

Farm Accounting Using QuickBooks®

Teaching Outlines

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Introduction

The outlines found in this publication represent a pared down version of the material presented in the companion Users Manual publication. Outlines are probably easier to teach and learn from especially in workshop situations thus the reason for this document. These outlines were created for use with the 2008 version of Quick Books. Versions pre- and post-2008 may be similar enough to 2008 to still effectively use this publication. The authors are Stanley Schraufnagel and Jenny Vanderlin. Schraufnagel is a professor in the Agricultural Economics Department at UW-River Falls. Vanderlin is associate director for the Center for Dairy Profitability.

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Outline 1

Creating a Company File

1. Click File in the Tool bar.
2. Choose New Company.
3. The EasyStep Interview window appears. Click Skip Interview.
4. The Company Information window appears. Type in a name and address.
5. Select Sole Proprietorship. Select Next.
6. Select January as the start of the fiscal year. Select Next.
7. Select the Ag., Ranching or Farming chart of accounts. Select Next.
8. Click Finish.
9. You're now at the Filename for new Company window. Type in a file name. Decide where to save the file. Click Save.

Outline 2 Working with Lists

Lists

This is where you'll find the chart of accounts, information on the Items sold, enterprises (Classes), the Customers you sell to and the Vendors you buy from. At any time you can add to, delete from or edit a list.

Chart of Accounts

1. Choose Lists from the Tool bar.
2. Choose Chart of Accounts. The Chart of Accounts window appears.
3. Use the up and down arrows on the right side of the window to view the entire chart. Assets are listed first, then liabilities, income and expense accounts. Balances are reported for permanent accounts only. To see balances for any other account, just double-click on the account name. You can also do this for the permanent accounts.
4. You add accounts by clicking Account, then New, then completing the New Account windows. The Type and Name information are important. Type tells QuickBooks (QB) what kind of account it is. Tax line should also be added for revenue and expense accounts.
5. Choose a Name that will differentiate the account from others.
6. Description and Bank No. are optional.
7. If the account is a subaccount, then click on that box and click on the account name that the new account will be a subaccount of.
8. You should add Opening Balance information for Bank, Asset and Liability accounts existing when you start using QB. Otherwise, incorporate the opening balance by completing the appropriate form.
9. Information for any account can be changed by clicking on the account in the Chart of Accounts window then clicking Account, then Edit.
10. To delete an account, click on the account in the Chart of Accounts window, then choose Account, then Delete. Click OK when asked for confirmation.
11. To do:
 - a. create a business checking account and add a \$20,000 balance;
 - b. create a Herbicides and Pesticides account;
 - c. create a subaccount Anhydrous of Fertilizers and Lime;
 - d. delete Professional Fees expense account;
 - e. create a Milk Sales income account;
 - f. create a Farm Loan liability account with an opening balance of \$100,000;

Items

1. Choose Lists from the menu bar.
2. Choose Items. The Item List window appears.
3. Items are things you sell: corn, calves, etc.
4. For each Item set up, indicate at least Name, Type and Account. Do this by clicking Item, then New and completing the New Item window. In most instances Type will be Non-inventory Part. Click OK when you're done creating New items then close the Item List window when you're done.
5. Create items for: corn, bull calves, boarding;

Classes

1. You must turn Class Tracking on: Select Edit from the Tool Bar, then Preferences, then select Accounting, then Company Preferences then select Use Class Tracking.
2. This is where you create Enterprises to track income and expense (dairy, corn, crops, livestock, etc.).
3. From Lists choose Classes. The Class List window appears.
4. You can create new classes by selecting Class, then New or Edit any already set-up by clicking Edit. Delete a class here also.
5. The Reports button provides information on the activity in a class.
6. Add dairy, corn;

Customers: Jobs

1. These are the businesses, etc. you sell products to.
2. Select Customers in the Tool Bar then Customer Center.
3. Select New Customer & Job then New Customer.
4. Fill in as much information as you'd like. You must fill in a name in the Customer Name field.
5. Click OK to save the information or Next to save the information and open another New Customer window.
6. Once you're done entering new customers, click OK.
7. You can Edit or Delete any customer by Clicking on the Customer then selecting Edit in the Tool Bar and choosing the appropriate option.
8. Reports on customers can be generated by right clicking the customer name, then selecting Quick Report.
9. Add: Mix-up Milling Co., Milkydairy.

