Item List.
* EasyStep Interview established preferences that enabled certain features in QuickBooks
* Activated features provide for choices to be listed on the drop-down menus and the Home page and allow for accessing Activities windows.
* QuickBooks Desktop Setup created the Customer Center, the Vendor Center, and added the service items and inventory part items to the Item List.

### Chart of Accounts List

* Reviewing the Chart of Accounts List allows you to see the accounts set up as part of the EasyStep Interview and QuickBooks Desktop Setup.
* See text for steps to view the Chart of Accounts List.
* Upon reviewing the Chart of Accounts List, observe that Kristin Raina Interior Designs uses many more accounts that are not included in the Chart of Accounts created by the EasyStep Interview and QuickBooks Desktop Setup.
* Notice also that account numbers are not assigned to the accounts.

### Item List

* Reviewing the Item List allows you to see the items set up as part of the EasyStep Interview and QuickBooks Desktop Setup.
* See text for steps to view the Item List.
* In the QuickBooks Desktop Setup window, at the Add new products and services page, when you added service items and inventory part items, these items were added to the Item List.
* When the Decorating Services service item was created, QuickBooks Desktop Setup recorded *Sales Income* in the *Account* field.
  + If you double-click *Design Services*, notice that QuickBooks Desktop Setup also uses Sales Income as the account for the Design Services.
* When the Carpets inventory part item was created, QuickBooks Desktop Setup recorded the COGS Account as *Cost of Goods Sold*, the Income Account as *Sales Income*, and the Asset Account as *Inventory Asset*.
  + If you double-click each of the other inventory part items—Draperies, Lamps, and Mirrors—you will notice that QuickBooks Desktop Setup also used *Cost of Goods Sold*, *Sales Income*, and *Inventory Asset* as the accounts for each inventory part item.
* In the EasyStep Interview window, when you answered that, yes, you do charge sales tax, the Item List was created with the sales tax item.
  + However, the Item List does not include an appropriate name for the Kristin Raina Interior Designs tax item, a tax rate, or a tax agency.
  + will be added later
* There are different ways to correct the errors in the Item List.
  + If there is an error in the type, name, cost, or price amounts in any of the service items, inventory part items, or sales tax, you can correct it in the Edit Item window.
  + If there is an error in the quantity on hand, you can correct it when viewing journal entries.
  + If there is no quantity on hand for an inventory part item, delete the inventory part item, and then go back to the QuickBooks Desktop Setup–Add the products and services you sell page.
  + To return to the QuickBooks Desktop Setup:
    - Click Company and then click *Bulk Enter Business Details.*
    - In the Add the products and services you sell section, click Add More, and then reenter the inventory part item with the correct quantity on hand and the correct date as previously illustrated.

### Customer Center

* Reviewing the Customer Center allows you to see the customers set up as part of the QuickBooks Desktop Setup.
* See text for steps to view the Customer Center.
* QuickBooks created the customers based on the information entered in QuickBooks Desktop Setup–Add the people you do business with pages.
  + If you entered an opening balance, the balance is displayed in the *Current Balance* field.
  + If you did not enter an opening balance, the *Current Balance* field indicates a zero.
  + You can correct all information in the Edit Customer window, except the current balance.
* There are different ways to correct the errors in the Customer Center.
  + If there is an error in the name, address, phone number, or contact for any of the customers, you can correct it in the Edit Customer window.
  + If there is an error in the current balance, you can correct it when viewing journal entries.
  + If there is no current balance for a customer with an outstanding balance, delete the customer, and then go back to the QuickBooks Desktop Setup–Add people you do business with pages.
  + To return to the QuickBooks Desktop Setup:
    - Click Company and then click *Bulk Enter Business Details.*
    - At the People you do business with section, click Add More, and then reenter the customer.
    - Continue to the enter opening balances page and enter the correct balance and the correct date as previously illustrated.

