

# *Farm Accounting Using QuickBooks®*

## *Users Manual*

Stanley Schraufnagel  
Jenny Vanderlin



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## **INTRODUCTION and ACKNOWLEDGEMENTS**

This manual is designed to introduce the reader to the use of QuickBooks Pro™ accounting software for farm businesses. QuickBooks 2008 software is used in the manual. Intuit releases a new version annually. NOTE: If you own a version other than 2008 exercises may be done a bit differently. Basic accounting concepts are addressed, emphasizing the use of QuickBooks to record farm business transactions and generate reports useful for measuring management and financial performance and for income tax preparation. The abbreviation of QB will be used for QuickBooks throughout the manual.

The authors are Stanley Schraufnagel, Professor, Department of Agricultural Economics, University of Wisconsin-River Falls and Jenny Vanderlin, Assistant Director, Center for Dairy Profitability/UW-Extension.

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## **CHAPTER 1. Accounting Basics**

### **A. Why Is Accounting Important?**

Accounting involves the collection, analysis and processing of financial information for a business and the reporting of that information to decision-makers. Accounting information is collected for a number of reasons including improving management performance, measuring financial performance, credit acquisition, and income tax preparation. Current knowledge of business income, expenses, assets, liabilities, and equity allows the business to recognize problems easier and quicker and evaluate alternative solutions to those problems. This knowledge also allows the business to regularly compare current financial performance to past performance, benchmarks, and to business peers. Of course, the lender always appreciates an accurate and current set of financial statements when considering a loan request. Finally, the IRS requires an accurate measure of income and expenses for tax purposes.

Are we saying you or someone in your business needs to be an accountant? No. What we are saying is that there are many good reasons for an accounting system besides the tax preparation argument. How much of the “in-house” accounting you choose to take responsibility for is up to you and depends on the skills, interests and competing needs for time of the business owner(s) and the associated paid and unpaid labor. At some point, for most businesses, the process is passed off to a hired accountant/tax preparer to complete the financial statements and/or more commonly complete the tax return. This manual assumes you have some interest and time to follow the accounting process further than to collect the data and hire the rest out. You may only want to record cash income and expenses for tax purposes, however, you may also want to track assets and liabilities or you may want to do all of the above and incorporate end of year inventory and other adjustments which will generate an accrual set of financial reports useful in addressing the non-tax reasons for collecting accounting information.

### **B. Transaction Analysis**

A transaction is any event that has a financial or economic impact on the business. The accountant’s first job is to collect information on each business transaction which could take the form of cancelled checks, invoices, receipts, bills, bank account statements, depreciation records or inventory records.

Once information about a transaction is available it should be analyzed in terms of how it impacts the accounting model, which accounts are affected and how it changes those account balances.

### **C. Accounting Model**

The model or equation used to record transactions is:  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ . An asset is something of value the business has ownership control over. A liability is any debt obligation of the business. Owner's equity represents the portion of the assets owned debt free. Owner's equity comes from two sources:

1. *Contributed Capital* represents assets provided to the business by the business owner "free of charge." Contributed Capital sources include an off-farm job, gifts, inheritances or personal savings.
2. *Retained Earnings* is the accumulated profit saved in the business over the life of the business. Profit represents the excess of income over expenses. Income represents the value of business production. Expenses represent the value of resources used to produce income. Some of the business profits may be consumed for family living purposes and thus is not saved in the business but any profit not consumed must have been used to increase assets or decrease liabilities and therefore increases owner's equity.

Every transaction impacts this model and the accountant's job is to figure out how. Furthermore, after each transaction is recorded the model equality needs to hold or, said another way, the model needs to remain in balance. Assets must always equal the sum of Liabilities and Owner's Equity. This immediately suggests that an individual transaction cannot impact the model once, for instance, increase assets or decrease liabilities or increase owner's equity because this would clearly leave the model out of balance. Thus, each transaction must impact the model at least twice- for instance increase assets and increase liabilities. That is why this model is sometime referred to as the double-entry accounting model.

### **D. Accounts**

An account is an individual record of information that the business is interested in tracking within the accounting system. Given the accounting model, individual asset, liability and owner equity accounts should be considered. Examples of asset accounts are business checking, accounts receivable,

inventory, land, machinery and breeding livestock. Liability account examples are account payable, note payable and credit card. Finally, since the key source of owner's equity is profit, the owner equity part of the model usually has a large number of accounts. This is where the income and expense accounts reside. Owner's equity is also where a family living or draw account would be located if the business is providing for personal needs of the owner(s) and an owner's contribution account to capture contributed capital situations.

### **E. Chart of Accounts**

The list of accounts that the business chooses to track balances for is referred to as the Chart of Accounts. The Chart of Accounts will vary from business to business depending on how much information is deemed necessary to collect and in what areas. Certainly a selection of income and expense accounts similar to those on Schedule F is appropriate to meet IRS needs. In addition, asset and liability accounts are necessary if a balance sheet is desired and to generate an accurate measure of profit. An example Chart of Accounts is presented in chapter 2.B.

### **F. Account Balances**

Maintaining account balances is a basic but critical skill to master. Luckily, many transactions are recorded in QB<sup>1</sup> using forms that will update account balances automatically. However, there are times you may need to complete a journal entry. A journal entry is the conventional process used by accountants to record transactions and update account balances.

To complete a journal entry you must understand the concepts of Debit and Credit. Debit and Credit are terms used by accountants to communicate how a transaction impacts the accounting model. Each transaction either increases or decreases the accounting model at least twice and Debit or Credit communicates that information.

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<sup>1</sup> Quickbooks (QB) will be used throughout the manual.

**Table 1:1**

	<b>Increase</b>	<b>Decrease</b>
<b>Asset</b>	Debit	Credit
<b>Liability</b>	Credit	Debit
<b>Owner's Equity:</b>		
<b>Income</b>	Credit	Debit
<b>Expense</b>	Debit	Credit
<b>Family Living</b>	Debit	Credit
<b>Contributed Capital</b>	Credit	Debit

Table 1:1 shows the meaning of Debit and Credit in different parts of the model. On the asset side of the accounting model, increases are recorded as debits and decreases as credits. For instance, if the transaction increases business checking, then the journal entry will Debit the business checking account. On the Liability and Owner's equity side of the model this is reversed, so increases are recorded as credits and decreases as debits. For example, if the transaction increases income, the journal entry will Credit the appropriate income account.

### **G. Journal Entry**

When making the occasional journal entry in QB, you need to identify which parts of the accounting model are affected and how, which specific accounts are involved, and which account is debited and which is credited. Each transaction involves at least two accounts and at least one debit and one credit.

Later in this manual we will explain when it is necessary to make a journal entry and where in QB the journal entry form resides. Each journal entry must include the transaction date, at least one account to debit and at least one account to credit. Finally, the dollar amount of debits must equal credits.

For example, consider the following transaction: you purchase \$5,000 of feed and pay for it from the business checking account. Feed is a resource used to produce income and any resource used to produce income represents an expense. So part of this transaction involves an increase to expenses. When viewing the example Chart of Accounts (Chapter 2), the expense account that most closely matches this situation is Purchased Feed and since this expense account is increasing we will Debit the Purchased Feed expense account for \$5,000. If some of this feed is unused at the end of the year, an accrual adjustment can be made at that time. The Business Checking account represents an asset since it is something of value the business has ownership control over and since it is decreasing, it should be Credited for \$5,000. The journal entry presented in Table 1:2 uses the standard format. Recording a transaction via a journal entry should be relatively rare and the example transaction below can be easily recorded using a dedicated form in QB.

**Table 1:2**

<b>Date</b>	<b>Account Name</b>	<b>Debit</b>	<b>Credit</b>
05/02/2009	Purchased Feed Expense	5000	
	Business Checking		5000

## **H. Why Track Income and Expense?**

Your chart of accounts must include the individual sources of income and expense that you are interested in tracking either for income tax purposes or for management and control purposes. Income is the value of products and services produced by the business. Expense is the value of resources used to produce income. This information is important so the business can measure how the production process has performed over a period of time (profit) and to report net taxable income to the IRS.

## **I. When to Record Income and Expense**

Which accounting method are you using? The answer to this question determines when income and expense should be recorded. Furthermore, the answer could be different for the income tax reporting function of the accounting system than for the management function.

For income tax purposes many farmers are allowed to use the cash accounting method. With the cash method, income is recorded in the year in which payment for the product or service is received while expenses are recorded in the year in which resources are paid for. The cash accounting method provides significant income-tax management flexibility.

Accurate financial information for management purposes requires accrual accounting. The accrual accounting method records income in the year in which the product or service is produced and expenses in the year in which the resource is used to produce income.

As business activity occurs during the year most of the products and services produced are sold and payment is received. Also, most of the resources acquired are used to produce income. As the end of the year nears differences between the cash and accrual methods often occur. For instance, \$1,000 of fuel is purchased and paid for in December but only \$300 is used before the end of the year. In this case, the cash accounting method would record fuel expense of \$1,000 while the accrual method would record fuel expense of \$300. Similarly for income, production completed but not yet sold would not be income for the cash method but would be for the accrual method. Storable commodities like crops typically result in some of the largest differences in income recognition between the cash and accrual methods. Products that are usually sold when the production process is complete (milk, livestock and horticultural crops) tend to have the smallest differences in income recognition between the cash and accrual accounting methods.

QB is designed to help a business track accounts receivable and payable. Accounts receivable represents sales for which the business has not received payment. Accounts payable represent resource purchases the business has not yet paid for. It is important for a business to track who owes it money and who it owes money to. Our recommendation when using QB, is to record sales as soon as possible regardless whether payment has been received or not. This often is difficult because details associated with the sale like price, quantity and deductions from the gross sale amount are not always known until payment is received. In this case, you would not record the sale until these necessary details became available. We also recommend that resource purchases should be recorded as soon as possible regardless whether payment of the bill has occurred or not. Following these recommendations allows QB to track accounts receivable and payable.

Cash income and expenses are required for filing income taxes. QB is able to differentiate between income for which payment has not been received and cash income and also between expenses for which payment has not been made and cash expenses. Thus, there will not be a problem when generating tax reports from QB.

Tracking accounts receivable and payable does not guarantee accrual financial statements since products sold may not have been produced in the year sold or resources purchased may not have been used in the year purchased. End of the year noncash accrual adjustments are required to provide the business with an accurate measure of profit reflecting the amount by which the value of production for a particular period exceeded the value of the resources used to produce it.

#### **J. Why Track Assets and Liabilities?**

As mentioned earlier, assets are items of value the farm has ownership control over and liabilities are debt obligations of the business. If you are using the cash accounting method, this information isn't necessary for income tax reporting purposes, however it is important to measure the business net worth or owner's equity. An important business financial goal is for Owner's Equity to increase over time. Tracking liabilities in the accounting system like accounts payable and notes payable, credit card balances, etc. gives you quick and easy access to these important debt balances. Also, making the end of year accrual adjustments will require the creation of asset accounts for inventory. Finally, you cannot effectively operate a double-entry accounting system such as QB without tracking assets and liabilities.