Vendors

1. These are the businesses you purchase inputs from.
2. Select Vendors in the Tool Bar then Vendor Center. The Vendor List window appears.
3. Select New Vendor. The New Vendor window appears.
4. Fill in as much information as you'd like. You must fill in a vendor name.
5. When done, click OK.
9. You can Edit or Delete any Vendor by clicking the Vendor name then selecting Edit in the Tool Bar and choosing the appropriate action
10. Add: Friendly bank, Pepin electric, Mix-up Milling Co.

Outline 3

Recording Sales – No Deductions from Gross Sale Amount

The sales considered here involve no deductions from the gross sale amount, thus the gross and net sale amounts are identical.

When a sale occurs, it's recorded in QB on a sales form. A Create Invoices form is used if payment is received later. An Enter Sales Accepts form is used if payment is received immediately. Neither of these forms can be used if there are deductions from the gross amount of the sale.

- A. Payment later situation – Create Invoices form
 - 1. From Customers in the Tool Bar, choose Create Invoices.
 - 2. What must be filled in on this form?
 - a. Customer: Job.
 - b. Class (only if you are enterprising sales).
 - c. Date.
 - d. Item (a separate line for each item).
 - e. Amount
 - 3. All other information is optional.
 - 4. If you don't want to print the invoice, which is probably the case, uncheck the To be printed box.
 - 5. Click Save & Close or Save & New when the invoice is complete. This will debit Accounts Receivable and credit one or more revenue accounts depending on how many items you sold and which revenue accounts they were attached to.
 - 6. Record:
 - a. 5000 bu. of corn to Mix-up Milling;
 - b. four bull calves to Packers, Inc.;

- B. Payment now situation – Enter Sales Receipts form
 - 1. From Customers in the Tool Bar choose Enter Sales Receipts. We need to change the format of this form, so select Edit in the Tool Bar, then Preferences, then Sales & Customers, then Company Preferences, then unselect Use Undeposited Funds as a default deposit to account.
 - 2. What must be filled in on this form?
 - a. Customer: Job.
 - b. Class (only if you are enterprising sales).
 - c. Date.
 - d. Item (a separate line for each item).
 - e. Amount.

3. If you don't want to print the cash sales form, which is probably the case, uncheck the To be printed box.
4. Choose either Undeposited Funds or a bank account.
5. Click OK when the form is complete. This will debit Undeposited Funds (or a bank account) and credit one or more revenue accounts.
6. Record:
 - a. 1000 bu. soybeans and 500 bales hay to I.M. Neighbor;

Outline 4

Customize & Memorize Forms, Receive a Customer Payment, Make a Deposit

A. Customize a Sales Form

1. Open the Enter Sales Receipts form.
2. Click on Customize. The Basic customization window appears.
3. Numerous options for customizing the form are available. The Additional Customization and Layout Designer buttons provide access to additional customization options.
4. Click Additional Customization then the Columns tab. Select Class in the Screen column. Click OK when finished.

B. Memorizing a form

Some transactions will be repeated many times and thus could be memorized for easy recording later.

1. The form you want to memorize must be displayed on screen.
2. From the Edit menu, choose Memorize form, the Memorize Transaction window appears.
3. What needs to be filled in this window?
 - a. Name so that you can identify this memorized form later.
 - b. Click either Remind Me, Don't Remind Me or Automatically Enter depending on your preferences.
 - c. If you choose Remind Me or Automatically Enter, additional information on the right side of the window will need to be entered.
 - d. Click OK and close all windows.
4. Recall the transaction this way:
 - a. choose Memorized Transaction List from the Lists menu.
 - b. Double-click the transaction (form) you want to recall.
 - c. Change any information you want.
 - d. Record the transaction.

C. Receive a Customer Payment

When you receive a payment you apply the payment to the customer's outstanding invoices assuming you completed a Create Invoices form at the time of sale.

1. From Customer in the Tool Bar choose Receive Payments. The Receive Payments window appears.
2. What needs to be filled out in this window?
 - a. Received From line. Click the down arrow and select a customer.
 - b. Date.
 - c. Amount.
 - d. Choose to either Deposit To a bank account immediately or place into Undeposited Funds for later deposit.

- e. Click on the Outstanding Invoice(s) the payment will be applied to and enter the amount of the Payment if QB hasn't done this for you. QB will automatically apply the payment to the oldest invoice first but you can apply the payment differently if you wish.
- f. Click Save & New or Save & Close to record the payment.
- g. Recording the payment credits accounts receivable and debits undeposited funds or the bank account receiving the deposit.

