Chapter 10

Inventory

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Chapter 10

In this chapter, you'll learn how QuickBooks handles inventory. You can use QuickBooks to track the items you keep in inventory and sell to your customers. If your business purchases or makes items for resale, keeps them in inventory, and then sells them, QuickBooks can track quantities on hand and the value of your inventory after every purchase and sale.

Lesson Objectives

In this chapter, you'll learn how to:

- Enable and setup inventory
- Order and receive inventory using Purchase orders
- Sell inventory
- Adjust inventory
- Create Inventory Reports

Why Track Inventory in QuickBooks?

There are several reasons to track inventory in QuickBooks.

- When you use purchase orders to buy inventory items, QuickBooks updates your inventory, so you know which items are on order and when they're due to be received
- You can easily keep track of the cost to you of the items you have sold (the cost of goods sold)
- You can easily keep track of the income you receive from the sale of inventory items
- You always know your current quantities on hand
- You always know the current value of your inventory

NOTE Inventory in QuickBooks Online is only available in QuickBooks Online Plus.

How QuickBooks Online Tracks and Costs Inventory

QuickBooks Online uses the First in First Out method to cost inventory.

As prices go up and down, you might purchase items for a different price than you'd previously paid for units of the same type. When you have items in inventory that are of the same kind but were bought at different prices, it raises a question: For each item you sell, which purchase price applies to that item?

QuickBooks Online uses the FIFO method to answer this question. As the name implies, QuickBooks Online will always consider the first units **purchased** (First In) to be the first units **sold** (First Out) and will adjust your assets and Cost of Goods Sold (COGS) accordingly whenever sales of inventory items are entered.

An example will make this clearer:

Let's suppose you decide to begin selling a product called a "widget." You purchase 20 widgets for $6 apiece. While they remain in inventory, the widgets are considered assets and are valued at cost. (Since you haven't sold any widgets yet, your COGS for widgets is $0.)

Current Inventory:	20 units at $6 each
Total Widget Assets:	$120
Total Widget COGS:	$0

You schedule meetings with some of your customers. They show great interest in widgets, and you realize you don't have enough. You order 30 more widgets, but since your last purchase the price from your wholesaler has gone up to $7 apiece. When you record the purchase, QBO adds $210 to your assets.

Current Inventory:	20 units at $6 each; 30 units at $7 each
Total Widget Assets:	$330
Total Widget COGS:	$0

You meet with the first customer, and she purchases 15 widgets. Because the $6 units entered your inventory before the $7 units, QBO applies the FIFO rule and values all 15 units in this order at $6 apiece. When you record the sale, the asset total for widgets is decreased by $90, and the COGS for widgets is increased by $90.

Current Inventory:	5 units at $6 each; 30 units at $7 each
Total Widget Assets:	$240
Total Widget COGS:	$90

You meet with another customer, and he purchases 20 widgets. When you record the sale, QuickBooks Online applies the FIFO rule, and adds the $6 units first. Since only five of those units remain in inventory, the other 15 units for this order are valued at $7 apiece. Your widget assets are reduced by $135 (5×6 + 15×7), and your COGS is increased by $135.

Current Inventory:	15 units at $7 each
Total Widget Assets:	$105
Total Widget COGS:	$225

As you can see, if you then sell more widgets from your current inventory to a third customer, they will all be valued at $7 apiece.

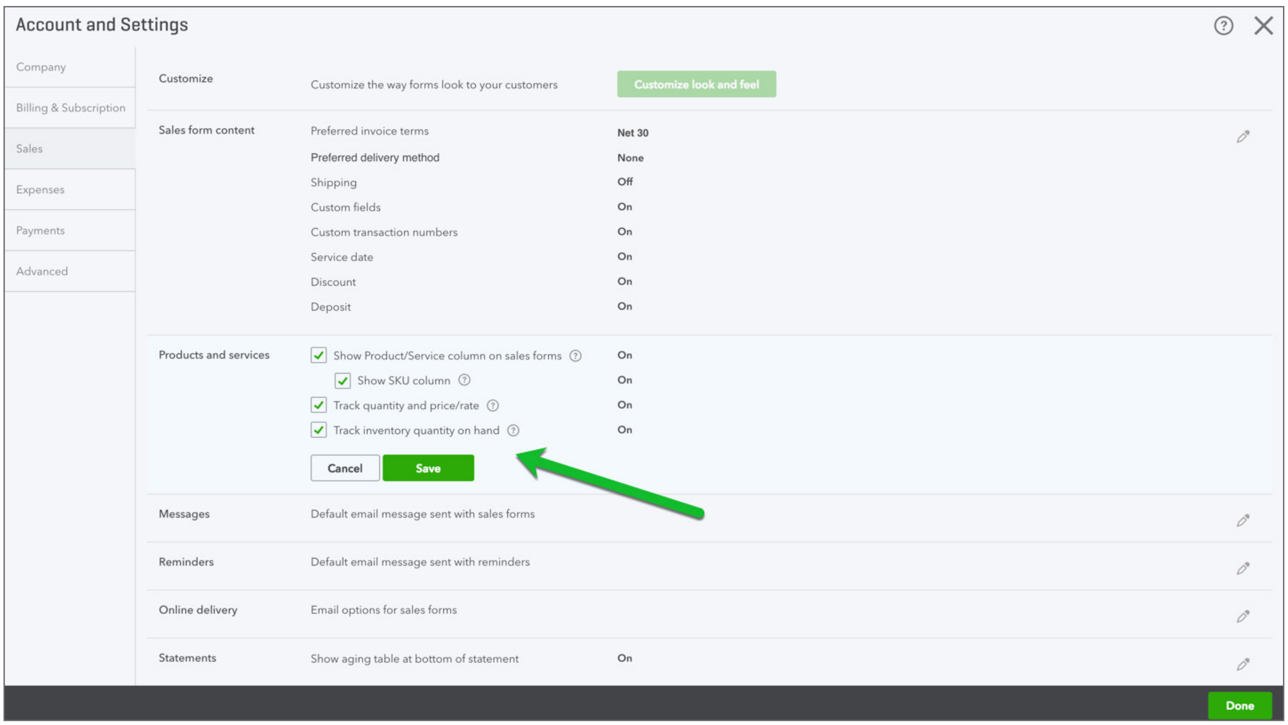
Cost of Goods Sold Account

Cost of Goods Sold is an account that reflects the cost of materials and goods held in inventory and then sold. When you sell an item from your inventory, Cost of Goods Sold increases by the amount you paid for that item when you purchased it. The difference between the income from the sale and the increase in Cost of Goods Sold is the gross profit on the sale of that item.

Turn on Inventory

To use inventory, you must enable to feature in QuickBooks Online Plus.

1. Click the **Gear** icon.
2. Click **Account and Settings.**
3. Click **Sales**.
4. Click **Products and Services**.
5. Select **Track inventory and quantity on hand**.



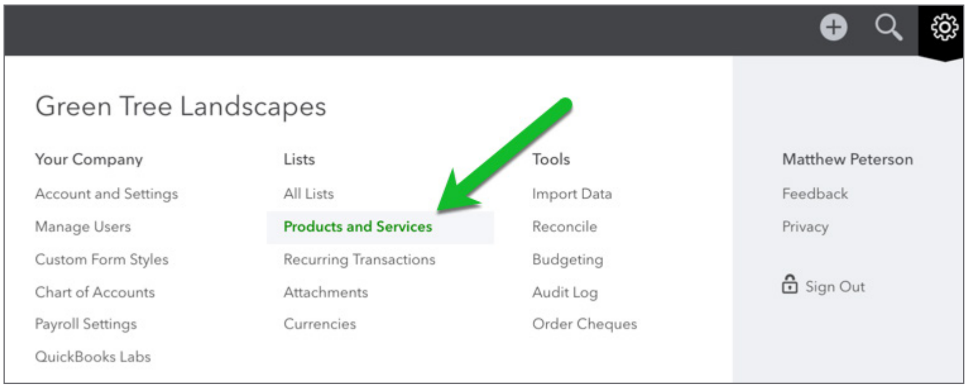
NOTE

- The **Show Product/Service columns on sales forms** is enabled by default. It is the column you choose on the sales form to add a product or service to a sales form.
- Select **Show SKU column** if you want to display the SKU number on forms. This feature adds a SKU column to on-screen sales forms so you can easily track products and services by SKU. You can also show SKUs on printed forms.
- The **Track quantity and price/rate** field is enabled by default and adds the fields to sales forms.