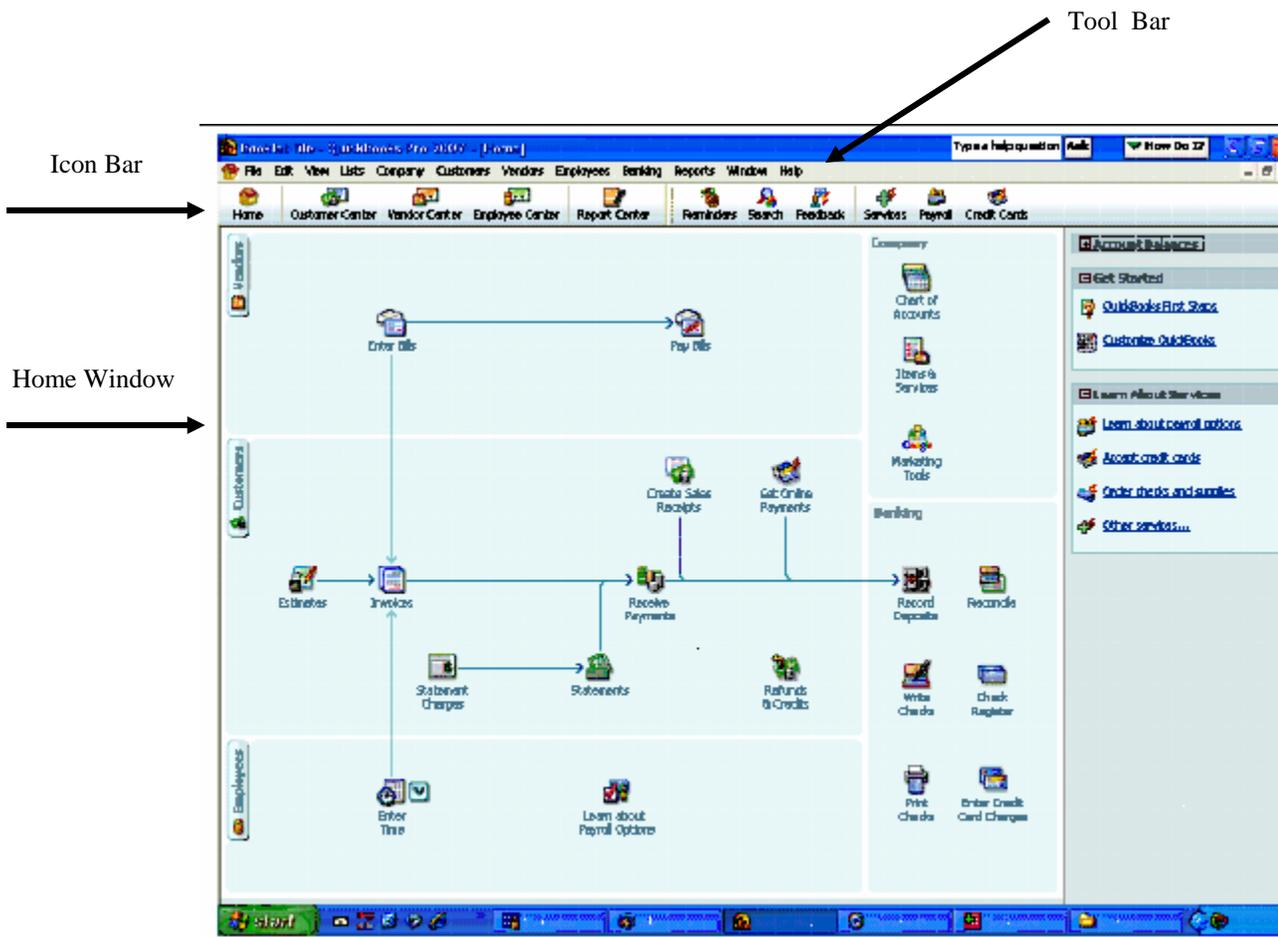
#### **K. When to Enter Transactions?**

Ideally, transactions should be entered in QB as quickly as possible. This practice reduces chances that transaction details are forgotten or supporting documentation is lost. This practice also allows QB to track a transaction, for instance, a bill. Recording this bill early on allows QB to track the account payable and any discount allowing you to stay current with outstanding bills and take advantage of early payment discounts. QB cannot include the impacts of a transaction on business financial and tax reports until the transaction has been recorded.

## CHAPTER 2. Getting Started

This manual was written for Quickbooks Pro 2008™ and for simplification purposes will be referred to as QB. We assume QB is installed on your computer and ready to be used.

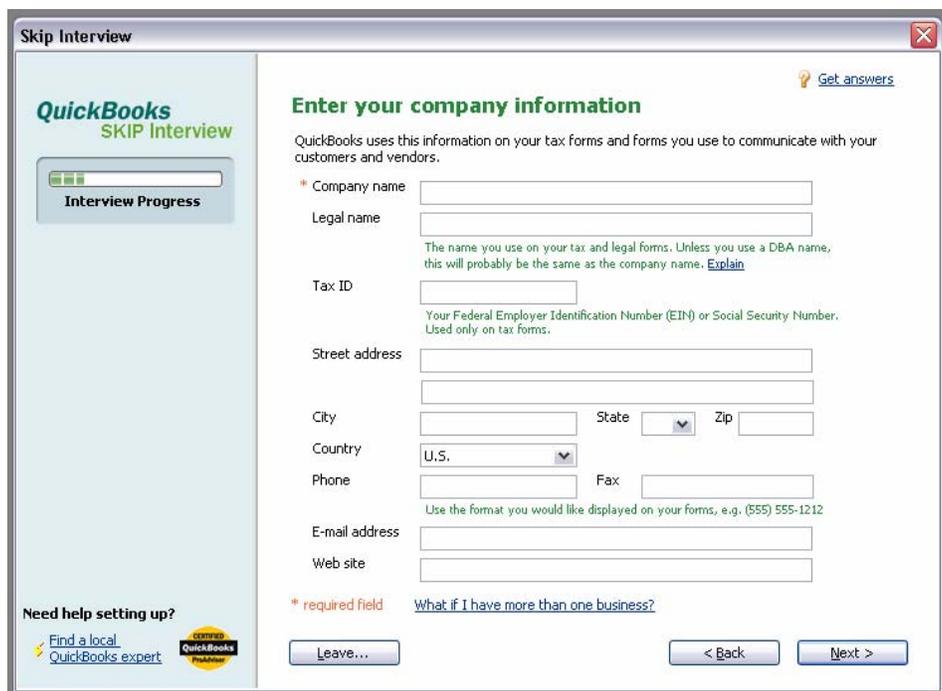
There are multiple ways to access lists, forms and other areas of QB. In this manual, we will work primarily with the Tool Bar from which you have access to all software functionality but many functions are also accessible from the Icon Bar or the Home window. Choose the approach that works best for you.



## A. Creating a Company File

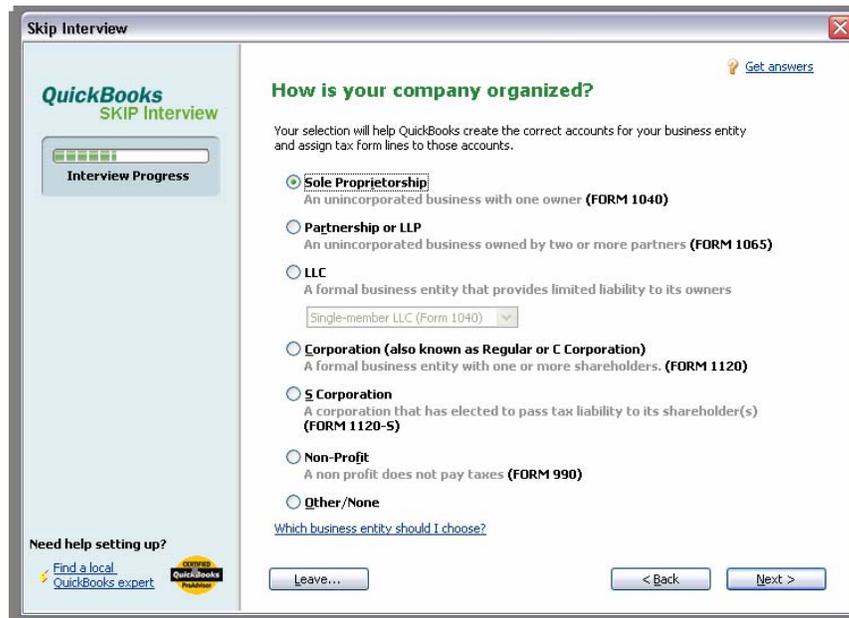
The first step is creating a Company File which contains all the financial information for one business.

1. Select File in the Tool Bar.
2. Select New Company – the East Step Interview window appears. This window allows you to enter significant amounts of information about your business and set preferences that dictate how QB will look and function. We will bypass most of this activity now, choosing to enter it later as we need it. Our goal is to begin recording transactions in QB as quickly as possible.
3. Select Skip Interview.



The screenshot shows the 'Skip Interview' window in QuickBooks. The window title is 'Skip Interview'. On the left side, there is a 'QuickBooks SKIP Interview' logo and an 'Interview Progress' indicator with three green bars. Below the progress indicator, there is a link 'Need help setting up?' with a sub-link 'Find a local QuickBooks expert' and a 'CERTIFIED QUICKBOOKS PRO ADVISOR' badge. The main content area is titled 'Enter your company information' and includes a 'Get answers' link. Below the title, there is a note: 'QuickBooks uses this information on your tax forms and forms you use to communicate with your customers and vendors.' The form contains the following fields: 'Company name' (required), 'Legal name', 'Tax ID', 'Street address', 'City', 'State' (dropdown), 'Zip', 'Country' (dropdown, currently set to 'U.S.'), 'Phone', 'Fax', 'E-mail address', and 'Web site'. A note for 'Tax ID' states: 'Your Federal Employer Identification Number (EIN) or Social Security Number. Used only on tax forms.' A note for 'Phone' states: 'Use the format you would like displayed on your forms, e.g. (555) 555-1212'. At the bottom, there is a '\* required field' note and a link 'What if I have more than one business?'. Navigation buttons include 'Leave...', '< Back', and 'Next >'.

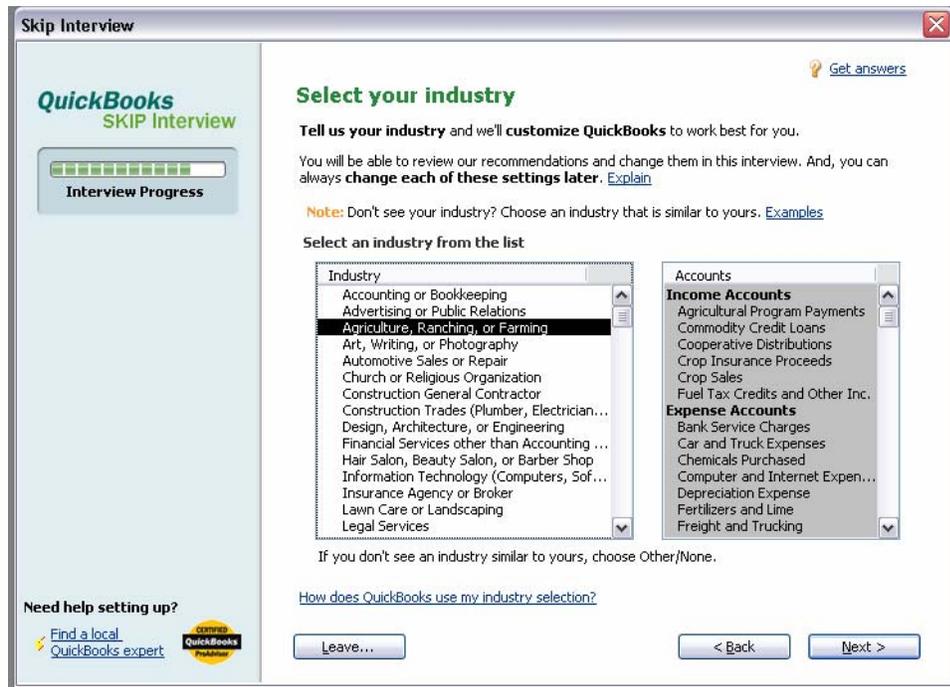
4. Enter a Company Name, the other information fields are optional..  
Select Next.