### Vendor Center

* Reviewing the Vendor Center allows you to see the vendors set up as part of the QuickBooks Desktop Setup.
* See text for steps to view the Vendor Center.
* QuickBooks created the vendors based on the information entered in QuickBooks Desktop Setup–Add the people you do business with pages.
  + If you entered an opening balance, the balance is displayed in the *Current Balance* field.
  + If you did not enter an opening balance, the *Current Balance* field indicates a zero.
  + You can correct all information in the Edit Customer window, except the current balance.
* There are different ways to correct the errors in the Vendor Center.
  + If there is an error in the name, address, phone number, or contact for any of the vendors, you can correct it in the Edit Vendor window.
  + If there is an error in the current balance, you can correct it when viewing journal entries.
  + If there is no current balance for a vendor with an outstanding balance, delete the vendor, and then go back to the QuickBooks Desktop Setup–Add people you do business with pages.
  + To return to the QuickBooks Desktop Setup:
    - Click Company and then click *Bulk Enter Business Details.*
    - At the People you do business with section, click Add More, and then reenter the vendor.
    - Continue to the enter opening balances page and enter the correct balance and the correct date as previously illustrated.

### *Journal* Report

* Reviewing the *Journal* report allows you to see the journal entries created as part of the QuickBooks Desktop Setup.
* See text for steps to view the *Journal* report.
* As you added customers, vendors, and inventory part items on the appropriate pages in QuickBooks Desktop Setup, behind the scenes QuickBooks recorded the information in general journal format and updated the appropriate balances.
* In the *Journal* report, QuickBooks recorded 13 journal entries based on information recorded in the QuickBooks Desktop Setup.
* Those journal entries can be categorized as follows:
  + Two journal entries labeled as *Invoice* were created when two customers with balances were recorded in the Add people you do business with pages.
    - QuickBooks debits the Accounts Receivable with the customers’ outstanding balances and credits an account called Uncategorized Income.
  + Seven journal entries labeled as *Bill* were created when seven vendors with outstanding balances were recorded in the Add people you do business with pages.
    - QuickBooks credits the Accounts Payable with the vendors’ outstanding balances and debits an account called Uncategorized Expenses.
  + Four journal entries labeled as *Inventory Adjust* were created when the inventory part items with balances were recorded in the Add new products and services page.
  + QuickBooks credits the Opening Balance Equity account and debits the Inventory Asset account with the total value for each inventory part item.
* If you determine an error in the *Journal* report, you can drill down to the original source, as seen in prior chapters.
  + The original source you drill down to is based on the transaction type.
  + Transaction types are the same as seen in prior chapters.
  + If you double-click an *Invoice* transaction type, you are drilled down to the Create Invoices window.
* You can make corrections to a customer’s opening balance or date in this window.
  + If you double-click an *Bill* transaction type, you are drilled down to the Enter Bills window.
* You can make corrections to a vendor’s opening balance or date in this window.
  + If you double-click an *Inventory Adjust* transaction type, you are drilled down to the Adjust Quantity/Value on Hand window
* You can make corrections to an inventory part quantity on hand in this window.
* The value of the inventory part item is automatically computed by QuickBooks as the quantity on hand multiplied by the cost of the inventory part.
* If you change the quantity on hand in the Adjust Quantity/ Value on Hand window but the value does not change to the correct amount, go to the Item List and edit the inventory part item and make sure the cost is the correct amount.

### Trial Balance

* Reviewing the Trial Balance allows you to see the balances in the accounts you created as part of the QuickBooks Desktop Setup.
* See text for steps to view and print the Trial Balance.
* Upon reviewing the Trial Balance, observe that the Trial Balance indicates the following:
  + amount in the Accounts Receivable account equals the amount in the Uncategorized Income account
  + amount in the Inventory Asset account equals the amount in the Opening Balance Equity account
  + amount in the Accounts Payable account equals the amount in the Uncategorized Expenses account
* Compare the trial balance of April 1, 2021 (Figure 6–Z), to the trial balance of March 31, 2021 (Figure 6–AA).
  + This is the Trial Balance from EX5 [Your Name] Kristin Raina Interior Designs and represents the balances from Activities recorded in Chapters 2–5.
* Although the EasyStep Interview and the QuickBooks Desktop Setup guide you in creating a new company file, they do not completely enter all the information for a company.
* Upon completion of the next parts of New Company Setup—customizing and updating the new company file and preparing for the accrual basis of accounting—the trial balance of April 1 in this chapter will be the same as the trial balance of March 31 from Chapter 5.

