



QUICKBOOKS 2016 STUDENT GUIDE

Lesson 10

Setting Up Inventory

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Intuit, Inc.
5601 Headquarters Drive
Plano, TX 75024

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Lesson Objectives

- To get an overview of inventory in QuickBooks
- To practice filling out a purchase order for inventory items
- To track the receipt of the inventory items in QuickBooks
- To adjust inventory manually to enter a stock loss or increase
- To set up and use units of measure

Turning on the Inventory Feature

If you need to track inventory for your company, you can turn the feature on while completing the EasyStep Interview. If you want to turn on the inventory feature after you've completed the EasyStep Interview, follow this procedure.



To turn on the inventory feature:

1. Make sure you are signed in to the QuickBooks company as the Admin user. (If other users have been set up on other computers to access the company in multi-user mode, ensure that they are not signed in and that you are in single-user mode.)
2. From the **Edit** menu, choose **Preferences**.
3. Select **Items & Inventory** from the menu on the left-hand side.
4. Click the **Company Preferences** tab.
5. Click the **Inventory and purchase orders are active** checkbox to select it.
6. Click **OK**.



NOTES

Entering Products into Inventory

Many small businesses that stock inventory don't know the number of units they have on hand or on order at any given time and have no way of getting that information quickly. Using QuickBooks to manage your inventory, you'll be able to track the number of items in stock and the value of your inventory after every purchase and sale.

As you order inventory items, receive the items, and later sell the items from inventory, QuickBooks tracks each inventory-related transaction. You will know the status of your inventory and will have a more accurate picture of your business's assets.



To enter a product into inventory:

1. From the **Vendors** drop-down, choose **Item List** (or from the **List** drop-down, choose **Item List**).
2. Click the **Item** menu button at the bottom left then choose **New**.

New Item

TYPE
 Inventory Part Use for goods you purchase, track as inventory, and resell.

Item Name/Number Subitem of Manufacturer's Part Number

UNIT OF MEASURE
 U/M Set Edit...

PURCHASE INFORMATION
 Description on Purchase Transactions
 Cost
 COGS Account
 Preferred Vendor

SALES INFORMATION
 Description on Sales Transactions
 Sales Price
 Tax Code
 Income Account

Item is inactive

INVENTORY INFORMATION

Asset Account	Reorder Point (Min)	Max	On Hand	Total Value	As of
12100 - Invento...	<input type="text"/>	<input type="text"/>	0.00	0.00	12/15/2020

Buttons: OK, Cancel, Next, Notes, Custom Fields, Spelling

3. In the **Type** field, choose **Inventory Part** from the drop-down list.
4. Enter the item name in the **Item Name/Number** field.
5. If this item is to be a subitem of a parent item, select the checkbox next to it and specify the parent item in the drop-down box below it.
6. In the **Description on Purchase Transactions** field, enter the default description you would like to appear on purchase orders, bills, and checks. (You can delete or overwrite the default description on any individual form as you see fit.) This description automatically copies over to the Description on Sales Transactions, which you can change at that step.
7. In the **Cost** field, enter your per unit purchase cost for the item.
8. Enter the appropriate **Cost of Goods Sold** account in the **COGS Account** field.
9. In the **Preferred Vendor** field, choose a preferred vendor, if applicable.
10. In the **Description on Sales Transactions** field, if desired, change the default description you would like to appear on invoices, credit memos, and sales orders, and estimates.
11. In the **Sales Price** field, enter the per unit sales price you would like to appear on sales orders, sales receipts, estimates, and invoices.
12. Assign a **Tax Code**, taxable or non-taxable.
13. In the **Income Account** field, assign the appropriate income account for when the item is sold.
14. Enter the appropriate asset account in the **Asset Account** field.
15. In the **Reorder Point** field, enter the point at which you would like QuickBooks to remind you to reorder the item.