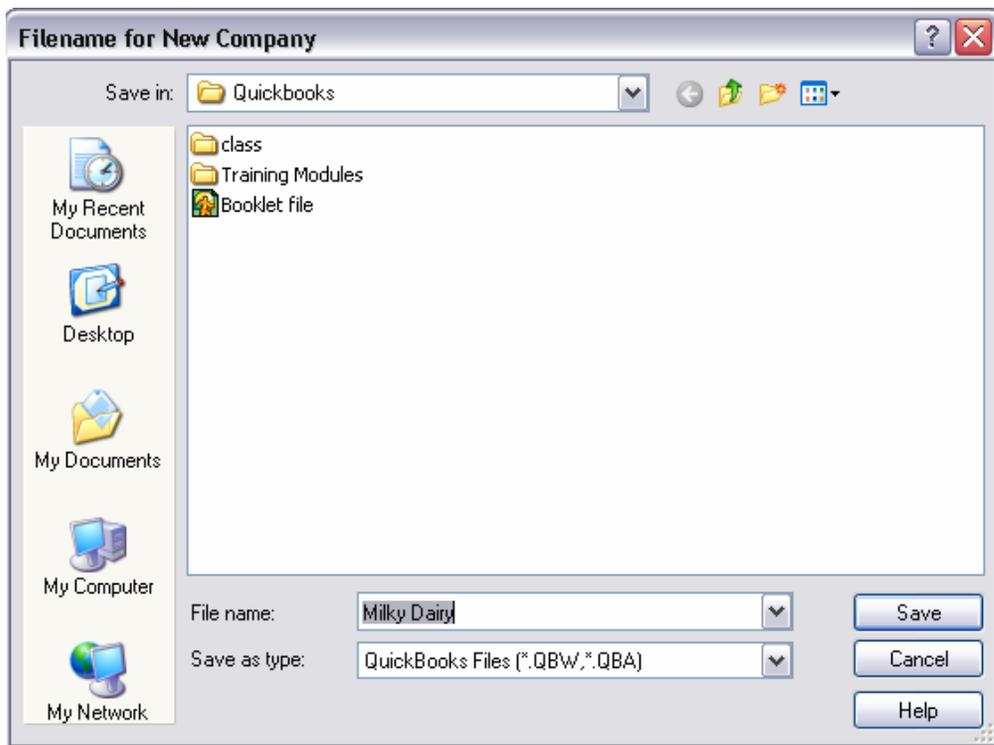
5. This window allows you to select a business organization which then assigns appropriate tax form(s) to your company file. We want access to Schedule F thus we select Sole Proprietorship<sup>1</sup>.
6. The next window allows you to select an accounting period or fiscal year. We'll assume calendar year so leave the selection as January and select Next.



<sup>1</sup> The selection of Sole Proprietorship is only to access Schedule F and does not preclude the use of other business organizations such as Partnership, LLC or Corporation.



7. The next window allows you to select an industry which provides a preset Chart of Accounts. Select "*Agriculture, Ranching, or Farming*" from the drop down list. (You could also select "Other/None" and start with a blank Chart of Accounts). The preset Chart of Accounts provides a set of income and expense accounts that match Schedule F. Later, you will need to add asset and liability accounts and may choose to edit any of the preset income and expense accounts.
8. Select Next, then Finish.



9. The Filename for New Company window appears. Indicate where to save this file in the Save in: field and name it in the File name: field. Select Save.
10. The QB Learning Center window appears. There are some short tutorials here that explain basic QB concepts. These tutorials can be reviewed at any time. Select Begin Using Quickbooks.
11. The Home window appears. This window is designed as a QB navigator giving quick access to commonly used software functions and insight into how business processes relate to QB functions. Since we will be accessing software features from the Tool Bar, the home window can be closed at this time.

## B. Working with Lists

Lists are the way QB organizes a variety of information like Chart of Accounts, Customers, Vendors, Items you sell, Employees and Memorized Transactions.

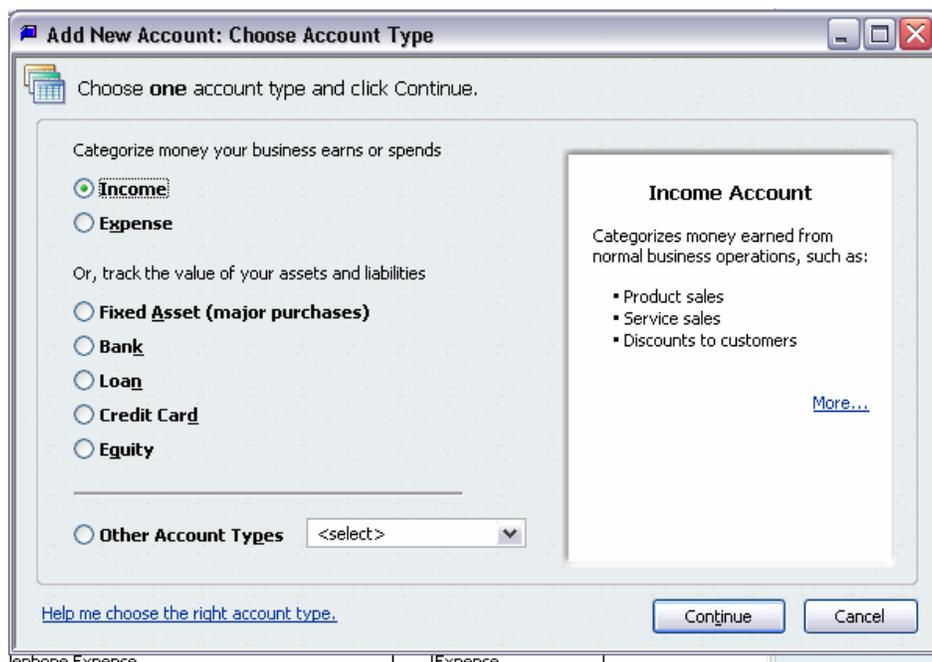
### 1. Chart of Accounts

- a. Select Lists from the Tool Bar.
- b. Select Chart of Accounts. If you selected the "Agriculture, Ranching, or Farming" a preset Chart of Accounts will appear. Balance Total information is presented for asset, liability and equity accounts other than income and expense. You can view balances for income and expense accounts and any other account by double clicking on a particular account.

Name	Type	Balance Total
↕ Accumulated Depreciation	Fixed Asset	0.00
↕ Furniture and Equipment	Fixed Asset	0.00
↕ Payroll Liabilities	Other Current Liabi...	0.00
↕ Opening Bal Equity	Equity	0.00
↕ Owners Draw	Equity	0.00
↕ Owners Equity	Equity	
↕ Agricultural Program Payments	Income	
↕ Commodity Credit Loans	Income	
↕ Cooperative Distributions	Income	
↕ Crop Insurance Proceeds	Income	
↕ Crop Sales	Income	
↕ Fuel Tax Credits and Other Inc.	Income	
↕ Bank Service Charges	Expense	
↕ Car and Truck Expenses	Expense	
↕ Chemicals Purchased	Expense	
↕ Computer and Internet Expenses	Expense	
↕ Depreciation Expense	Expense	
↕ Fertilizers and Lime	Expense	
↕ Freight and Trucking	Expense	
↕ Gasoline, Fuel and Oil	Expense	
↕ Insurance Expense	Expense	
↕ Interest Expense	Expense	
↕ Office Supplies	Expense	
↕ Payroll Expenses	Expense	
↕ Professional Fees	Expense	
↕ Rent Expense	Expense	
↕ Repairs and Maintenance	Expense	
↕ Seeds and Plants Purchased	Expense	
↕ Small Tools and Equipment	Expense	
↕ Storage and Warehousing	Expense	
↕ Telephone Expense	Expense	
↕ Utilities	Expense	
↕ Ask My Accountant	Other Expense	

c. Adding Accounts/Subaccounts

- i. Select the Account button at the bottom of the Chart of Accounts window ;
- ii. Select New and the Add New Account: Choose Account Type window appears. Type tells QB what kind of an account it is for double-entry accounting purposes so this is critical to get correct. Use Table 2:1 below to help Type accounts.



**Table 2:1**

<b>Type</b>	<b>Account Examples</b>
Bank	Checking or savings
Fixed Asset	Breeding livestock, machinery, equipment, buildings, land
Income	Any ordinary income source
Expense	Any ordinary expense source
Other Account Types:	
Other Current Liability	Operating notes, account payable, credit card
Long Term Liability	Any loan with a repayment period greater than one year
Other Income	Used for capital gain/loss situations

- iii. Select Continue. The Add New Account window appears.
- iv. Account Name – give the account a unique name;
- v. Tax Line mapping – only assign a tax line to income and expense accounts. Make sure it’s a Schedule F tax line;
- vi. Enter Opening Balance – only use this for capital assets and liabilities that existed in the business before you started using QB. Opening Balance allows you to enter the original acquisition cost for a capital asset, for instance, or the current balance on a preexisting loan. If an Opening Balance is entered, date that balance in the field to the right of the Opening Balance field. The date is usually the QB Start Date which is normally the first day of the fiscal year in which you start using QB.
- vii. If you’re creating a subaccount, first Name it then click the subaccount of box and select an account as the parent account.

An example of a Milk Sales income account is created below.

**Add New Account** Type a help question **Ask** **How Do I?**

Account Type: Income

Account Name: Milk Sales

Subaccount of: [Dropdown]

**Optional**

Description: [Text Field]

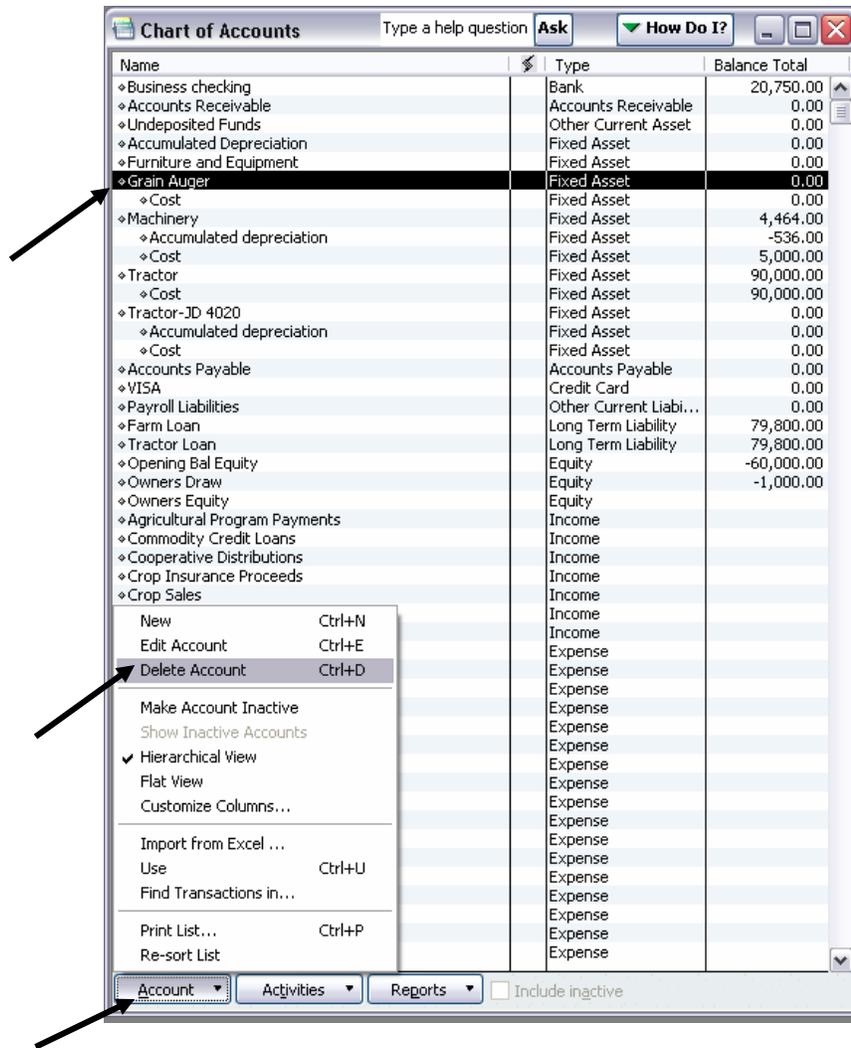
Note: [Text Field]

Tax-Line Mapping: Schedule F: Sales of livest... [How do I choose the right tax line?](#)

Save & Close Save & New Cancel

d. Deleting Accounts

- i. Select the account to delete by single clicking it;
- ii. Select the Account button at the bottom of the Chart of Accounts window;
- iii. Select Delete Account;
- iv. Subaccounts can be deleted following the same process.



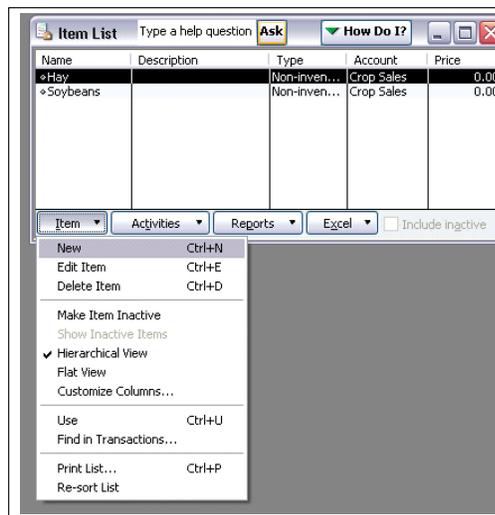


Balance and change it in the Deposit field or Increase field depending on the account. The opening balance can also be changed via a journal entry.