### *Profit & Loss Standard (Income Statement)* Report

* Reviewing the *Profit & Loss Standard* report allows you to see the balances created as part of the QuickBooks Desktop Setup that flow into the *Profit & Loss Standard* report.
* See text for steps to view the *Profit & Loss Standard* report.
* The *Profit & Loss Standard* report indicates only Uncategorized Income and Uncategorized Expenses.
  + These amounts are offsetting amounts of the Accounts Receivable and Accounts Payable accounts.
  + This is not a proper representation of the income and expenses of this company.

### *Balance Sheet Standard* Report

* Reviewing the Balance Sheet Standard report allows you to see the balances created as part of the QuickBooks Desktop Setup that flow into the *Balance Sheet Standard* report.
* See text for steps to display the *Balance Sheet Standard* report.
* A review of the balance sheet indicates the following:
  + The only assets recorded so far are Accounts Receivable and Inventory Asset.
  + The only liabilities recorded so far are the Accounts Payable.
  + The balance in the Opening Balance Equity account is the amount in Inventory Asset.
  + The net income is incorrect as seen in the *Income Statement (Profit & Loss)* report because of incomplete information.

## New Company Setup: Customizing the New Company File

* When you use the EasyStep Interview and QuickBooks Desktop Setup windows, only part of New Company Setup is completed.
* The EasyStep Interview window is used to:
  + create the new company file
  + enable or disable some preferences
  + record a sales tax item which begins the Item List
  + begin the setup of the Chart of Accounts
* QuickBooks Desktop Setup window is used to:
  + create the Customer Center
  + create the Vendor Center
  + update the Item List to include service items and inventory part items
* At the same time, the information entered in the QuickBooks Desktop Setup window records opening balances for Accounts Receivable, Accounts Payable, and Inventory Asset.
* The next part of the process is to continue with the information set up in the EasyStep Interview and QuickBooks Desktop Setup windows to
  + customize the new company file according to your company’s preferences
  + update the Lists/Centers with background information
  + prepare the company file for the accrual basis of accounting by recording three journal entries

### Customizing the Chart of Accounts List

* Customize the Chart of Accounts for Kristin Raina by
  + enabling the account numbers feature
  + editing account numbers and account names assigned by QuickBooks

#### Adding Account Numbers

* + Open the Chart of Accounts List, select any account, click the Accounts menu button, and then click *Edit* to view the account.
  + Notice that there is no field in which to place an account number.
  + By default, QuickBooks does not use account numbers.
  + To add account numbers to the Chart of Accounts List, you must activate the account numbers feature in the Preferences window.
    - In the left panel of the Preferences window are 23 icons that represent the different categories of features.
    - For each category there is a My Preferences tab and a Company Preferences tab.
    - The Company Preferences tab is used for most customizations when setting up a new company file.
    - The My Preferences tab records the preferences for each individual user on his or her own personal computer
  + When using the EasyStep Interview window, most preferences are established based on the responses to the questions in the EasyStep Interview.
  + See steps in text to activate the account numbers feature.

#### Editing Account Numbers and Names

* + When you activate the account numbers feature, QuickBooks assigns account numbers to certain accounts.
    - You can change or delete these numbers.
    - See text for steps to edit the account numbers and names.

#### Deleting an Account

* + As part of the EasyStep Interview and QuickBooks Desktop Setup, QuickBooks created two sales accounts:
  + Sales Income
  + 47900 Sales
  + The Sales Income account was not assigned an account number by QuickBooks but was the revenue account QuickBooks used in the Item List whenever an income account was needed.
  + This account now has the number 4060 and the name has been changed to Sale of Carpets.
  + Kristin Raina does not need the 47900 Sales account and will delete it.
  + See steps in text to delete the account.