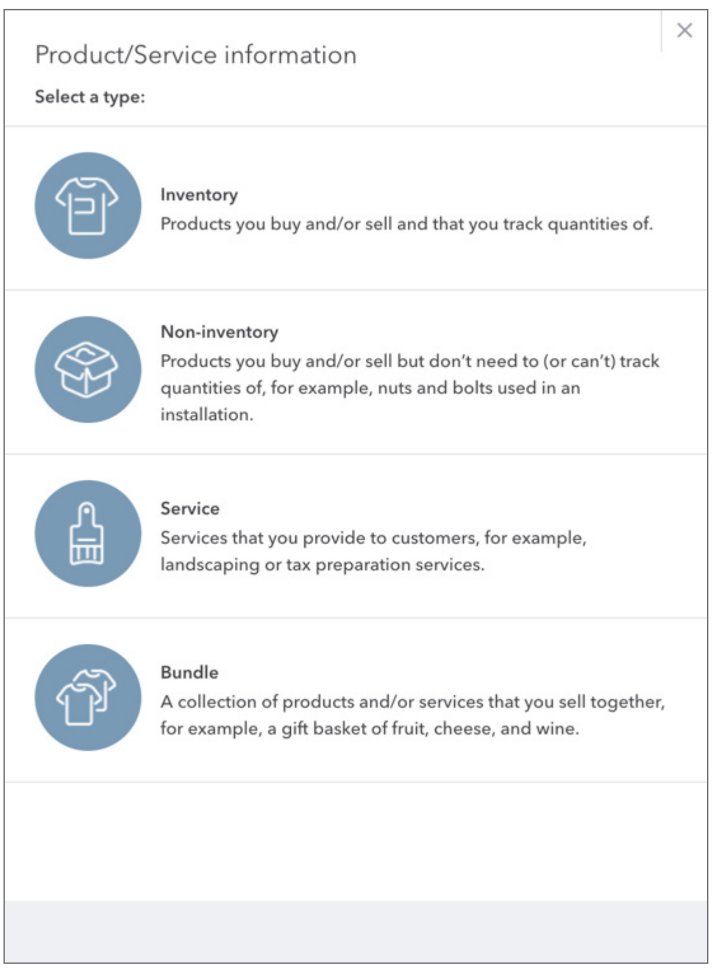
Setup Inventory Parts

You can setup inventory parts from the products and services list.

1. Click the **Gear icon > Products and Services**.



2. Click **New**.
3. Click **Inventory**.



4. Enter the name of the item.

5. (Optional) If you want to track the item's **SKU**, enter it.

6. (Optional) Upload a picture of the item.

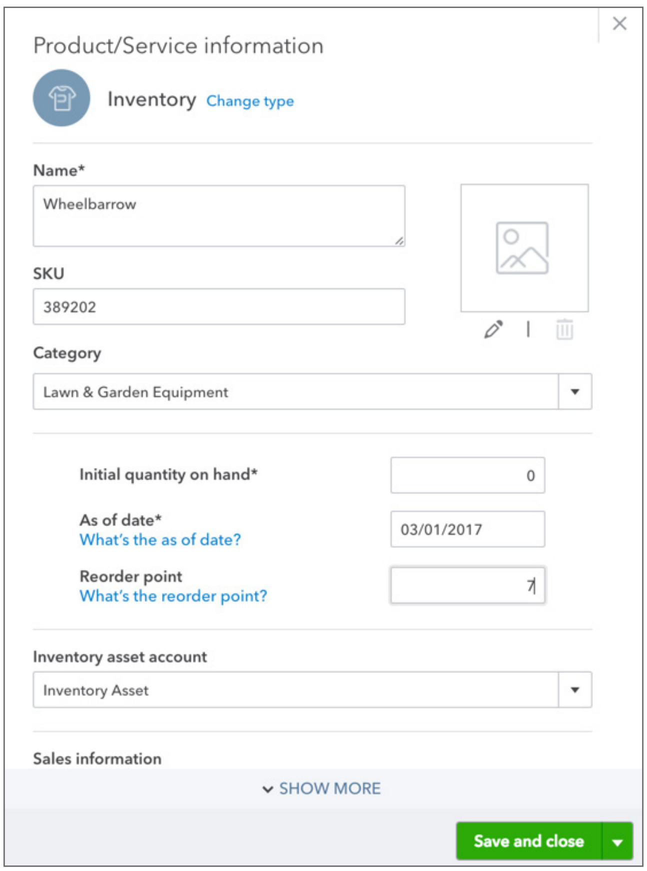
    a. Click the image box.

    b. Find the image you want to upload.

    c. Click **Open**.

7. (Optional) If you want to track the item by category, click the drop-down arrow and select a category, or select **Add New** to create a new one.

NOTE A category is a means of classifying the products you sell to customers.

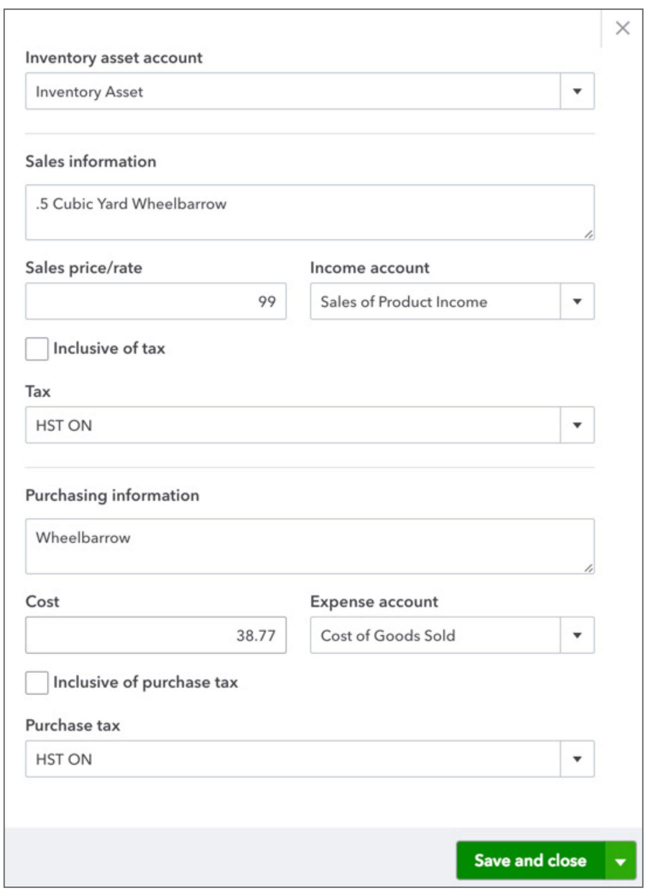


8. In **Initial quantity on hand**, enter how many of this item you have. If you don't have any yet, enter 0.

9. In **As of date**, enter the date you want QuickBooks to start tracking this item's quantity on hand.

NOTE Choose the as of date carefully. You can use this item only in transactions that come after this date.

10. (Optional) In **Reorder point**, enter the minimum quantity you want to have on hand. This will remind you to reorder more products at this minimum threshold.
11. If necessary, click the **Inventory asset account** drop-down arrow and select a different asset account. QuickBooks chooses the default asset account, but you can choose an account you'd like to use to track the inventory value.
12. (Optional) Enter the **Description** that customers see on sales forms.
13. (Optional) Enter the **sales price** or rate for this item. If the sales price or rate varies, you can leave this field blank.
14. If necessary, click the **Income account** drop-down arrow and select a different income account. Choose the account you want to use to track the sales of this product.
15. If you charge sales tax when you sell this item, select **Is taxable**. This means that every time this item is sold, QuickBooks will add sales tax to the sales form. This helps automate sales tax tracking in QuickBooks.



16. (Optional) Enter the description in **Purchasing Information** that appears on purchase forms, like purchase orders and bills, when you order or receive this item.

17. (Optional) Enter the **Cost** of this item.

18. If necessary, click the **Expense account** drop-down arrow and select a different expense account to track the cost of goods sold. This will be used to record the cost of the item on a sales transaction when the product is sold.

19. If you need to add more inventory items, click the drop-down arrow, and click **Save and new**, and repeat the steps to add more inventory items. Otherwise, click **Save and close**.

QuickBooks Bundles

A bundle is simply a way of grouping products and services that you often sell together. Bundles save time when you create sales transactions. Instead of entering each product or service as a separate line item, you just enter the bundle itself, and QuickBooks automatically adds the bundled items to the transaction for you.

Example—You sell a gift basket that contains a bag of candy, seasonal fruit, and a bottle of wine. You usually add the candy, fruit, wine, and the basket as separate line items on sales forms. Instead, save time by creating a bundle called "Gift Basket" that includes all 4 items. When you're ready to record a sale, just add the bundle to the sales form, and QuickBooks adds the 4 bundled items to the form automatically.

To create a bundle:

1. Click the **Gear icon > Products and Services**.

2. Click **New**.

3. Click **Bundle**.

4. Enter a name for the bundle.

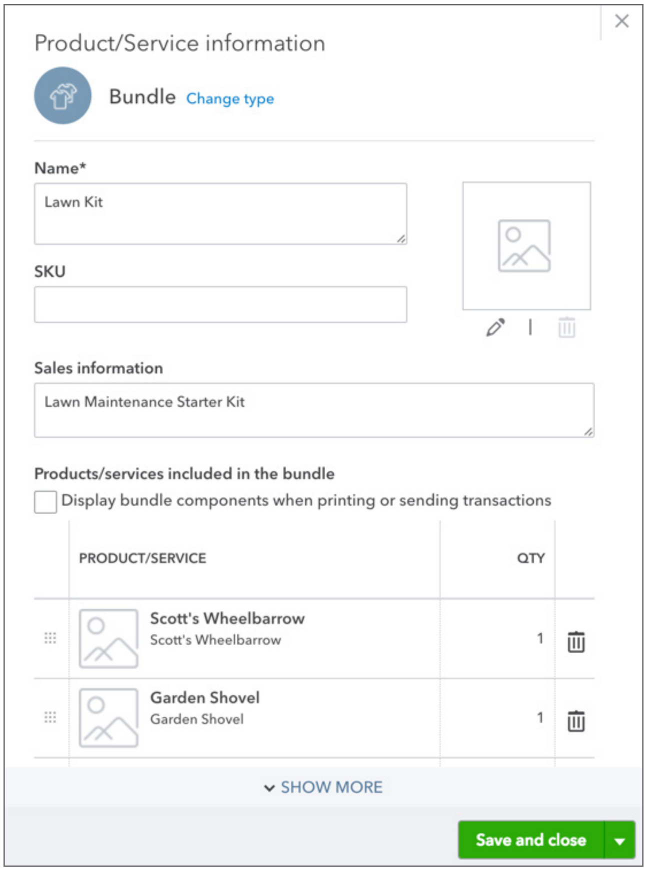
5. (Optional) To track the bundle by SKU, enter it.