## 2. Items

Items are things you sell. Items represent a second layer of detail about income allowing you to keep the income portion of the Chart of Accounts smaller. Items are only used by the Create Invoices or Enter Sales Receipts forms and not by the Make Journal Entry form. If all of your sales (income) involve deductions from the gross sale amount then you can't use Items and all sales must be reported in an appropriate income account or subaccount.

- a. Select Lists from the Tool Bar.
- b. Select Item List.
- c. Adding Items
  - i. Select the Item button at the bottom of the Item List window;
  - ii. Select New and the New Item window appears;



- iii. Type, Name and Account information are mandatory – Type all items sold, other than services, as Non-inventory Parts and Type service oriented sales as Services; the Item Name must be unique; the Account selected ties this Item to a specific income account or subaccount. Multiple items can be tied to the same income account.

- iv. Save the new Item by selecting OK or Next.

A soybean item, tied to a crop sales income account, is created below.

The screenshot shows the 'New Item' dialog box. The 'Type' dropdown is set to 'Non-inventory Part'. The 'Item Name/Number' field contains 'Soybeans'. The 'Price' field is '0.00' and the 'Account' dropdown is set to 'Crop Sales'. The 'Item is inactive' checkbox is unchecked. The 'OK' button is highlighted.

#### d. Delete Items

- i. Open the Item list window and select the Item to delete by clicking on it;
- ii. Select the Item button at the bottom of the Item List window;
- iii. Select Delete; if an item has been used in a transaction it cannot be deleted.

#### e. Edit items

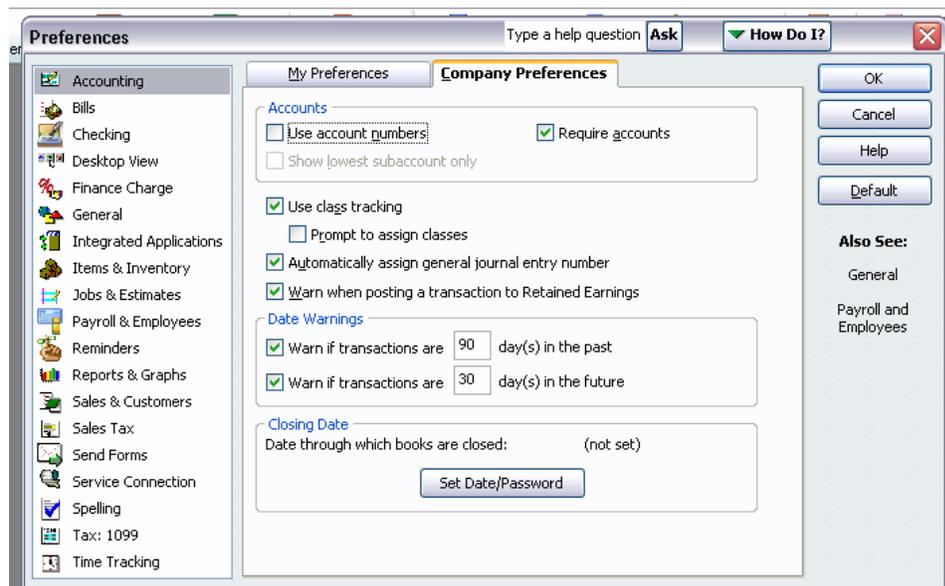
- i. Open the Item List window and select the Item to edit by clicking it;
- ii. Select the Item button at the bottom of the Item List window;
- iii. Select Edit Item – Type, Name, Price and Account can be changed.

### 3. Classes

A Class in QB is an enterprise – an individual income and expense generating unit of the business. Examples are Dairy or Corn. Both classes and subclasses can be created. It's easy to track enterprise specific income and expense in QB and to generate useful reports using the Class feature, however, the difficult and time consuming part comes on the

record-keeping side especially in regards to expenses. Someone will need to decide how much of each relevant expense is allocated to a particular Class.

- a. First, to access Classes, you must "turn-on" class tracking; do this by selecting Edit in the Tool Bar then select Preferences – this is where you go to customize QB; next select Accounting in the left hand column of the Preferences window and select the Company Preferences tab; activate class tracking by clicking the Use class tracking box and then select OK.



- b. Select Lists from the Tool Bar;
- c. Select Class List – the Class List window appears.
- d. Adding Classes
  - i. Select the Class button at the bottom of the Class List window;
  - ii. Select New and the New Class window appears;
  - iii. A unique name is all that is required;
- e. Delete Classes
  - i. Open the Class list window and select the class to delete by clicking it;
  - ii. Select the Class button at the bottom of the Class List window;
  - iii. Select Delete Class; if a Class has been used in a transaction it cannot be deleted.

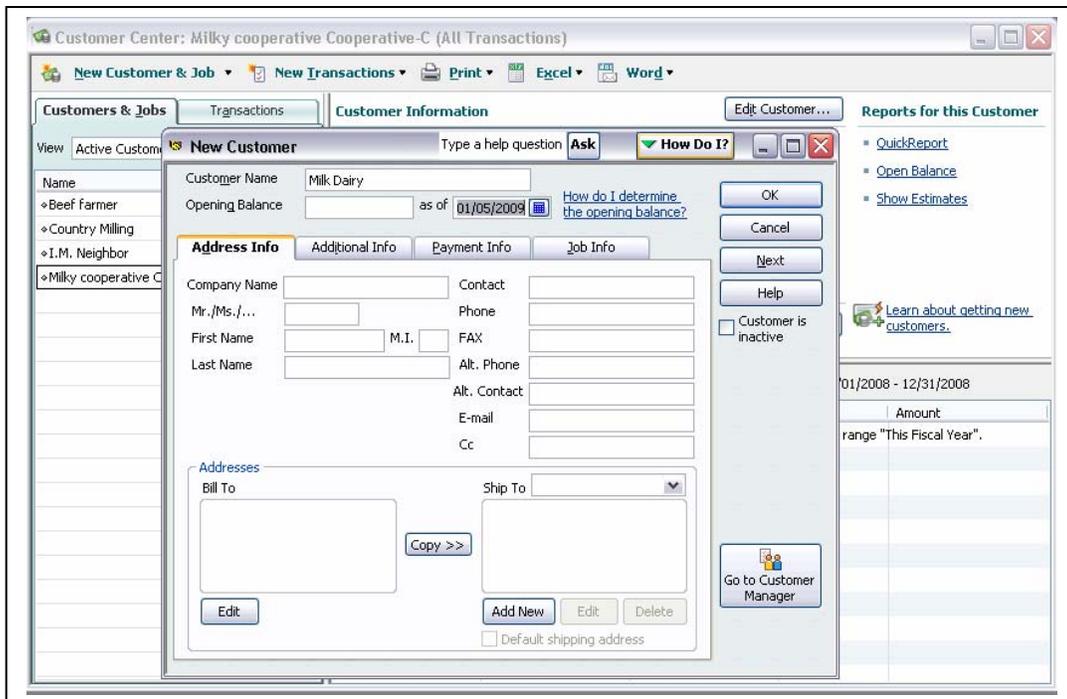
f. Edit Classes

- i. Open the Class List window and select the class to edit by clicking it;
- ii. Select the Class button at the bottom of this Class List window.
- iii. Select Edit Class

4. Customers

Customers are businesses, individuals, etc. that you sell products and services to. A unique customer can be created while recording a transaction or beforehand as we will do now.

- a. Select Customers from the Tool Bar;
- b. Select Customer Center – the Customer Center window appears;
- c. Add Customers
  - i. Click on New Customer & Job and select New Customer;
  - ii. The New Customer window appears – Customer Name is the only required information although additional information can be recorded;



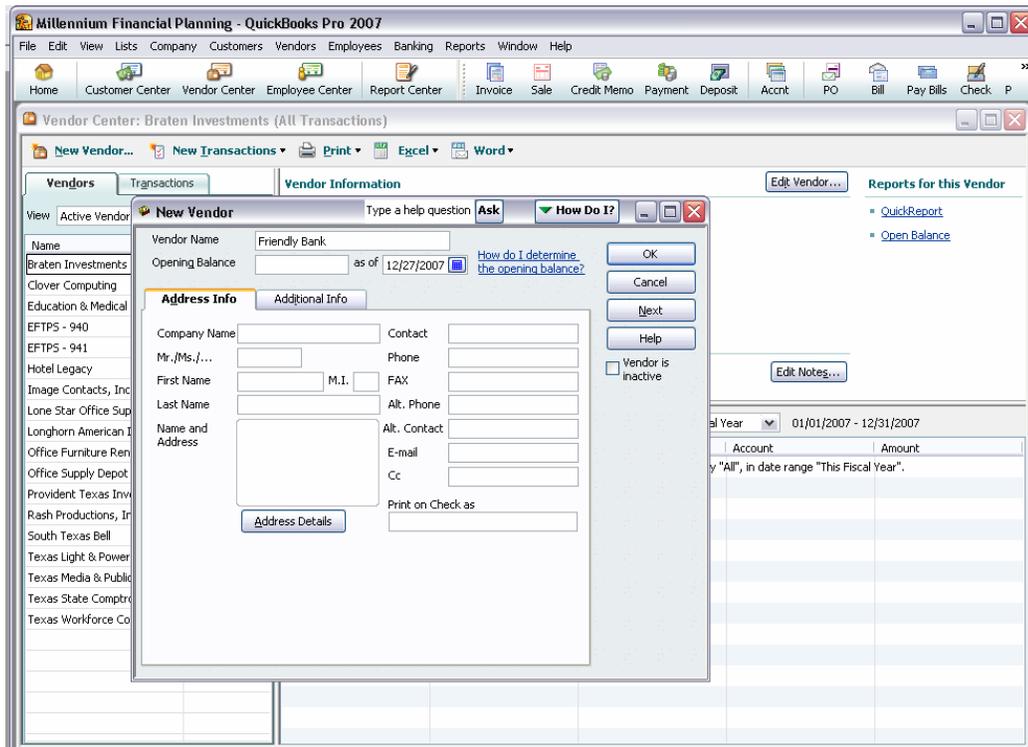
d. Edit and Delete Customers

- i. With the customer Center window open and the Customers & Job tab selected, select a customer by clicking it;
- ii. Select Edit in the Tool Bar;
- iii. Select either Edit Customer: Job or Delete Customer: Job.

5. Vendors

These are businesses that you purchase inputs from. A unique vendor can be created while recording a transaction or beforehand as we will do now.

- a. Select Vendors from the Tool Bar;
- b. Select Vendor Center – the Vendor Center window appears;
- c. Add Vendors
  - i. Click on New Vendor, the New Vendor window appears – Vendor Name is the only required information although additional information can be recorded;



- d. Edit and Delete Vendors
  - i. With the Vendor Center window open and the Vendors tab selected, select a Vendor by clicking it;
  - ii. Select Edit in the Tool Bar;
  - iii. Select either Edit Vendor or Delete Vendor;

### **C. Creating a Checking Account**

Most transactions will probably involve the checking account via deposits, hand writing or printing a paper check, or using a Debit card. Every business should have a business checking account separate from a personal checking account. If the business provides for family living needs then transfers should be made from business checking to personal checking and the appropriate reduction in business equity recognized.

A business checking account is created now so that transactions discussed in Chapter 3, 4 and 5 can be recorded. The process presented in *B. Working with Lists* of this Chapter will be followed:

- a. Select Lists from the Tool Bar, select Chart of Accounts;
- b. Select the Account button at the bottom of the Chart of Accounts window;
- c. Select New, the Add New Account: Choose Account Type window appears;
- d. Select Bank and continue;
- e. In the Add New Account window, name the account and enter an opening balance if necessary. Remember; only enter an opening balance when creating an account if the account was in existence *prior to your using QB*. The opening balance entered should be the ending balance on the last bank statement you received before your QB Start Date. The QB Start Date should be the beginning of the year you started using QB. All uncleared transactions since that last bank statement up to the Start Date need to be entered into QB as well as all transactions from the Start Date onward.

A business checking account with an opening balance of \$20,000 on January 1, 2009 is created below.