D. Make a Deposit

When you record a payment or enter a Cash Sale, the dollar amount may be placed in the "Undeposited Funds" account until you're ready to make a deposit.

1. From Banking choose Make Deposits. The Payments to Deposit window appears and it will show all payments you have in undeposited funds awaiting deposit.
2. Select the payment(s) you want to deposit by clicking on them in the far left column and then click OK. The Make Deposits window appears.
3. Choose the account you want to deposit into by completing the Deposit To box, make sure the date is correct.
4. You can also choose to receive "cash back" at this time.
5. Click the appropriate Save button.
6. QB enters the deposit transaction by debiting the bank account chosen and crediting undeposited funds.
7. QB will also print out a deposit slip to take to the Bank.

Outline 5

Recording Sales with Deductions from the Gross Sale Amount

Recording a sale with deductions requires use of the Make General Journal Entries form. To get started, choose Company from the Tool Bar, then Make General Journal Entries. Fill in date, account names, and amounts in the correct debit or credit column. Memo, name and class are optional, click a Save button to record the entry. Examples follow.

1. Record a sale of 1000 cwt of milk to Milky Dairy at \$18/cwt with the following deductions:
 - a. Friendly bank farm loan - \$700 (of which \$500 was interest).
 - b. Health insurance - employees - \$100.
 - c. Health insurance - personal - \$100.
 - d. Supplies - \$100.

Some of these vendors, accounts, etc. may need to be created.

2. Record a sale of 40,000 lbs. of fed beef @ \$95/cwt with the following deductions:
 - a. Friendly Bank cattle loan - \$16,000 (of which \$800 was interest)(need to set this loan up).
 - b. Shipping fee - \$200.
 - c. Yardage fee - \$650.
 - d. Sales fee - \$200.

For both of these examples, you could enter the cwt. sold in the Memo field on the income line then use Excel to calculate average sale price and total units sold.

3. Deposit both checks into checking with cash back of \$500.
 - a. From Banking choose Make Deposits. Record the deposits per handout 5.
 - b. Fill in the information at the bottom of the window for the cash back.

Outline 6

Recording Ordinary Expenses

When a resource is purchased it's recorded on a Enter Bills form or Write Check form. An Enter Bills form is used for payment later situations, a Pay Bills form is used to record payment of a bill entered through Enter Bills. A Write Checks form is used to record immediate payment.

- A. Payment later situation – Enter Bills form
 - 1. From Vendors choose Enter Bills.
 - 2. What must be filled in on this form?
 - a. Vendor
 - b. Date
 - c. Amount Due
 - d. Terms - if they are an issue; if no terms are indicated, QB assumes the bill is due 10 days after receipt. This can be changed on the form for a particular purchase through Preferences
 - e. Account
 - f. Amount
 - g. Class - if this expense is being charged to an enterprise, then click in the Class field and choose a class
 - h. If more than one account is involved, then complete steps **e** through **g** again until the Bill has been allocated to all affected expense accounts.
 - i. Click a Save button when the form is complete which will Debit the expense account(s) indicated and credit accounts payable.
 - j. Record:
 - 1. Feed from Mayberry Coop., \$4,000, 2% 10, net 30;
 - 2. Utilities, Pierce-Pepin electric coop., \$500;

- B. Pay Bills (entered originally through Enter Bills)
 - 1. From Vendors choose Pay Bills, the Pay Bills form appears.
 - 2. What must be filled in?
 - a. Indicate the Payment Method by selecting Check or Credit Card.
 - b. Choose a checking account or credit card from which to pay in the Payment Account field.
 - c. Change the Payment Date if necessary.
 - d. You can Sort Bills By other options than Due Date. Click on the down arrow to view these.
 - e. You can change the date in the AShow bills due on or before@ box.
 - f. Choose which bills to pay by clicking on the bill line in the far left hand column. Indicate how much you will pay on the bill in the Amt. To Pay column. Partial payments are OK.
 - g. Click the Pay Selected Bills button when the form is complete. This will debit accounts payable and credit the payment source (checking or credit card).
 - h. If the Bill had a discount date and is paid within that date, then select Set Discount and allocate the discount to an account.

- i. If the Bill is paid late and there is now an additional late fee or interest charge, select Go to Bill, change the Amount Due and allocate the fee/charge to an expense account. Save the Enter Bills form and you return to Pay Bills. Click Clear Selections then reselect the bill for payment.