6. (Optional) Add an image to the bundle.

    a. Click the edit icon.

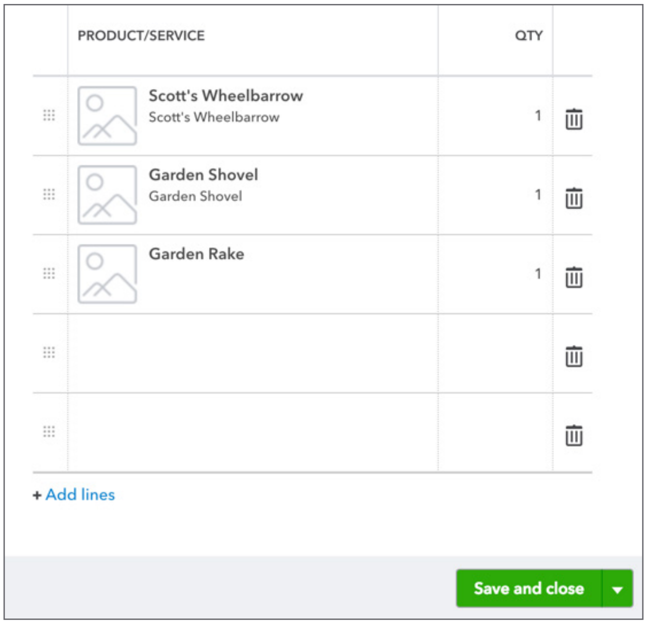
    b. Find the image.

c. Click **Open**.



7. (Optional) Enter the description that customers see on sales forms.
8. If you want to show your customers the individual items that the bundle contains, select **Display bundle components when printing or sending transactions**. Otherwise, your customers see the name of the bundle but not the items in it.
9. Enter the products and services you want to include in the bundle. Change the quantity for each product or service as needed.

10. Click **Save and new** to create another bundle, or click **Save and close** if you're done.



NOTE A bundle can contain up to 50 products and services. However, a bundle can't contain another bundle.

Purchase Orders

A purchase order (PO) is a document you can send to a vendor/supplier. It states your intent to purchase products or services from them and defines the details of the purchase, such as quantities and prices. If the vendor/supplier accepts your PO, it means you have an agreement with them to receive those products or services under the terms given. It's a good idea to use purchase orders to order and receive inventory items.

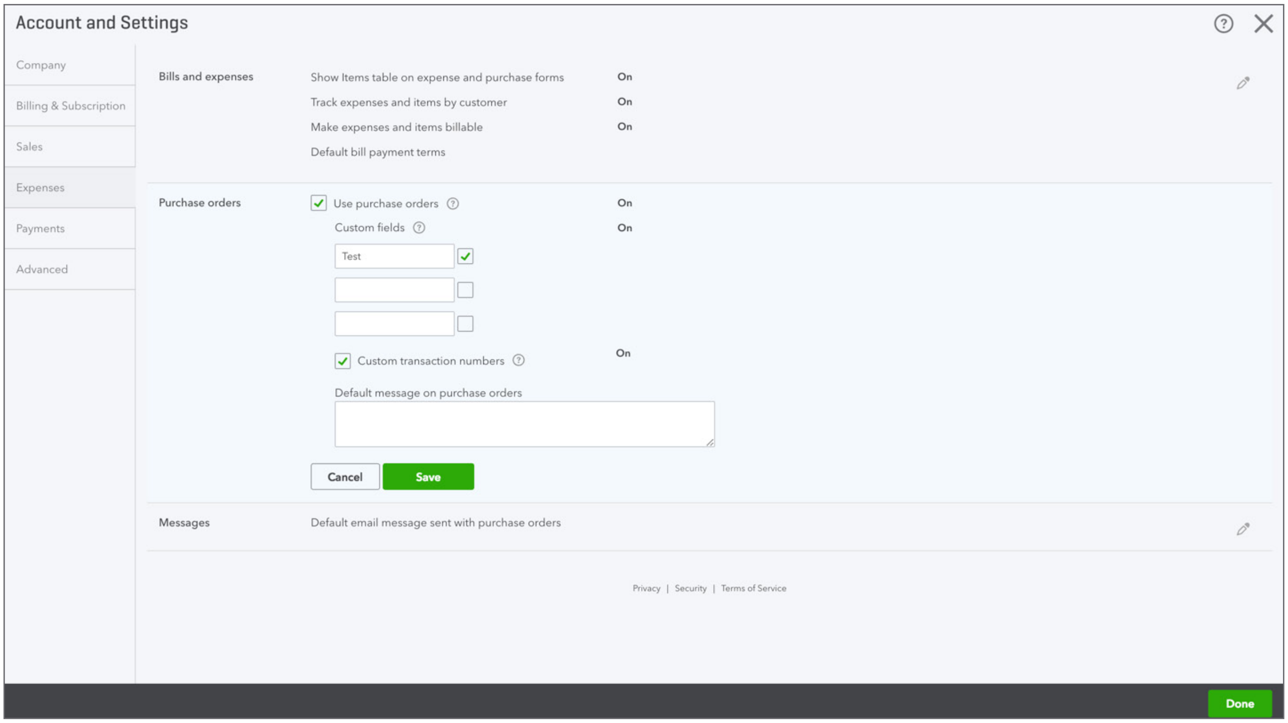
Enabling Purchase Orders

Purchase orders are available in QuickBooks Online Plus. Purchase orders aren't available in QuickBooks Online Essentials or Simple Start.

To enable Purchase Orders:

1. Choose **Gear Icon > Account and Settings**.
2. In the left sidebar, click **Expenses**.
3. To the right, click on the pencil next to **Purchase Orders**.

4. Check the **Use Purchase Orders** box.



5. Enter titles for up to 3 custom fields (optional). The custom fields can include three labels of your choice.

6. Enter a **Default Message to vendors/suppliers on purchase orders** (optional).

7. Click **Save** at the bottom of the page.

> **NOTE** Right now, you can't customize purchase orders further with different content, layout and style options that are customizable on invoices and estimates.

Create Purchase Orders

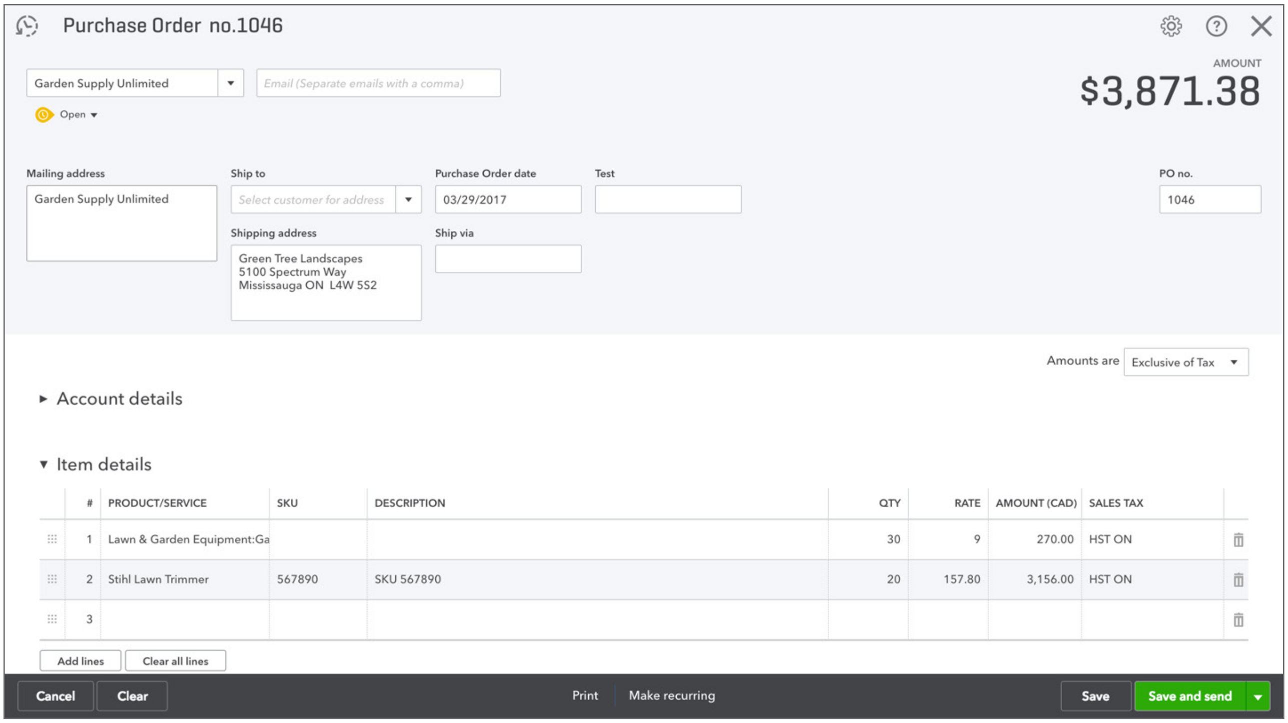
1. Click **Create (+) > Purchase Order**.