The image shows two overlapping dialog boxes from the QuickBooks software. The background dialog is titled "Add New Account" and has a window control bar with minimize, maximize, and close buttons. It features a grid icon and a dropdown menu for "Account Type" set to "Bank". Below this are several input fields: "Account Name" (empty), a "Subaccount of" dropdown (empty), a "Description" field (empty), "Bank Acct. No." (empty), and "Tax-Line Mapping" set to "<Unassigned>". A link "How do I choose the right tax line?" is visible. A button labeled "Enter Opening Balance..." is present. At the bottom, there are checkboxes for "Remind me to order checks when I reach check number" (with an empty input field) and "Order checks I can print from QuickBooks" (unchecked), along with a "Learn more" link. The bottom of the dialog has "Save & Close", "Save & New", and "Cancel" buttons.

The foreground dialog is titled "Enter Opening Balance: Bank Account" and has a close button. It contains the following text: "Enter the ending date and balance from the last bank statement you received before your QuickBooks start date." Below this is an information icon and an "Attention" message: "Attention: If this account did not have a balance before your QuickBooks start date, click **Cancel** and use a transaction to put money in this account. [Example transactions](#)." There are two input fields: "Statement Ending Balance" with the value "20,000.00" and "Statement Ending Date" with the value "01/01/2009" and a calendar icon. At the bottom are "OK", "Cancel", and "Help" buttons.

## CHAPTER 3. Recording Income Transactions<sup>1</sup>

In Chapter 1 we recommended that you:

- Record income as soon as possible after the sale. A sale often involves deductions from the gross sale amount; the details of which you're not entirely aware of until payment is received. As soon as sale details are known, record the income regardless if payment was received or not. This allows QB to track accounts receivable. QB differentiates between income for which payment has been received (cash income) and income for which payment has not been received for income tax purposes.
- Record expenses when the purchase is made regardless when the bill is paid. This allows QB to track the account payable and any associated payment discount period. QB differentiates between expenses that have been paid (cash expenses) and expenses not yet paid for income tax purposes.
- End of the year accrual adjustments can be made for a more accurate, accrual, measure of net income.

### INCOME

All income is recorded using one of three forms: Create Invoices, Enter Sales Receipts and Make General Journal Entries. Create Invoices is used when there are no deductions from the gross sale amount (the net and gross sales amounts are identical), all sale details are known and payment has not been received. Enter Sales Receipts is used when there are no deductions from the gross sale amount (the net and gross amounts are identical), all sale details are known and payment has been received. Make General Journal Entries is used when there are deductions from the gross sale amount (the net sale is less than the gross sale amount). Detailed explanations of each of these forms follows.

#### A. Create Invoices

This form is used to record a sale that has no deductions from the gross sale amount and for which payment has not been received. Why record the sale before payment is received? Because this allows QB to track the account receivable for your business. An account receivable is an asset and for many businesses an important asset to manage. A business could generate a

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<sup>1</sup> Expense transactions are addressed in Chapter 4 and capital asset transactions are covered in Chapter 5.

large volume of sales but be unable to collect payment on many of them thus reporting healthy profit but weak cash flow.

The following steps show how to record this type of sale:

1. From Customers in the Tool Bar, choose Create Invoices.
2. Fill in the following fields:
  - a. Customer: Job,
  - b. Class (only if you are tracking income by enterprise),
  - c. Date,
  - d. Item (separate line for each Item),
  - e. Amount (or Quantity and Rate),
3. Click OK to record the sale which will debit Accounts receivable and credit one or more Income accounts.

The following sale is recorded below: 5000 bushels of corn is sold to Country Milling, there are no deductions from the gross sale amount and the check has not been received.

**Create Invoices**

Customer: Job  
Country Milling

Class: [ ]

Template: Intuit Service Invoice

Date: 02/02/2009 Invoice #: 1

**Invoice**

Bill To: Country Milling

P.O. No.: [ ] Terms: [ ]

Item	Quantity	Description	Rate	C...	Amount
Corn	5,000		4.00	Corn	20,000.00

Customer Message: [ ]

Total: 20,000.00

To be printed  
 To be e-mailed

Add Time/Costs... Apply Credits... Payments Applied: 0.00  
Balance Due: 20,000.00

Memo: [ ]

[Let QuickBooks help you get your Invoice paid online by credit card.](#)

Save & Close Save & New Revert

## **B. Enter Sales Receipts**

This form is used when recording a sale that has no deductions from the gross sale amount and for which payment has been received.

The following steps show how to record this type of sale:

1. Begin by making the following change to the Enter Sales Receipt form:
  - a. Select Edit in the Tool Bar,
  - b. Select Preferences,
  - c. Select Sales & Customers,
  - d. Select the Company Preference Tab. In the Receive Payments area of this Tab unselect the "Use Undeposited Funds as a default deposit to account" box and select OK. The Undeposited Funds account is an asset account QB uses to track payments received but not yet deposited.
2. From Customers in the Tool Bar choose Enter Sales Receipts.
3. The following fields must be filled in:
  - a. Customer: Job,
  - b. Class (only if you are tracking sales by enterprise),
  - c. Date,
  - d. Item (a separate line for each item),
  - e. Amount (or Quantity and Rate),
4. If you don't want to print this form, which is probably the case, uncheck the To be Printed box.
5. Choose either Undeposited Funds or a bank account in the Deposit To field.
6. Click OK when the form is complete. This will debit the bank account (or Undeposited Funds) and credit one or more Income accounts.

The following sale is recorded below: 1000 bushels of soybeans and 500 bales of hay to I.M. Neighbor, there are no deductions from the gross sale amount and payment has been deposited into checking.

Customer: Job: I.M. Neighbor Class: [ ] Template: [ ] Print Preview [ ]

Date: 03/24/2009 Sale No.: 1

Sold To: I.M. Neighbor

Item	Description	Qty	Rate	C...	Amount
Soybeans		1,000	9.00	5...	9,000.00
Hay		500	2.00		1,000.00

Customer Message: [ ]

Total: 10,000.00

To be printed  To be e-mailed Memo: [ ]

Deposit To: Farm checking  Process credit card payment when saving

Buttons: Add Time/Costs..., Save & Close, Save & New, Revert

### C. Make General Journal Entries

A more common sale scenario is to have deductions from the gross amount of the sale. In this situation, the gross amount and the net amount of the sale differ and it's your job to reconcile the difference. Deduction examples include shipping, a loan payment, health insurance, cooperative capital retain and yardage. Most of these deductions represent business expenses, although a loan payment usually involves both an expense (interest) and a liability (loan principle). If health insurance is for the family it could be considered personal and should be recognized as a reduction in Owner's Equity due to personal draw or family living reasons not business expense reasons. You should also recognize the gross amount of the sale as income and the net sale amount as a deposit to checking.

The Make General Journal Entries form is used in this situation. Before attempting to record a sale like this, take some time to analyze the transaction in terms of the accounting model [Table 1:1-Below], account names [Chart of Accounts], and Debits and Credits [Table 2:1].

[Table 1:1]

	<b>Increase</b>	<b>Decrease</b>
<b>Asset</b>	Debit	Credit
<b>Liability</b>	Credit	Debit
<b>Owner's Equity:</b>		
<b>Income</b>	Credit	Debit
<b>Expense</b>	Debit	Credit
<b>Family Living</b>	Debit	Credit
<b>Contributed Capital</b>	Credit	Debit

The gross amount of the sale is income which increases retained earnings and therefore the equity portion of the accounting model. Increases to equity are recorded as credits, thus you must credit the appropriate income account for the gross sale amount. All of the expense oriented deductions require you to debit each appropriate expense account for the amount of the deduction. This is because expenses decrease retained earnings and, therefore, equity and decreases to equity are recorded as debits. Any deduction associated with the principal portion of a loan payment requires you to debit the appropriate liability account because decreases to liabilities are recorded as debits. Finally, if there is a deduction that represents a personal draw situation, you should debit your “draw” account since personal draws on the assets of the business reduce equity and reductions to equity are recorded as debits.

Follow these steps to record this type of sale:

1. From Company in the Tool Bar choose Make General Journal Entries.
2. Fill in the transaction date.
3. For each account to be debited and on a separate line for each:
  - a. in the account column, select the account name from the drop-down list or create a new account if needed;
  - b. in the Debit column, enter the dollar amount;
  - c. the Memo and Name columns can be used to record information for this part of the transaction. For instance, if you are recording an expense, you could record the vendor name in the Name column.

- d. the Class column is used to allocate this part of the transaction to a specific enterprise – for instance this may be an expense that is clearly associated with the Dairy enterprise. (To turn-on Class tracking: select Edit in the Tool Bar, select Preferences, select Accounting in the top-left corner of the Preferences window, select the company Preferences Tab and check Use Class Tracking).
4. Once all the accounts to be debited are entered, complete steps 3.a-d for each account to be credited. Use the Credit column for your dollar entries.
  5. When the sum of the Debits equals the Credits the transaction can be recorded by clicking either Save & Close or Save & New.

Below find a completed journal entry form for the following example: a sale of 1000 cwt of milk to Milky Dairy Cooperative @ \$14/cwt and net payment received of \$11,550 with the following deductions:

- ✓ Friendly Bank farm loan payment of \$700 (of which \$500 was interest); this loan will need to be set-up with a beginning of year balance of \$80,000;
- ✓ Dairy business supplies purchased from Milky Dairy of \$250;
- ✓ Health insurance premium purchased from Milk Dairy for employees of \$500;
- ✓ Health insurance premium purchased from Milk Dairy for family of \$1000;

Account	Debit	Credit	Memo	Name	Billable?	Class
Farm loan	200.00			Friendly bank		
Interest Expense	500.00			Friendly bank		
Supplies	250.00			Milky cooperative Cooperative-V		Dairy
Hired labor Expense	500.00			Milky cooperative Cooperative-V		Dairy
Owners Draw	1,000.00			Milky cooperative Cooperative-V		
Farm checking	11,550.00					
Milk Sales		14,000.00		Milky cooperative Cooperative-C		Dairy

## **CHAPTER 4. Expense Transactions<sup>1</sup>**

Resources purchased for business use represent expenses to the business. Our recommendation is to record these expenses as soon as possible. Don't wait until the bill is paid, rather enter the bill/expense as soon as it occurs so QB can track the account payable and possible discount period. Resource purchases considered in this chapter have a typical life of one year or less and include such things as fertilizer, feed, utilities, fuel, and hired labor.

All expenses are recorded using one of four forms: Enter Bills, Write Checks, Enter Credit Card Charges or Make General Journal Entries. Enter Bills is used when a resource is purchased without immediate payment or credit card charge. When originally using the Enter Bills Form to enter a bill, the Pay Bills form must be used to record the subsequent payment of the bill. Write Checks is used when a resource is purchased with immediate payment. Enter Credit Card Charges is used when a resource is purchased and immediately charged to a credit card. Finally, Make General Journal Entries is used for any other resource purchase situation; for instance, when expense oriented deductions are linked to a sale such as recording a trucking charge associated with a livestock sale. This situation is addressed in part C of Chapter 3 and will not be discussed here.

### **A. Enter Bills**

The Enter Bills form is used when a resource is purchased and payment does not occur nor is it charged to a credit card. Later, when the bill is paid, the Pay Bills form is used to record that separate transaction.

Follow these steps to record the purchase of a resource using the Enter Bills Form:

1. From Vendors in the Tool Bar, choose Enter Bills;
2. The following fields must be filled in.
  - a. Date-enter the date of the purchase;

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<sup>1</sup> Capital purchases are addressed in Chapter 5.

- b. Vendor-enter the vendor name by selecting from the drop down list or creating a new vendor;
  - c. Terms – if there are payment terms associated with the bill enter them here by selecting from the drop down list or creating a new term; if no terms are indicated, QB assumes the bill is due 10 days after the purchase date. This can be changed through Preferences located in the Edit area of the Tool Bar;
  - d. Amount Due – record the total expense;
  - e. Account – first make sure the Expenses Tab is selected then select an account name from the drop down list or create a new account;
  - f. Amount – enter the dollar amount associated with the account;
  - g. Class – if this expense is associated with a specific enterprise, you can record that; (see Chapter 2.B.3 to turn Class tracking on if no class column appears in the form).
  - h. Another account? – if this bill involves the purchase of multiple resources or you want to Class the purchase to multiple enterprises then additional lines will be utilized to record this information;
3. Record it by selecting Save & Close or Save & New. This will debit the expense account(s) noted and credit accounts payable.