C. Payment Now

1. From Banking, choose Write Checks, the Write Checks form appears.
2. What must be filled in?
 - a. Choose a checking account.
 - b. Pay to the Order of.
 - c. Amount next to \$.
 - d. Press Tab or click the account field at the bottom of the screen and the Amount will be entered in words automatically.
 - e. Account.
 - f. Amount.
 - g. Class (only if the expense will be charged to a Class).
 - h. Redo steps e through g if more than one account is involved.
 - i. Uncheck the To be printed box unless you want to print the check.
 - j. Click a Save button when the form is complete. This will debit the expense account(s) and credit the checking account.
 - k. Record:
 1. Fertilizer (\$5,000) and Feed (\$1,000) from XYZ Coop.
 2. Vet Bill, Dr. Rayne, \$300;

Outline 7

Recording Capital Asset Acquisitions & Dispositions

I. When a capital asset is purchased it should be entered into the accounting system so it appears on the balance sheet and if it is depreciable, depreciation can be recognized. Type all capital asset accounts and subaccounts as Fixed Assets.

- A. The first step is to set up the accounts. There are three that need to be set up for a depreciable capital asset: the main account identifying the capital asset, then two subaccounts, one named Cost and other Accumulated depreciation. So it looks like this for a Tractor:

Tractor

Cost

Accumulated depreciation

Next, record the acquisition. This is done with a journal entry via the Make General Journal Entries form. The original Basis or acquisition cost is debited to the Cost subaccount.

- B. Example: Purchase, all cash (Basis = \$20,000)
1. From Company, choose Make Journal Entry, the General Journal Entry screen appears.
 2. Debit the cost sub-account for \$20,000 and credit the checking account for \$20,000.
 3. What needs to be filled in on this form?
 - a. account name and amount for at least one debit
 - b. account name and amount for at least one credit.
 - c. Date of transaction.
 - d. You can also. I.D. the Vendor/Customer in the Name column if you choose and Class the transaction in the Class column.
 - e. Click a Save button

- C. Purchases involving debt

If borrowing is involved in the acquisition then an existing or newly created liability account is credited for the amount of the purchase price borrowed. The remainder of the purchase price represents the cash part of the purchase requiring a credit to the checking account.

II. Capital Asset Sales

When a capital asset is sold, a number of issues need to be addressed: 1st any depreciation available on the asset in the year of disposition should be taken; 2nd all accounts associated with the old asset need to be zeroed out; 3rd cash received and any capital gain or loss need to be recognized. All of these issues are addressed using the Make General Journal Entries form.

A. Example: sell a fully depreciated machine for \$23,000 with an original Cost of \$50,000, thus the account balances in the Chart of Accounts would appear as follows on the sale date:

Machine	0
Accumulated depreciation	-50,000
Cost	50,000

1. Since the asset is fully depreciated, the 1st issue noted above is not addressed.
2. The journal entry below addresses the 2nd and 3rd issues noted above. Since the Accumulated depreciation asset sub-account has a negative (credit) balance, it must be debited to zero it out. The Cost asset subaccount has a debit balance and thus must be credited to zero it out. The cash received is assumed deposited into checking so that account is debited. There is a \$23,000 capital gain calculated as: Sale Price – Book Value (\$23,000 – \$0), so a Capital Income account is credited.
3. The journal entry is presented below.

Machine:Accumulated depreciation	50,000
Farm checking	23,000
Machine:Cost	50,000
Capital Income	23,000

Outline 8

Recording Depreciation & Loan Payments

A. Recording Depreciation

Depreciation must be calculated outside QuickBooks and then entered as a journal entry.

1. From Company choose Make General Journal Entries.
2. Make sure the date is correct then debit the Depreciation expense account and credit the Accumulated depreciation subaccount for the capital asset you are depreciating.
3. You must fill in: date and debit and credit account names and dollar amounts.
4. You can Class depreciation expense to one or multiple enterprises.
5. Click OK.
6. Example: depreciate the tractor purchased in Outline 7 for \$1,000, the journal entry follows.