2. In the **Choose a supplier** drop-down, select or add a supplier.

3. If shipping a product directly to a customer instead of to yourself, in the **Ship To** drop-down, select the customer.

4. In the Item Details section under **Product/Service** of the Purchase Order, enter the Inventory items to purchase.

5. Click either **Save and send** or **Save and close** to complete the entry.



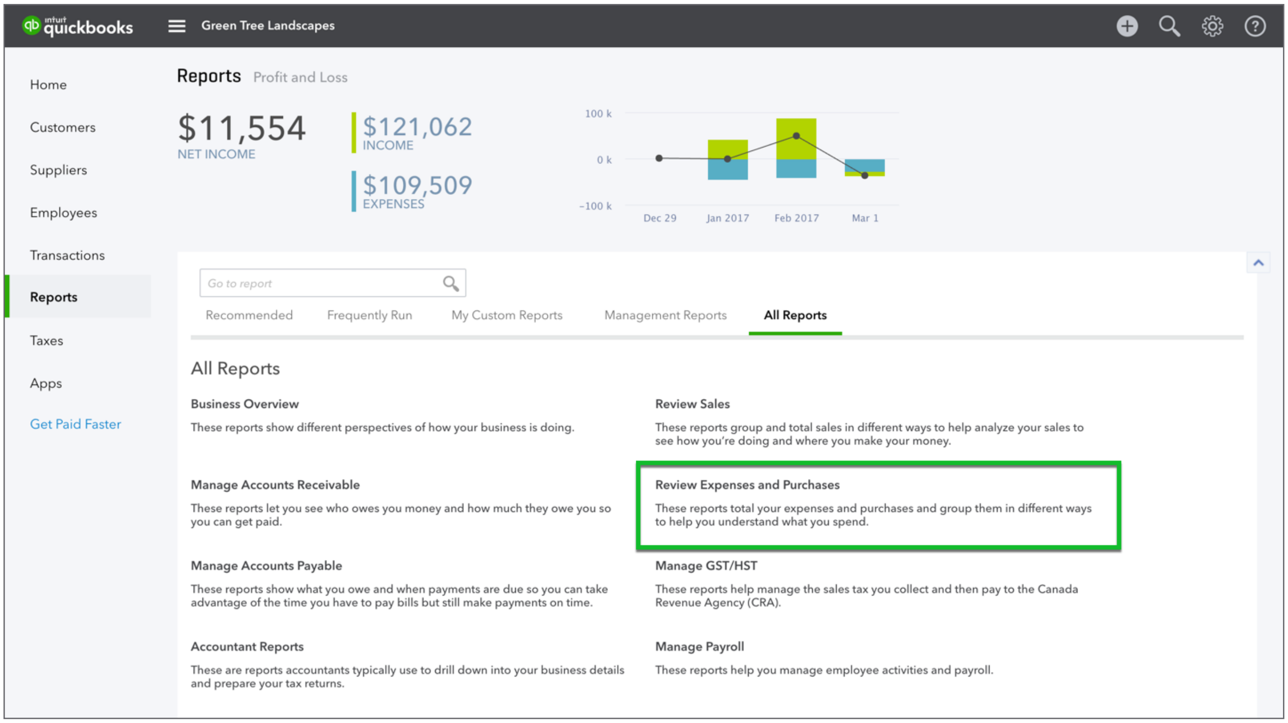
NOTE The **Purchase Order** is a non-posting transaction. This means that until you receive against a purchase order on a purchase transaction like a cheque or bill, the Purchase Order will not post to your General Ledger.

Purchase Order Reports

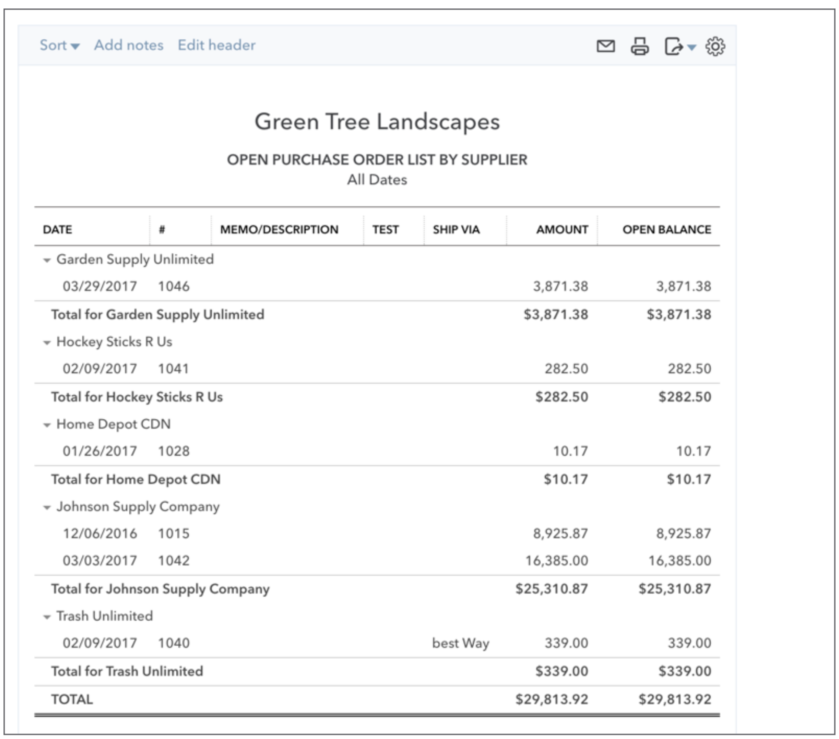
You can find out information about Purchase Orders including open purchase orders and the details on the Purchase Order.

1. Click **Reports.**

2. Click **Review Expenses and Purchases.**



3. Click **Open Purchase Order List**.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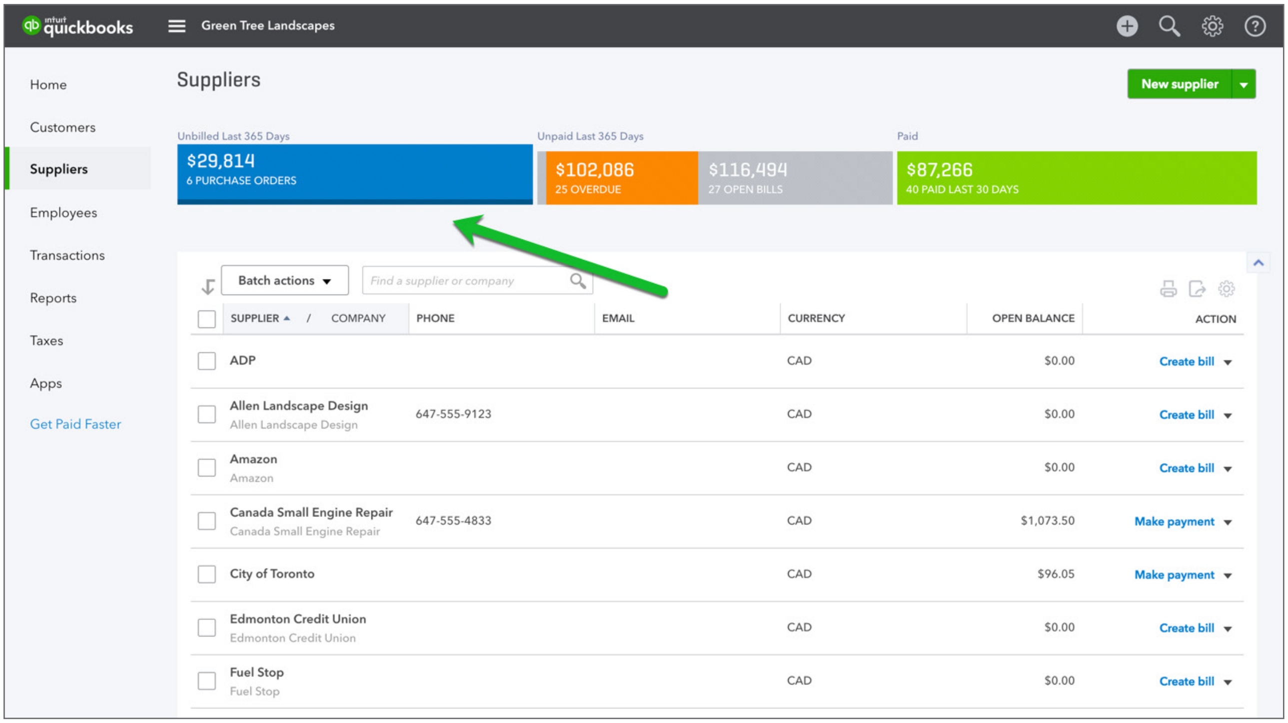
OPEN PURCHASE ORDER LIST BY SUPPLIER

All Dates

DATE	#	MEMO/DESCRIPTION	TEST	SHIP VIA	AMOUNT	OPEN BALANCE
▾ Garden Supply Unlimited						
03/29/2017	1046				3,871.38	3,871.38
Total for Garden Supply Unlimited					$3,871.38	$3,871.38
▾ Hockey Sticks R Us						
02/09/2017	1041				282.50	282.50
Total for Hockey Sticks R Us					$282.50	$282.50
▾ Home Depot CDN						
01/26/2017	1028				10.17	10.17
Total for Home Depot CDN					$10.17	$10.17
▾ Johnson Supply Company						
12/06/2016	1015				8,925.87	8,925.87
03/03/2017	1042				16,385.00	16,385.00
Total for Johnson Supply Company					$25,310.87	$25,310.87
▾ Trash Unlimited						
02/09/2017	1040			best Way	339.00	339.00
Total for Trash Unlimited					$339.00	$339.00
TOTAL					$29,813.92	$29,813.92

NOTE This report provides you with all open purchase order listed by supplier.