The following example is presented below: the purchase of feed (\$7,000) and supplies (\$1,000) from Mayberry Cooperative for a total of \$8,000 with Terms of 2% 10, net 30.

The screenshot shows the 'Enter Bills' window with the following details:

- Vendor:** Mayberry Cooperative
- Date:** 05/05/2009
- Ref. No.:** (empty)
- Amount Due:** 8,000.00
- Bill Due:** 06/04/2009
- Terms:** 2% 10 Net 30
- Discount Date:** 05/15/2009
- Memo:** (empty)

Account	Amount	Memo	Customer:Job	Billa...	Class
Feed Purchased	7,000.00				
Supplies	1,000.00				

At the bottom of the window, there are buttons for 'Clear Splits', 'Recalculate', 'Save & Close', 'Save & New', and 'Revert'.

## B. Write Checks

This form is used when an input is purchased with immediate payment via check. Follow these steps to record the purchase of a resource using the Write Checks form.

1. From Banking in the Tool Bar select Write Checks (if a checking account is not yet created, see Chapter 2.C to create one);
2. The following fields must be filled in:
  - a. Bank Account – select the correct checking account from which payment was made;
  - b. Date – enter the date of the purchase;
  - c. Pay to the Order of – select a vendor or create one;
  - d. \$ - enter the amount of the purchase.
  - e. Account – make sure the Expense tab is selected then choose an expense account from the Chart of Accounts or create one;
  - f. Amount – enter the dollar amount of the total purchase associated with the account noted in part e;
  - g. Class – you can allocate this expense to a particular enterprise by selecting a Class or creating a new one. If a Class column does not appear, see Chapter 2.B.3 for instructions on how to turn on Class Tracking.
  - h. Another account? – if the transaction involves more than one account or you would like to Class a specific expense to more than one enterprise, repeat steps e. through g. on a new line;
3. Record the transaction by selecting Save & Close or Save & New. This will debit the expense account(s) noted and credit the checking account balance.

The following example is completed below: Purchase Fertilizer (\$5,000) and Feed (\$1,000) from XYZ Cooperative; Class \$4,000 of fertilizer to corn and \$1,000 to soybeans; Class feed to beef;

Write Checks - Farm checking

Bank Account: Farm checking Ending Balance: -2,950.00

No. 1  
Date 06/29/2009  
Pay to the Order of XYZ Cooperative \$ 6,000.00  
Six thousand and 00/100\*\*\*\*\*Dollars

Address: XYZ Cooperative

Expenses \$6,000.00 Items \$0.00  To be printed

Account	Amount	Memo	Customer:Job	Billa...	Class
Fertilizers and Lime	4,000.00				Corn
Fertilizers and Lime	1,000.00				Soybeans
Feed Purchased	1,000.00				Beef

Buttons: Clear Splits, Recalculate, Save & Close, Save & New, Revert

### C. Pay Bills

If you originally entered a bill using the Enter Bills form, use the Pay Bills form when partial or full payment is made against the bill.

Follow these steps to record a bill payment using the Pay Bills Form:

1. From Vendors in the Tool Bar choose Pay Bills – the Pay Bills form appears with a list of outstanding bills near the top of the form; "Show bills" at the top of the form allows you to view Bills based on due date and "Sort Bills By" allows you to sort bills based on a discount date, vendor name or amount due;
2. Select the bills to pay (partial or full payment) by clicking in the left hand column of the bill to be paid;

3. Payment Date – this dates the transaction and determines the availability of any discount;
4. Set Discount – if you pay a bill within the discount period, click the Set Discount button and the Discount and Credits window appears:
  - a. The discount should be calculated automatically, however, you need to select an account to allocate the discount to. Choosing the original expense account is probably the best choice so that the cash expense will be accurate for income tax purposes.
  - b. Discount Class – this should also be recorded if the original expense was allocated to a Class;
5. Payment Method – select check or Credit Card; if check is selected then choose either “To be printed” if you want QB to print this check or “Assign Check no.” if you hand write the check or use a debit card;
6. Payment Account – select the correct checking or credit card account;
7. Record the transaction by selecting Pay Selected Bills. This will debit the accounts payable account and credit the selected checking or credit card account.

#### **D. Electronic Payment of Bills**

If some bills are paid electronically (money is electronically withdrawn from the checkbook with no check written), you can record these using the Write Checks form making sure not to assign a check number. You could also use the Enter Bills and then the Pay Bills form.

#### **E. Enter Credit Card Charges**

This form is used when a resource is purchased and immediately charged to a credit card account.

Follow these steps to complete the Enter Credit Card Charges form:

1. From Banking in the Tool Bar, choose Enter Credit Card Charges.
2. The following fields must be filled in:
  - a. Credit Card – select the correct credit card account or create a new credit card account;
  - b. Date - enter the purchase date;
  - c. Purchased From – select a vendor;

- d. Amount – enter the total purchase amount;
  - e. Account – make sure the Expense tab is selected then choose an expense account from the Chart of Accounts or create one;
  - f. Amount – enter the amount of the total purchase associated with the account noted in part e;
  - g. Class – you can allocate this expense to a particular enterprise by selecting a class or creating a new one. If a Class column does not appear, see Chapter 2.B.3 for instructions on how to turn on Class tracking.
  - h. Another account? – if this transaction involves more than one account or you would like to Class a specific expense to more than one enterprise, repeat steps e. through g. on a new line;
3. Record the transaction by selecting Save & Close or Save & New. This will debit the expense account(s) noted and credit the credit card account.

## **CHAPTER 5. Capital Asset Transactions**

This chapter addresses basic capital asset issues. A capital asset has a life longer than one year and needs to remain in the accounting system until disposition occurs. Examples are machinery, equipment, breeding livestock, land and buildings. These assets must be entered into QB to have a complete and accurate accounting system. If you start using QB after the business began operation, all preexisting capital assets must be entered.

This chapter will also explain how to track both group and individual capital asset activity. For instance, if your business has many pieces of machinery, you could create a group capital asset account for all of your machinery assets and then keep track of the details associated with each item of machinery outside of QB in a depreciation schedule or other subsidiary ledger.

Specific issues addressed in this chapter include recording pre-existing capital assets, ongoing capital asset acquisitions, depreciation and issues associated with capital asset sales. Trades, a common method of capital asset acquisition, and dispositions, are discussed in Chapter 9.

### **A. Entering Pre-Existing Capital Assets**

If your business started operations before you began using QB, then there probably are some capital assets that need to be entered into QB. This should be done so that the accounting records are complete and the Balance Sheet and Income Statement are accurate.

We will work through the process for group categories. *[If you want to track individual capital assets in QB you would follow the exact same process but the account name would reference a specific capital asset].* If you have many capital asset items of a particular type like machinery and don't want to take the time to track each one separately in QB (which could result in a very large Chart of Accounts) you can create group accounts like Machinery or Buildings or Purchased Breeding Livestock. Also, group accounts can be created for some capital assets and individual accounts created for other capital assets.

1. Process for depreciable capital assets

Depreciable assets have a life longer than one year and the business is allowed to claim depreciation expense on them. Examples include machinery, buildings and purchased breeding livestock.

- a. Create a new account (see Chapter 2) for the group, for instance Machinery; Type it as a Fixed Asset. [If you are tracking individual capital assets then the new account would reference a specific asset, for instance, Combine].
- b. Create a new subaccount for the account created above (see Chapter 2), name it Cost, and Type it as a Fixed Asset. Enter an Opening Balance equal to the acquisition cost or cost basis, in this case of all machinery preexisting in your business as of the Start Date for using QB (probably January 1 of the year you started using QB). This date should be entered in the date field to the right of the Opening Balance field. The acquisition cost information should be available from the depreciation schedule maintained for income tax purposes.
- c. Create a second new subaccount and name it Accumulated Depreciation, type it as Fixed Asset and enter a negative Opening Balance equal to the total depreciation taken on this capital asset group as of the date noted in part b above. This total depreciation (referred to as accumulated depreciation by accountants) should be available in the same depreciation schedule accessed for the acquisition cost information.
- d. The main account should now report a value equal to the difference between the Cost and Accumulated Depreciation subaccounts. This value is commonly referred to as Book Value or Adjusted Tax Basis.
- e. Finally, as the business acquires capital assets that are a part of this group they should be added via the Make General Journal Entries form where the Cost subaccount is debited for the acquisition cost and the credit(s) reflect the financing. This process is covered in Section B of this Chapter.

2. Process for nondepreciable capital assets.

Unlike depreciable assets discussed above, nondepreciable capital assets such as land, do not require two subaccounts (Cost and Accumulated depreciation). All you need to do is create a new account for the group category, in this instance Land, type it as a Fixed

Asset, enter an Opening Balance equal to the acquisition cost of all land assets preexisting in the business as of the Start date for using QB (probably January 1 of the year you started using QB). If additional Land is purchased, it can be added via the Make General Journal Entries form where the Group asset account name, Land in this example, is debited for the acquisition cost and the credit(s) reflect the financing. This process is covered in the next section.

## **B. Recording Capital Asset Purchases**

On-going capital asset purchases must be recorded in QB as they occur. We recommend making a journal entry to record the acquisition of capital assets new to the business. Recall from Chapter 3 that the Make General Journal Entries form is used for this task. You will need to tackle the Debit and Credit issues when using this form but the standard capital asset purchase is straight forward.

### **1. Making Journal Entries**

We will work through the process assuming use of Group capital asset accounts but also make reference to the very similar individual capital asset account process.

- a. If you haven't created the Group account yet, do that now. For instance: Machinery, and Type it as a Fixed Asset. If you want to track individual capital assets; create a new capital asset account for each purchase. For example: Grain Auger.
- b. If the asset is depreciable and you have not created the two subaccounts of this Group account do so now. Name one subaccount Cost and the other Accumulated Depreciation. Type both subaccounts as Fixed Assets. [NOTE: If this asset is not depreciable then the two subaccounts are not needed.]
- c. Go to Company on the Tool Bar and select Make General Journal Entries.
- d. Date – enter the purchase date;
- e. Debit – if the asset is depreciable, on the first line in the Account column, select the Cost subaccount of the appropriate Group capital asset account. If you created an individual capital asset account then select that Cost subaccount. If the asset is



## C. Depreciation

Depreciation is a business expense that estimates the amount of a capital asset used up in a year to produce income. We will assume that the depreciation recorded in QB is income tax depreciation and that this depreciation is being calculated outside of QB either by you or your accountant. We also assume that depreciation is recorded once per year at years end. If you are interested in more frequent financial reports, this annual depreciation could be divided into smaller chronological units like quarter or month. Finally, there is no dedicated form to record depreciation so the journal entry form will be used.

### 1. Recording Depreciation

- a. Go to Company on the Tool Bar and select Make General Journal Entries.
- b. Date – enter the last day of the accounting period.
- c. Debit – on the first line in the Account column, select the Depreciation Expense account. If this account doesn't exist, create it, making sure to Type it as an Expense. In the Debit column, enter the depreciation amount. *Expenses reduce profit or retained earnings and, therefore, owner's equity. Reductions to owner's equity are recorded as Debits. If this is a group capital asset account it would represent the depreciation on all assets in that group and if it is an individual capital asset it would represent depreciation for that asset only. This expense can be classed to one or multiple classes.*
- d. Credit – on the next blank line in the Account column, select the Accumulated depreciation subaccount for the group or individual capital asset account involved. In the Credit column enter the depreciation amount.
- e. Record – click Save & Close.



### 3. Debit(s)

- a. Asset sold at a gain (sale price > book value)
  - i. If the asset was depreciable there will be two Debits;
  - ii. One Debit is to the accumulated depreciation subaccount (for its balance) of the asset discarded or the asset group within which the asset resides. The second Debit is to the business checking account for the sales amount, assuming the sales amount was deposited there.
  - iii. If the asset was not depreciable, then there is no accumulated depreciation account and the only Debit would be to business checking.
- b. Asset sold at a loss (sale price < book value)
  - i. If the asset was depreciable there will be three Debits;
  - ii. One Debit is to the accumulated depreciation sub account (for its balance) of the discarded asset,
  - iii. The second Debit is to the business checking account for the sales amount assuming the sales amount was deposited there, and
  - iv. Third, there would be a Debit to the Capital Income account which you will need to create if it doesn't exist and Type as an Other Income account. Do not assign a Tax Line to this account because it is not reported on Schedule F. The amount of capital loss, or negative capital income, is calculated as Sale Price – Book Value and the absolute value is the Debit amount. Debiting this Capital Income account will record it correctly as a capital loss.
  - v. If the asset was not depreciable, two Debits are necessary, one to Business Checking for the sale amount and the second to the Capital Income account for the loss amount.