### Customizing System Default Accounts

* As you saw in prior chapters, QuickBooks establishes default accounts and uses those accounts when recording transactions in the Activities windows.
* QuickBooks looks for these accounts in the Chart of Accounts List, and if it cannot find an account it will create one.
* Some system default accounts you learned so far include
  + Accounts Receivable
  + Undeposited Funds
  + Accounts Payable
  + Sales Tax Payable
  + Inventory Asset
  + Cost of Goods Sold
* Other system default accounts include the equity accounts.
  + equity accounts (capital and accumulated earnings)
  + payroll accounts (payroll liabilities and payroll expenses)
* When you created the company file using EasyStep Interview and QuickBooks Desktop Setup, QuickBooks created some of the system default accounts as part of the Chart of Accounts as seen in Figure 6–P.
  + Accounts Receivable
  + Accounts Payable
  + Sales Tax Payable
  + Opening Balance Equity
  + Owner’s Equity
* You will customize these system default accounts created as part of EasyStep Interview (sales tax payable and the equity accounts) and QuickBooks Desktop Setup (accounts receivable and accounts payable).
  + Edit the account numbers and names to follow the company’s pattern for naming and numbering accounts on the Chart of Accounts List.
* You will then force QuickBooks to create additional system default accounts not created by EasyStep Interview or QuickBooks Desktop Setup:
  + undeposited funds
  + inventory asset
  + cost of goods sold
* These additional system default accounts will then also be customized by editing the account numbers and names.

#### Customizing System Default Accounts Created in a New Company File

* + When you created the company and indicated it was a sole proprietorship QuickBooks automatically created three equity accounts:
    - Opening Balance Equity
    - Owners Draw
    - Owners Equity
  + When you activated the sales tax feature, QuickBooks created a Sales Tax Payable account.
  + When you added customers in QuickBooks Desktop Setup, QuickBooks created the Accounts Receivable account.
  + When you added vendors in QuickBooks Desktop Setup, QuickBooks created the Accounts Payable account.
  + When you added inventory parts in QuickBooks Desktop Setup, QuickBooks created the Inventory Asset and Cost of Goods Sold accounts.
  + Numbers and names for each of these accounts can be edited.
  + The Opening Balance Equity account will be renamed as Kristin Raina, Capital, and the Owners Draw account was already renamed Kristin Raina, Drawings.
    - The Opening Balance Equity account is used by QuickBooks as an offsetting account when certain opening balances are entered in the accounts.
  + The Owners Equity account is created to capture net income at the end of the fiscal year.
    - In Chapter 12, you will see how QuickBooks utilizes the Owners Equity account in a company file.
    - This account will be renamed *Accumulated Earnings*.
  + As we will soon see QuickBooks recognizes the Accounts Receivable, Accounts Payable, Sales Tax Payable, Kristin Raina, Capital (Opening Balance Equity), and Accumulated Earnings (Owners Equity) accounts as system default accounts, but QuickBooks does not recognize the Inventory Asset and Cost of Goods Sold accounts as system default accounts.
  + QuickBooks usually identifies a system default account by graying, or dimming, the account type.
  + As you edit each of these accounts, notice that the account type is dimmed.
  + See text for steps to edit system default account numbers and account names.
  + Notice for the Accounts Receivable account, that both the account name and the account type are Accounts Receivable.
  + Similarly, notice for the Accounts Payable account, that both the account name and the account type are Accounts Payable.
  + When QuickBooks looks for a system default account it looks for the account type, not the account name.