You can also view open purchase orders on the **Suppliers** page. Click **Suppliers** and then click **Purchase Orders** in the colored bar at the top of the window.



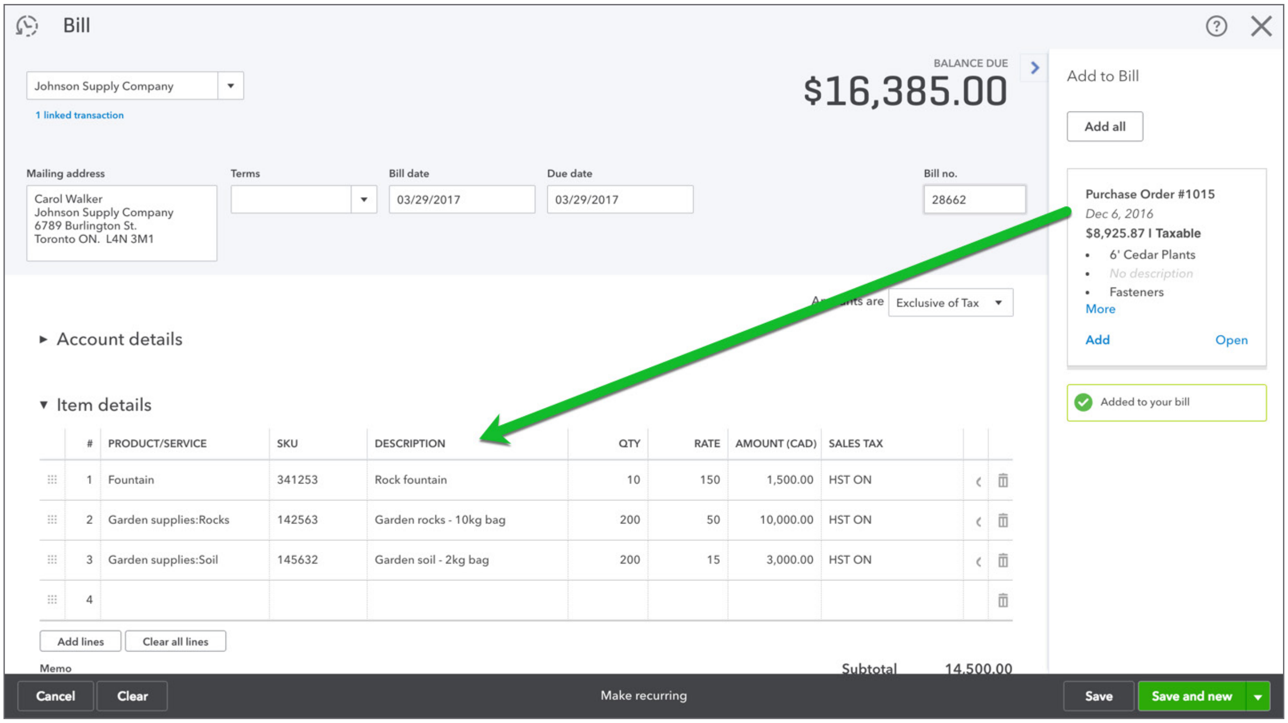
Receive Against Purchase Orders

After a supplier has fulfilled the product or service for your purchase order, you'll need to record a bill, a check, or expense (a credit card charge or cash transaction showing what you paid) to the supplier.

When you select a supplier for any of these transaction types, a **Purchase Orders** section displays on the right-hand side of the screen. To add a PO to the transaction, click **Add** on the purchase order displayed. The PO will be added on the first available line in the Itemize by Product/Service section below. If you don't see the PO you need, check the date of the bill, check, or expense you're linking it to. You can only link to a transaction that is dated on or after the PO date.

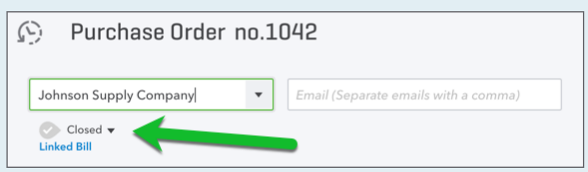
1. Click the **Create** menu.
2. Click **Bill.**

3. Click **Add** on the purchase order displayed on the right side of the window. If you update the amount received QuickBooks will enter that amount into the quantity on hand.



NOTE

- POs are automatically changed to a **Closed** status when you add them to a transaction and then save the transaction. This prevents them from appearing on the next transaction you enter for that supplier/supplier.



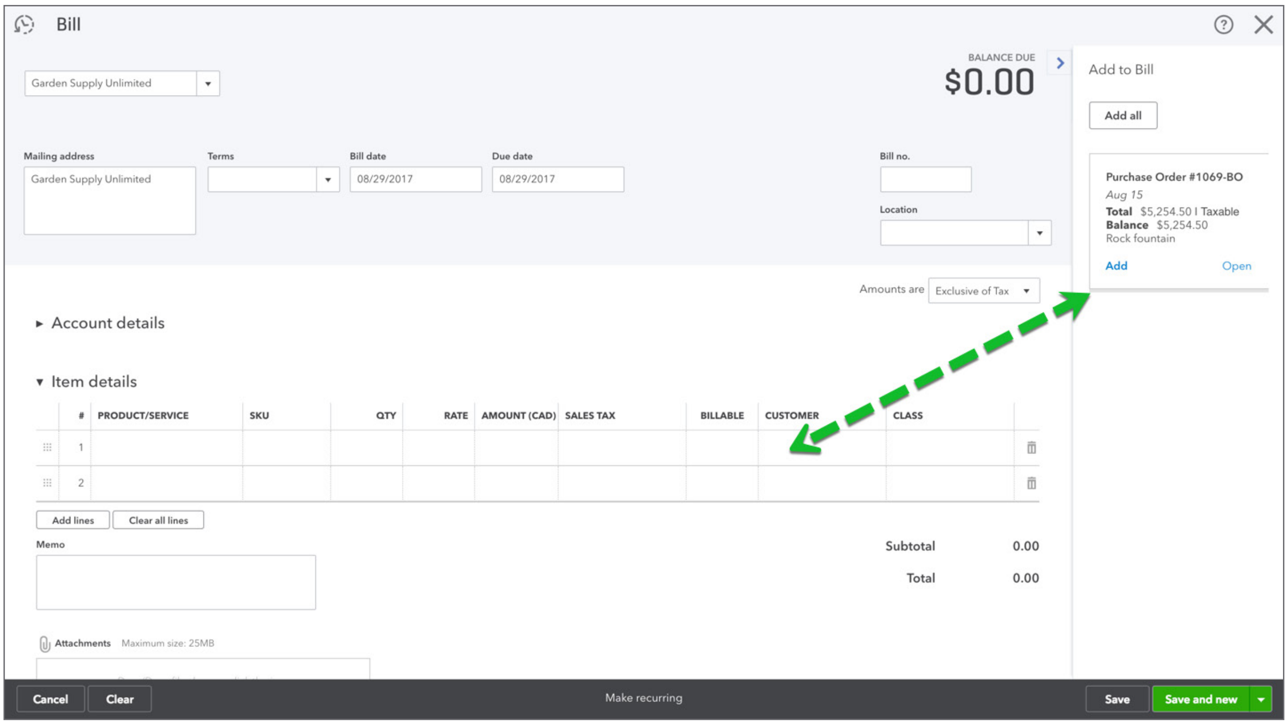
- If the wrong **PO** is added to a transaction by mistake, you can remove it by clicking the Trash can on the far right of the line item, if this is done before saving the transaction, the PO will stay open. However, if you save the PO to the transaction and then must edit the transaction by deleting the PO, the PO will remain closed and must be manually changed back to **Open**.