### 4. Credit(s)

- a. Asset sold at a gain (sale price > book value)
  - i. There will be two Credits;
  - ii. One Credit is to the individual or group Cost subaccount of the discarded asset for the original acquisition cost;

- iii. The second Credit is to the Capital Income account discussed above. The capital income is calculated as Sale Price – Book Value and this value is the Credit amount. Crediting this account will record it as capital gain or income.
- b. Asset sold at a loss (sale price < book value)
  - i. Credit the individual or group Cost subaccount of the discarded asset for the original acquisition cost.

Below is an example of the Sale of a Tractor for \$10,000. The tractor was originally purchased for \$12,000, placed into an individual capital asset account and currently has a book value of \$0.00.

The screenshot shows a software window titled "Make General Journal Entries". At the top, there are navigation buttons: "Previous", "Next", "Print...", and "History". Below these, the "Date" is set to "09/03/2009" and "Entry No." is "9". The main area is a table with columns: Account, Debit, Credit, Memo, Name, Billable?, and Class. The table contains the following entries:

Account	Debit	Credit	Memo	Name	Billable?	Class
Farm checking	10,000.00					
Tractor:Accumulated depreciation	12,000.00					
Tractor:Cost		12,000.00				
Capital income		10,000.00				

At the bottom of the window, there are three buttons: "Save & Close", "Save & New", and "Revert".

## **CHAPTER 6. Liability Transactions**

Liabilities represent debt obligations incurred by the business. Common examples include outstanding bills (often referred to as accounts payable), credit card balances, and loan balances. It's important to record these liabilities in QuickBooks (QB) to track balances, make timely payments and so the Balance Sheet and Income Statement are accurate.

### **A. Entering Preexisting Liabilities**

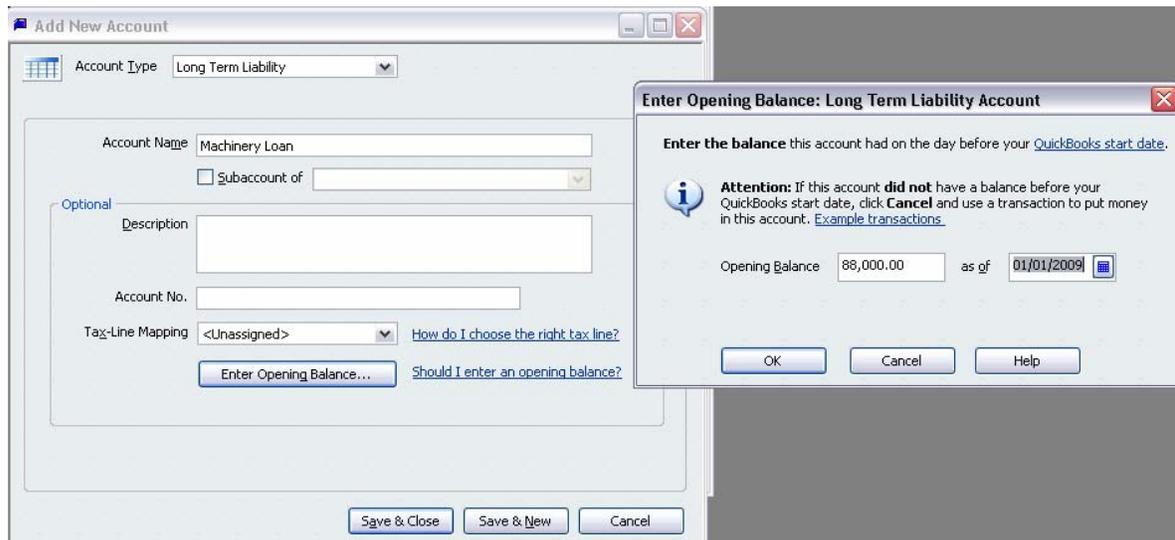
If your business started operations before you began using QB, then you probably have some preexisting business liabilities. The balances for these liabilities need to be determined as of a specific date (probably the beginning of the year you start using QB) and then entered.

Follow the process below to enter preexisting liability balances. (If necessary, review Chapter 2 before proceeding).

1. Select Lists from the Tool Bar, then select Chart of Accounts.
2. Select the Account button at the bottom of the Chart of Accounts window and select New.
3. Choose an account Type. If it's a credit card balance, then select that type. All other liability types are located in the Other Account Types option. Clicking on the down arrow to the right of that option allows you to view and select from a list of liability types:
  - a. Account Payable – used for bill balances such as feed, supplies, seed, utilities.
  - b. Other Current Liability – used for payroll taxes, operating loans and other non-account payable liabilities that you expect to pay in the next year.
  - c. Long Term Liability – used for loans with a repayment period of more than one year and would include loans to purchase machinery, breeding livestock, buildings, and land.
4. Select Continue and the Add New Account window appears.
5. Enter a unique name for the liability and an opening balance by selecting Enter Opening Balance. Enter the balance existing on the Start Date for using QB which is probably the beginning of the year you start using QB. For loans, this balance can be accessed from the lender. Select Save & Close or Save & New.

6. If there is a preexisting liability there is a probably a preexisting asset which also needs to be entered. Discussion of this process occurs in Chapter 5.

A preexisting machinery loan with a balance of \$88,000 is created below.



## B. Entering New Liabilities

When you start using QB (from the Start Date onward) any new liabilities should be entered by recording a transaction via a form like Enter Bills, Make General Journal Entries or Enter Credit Card Charges. A new liability should not be entered using the Enter Opening Balance button in the Add New Account window. Using the Enter Bills form automatically credits account payable as discussed earlier in Chapter 3. When purchasing a fixed asset, like breeding livestock or machinery, you will need to use the Make General Journal Entries form to record not only the liability but the fixed asset and any cash down (see Chapter 5). Credit card purchases are recorded using the Enter Credit Card Charges form (see Chapter 4).

The following example is completed below: purchase tractor for \$90,000 with \$80,000 borrowed.

Account	Debit	Credit	Memo	Name	Billable?	Class
Tractor, JD:Cost	90,000.00					
Farm checking		10,000.00				
JD Tractor Loan		80,000.00				

### C. Recording Loan Payments

This section discusses payments on Operating Loans and Long Term Liabilities that are not paid in association with a regular product sale like milk. Assuming that these payments are coming from the business checking account, either as a printed or hand written check or as an electronic payment, a Write Checks form will be used.

Follow the steps below to record a loan payment:

1. Select Banking from the Tool Bar, then select Write Checks. You'll need to create a checking account in QuickBooks if one doesn't exist.
2. Select the correct checking account in the Bank Account field.
3. Enter the check number if the check was hand written. If it was an electronic transfer, leave this field blank.
4. Record the correct date.
5. Record the Payee name and the payment amount.

- In the Expenses tab, record the interest portion of the payment on one line using an interest expense account and record the principal portion of the payment on a second line using the appropriate liability account. The interest expense can be allocated to one or more classes. Information on the interest and principal breakdown is available from the lender.

The example below presents a \$1,000 payment on the tractor loan created above of which \$800 was interest.

Write Checks - Farm checking

Bank Account: Farm checking Ending Balance: -2,950.00

No. 2 Date 12/01/2009 \$ 1,000.00

Pay to the Order of Friendly bank

One thousand and 00/100\*\*\*\*\* Dollars

Address

Memo

Expenses \$1,000.00 Items \$0.00  To be printed

Account	Amount	Memo	Customer:Job	Billa...	Class
Interest Expense	800.00				
JD Tractor Loan	200.00				

Clear Splits Recalculate Save & Close Save & New Revert

## CHAPTER 7. Financial Reports

QB produces many reports useful for basic management, control and income tax purposes. Measures of Profit (Profit & Loss), Owners Equity (Balance Sheet) and Cash Flow (Statement of Cash Flows) are readily available. Reports on business activity with vendors and customers can also be generated. Reports on accounts payable, receivable and income and expense detail can be produced. Most reports are highly customizable and can be *memorized* so that once you get the report looking like you want; the process doesn't need repeating again. *Note: memorizing a report does not "memorize" the data on the report, only the format, dates and filtering options.*

All reports are accessed through Reports in the Tool Bar. The table below indicates where certain reports are located in the Reports drop-down menu.

**Table 6:1**

<b>Report</b>	<b>Drop-down menu selection</b>
Profit & Loss Balance Sheet Statement of Cash flow Income by Customer	Company & Financial
Accounts Payable Aging	Vendors and Payables
Income Tax	Accountant & Taxes

### **Profit & Loss (P&L)**

The P&L, also referred to as the Income Statement, shows all your income and expenses for a given time period. It is the key indicator of how the overall production process is performing. Maximizing profit or the return to the resources used in the production process is a critical long run business goal. The most accurate measure of profit requires accrual measurement of income and expense. End of year accrual adjustments is one common recommendation for achieving this standard. Chapter 10 discusses these accrual adjustments.

1. From the Tool bar, Select Report in the Tool Bar, select Company & Financial. There are several "canned" P&L's to choose from including a P&L by class and a P&L comparing this year to last year. We will look at a basic or Standard P&L.

2. Select P&L Standard.
3. Click in the Dates field and select This Fiscal Year.
4. Click in the Columns field and select Quarter. You should have P&L for the calendar year split into four calendar quarters. Net income or profit is reported for the entire year and for each quarter.
5. Select Modify Report. This window allows you to make changes to the report. For instance, selecting "% of Income" adds a column that reports each income and expense line as a percent of total income. You can also change the Report Basis from "Cash" to "Accrual". If you select Cash, the only information reported will be that for which cash has already been received or paid. If you select Accrual, Cash Received and Paid as well as Accounts Receivable and Payable will be reported. Another option is the "Display Column By" field which can be changed from the Total Only default to other date oriented options or options such as Class, Customer or Vendor. When the modifications are selected, click OK. You may need to click the Refresh button so that the changes you made are reflected in the P&L.
6. Once the report looks like you want, you can Memorize the report so the modifications don't need to be repeated in the future. The report can also be Printed or Exported it to a spreadsheet file.

A Standard Profit & Loss (Income) Statement for ‘This Fiscal Year’<sup>1</sup> is presented below.

1:05 PM  
12/28/08  
Accrual Basis

oct2008 manual  
**Profit & Loss**  
January 1 through December 28, 2009  
◊ Jan 1 - Dec 28, 09 ◊

Ordinary Income/Expense	
<b>Income</b>	
Crop Sales	30,000.00
Livestock income	2,500.00
Milk Sales	14,000.00
<b>Total Income</b>	<b>46,500.00</b>
<b>Expense</b>	
Feed Purchased	8,000.00
Fertilizers and Lime	5,000.00
Hired labor Expense	500.00
Insurance Expense	6,000.00
Interest Expense	1,300.00
Supplies	1,250.00
<b>Total Expense</b>	<b>22,050.00</b>
<b>Net Ordinary Income</b>	<b>24,450.00</b>
<b>Other Income/Expense</b>	
<b>Other Income</b>	
Capital income	10,000.00
<b>Total Other Income</b>	<b>10,000.00</b>
<b>Net Other Income</b>	<b>10,000.00</b>
<b>Net Income</b>	<b>34,450.00</b>

<sup>1</sup> For purposes of this example, a “custom” report was used. Normally “this fiscal year” would work.

## **B. Balance Sheet**

The Balance Sheet measures the financial position of the business in terms of Assets, Liabilities and Equity on a given date. The Balance Sheet equation is:  $\text{Assets} = \text{Liabilities} + \text{Equity}$  where Assets are things of value the business has ownership control over, Liabilities are debts of the business and Equity reflects the portion of the Assets owned outright. In order for the Balance Sheet to provide an accurate measure of Equity, all Assets and Liabilities must be entered into QB. Also, the end of year accrual adjustments discussed in Chapter 10 must be entered before an accurate Balance Sheet can be produced.