The screenshot shows the 'New Item' window in QuickBooks. The window title is 'New Item'. The 'TYPE' field is set to 'Inventory Part' with a subtext 'Use for goods you purchase, track as inventory, and resell.'. The 'Item Name/Number' field contains 'Cab 2015'. The 'Subitem of' checkbox is checked, and the parent item is 'Cabinets'. The 'Manufacturer's Part Number' field is empty. The 'UNIT OF MEASURE' section shows 'U/M Set' with an 'Edit...' button. The 'PURCHASE INFORMATION' section includes 'Description on Purchase Transactions' (Kitchen Cabinet #2015), 'Cost' (169.00), 'COGS Account' (50100 - Cost of Goods...), and 'Preferred Vendor' (Thomas Kitchen & Bath). The 'SALES INFORMATION' section includes 'Description on Sales Transactions' (Kitchen Cabinet #2015), 'Sales Price' (225.00), 'Tax Code' (Tax), and 'Income Account' (40100 - Construction I...). There is an 'Item is inactive' checkbox. The 'INVENTORY INFORMATION' section shows 'Asset Account' (12100 - Invento...), 'Reorder Point (Min)' (15), 'Max' (empty), 'On Hand' (0.00), 'Total Value' (0.00), and 'As of' (12/15/2020). On the right side, there are buttons for 'OK', 'Cancel', 'Next', 'Notes', 'Custom Fields', and 'Spelling'.

16. Click **OK** to close the New Item window.
17. Close the Item list.



NOTES

Creating Purchase Orders

Once you enter your current products and vendors into the Item and Vendor lists, you'll need to order products to keep your inventory stocked.

When you order items from a vendor, you create a purchase order. Purchase orders are non-posting transactions, which means that although they are recorded by QuickBooks, they do not affect the general ledger, balance sheet, or income statement.



To order a product using a purchase order:

1. From the **Vendors** menu, choose **Create Purchase Orders**.
2. In the **Vendor** field, choose the name of the vendor from the drop-down list.
3. If necessary, change the **Date** and **P.O. Number**.
4. In the **Item** column, select the item you wish to order from the drop-down list.
5. In the **QTY** field, enter the quantity you wish to order.
6. Change the **Rate** (the per item unit cost) if necessary.
7. You may add a **Vendor Message**, such as *Please rush ship this order*.

Create Purchase Orders

Main Formatting Reports

Find New Save Delete Memorize Mark As Closed Print Email Email Later Attach File Create Item Receipts Select Items Receipt

VENDOR: Perry Windows & D... CLASS: DROP SHIP TO: TEMPLATE: Custom Pu...

Purchase Order

DATE: 12/15/2020
P.O. NO.: 6238

VENDOR: Perry Windows & Door
P.O. Box 5033
Bayshore CA 94326

SHIP TO: Rock Castle Constructi
1735 County Road
Bayshore, CA 94326

ITEM	DESCRIPTION	QTY	RATE	CUSTOMER	U/M	AMOUNT
Door Fr...	standard interior door frame	10	12.00			120.00
TOTAL						120.00

VENDOR MESSAGE: Please rush this order

MEMO:

Save & Close Save & New Clear

Perry Windows _Doors

Vendor Transaction

SUMMARY

Phone: 415-555-5933
Open balance: 6,705.00
POs to be received: 1

RECENT TRANSACTION

12/15/20 Bill Pmt -Check 6,935.75
12/11/20 Bill 130.00
12/04/20 Bill 2,400.00
12/02/20 Bill 50.00
11/20/20 Bill - Paid 5,925.00

NOTES

8. Click **Save & Close** to record the purchase order.



NOTES

Getting a Report of Purchase Orders



To get a chronologically ordered report of all the purchase orders you have written:

1. From the **Lists** menu, choose **Chart of Accounts**.
2. In the **Chart of Accounts**, click **Purchase Orders** once to select it.
3. Click the **Reports** menu button and choose **QuickReport: Purchase Orders**.
4. Change the date range to **All** if desired.