Receive Against Purchase Orders Multiple Times

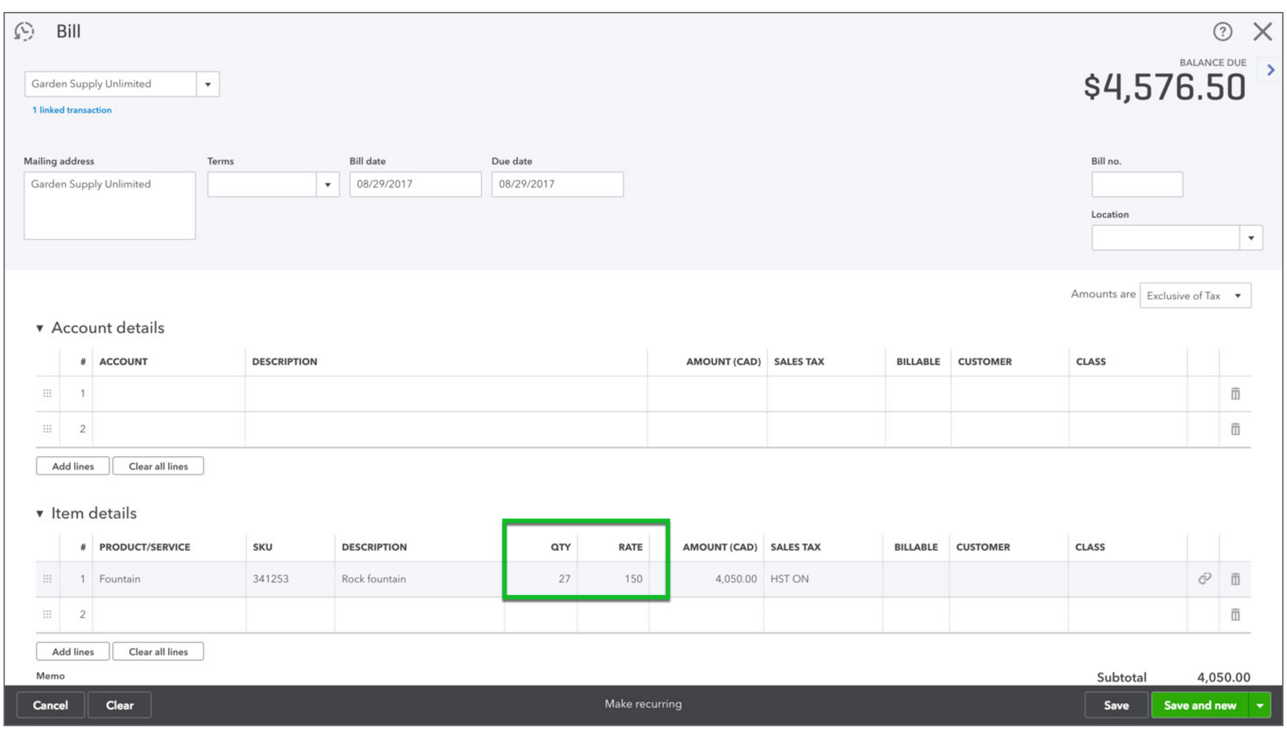
QuickBooks Online lets you receive against purchase orders multiple times. This lets you handle backorders and orders that never get completed.

To receive against a purchase order multiple times, do the following:

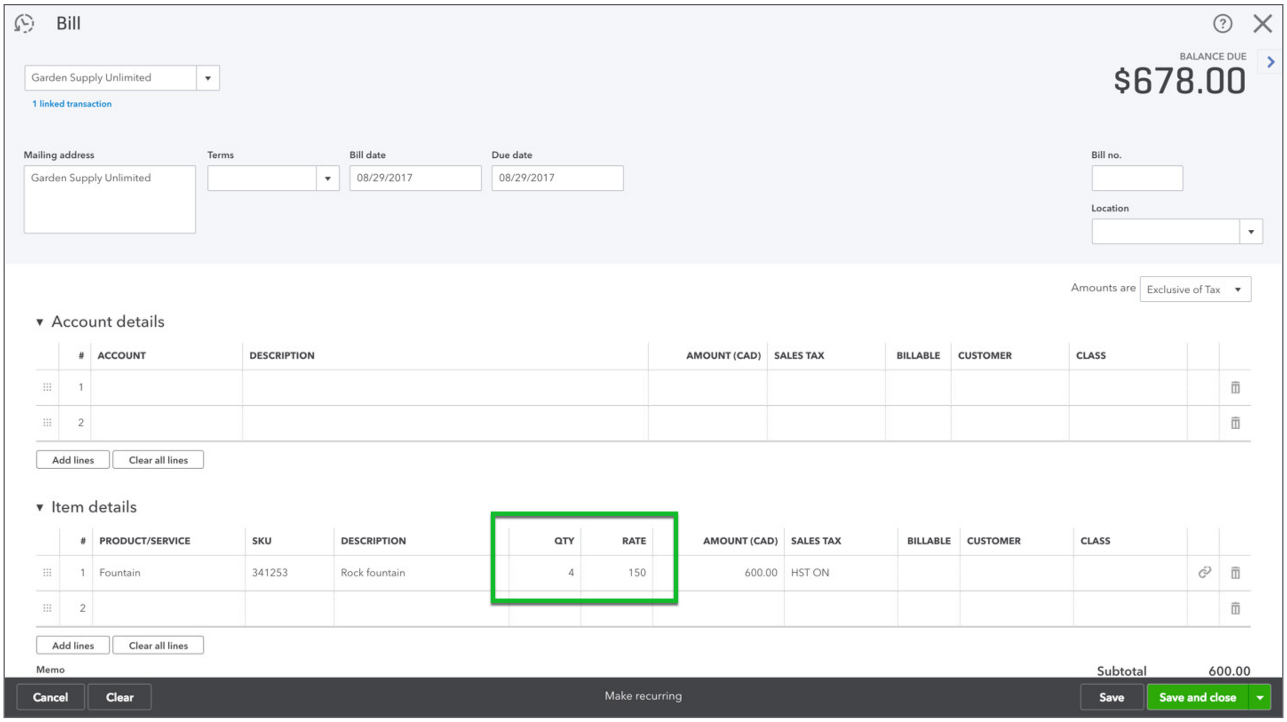
1. Click the **Create** menu.
2. Click **Bill**.
3. Choose the **Supplier** with an open Purchase Order.
4. Click **Add** on the purchase order displayed on the right side of the window.



5. Enter the **Quantity** received.



6. When you're ready to receive the outstanding amounts follow steps 1 through 4.
7. QuickBooks adds the remaining amounts to the Purchase Order.



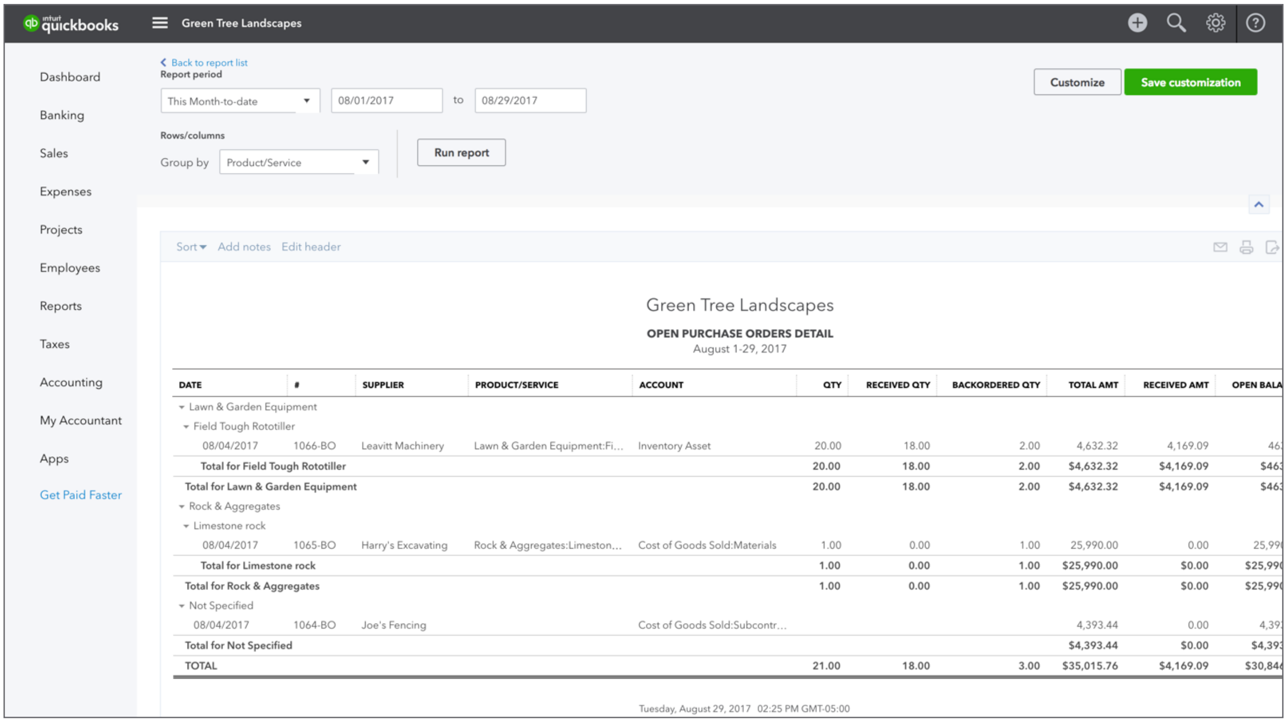
NOTE You can update the quantity if the remaining amounts have still not been received. You can also close the Purchase Order manually if required.