#### Customizing System Default Accounts Created for Use in Activities Windows

* + Recall that in the Create Invoices window, the system default account is a debit to Accounts Receivable, and in the Enter Bills window, the system default is a credit to Accounts Payable.
  + When you chose an inventory item in any of the Activities windows, QuickBooks knew from the Item List, which inventory asset account, cost of goods sold account, and sale of inventory account was the system default account to use to properly record the transaction.
  + You also know that you can create accounts in the Chart of Accounts List but sometimes QuickBooks will not find the account you created.
  + You must let QuickBooks create the account in order for the software to identify it as a system default account.
  + To illustrate how QuickBooks creates its own system default accounts, you will first add some accounts to the Chart of Accounts List and then open some Activities windows and the Item List.
  + You will then see that QuickBooks cannot locate the accounts you created and creates its own accounts.
  + See text for illustration of how QuickBooks creates its own system default accounts.
  + As you opened each of these windows, QuickBooks looked for certain accounts; and when they could not be identified, QuickBooks created new accounts:
    - 12000 \*Undeposited Funds
    - 12100 \*Inventory Asset
    - 50000 \*Cost of Goods Sold
  + When you opened the Create Invoices window, QuickBooks looked for the Accounts Receivable account and was able to locate it because of the accounts receivable type in that account.
  + When you opened the Enter Bills window, QuickBooks looked for the Accounts Payable account and was able to locate it because of the accounts payable type.
  + When you opened the Enter Sales Receipts window, QuickBooks looked for an Undeposited Funds account, and even though you created this account, QuickBooks could not locate it and created a new account.
  + When you chose the new inventory part type in the Item List, QuickBooks looked for an inventory asset account and cost of goods sold account and could not locate the Inventory Asset account and Cost of Goods Sold account created when inventory parts were entered in the QuickBooks Desktop Setup window, and therefore created new accounts.
  + In some situations, you must allow QuickBooks to create accounts and then you can edit them to your liking.
  + In all cases, accounts created by QuickBooks will have dimmed account types and you will not be able to change the account type, but you may change the account number and name.
  + Before you can edit the accounts that QuickBooks created, delete the Undeposited Funds account you created so that this account name and number can be used when editing the accounts created by QuickBooks.
  + At this time, you cannot delete the Inventory Asset account and Cost of Goods Sold account (the accounts without numbers) created in QuickBooks Desktop Setup because they are used in the Item List and in the *Journal* report.
  + In the upcoming section on Updating the Item List with the updated Chart of Accounts, you will be able to then delete these two accounts.
  + See text for steps to delete the account and to edit the accounts created by QuickBooks.
  + Note that for each of these accounts created by QuickBooks, the account type is dimmed.
  + Once QuickBooks created an inventory account and a cost of goods sold account, you can now create as many additional inventory and cost of goods sold accounts as desired.
    - This will be done in Updating the Chart of Accounts List.

### Customizing Payment Terms

* In QuickBooks a list with payment terms is accessed when needed in
  + customer files
  + vendor files
  + activities windows
* As seen in prior chapters, payment terms can be identified in both the customer and vendor files if they relate to a particular customer or vendor.
* Payment terms include Net 30 Days, 2/10, Net 30 Days, and so on.
* When you create a new company file, QuickBooks creates a list of payment terms.
* You can add, delete, or edit the payment Terms List.
* See text for steps to update the payment Terms List.

## Lists/Centers: Updating Lists/ Centers

* In the EasyStep Interview and QuickBooks Desktop Setup windows, QuickBooks created the Chart of Accounts List, which has now been customized for Kristin Raina Interior Designs.
* There are many more accounts that our sample company uses that must be added to the Chart of Accounts List.
* As part of EasyStep Interview and QuickBooks Desktop Setup, the Item List was created, but it requires some modifications.
* QuickBooks Desktop Setup created the Customer Center and Vendor Center which may also require some modifications.
* The next part of customizing the company file is to update the Chart of Accounts List, the Item List, and the Customer and Vendor Centers.

### Updating the Chart of Accounts List

* QuickBooks created some accounts in the new company file, but many additional accounts must be added to the Chart of Accounts List.
* Most of these accounts have opening balances.
* Opening balances will later be entered by general journal entry.
* See text for information to enter all the remaining accounts.

