Lesson 10

Setting Up Inventory

Table of Contents

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**.

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.

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*.

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.

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.

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**.

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

Your screen should resemble this:
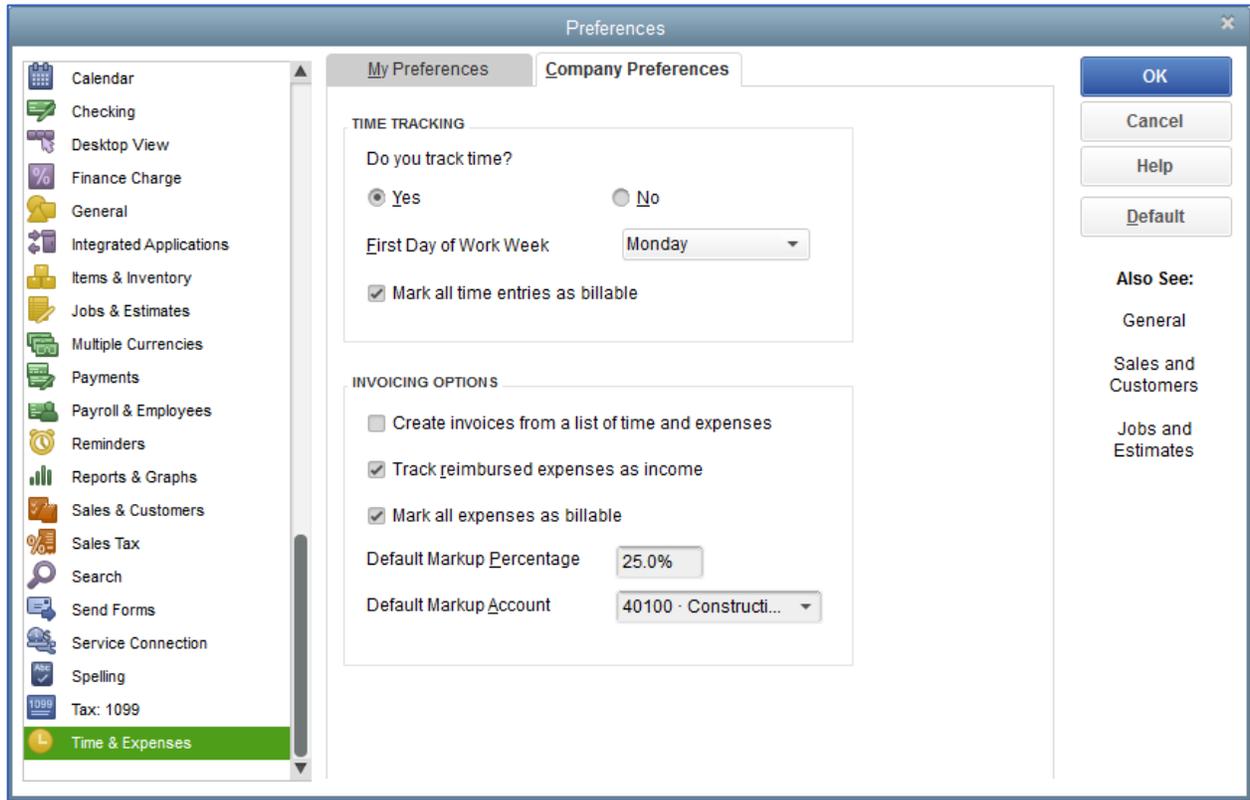
7. Click **OK**.

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