Purchase Order Reporting

You can review a detailed report of all items on Purchase Orders. To review the **Open Purchase Orders Detail Report**, do the following:

1. Click **Reports**.
2. Click **Review Expenses and Purchases**.
3. Click **Open Purchase Order Detail**.

4. You can review the details including **Backordered Qty**.



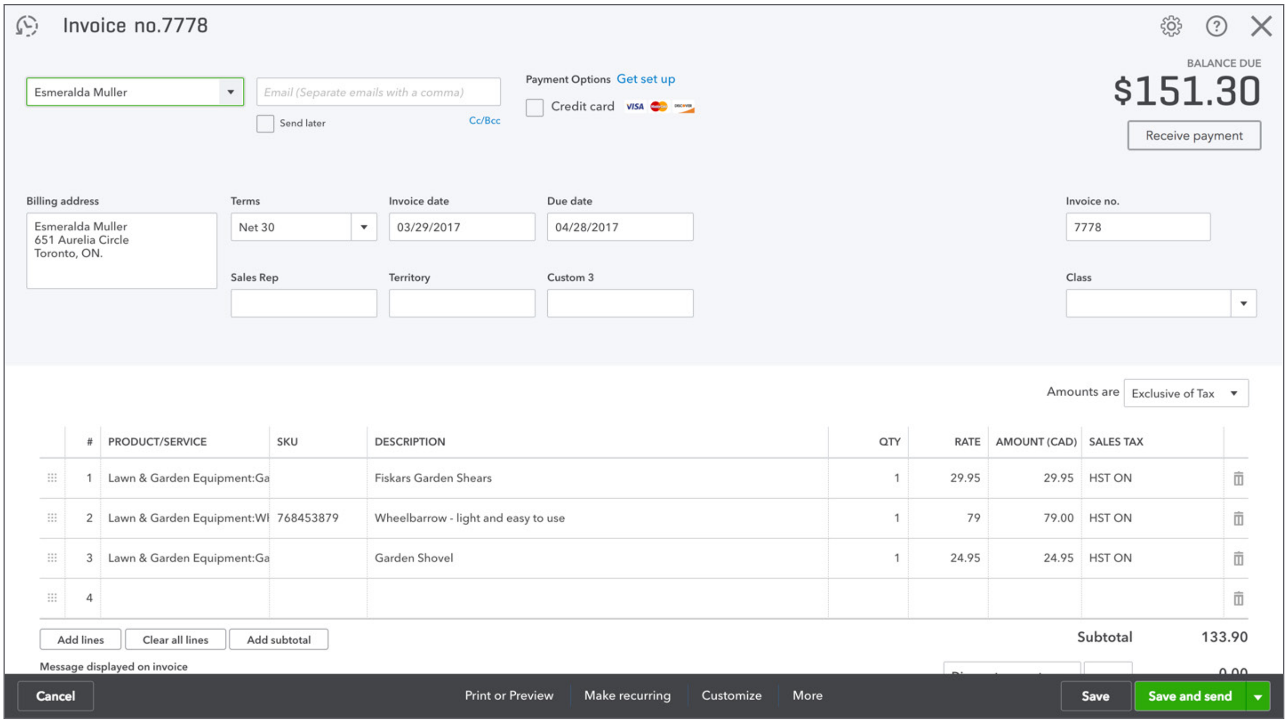
Selling Inventory

You will sell inventory just like any other service you sell. You'll add inventory items for sale to invoices and sales receipt. When you sell inventory items, QuickBooks makes accounting entries to account for the cost of the item (Cost of Goods Sold) and the decrease in the quantity on hand (Inventory Asset).

1. Click the **Create** menu and then click **Invoice**.

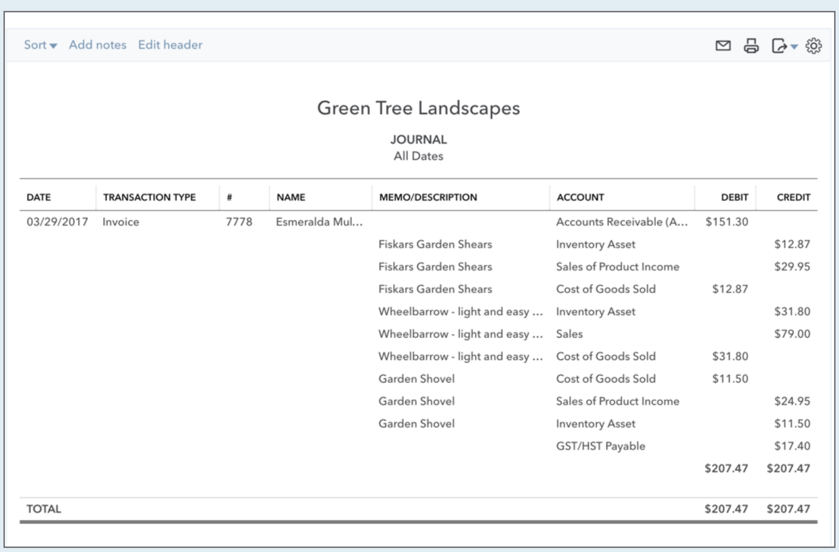
2. Complete the invoice form like any other sales form.

3. Choose the **Inventory item** for sale and enter the quantity.



4. Click **Save**.

NOTE QuickBooks adjusts the quantity on hand when you save the transaction. The accounting entry in the background looks like the following:



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JOURNAL

All Dates

DATE	TRANSACTION TYPE	#	NAME	MEMO/DESCRIPTION	ACCOUNT	DEBIT	CREDIT
03/29/2017	Invoice	7778	Esmeralda Mul...		Accounts Receivable (A...	$151.30	
				Fiskars Garden Shears	Inventory Asset		$12.87
				Fiskars Garden Shears	Sales of Product Income		$29.95
				Fiskars Garden Shears	Cost of Goods Sold	$12.87	
				Wheelbarrow - light and easy ...	Inventory Asset		$31.80
				Wheelbarrow - light and easy ...	Sales		$79.00
				Wheelbarrow - light and easy ...	Cost of Goods Sold	$31.80	
				Garden Shovel	Cost of Goods Sold	$11.50	
				Garden Shovel	Sales of Product Income		$24.95
				Garden Shovel	Inventory Asset		$11.50
					GST/HST Payable		$17.40
						$207.47	$207.47
TOTAL						$207.47	$207.47

You also see the update Quantity of Hand in the Products and Services list.

Lawn & Garden Equipment

Garden Rake	Inventory		29	9	216	10	Edit
Garden Shears	Inventory	Fiskars Garde...	29.95	12.87	19	5	Edit
Garden Shovel	Inventory	Garden Shovel	24.95	11.50	31	5	Edit
Power Rake	Inventory	Power Raking...	100	40	5		Edit

Reporting on Inventory

QuickBooks includes a **Manage Inventory** section in the **Reports** Centre.

1. Click **Reports**.
2. Click **Manage Inventory.**

You can view several reports from the Manage Inventory section.

Inventory Valuation Summary

This report summarizes the value of your inventory. For each inventory item, the report shows the item name, **SKU**, **Quantity on hand**, **Asset value**, and **Calculated average** cost.

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INVENTORY VALUATION SUMMARY

As of March 29, 2017

	SKU	QTY	ASSET VALUE	CALC. AVG
1L Water Bottle		901.00	675.75	0.75
Fountain	341253	30.00	4,500.00	150.00
Garden Gnomes		42.00	2,300.88	54.7828571
Garden supplies				
Rocks	142563	600.00	30,000.00	50.00
Soil	145632	600.00	9,000.00	15.00
Total Garden supplies			**39,000.00**	
Gifts & Specialty				
Garden Gnome		154.00	2,297.13	14.9164286
Total Gifts & Specialty			**2,297.13**	
Hockey Sticks	XXX6666	23.00	1,150.00	50.00
Lawn & Garden Equipment				
Garden Rake		216.00	2,184.00	10.1111111
Garden Shears		19.00	244.53	12.87
Garden Shovel		31.00	356.50	11.50
Power Rake		5.00	200.00	40.00
Power Rake 100		12.00	145.09	12.0908333
Scott's Wheelbarrow		32.00	1,752.96	54.78
Stihl Chainsaw		7.00	1,872.50	267.50

Inventory Valuation Detail
This report lists the transactions that affected the value of your inventory during a particular period.