3:50 PM
12/15/20
Accrual Basis

**Rock Castle Construction
Account QuickReport
All Transactions**

Type	Date	Num	Name	Memo	Split	Amount
90100 - Purchase Orders						
Purchase Order	12/01/2018	6001	Vu Contracting	Estimate 35...	-SPLIT-	-2,050.00
Purchase Order	07/15/2019	6100	Perry Windows & ...		54300 - Job M...	-144.75
Purchase Order	07/15/2019	6101	Thomas Kitchen &...		54300 - Job M...	-2,080.00
Purchase Order	07/15/2019	6102	Timberloft Lumber		-SPLIT-	-234.00
Purchase Order	01/04/2020	6201	Custom Kitchens o...	Estimate 35...	-SPLIT-	-435.00
Purchase Order	01/15/2020	6202	Thomas Kitchen &...	Abercrombie...	-SPLIT-	-2,320.00
Purchase Order	07/14/2020	6203	Thomas Kitchen &...		-SPLIT-	-4,487.45
Purchase Order	07/14/2020	6204	Thomas Kitchen &...		-SPLIT-	-1,672.50
Purchase Order	07/14/2020	6205	McClain Appliances		-SPLIT-	-3,690.00
Purchase Order	07/14/2020	6206	Thomas Kitchen &...	Luke, bathro...	54300 - Job M...	-1,390.00
Purchase Order	07/23/2020	6207	Patton Hardware S...		-SPLIT-	-754.50
Purchase Order	08/11/2020	6208	McClain Appliances		54300 - Job M...	-380.50
Purchase Order	08/11/2020	6209	Timberloft Lumber		54300 - Job M...	-563.00
Purchase Order	10/01/2020	6210	McClain Appliances	Jacobsen K...	-SPLIT-	-2,100.00
Purchase Order	10/01/2020	6211	McClain Appliances	Cook Kitchen	-SPLIT-	-1,780.00
Purchase Order	10/05/2020	6212	Perry Windows & ...		-SPLIT-	-1,800.00
Purchase Order	10/06/2020	6213	Larson Flooring	Pretell-155 W...	54500 - Subc...	-6,400.00
Purchase Order	10/10/2020	6214	Timberloft Lumber	Carpenter 2...	-SPLIT-	-14,790.00
Purchase Order	10/17/2020	6215	Wheeler's Tile Etc.		54300 - Job M...	-286.00
Purchase Order	10/17/2020	6216	McClain Appliances		-SPLIT-	-3,065.00
Purchase Order	10/17/2020	6217	Thomas Kitchen &...		54300 - Job M...	-1,897.00

5. Close the QuickReport.
6. Close the Chart of Accounts.



NOTES

Receiving Inventory

When you receive the items you have ordered with your purchase order, you have to enter the items into inventory. You can receive items with a bill or without a bill. This exercise shows how to enter into QuickBooks inventory items you've received without a bill, which will follow later.



To receive inventory without a bill attached:

1. From the **Vendors** menu, choose **Receive Items**.

2. In the **Vendor** field, choose the vendor from which you are receiving inventory.
3. At the **Open Purchase Orders Exist** window, click **Yes** (or **Select PO** from the icon bar if you accidentally bypass the pop-up notification).
4. Click the purchase order(s) against which you want to receive inventory.
5. Click **OK** to move the information to the item receipt.
6. Specify the **Date** that the items were received.

7. If applicable, add more information to the item receipt such as a **Reference number** and an additional **Memo**.
8. Click **Save & Close** to process the receipt.
9. QuickBooks processes the items and adds them to your inventory.



NOTES

Entering a Bill for Inventory Received

If you've entered an item receipt for inventory but the bill hasn't arrived yet, you can still record the bill amount in QuickBooks. Entering the bill as shown in this exercise changes the Item Receipt in your Accounts Payable account to a Bill, still affecting Accounts Payable. Item receipts appear in payables reports but do not appear in the Pay Bills window. They must be turned into bills in order to appear in the Pay Bills window.

When the bill comes, you pay the bill just like you would pay any other bill in QuickBooks (from the Pay Bills window).



To enter the bill:

1. From the **Vendors** menu, choose **Enter Bill for Received Items**.
2. In the **Vendor** field, select the vendor from the drop-down list and press **Tab**.
3. This will bring up the Select Item Receipt window. Select the item receipt you wish to turn into a bill (only one item receipt at a time can be turned into a bill).
4. To use the receipt date as the bill date, you can select the box **Use item receipt date for the bill date**, this will automatically transfer to the bill.

Select Item Receipt

Vendor: Perry Windows & D...

Use item receipt date for the bill date

Choose the Item Receipt which corresponds to your bill

DATE	REF NO.	MEMO
12/15/2020	1234	Received items (bill to fol...
12/15/2020	5678	Received items (bill to fol...

Buttons: OK, Cancel, Help

5. Click **OK**.
6. Enter or change the **date** and **reference number** (bill number).
7. Click **Save & Close**.

8. Click **Yes** if another dialog box appears.

QuickBooks changes the item receipt to a bill in the Accounts Payable account and lists the bill in the Pay Bills window.

