

Accounting 252
QuickBooks Instructor Notes
Chapter 3 – Sales and Receivables – Service Business (09/05/16)

1. How does QuickBooks work?

A. Event-driven accounting program

- (1) Accounting events that *may or may not* become accounting transactions are entered in QB, pending their completion.

Examples: Estimate, Purchase Order, Customer Invoice, Vendor Invoice, employee timecard for time worked, and many others.

- (2) When completion does occur, it may be evidenced by:

- a. Externally generated source documents

Vendor invoice, deposit slip, cash register receipt, sales receipt from retail store, promissory note, bill of lading, and many others.

- b. Internally generated source documents

Cancelled check, customer invoice, delivery receipt, bill of lading, customer credit memo, interest on overdue A/R, and many others.

- (3) Use QB to prepare many internally generated source documents by recording the information directly onto the source document. Then the document is printed or electronically transmitted.
- (4) To have a sound accounting system, all businesses must maintain paper or electronic evidence of transactions that have occurred.

Audit trail

B. Friendly user interface

- (1) Easy to use. Seems like accounting knowledge not needed.

2. Back end processes (Accounting Cycle)

A. Journal entries

Either when source documents are created, when externally generated transactions are input, or pending events are finalized, journal entries are generated by the system.

B. Posting

- (1) To General Ledger

Account balances that appear on trial balance.

- (2) To Subsidiary Ledgers

- a. Accounts receivable (A/R)

- b. Accounts payable (A/P)

- c. Inventory, job cost ledgers, employee P/R, payroll tax liabilities, credit card payables, sales taxes payable, and others, as needed

C. Forced agreement

- (1) Sum of any set of Subsidiary Ledgers must always be same as the corresponding balance in the General Ledger

The GL balance is called a “control account”. QB will not allow the two to have different balances.

3. Problem areas in A/R

A. Sales Receipt vs Sales Invoice vs Receive Payment. What’s the difference?

- (1) Sales Receipt

Is a cash sale.

Generic Account titles	Debit	Credit
Undeposited Funds	X	
Income: Installation Income		X

- (2) Sales Invoice

Is a sale on account.

Generic Account titles	Debit	Credit
Accounts Receivable – Customer name	X	
Income: Installation Income		X

- (3) Receive Payment

Is collection of an account receivable.

Generic Account titles	Debit	Credit
Undeposited Funds	X	
Accounts Receivable – Customer name		X

Mix these up and lots of balances and transaction links will be wrong!

B. Credit Memos

- (1) Click the Refunds & Credits icon to prepare a Credit Memo

a. Accounting impact

Generic Account titles	Debit	Credit
Income: Installation Income	X	
Accounts Receivable – Customer name		X

- b. Must eventually be “applied” to make the related Accounts Receivable invoice balance “clear”. This can be applied immediately upon creating credit memo, by issuing a refund, or by applying later.

Apply = Match the credit memo to the customer invoice it relates to.
QB automatically does this in FIFO order. If different order is needed, the default invoice selected must be unchecked, and the correct invoice must be checked.

Clear = Make the invoice stop showing up as an open (unpaid) invoice balance on reports. Once the credit memo is generated, the customer balance will be zero. However, the invoice that was to be zeroed out will still show up as unpaid until the credit is properly applied.

C. Invoices with no matching revenue on Income Statement?

- (1) Whenever a customer account is set up and has an opening balance, QuickBooks prepares an invoice to match the opening balance
 - a. The only practical way to do this is at the point of account creation. Revenue (Uncategorized Income) is posted to the period preceding the current period.
 - b. Do not mistakenly delete these invoices. It is not practical to re-create them with the knowledge you have as of this chapter.

D. Voiding and Deleting an invoice is not the same thing

- (1) Voiding maintains a good audit trail and prevents the invoice number from being reused.
- (2) Deleting does NOT maintain a good audit trail and does not effectively prevent the invoice number from being reused.

E. Undeposited funds maintains link between cash sales & A/R collections and the bank statement. Represents cash on hand until deposited.

- (1) Cash sales & A/R collections are done in detail. The individual amount from each customer must show up in their account.

Individual amounts from Receive Payments or Sales Receipts go into Undeposited Funds

Generic Account titles	Debit	Credit
Undeposited funds	X	
Accounts Receivable – Customer name OR Income: Installation Income		X

- (2) Bank deposits are done in bulk – many individual cash receipts grouped together. The gross amount taken to the bank for the day shows up as a deposit on the bank statement, while the detail is still available in QB. This simplifies later reconciling the Checking account.

Using Record Deposits button transfers amounts from Undeposited Funds into Checking.

Account titles	Debit	Credit
Checking (the main Cash account)	X	
Undeposited funds		X