### Updating the Item List

* In QuickBooks, the Item List stores information about the
  + service items
  + inventory part items
  + sales tax
* As transactions are recorded in the Activities windows, QuickBooks uses information in the Item List to record the transaction in the correct accounts.
* Open and review the Item List.
* In EasyStep Interview when you indicated that sales tax will be used, QuickBooks created a sales tax item.
* In QuickBooks Desktop Setup, service and inventory part items were added on the Add products and services do you sell pages.
* As this information was entered in EasyStep Interview and QuickBooks Desktop Setup windows, QuickBooks recorded the information in the Item List
  + Earlier in the chapter, you reviewed the Item List (Figure 6–Q) and saw that for service items and inventory part items (Figure 6–R and Figure 6–S), QuickBooks used the same Sales Income account as the income account for each item.
  + For each inventory part item (Figure 6–S) QuickBooks used the same Cost of Goods Sold account and Inventory Asset account.
  + When customizing the system default accounts, some of the account names and numbers were changed.
    - Sales Income was changed to 4060 Sale of Carpets.
    - 12100 Inventory Asset was changed to 1260 Inventory of Carpets.
    - 50000 Cost of Goods Sold was changed to 5060 Cost of Carpets Sold.
  + In addition, when updating the Chart of Accounts List, you added additional inventory accounts, income accounts, and cost of goods sold accounts.
  + When you changed the account names and numbers of the system default accounts, these changes flowed into the Item List.
  + You will now edit the service items and inventory part items to reflect the accounts used by Kristin Raina Interior Designs.
  + When you entered the service items and inventory part items in the QuickBooks Desktop Setup window, it did not allow you to indicate if the item was taxable or nontaxable.
    - When you edit the service and inventory part items for the correct accounts, you will also indicate if the item is taxable or nontaxable.
    - In addition, the sales tax item does not have the necessary information for Kristin Raina Interior Designs sales tax and must be edited
* See text for steps to edit the service items, the inventory part items, and the sales tax item.
  + If a warning appears about the minimum quantity, delete the zero in the *Reorder Point (Min)* field.

### Updating the Customer Center and Vendor Center

* The Customer Center and Vendor Center were created when information was entered in the QuickBooks Desktop Setup window Add the people you do business with pages.
  + You reviewed the centers when the QuickBooks Desktop Setup was complete.
  + See Figures 6–U and 6–W.
* At this time, if there were additional information that you wanted to include in the Customer Center or Vendor Center that was not included in the QuickBooks Desktop Setup, such as terms of payment, email addresses, and account numbers, you could edit each customer and vendor to add the additional information.

## Adjusting for the Accrual Basis of Accounting

* You have now
  + created the new company file
  + customized and updated the Lists/Centers in the new company file
* The final step is to enter the remaining opening balances and prepare the company file for the accrual basis of accounting.
* You may have noticed in many of the reports the label *accrual basis* in the upper left-hand corner.
* In QuickBooks, by default, the accounting reports and financial statements are prepared using the accrual basis of accounting.
  + The accrual basis of accounting requires the recording of revenues when earned and expenses when incurred regardless of cash receipts or cash payments.
* The accrual basis of accounting follows generally accepted accounting principles (GAAP) and is the accounting basis used in this text.

### Completing New Company Setup Using the Accrual Basis of Accounting

* Recall that you entered the opening balances for the Accounts Receivable, Accounts Payable and Inventory Asset accounts when you entered the information in the QuickBooks Desktop Setup window.
* When adding new accounts to the Chart of Accounts List, you could have entered the opening balances for assets (excluding Accounts Receivable), liabilities (excluding Accounts Payable), and equity accounts at that time.
* You cannot enter opening balances for some system default accounts, such as Accounts Receivable, Accounts Payable, and Sales Tax Payable, and you cannot enter opening balances for revenue and expense accounts.
* All opening balances will be entered in one journal entry.
* As you saw in the *Journal* report (Figure 6–Y),
  + every time an Accounts Receivable account was recorded, a corresponding Uncategorized Income account was recorded
  + every time an Accounts Payable account was recorded, a corresponding Uncategorized Expenses account was recorded
* Uncategorized Income and Uncategorized Expenses accounts are not used in an accrual basis of accounting and therefore must be reversed to eliminate them.
* To complete New Company Setup using the accrual basis of accounting, three journal entries will be prepared:
  + entering opening balances
  + reversing uncategorized income account
  + reversing uncategorized expenses account

### Entering Opening Balances

* Enter all opening balances for Kristin Raina Interior Designs, excluding Accounts Receivable, Inventory, and Accounts Payable, as one large compound journal entry.
* See text for steps to enter opening balances in the Make General Journal Entries window.
  + You can enter the account number for each account or use the drop-down list to select an account.
  + It may be easier to type the account number and then use the Tab key to move to the debit or credit column, enter the amount, and then use the Tab key to move to the next row.
    - It is not necessary to delete the balancing amount in the credit (or debit) column, just type in the correct amount in the debit or credit column.
    - When appropriate, type over the balancing amount.