Because it is highly recommended that you have inventory on hand before you enter a sale for inventory parts, it is recommended that you enter your item receipts before entering sales. (If you do not have enough inventory on hand to sell when you are entering an invoice, you will receive a warning. If you elect to ignore the warning, reports regarding costs of goods sold and profitability can be skewed.)



NOTES

Manually Adjusting Inventory

When you have spoilage or shrinkage, or when you send out samples of your products, you can adjust your inventory manually.



To adjust the inventory manually:

1. On the **Home** page, click the **arrow** next to **Inventory Activities** and choose **Adjust Quantity/Value on Hand**. (This is also available from the **Vendors** menu by selecting **Inventory Activities** and choosing **Adjust Quantity/Value on Hand**.)

QuickBooks displays the Adjust Quantity/Value on Hand window.

2. Keep the **Adjustment Type** at **Quantity**.
3. Enter the **Adjustment Date**.

4. In the **Adjustment Account** field, enter the appropriate **Cost of Goods Sold** account against which you would like to record the adjustment.
5. Click on the **Find & Select Items** to search for items, or enter them directly into the Items column of the grid. You can adjust multiple items in this one entry screen.
6. Enter the new quantities you want to show in your inventory in the **New Quantity** column, or use the **Qty Difference** column to adjust inventory up or down.
7. Click **Save & Close**.

**NOTES**

Setting a Default Markup

With QuickBooks, you can add a markup to your basic costs by entering a default markup percentage. QuickBooks uses this percentage to calculate the sales price of items that should have both a per unit purchase cost and a per unit sales price.

You'll see the effect of the default markup percentage when you create inventory part, non-inventory part, service, and other charge items when you enter the item's cost.

QuickBooks calculates the sales price and enters it in the Sales Price field. For example, entering a cost of \$10.00 when the markup is 25% causes QuickBooks to fill in the sales price as \$12.50. If you don't want to use the default markup for an item, you can change the sales price that QuickBooks created based on the markup.