DATE	TRANSACTION TYPE	#	NAME	QTY	RATE	FIFO COST	QTY ON HAND	ASSET VALUE
Total for Hockey Sticks							23.00	
Lawn & Garden Equipment								
Garden Rake								
Beginning Bala...							16.00	384.00
03/03/2017	Bill	3738	Johnson Supply Comp...	200.00	9	1,800.00	216.00	2,184.00
Total for Garden Rake				200.00		$1,800.00	216.00	
Garden Shears								
Beginning Bala...							20.00	257.40
03/29/2017	Invoice	7778	Esmeralda Muller	-1.00	12.87	-12.87	19.00	244.53
Total for Garden Shears				-1.00		$ -12.87	19.00	
Garden Shovel								
Beginning Bala...							32.00	368.00
03/29/2017	Invoice	7778	Esmeralda Muller	-1.00	11.5	-11.50	31.00	356.50
Total for Garden Shovel				-1.00		$ -11.50	31.00	
Power Rake								
Beginning Bala...							5.00	200.00
Total for Power Rake							5.00	
Power Rake 100								
Beginning Bala...							12.00	145.09
Total for Power Rake 100							12.00	
Scott's Wheelbarrow								
Beginning Bala...							32.00	1,752.96
Total for Scott's Wheelbarrow							32.00	
Stihl Chainsaw								
03/01/2017	Inventory Starting Va...	START		0.00	0.00	0.00	0.00	0.00
03/23/2017	Bill		Johnson Supply Comp...	10.00	267.5	2,675.00	10.00	2,675.00

Physical Inventory Worksheet

This report shows the **Name**, **Description**, and **Quantity on Hand**, **Reorder Point**, and **Physical Count** of each item in your inventory. The Physical Count column contains blank lines where you can write in the actual quantities as you make a physical count of your inventory.

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PHYSICAL INVENTORY WORKSHEET

PRODUCT	DESCRIPTION	QTY ON HAND	REORDER POINT	PHYSICAL COUNT
1L Water Bottle		901.00		
Fountain	Garden rock fountain	30.00	5.00	
Garden Gnomes	Garden Gnome	42.00		
Garden supplies:Rocks	Garden rocks - 10kg bag	600.00	10.00	
Garden supplies:Soil	Garden soil - 2kg bag	600.00		
Gifts & Specialty:Garden Gno...	Deluxe Garden Gnome	154.00	10.00	
Hockey Sticks	Hockey Sticks	23.00	10.00	
Lawn & Garden Equipment:Ga...		216.00	10.00	
Lawn & Garden Equipment:Ga...	Fiskars Garden Shears	19.00	5.00	
Lawn & Garden Equipment:Ga...	Garden Shovel	31.00	5.00	
Lawn & Garden Equipment:Po...	Power Raking Services	5.00		
Lawn & Garden Equipment:Po...		12.00		
Lawn & Garden Equipment:Sc...	Scott's Wheelbarrow	32.00	3.00	
Lawn & Garden Equipment:Sti...	Stihl Chainsaw 3892	7.00	5.00	
Lawn & Garden Equipment:W...	Wheelbarrow - light and easy ...	8.00	5.00	

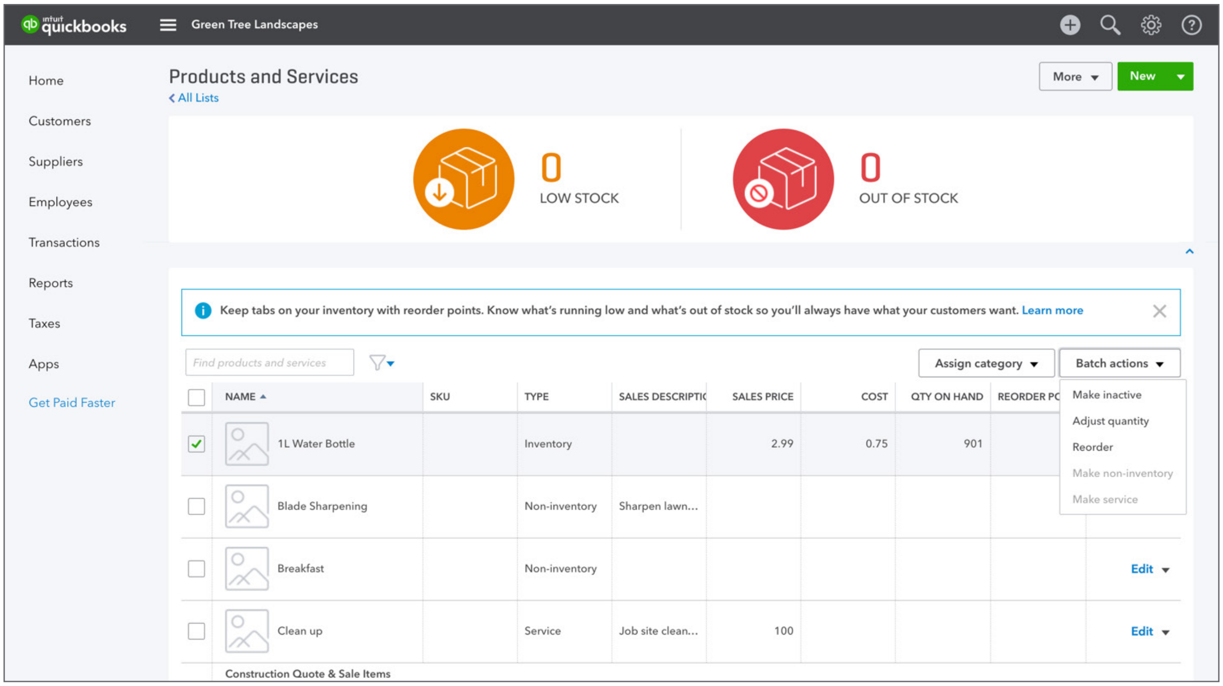
Adjusting Inventory

Sometimes you might discover that you have either more or fewer of an inventory item than QuickBooks shows. If that happens, you can easily adjust that item's quantity in QuickBooks to match what you have in stock.

To adjust multiple inventory items, do the following:

1. If you have a lot of inventory items to adjust:

    a. Click the **Gear icon > Products and Services**.



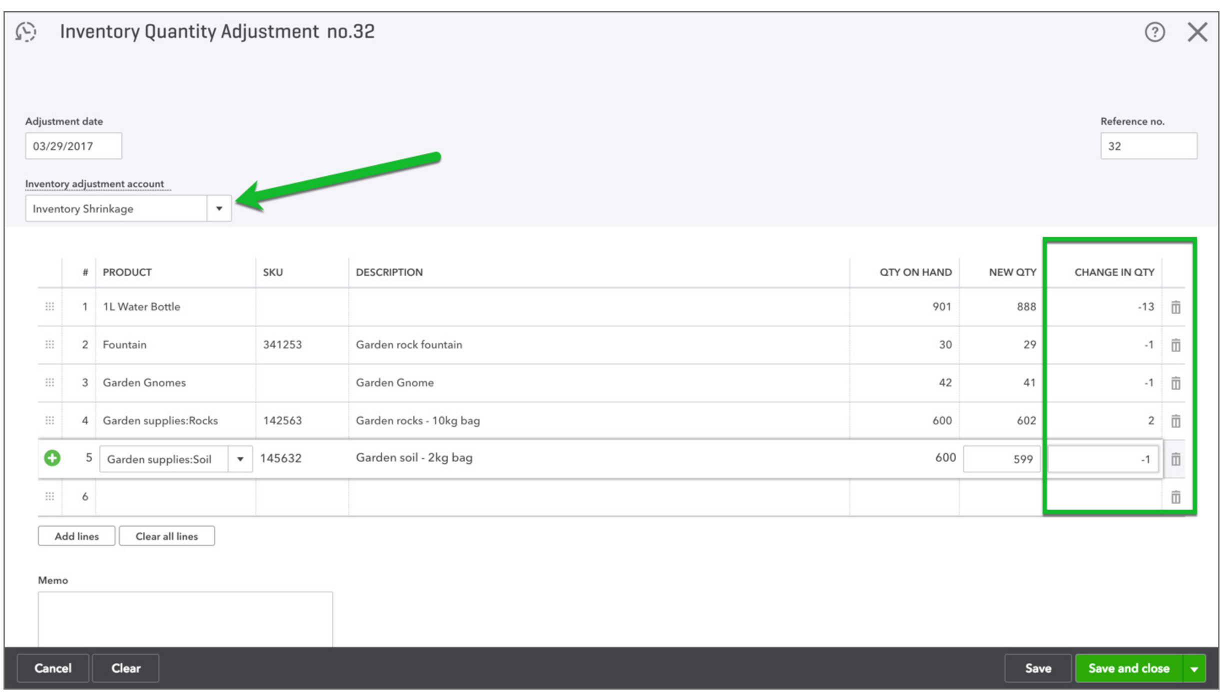
b. Select the inventory items you want to adjust.

c. Click the **Batch actions** drop-down arrow and select **Adjust quantity**.

Otherwise, click **Create (+) > Inventory Qty Adjustment**.

2. If necessary, change the adjustment date.

3. If necessary, click the **Inventory adjustment account** drop-down arrow and select a different account. We set up one for you already, but you can change it if you want to.



4. If the table is empty, add the inventory items you want to adjust:
    a. In the first row in the table, click the **Product** field.
    b. Click the drop-down arrow and select an inventory item.
    c. Repeat steps a and b to add other inventory items as needed.
5. For each inventory item in the table, enter either a new quantity or a change in quantity.

    For example, the **Qty on Hand** column shows that you have 10 widgets, but you discover that 2 widgets are missing. You can adjust the quantity either by entering 8 in the **New Qty** column or by entering-2 (negative 2) in the **Change in Qty** column.
6. Enter a reminder in the **Memo** field about why you made this adjustment (optional).
7. Click **Save**.

NOTE You can access the **Inventory Quantity Adjustment** window when you click the **Create** menu. Use this window to access one or more inventory parts.