### Reversing the Uncategorized Income Account

* Recall in the *Journal* report shown in Figure 6–Y that there were two journal entries recorded that debited Accounts Receivable and credited Uncategorized Income for two customers as follows:

Berger Bakery Company $ 600

Franco Films Co. 940

$1,540

* Debit entries to the Accounts Receivable account are correct and should stay in that account.
* Credits to the Uncategorized Income account need to be reversed by
  + debiting Uncategorized Income for the total of $1,540
  + crediting account 3010 Kristin Raina, Capital (formerly the Opening Balance Equity account) for $1,540
* As part of customizing the Chart of Accounts, the account Opening Balance Equity, created by QuickBooks, was changed to 3010 Kristin Raina, Capital.
* See text for steps to reverse the Uncategorized Income account.

### Reversing the Uncategorized Expenses Account

* In the *Journal* report of Figure 6–Y, there were seven journal entries recorded that credited Accounts Payable and debited Uncategorized Expenses for seven vendor balances as follows:

Ace Glass Works $1,500

Bell Carpet Design 2,000

Cuza and Carl Associates 400

Galeway Computers 2,600

Midwest Mutual Insurance 2,400

Minneapolis Electric & Gas 450

Williams Office Supply Company 400

$9,750

* Credit entries to the Accounts Payable account are correct and should stay in that account.
* Debits to the Uncategorized Expenses need to be reversed by
  + crediting Uncategorized Expenses for the total of $9,750
  + debiting the 3010 Kristin Raina account, Capital (formerly the Opening Balance Equity account) for $9,750
* See text for steps to reverse the Uncategorized Expenses account.

## Reports: Accounting Reports and Financial Statements

* Upon completing the New Company Setup, you should display and print the accounting reports and financial statements.

### Accounting Reports

* Accounting reports in the new company file consist of the following reports
  + *Journal*
  + *Trial Balance*

#### *Journal* report

* + You displayed and printed the *Journal* report after the EasyStep Interview and QuickBooks Desktop Setup windows were completed.
  + After recording the opening balances and reversing the Uncategorized Income and Uncategorized Expenses accounts, three more journal entries have been added to the *Journal* report.
  + You can view and print all of the journal entries for April 1, 2021.
  + See text for *Journal* report displaying only the additional three journal entries.

#### *Trial Balance* report

* + View and print the trial balance for April 1, 2021 – April 1, 2021.
  + See text for *Trial Balance* report.
  + Compare the trial balance of April 1, 2021, to the trial balance of March 31, 2021 shown in Figure 6–AA.
  + The trial balances should be the same.
  + QuickBooks created the Uncategorized Income and Uncategorized Expenses accounts when you entered outstanding accounts receivable and accounts payable balances in the Customer Center and Vendor Center, respectively, the balances in these uncategorized accounts were subsequently reversed when the company file was prepared for the accrual basis of accounting.
    - These accounts are no longer needed and can be marked inactive.

### Financial Statements

* Financial statements consist of
  + *Profit & Loss Standard* report
  + *Balance Sheet Standard* report
* You should print these reports once you have completed New Company Setup.
* See text for financial statements.

## Backing Up the New Company File

* You should make a backup copy of the new company file in the event there is damage to the file or the computer, or you are working on a different computer.
* Using the procedures learned in previous chapters, make a backup copy of the new company file to your subfolder and/or removable storage device.
  + Name it EX6 [*Your Name*] Kristin Raina Interior Designs.
  + Restore the backup copy and change the company name to EX6 [*Your Name*] Kristin Raina Interior Designs.
* Upon completing the New Company Setup level of operation, updating the Lists/Centers, viewing and printing Reports, and making a backup copy of the new company file, your accounting records are now ready for recording daily activities.
  + Activities would be recorded in the new company file using the procedures illustrated in the prior chapters

# Chapter 6 Accounting Terms

**accrual basis of accounting** Accounting method that requires the recording of revenue when it is earned and the recording of expenses when they are incurred regardless of cash receipts or cash payments.

**reversing entries** Entries recorded in the general journal to offset a balance in an account.