1. From the Tool Bar, Select Reports, select Company & Financial. There are several Balance Sheet options to select from, we will select Balance Sheet Standard.
2. The traditional format reports Assets first, then Liabilities and finally Equity.
3. Change the Dates field so that the Balance Sheet date reflects the desired date.
4. The columns field can be changed from "Total only" to different options such as quarterly or monthly.
5. The Modify Report button provides access to customization options. For instance, select Previous Year in the Display tab area then select OK. This choice will compare balance sheet information for last year to the current year.
6. As with other reports, the Balance Sheet can be memorized, printed or exported to a spread sheet file by selecting the appropriate button.

A Standard Balance Sheet is presented below.

1:11 PM		oct2008 manual	
12/28/08		Balance Sheet	
Accrual Basis		As of December 31, 2009	
		Dec 31, 09	
<b>ASSETS</b>			
Current Assets			
Checking/Savings			
Farm checking		-2,950.00	
Total Checking/Savings		-2,950.00	
Accounts Receivable			
Accounts Receivable		25,000.00	
Total Accounts Receivable		25,000.00	
Other Current Assets			
Hay inventory		75,000.00	
Prepaid expense		4,000.00	
Prepaid Insurance Expense		4,000.00	
Total Other Current Assets		83,000.00	
Total Current Assets		105,050.00	
Fixed Assets			
Building			
Cost		320,000.00	
Total Building		320,000.00	
Grain Auger			
Cost		4,000.00	
Total Grain Auger		4,000.00	
Machinery Group			
Accumulated depreciation		-150,000.00	
Cost		200,000.00	
Total Machinery Group		50,000.00	
New Tractor			
Cost		70,000.00	
Total New Tractor		70,000.00	
Tractor, JD			
Cost		90,000.00	
Total Tractor, JD		90,000.00	
Total Fixed Assets		534,000.00	
<b>TOTAL ASSETS</b>		<b>639,050.00</b>	
<b>LIABILITIES &amp; EQUITY</b>			
Liabilities			
Current Liabilities			
Accounts Payable			
Accounts Payable		8,000.00	
Total Accounts Payable		8,000.00	
Other Current Liabilities			
Revenue in Advance		1,500.00	
Wages Payable		2,500.00	
Total Other Current Liabilities		4,000.00	
Total Current Liabilities		12,000.00	
Long Term Liabilities			
Building loan		300,000.00	
Farm loan		79,800.00	
JD Tractor Loan		79,800.00	
New tractor loan		60,000.00	
Total Long Term Liabilities		519,600.00	
Total Liabilities		531,600.00	
Equity			
Owners Draw		-1,000.00	
Net Income		108,450.00	
Total Equity		107,450.00	
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>639,050.00</b>	

### **C. Statement of Cash Flows**

The Statement of Cash Flows (SCF) measures the liquidity of the business over a period of time. The Format for the SCF used in QB involves three categories into which cash flows are organized. The categories are Operating Activities, Investing Activities and Financing Activities. Operating Activities include cash flows from normal, ongoing business or operating activities. Investing Activities include cash flows associated with the acquisition or disposition of capital assets. Finally, Financing Activities include cash flows associated with borrowing, loan payments, owner draw and owner contribution.

1. From the Tool Bar, select Reports, select Company & Financial then select Statement of Cash Flows.
2. The Statement of Cash Flows has a variety of reporting options such as month, quarter and year, all available in the Dates field. The report can also be memorized, printed and exported to a spreadsheet file.

A **Statement of Cash Flows** for ‘This Fiscal Year’<sup>2</sup> is presented below.

The screenshot shows a software window titled "Statement of Cash Flows" with a menu bar containing "Modify Report...", "Memorize...", "Print...", "E-mail", "Export...", "Hide Header", "Refresh", and "Classify Cash...". Below the menu bar, there are date selection fields: "Dates Custom", "From 01/01/2009", and "To 12/10/2009". The main content area displays the following information:

4:37 PM  
12/10/08

oct2008 manual  
**Statement of Cash Flows**  
January 1 through December 10, 2009

◇ Jan 1 - Dec 10, 09 ◇

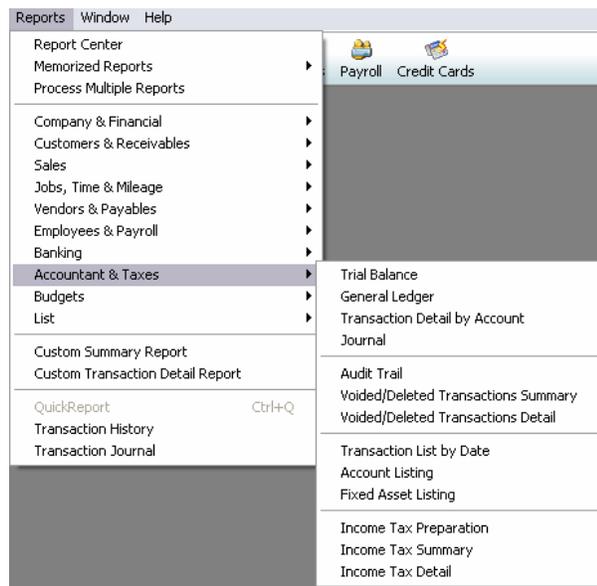
OPERATING ACTIVITIES	
Net Income	39,450.00
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Receivable	-25,000.00
Accounts Payable	8,000.00
<b>Net cash provided by Operating Activities</b>	<b>22,450.00</b>
INVESTING ACTIVITIES	
Grain Auger:Cost	-4,000.00
Machinery Group:Accumulated depreciation	140,000.00
Machinery Group:Cost	-200,000.00
New Tractor:Cost	-70,000.00
Tractor, JD:Cost	-90,000.00
<b>Net cash provided by Investing Activities</b>	<b>-224,000.00</b>
FINANCING ACTIVITIES	
Farm loan	79,800.00
JD Tractor Loan	79,800.00
New tractor loan	60,000.00
Owners Draw	-1,000.00
<b>Net cash provided by Financing Activities</b>	<b>218,600.00</b>
<b>Net cash increase for period</b>	<b>17,050.00</b>
Cash at beginning of period	-20,000.00
<b>Cash at end of period</b>	<b><u>-2,950.00</u></b>

<sup>2</sup> For purposes of this example, a “custom” report was used. Normally “this fiscal year” would work.

## D. Tax Reports

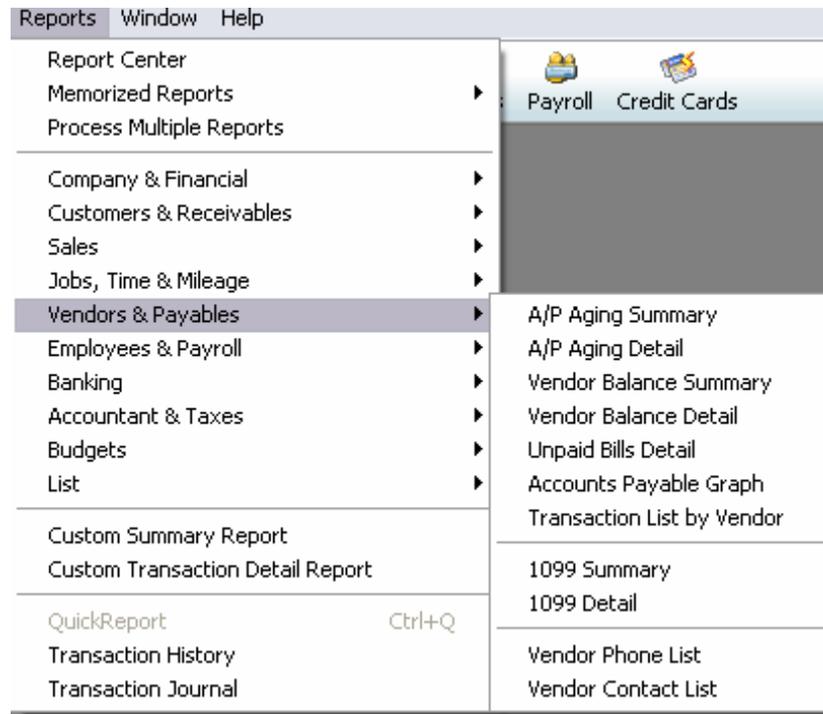
If you selected a business organization and a "canned" chart of accounts then QB automatically assigns line items from your tax return to the ordinary income and expense accounts. The type of tax lines assigned depends on the business organization selected when creating the company file. Some of these tax schedules and forms include: Schedules B, C, E, F; Forms 4835, K-1, 8829, 1099-MISC and 1040. If you did not select a business organization when creating your company file, tax reports will not be available.

1. From the Tool Bar select Reports, then Accountant & Taxes. There are three tax reports at the bottom of the drop-down window.
2. The Income Tax Preparation report shows the chart of accounts and the tax line, if any, associated with each account.
3. The Income Tax Summary report provides tax line item totals for the tax form or schedule relevant for your business organization. Make sure the Dates field reflects the desired reporting period. This report, like all others, can be memorized, printed and exported to a spreadsheet file.
4. The Income Tax Detail report provides the tax line item totals available in the Income Tax Summary report along with the individual transactions that contributed to each total. Make sure the Dates field reflects your desired reporting period. This report can be memorized, printed and exported to a spreadsheet file.



## E. Vendors

Most of the reports in this area address accounts payable (unpaid bills) issues. Accounts Payable Aging reports list the amount of unpaid bills and the length of time unpaid. Vendor Balance reports list unpaid bills by vendor. 1099 reports are also available and they list the payments your business made to vendors for whom your business files a 1099 form. View these reports by selecting Vendors & Payables via Reports in the Tool Bar.



## F. Customers

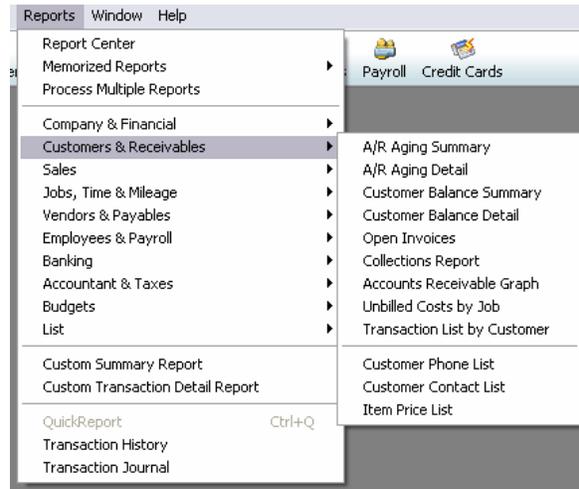
Relevant reports in this area address accounts receivable and customer balance issues.

Accounts receivable (sales for which payment has not been received) are probably more important for non-farm businesses but you may still have some interest in these reports.

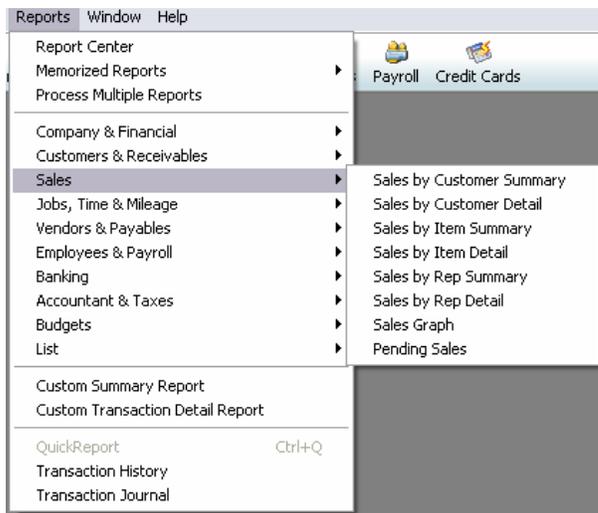
Accounts Receivable Aging reports list the amount of sales for which payment has not been received and the length of time

unreceived. Customer Balance reports list

unpaid balances by customer. View these reports by selecting Reports in the Tool Bar, then Customers & Receivables.



## G. Sales



Sales oriented reports are available by Customer and by Item. An Item is one

way QB tracks income or sales. Items

must be used when using the Create

Invoices or Enter Sales Receipts forms.

The Sales by Customer reports list

completed sales by customer. You can

modify this report in a variety of ways

including changing the report dates,

selecting either cash or accrual (includes

completed sales for which payment has not been received) organizing by Class and comparing to

previous periods. These reports, like all others, can be memorized, printed and exported to a

spreadsheet file. To access these reports, select Reports in the Tool Bar, then select Sales.

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