Depreciation expense	1,000
Tractor:Accumulated depreciation	1,000

B. Make a Loan Payment

1. If the liability doesn't exist in QuickBooks, create it. Do this by selecting Company in the Tool Bar, then Make General Journal Entries and making a journal entry.
2. Loan Payment
 - a. From Banking, choose Write Checks, the Write Checks screen appears.
 - b. Complete this screen per instructions I.C. on Handout 7.
 - i. The Vendor would be the lender.
 - ii. The \$ amount should be the full amount of the payment.
 - iii. Record the interest account and liability account and amounts in the lower part of the form.
 - iv. Could also memorize this check by clicking on Edit in the main menu and choosing Memorize Check, then completing the Memorize Transaction screen.
3. Example: make a \$5,000 payment on a \$350,000 machinery loan, the machinery loan needs to be created as a Long Term Liability, \$4,000 of the \$5,000 is interest.

Outline 9

Credit Card Transactions

A. Entering Credit Card Charges

1. Choose Banking from the menu bar, select Enter Credit Card Charges
2. Required information for this form:
 - a. Choose a credit card account or create one;
 - b. Enter a Vendor name in the Purchased From field;
 - c. Enter amount of charge in Amount field;
 - d. In the expenses tab complete the Account and Amount field and the other field as appropriate;
 - e. Clicking either Save button will debit the indicated expense accounts and credit the credit card account.
3. Example: charge a \$500 fuel purchase from the Korner Cooperative using the Farm Plan credit card. The Korner Cooperative vendor and the Farm Plan credit card account need to be set-up before proceeding to the Enter Credit Card Charges form.

B. Changing a Credit Card Transaction

1. Display the Chart of Accounts
2. Double click the credit card account containing the transaction you need to change.
3. Find the transaction in the register, click it once and make the change.
4. Click Record.

C. Voiding or Deleting a Credit Card Entry

1. Display the transaction you want to void in the Enter Credit Card Charges window or select it from the appropriate credit card register.
2. From the Edit menu, choose Void Credit Card Charge (zero's out transaction but keeps a record) or Delete Credit Card Charge (deletes transaction completely).
3. Choose Save or click Record if using the register.

D. Paying a Credit Card Bill

1. You need to reconcile the credit card account. Display the Reconcile window (in Banking on menu line).
2. When reconciled (Difference = \$0) click Reconcile Now.
3. Decide whether to write a check or enter a bill for later payment.
4. Click OK.
5. Complete the Check for or Enter Bill form.

E. Paying Bills with Credit Card

1. You can pay a bill entered through Enter Bills using Pay Bills with a credit card.

Outline 10 End of Year Accrual Adjustments

A. Adjusting Journal Entries

Use the Make General Journal Entries form for these end of year, accrual adjustments. Be careful when you debit or credit an income or expense account as this may result in an incorrect account balance for cash filing of income tax.

B. Inventory Adjustment

Use the Make General Journal Entries form for these end of year accrual adjustments. Create inventory accounts for assets in inventory at the end of year and a general income account to capture the inventory based adjustments to income. Do not attach a tax line to the income account as these are not cash adjustments.

1. Example: assume the beginning of year (BOY) corn inventory was \$40,000 and the end of year corn inventory (EOY) was \$70,000; the inventory adjustment is +\$30,000 calculated as EOY – BOY; the corn inventory asset account needs to be debited (increased) \$30,000 and the offsetting credit is to an Income Adjustment account; the Income Adjustment account is Typed as Other Income with no tax line attached to it. The income account is increased because the inventory increase represents production for which no prior income recognition has occurred and accrual accounting attempts to measure the net value of production during an accounting period. This adjustment has no impact on taxable income.

Corn inventory	30,000	
Income adjustment		30,000

Outline 11

Reports

QuickBooks can generate a variety of Income Statements, Balance Sheets, Cash Flow Statements reports on business you do with particular Vendors and Customers, etc. and they are all highly customizable.

A. Reports then Company and Financial

This gives you access to a variety of financial statement options including graphically and also reports on Income by Customer and Expenses by Vendor.

1. Click Profit & Loss Standard, a Profit and Loss Statement appears.
 - a. Change the Dates field to This Fiscal Year by clicking on the down arrow and making that choice.
 - b. Change the Columns box to Quarter by clicking on the down arrow and making that choice.
 - c. Other changes can be made by clicking on the following button: Modify Report
 - d. When you've got the statement looking the way you want it, click the Memorize button for easy recall.
2. Click Standard Balance Sheet (there are other Balance Sheet options available)
3. Cash Flow Statement

B. Other useful reports are contained in Customers & Receivables, Sales, Vendors & Payables, Accountant and Taxes.

C. QuickBooks can generate pictures of financial performance. These sometimes communicate information better than reports. Many of Reports drop down menu choices have a graph option including Company & Financial, Customers & Receivables, Sales and Vendors & Payables.