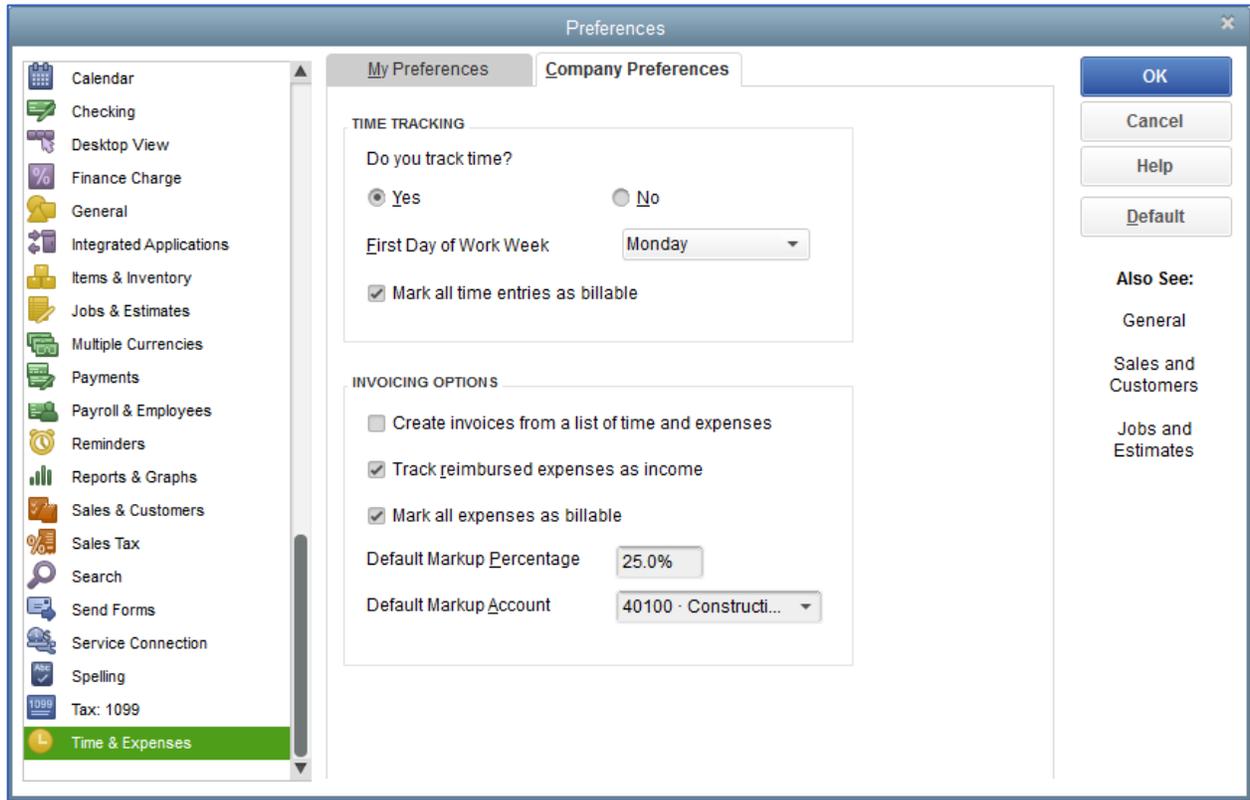


To set the default markup percentage:

1. Make sure you are signed in to the QuickBooks company as the Admin user. (If other users have been set up on other computers to access the company in multi-user mode, ensure that they are not signed in and that you are in single-user mode.)
2. From the **Edit** menu, choose **Preferences**.
3. Click **Time & Expenses** in the left panel.
4. Click the **Company Preferences** tab.
5. In the **Default Markup Percentage** field, enter the default markup as a percentage and press **Tab**.

- In the **Default Markup Account** field, choose the appropriate Income account to which markups should be mapped.

Your screen should resemble this:



- Click **OK**.

Setting Up Inventory — Review Questions

1. True or false: The Purchase Orders account does not affect the balance sheet or income statement.
 - a. True
 - b. False
2. You placed an order with a vendor for inventory parts. The items have arrived but you have not received the bill yet. Which option should you choose from the Vendors menu?
 - a. Enter bills
 - b. Receive items and enter bills
 - c. Receive items
 - d. Enter bills for items received
3. You complete a physical inventory count and discover that you have five more of a particular item than shown in QuickBooks. How do you update the inventory records in QuickBooks?
 - a. Complete the physical inventory worksheet
 - b. Enter an item receipt
 - c. Adjust the quantity using the Adjust Quantity/Value on Hand window
 - d. None of the above
4. Which of the following provide you with a list of all purchase orders created in a file?
 - a. QuickReport on the Purchase Orders account
 - b. Purchase Orders List report
 - c. Open Purchase Orders
 - d. All of the above

Review Activities

1. Enter a new inventory item using the following information.
 - **Item Name/Number:** Kitchen counter
 - **Purchase Description:** Kitchen counter
 - **Cost:** 280.00
 - **COGS Account:** Cost of Goods Sold
 - **Preferred Vendor:** Patton Hardware Supplies
 - **Sales Description:** Same as Purchase Description
 - **Sales Price:** 340.00
 - **Income Account:** Construction:materials
 - **Asset Account:** Inventory Asset
 - **Reorder Point:** 5
 - **Qty on Hand:** 6
2. Create a purchase order for 20 standard doorknobs.
3. Receive the 20 standard doorknobs into inventory and record the bill for the doorknobs.
4. Process the bill and pay for the 20 standard doorknobs.

Answers to Review Questions

1. True or false: The Purchase Orders account does not affect the balance sheet or income statement.
 - a. ✓ True
 - b. False
2. You placed an order with a vendor for inventory parts. The items have arrived but you have not received the bill yet. Which option should you choose from the Vendors menu?
 - a. Enter bills
 - b. Receive items and enter bills
 - c. ✓ Receive items
 - d. Enter bills for items received
3. You complete a physical inventory count and discover that you have five more of a particular item than shown in QuickBooks. How do you update the inventory records in QuickBooks?
 - a. Complete the physical inventory worksheet
 - b. Enter an item receipt
 - c. ✓ Adjust the quantity using the Adjust Quantity/Value on Hand window
 - d. None of the above
4. Which of the following provide you with a list of all purchase orders created in a file?
 - a. ✓ QuickReport on the Purchase Orders account
 - b. Purchase Orders List report
 - c. Open Purchase Orders
 - d. All of the above