Lesson 8

Vendors and Expenses Part 2
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Lesson Objectives

- To introduce the other account types available in QuickBooks
- To learn how to track credit card transactions in QuickBooks
- To reconcile a credit card account
- To see how to make a credit card payment
- To discuss the different types of asset and liability accounts you can create and see how to track assets and liabilities in QuickBooks
Other Account Types in QuickBooks

In this lesson you'll learn about these account types, which are frequently used when entering cheques and other expenses:

- **Credit card accounts** — Used to track transactions you pay for with a credit card
- **Asset accounts** — Used to track both current assets (those assets you’re likely to convert to cash or use up within one year, such as inventory on hand) and fixed assets (such as depreciable assets your business owns that aren’t liquid, such as equipment, furniture, or a building)
- **Liability accounts** — Used to track both current liabilities (those liabilities scheduled to be paid within one year, such as sales tax, payroll taxes, and short-term loans) and long-term liabilities (such as loans or mortgages scheduled to be paid over terms longer than one year)
- **Equity accounts** — Used to track the value of the business to the owner, including capital investment, draws, and retained earnings
Entering Credit Card Charges

Anytime you pay for a service or make a purchase using a credit card it needs to be entered into QuickBooks by using a Credit Card Charge. Before you can enter Credit Card Charges though, you first have to set up your credit card on your Chart of Accounts.

To create a credit card account:

1. From the Home page, click Chart of Accounts.
2. Select Account > New and choose Credit Card as the type of account to create then click Continue.
3. Enter the name of the credit card and the appropriate opening balance details
4. You should be left with an account like the credit cards shown below.

5. Close the Chart of Accounts.
To enter a credit card charge:

1. From the Home page choose Enter Credit Card Charges.

2. In the Credit Card field select the appropriate credit card account.

3. In the Purchased From field enter who you paid with the credit card.

4. Enter the remaining information about the charge (date, amount, memo, etc.).
5. In the detail area click the **Account** column and assign the charge to the expense account that most closely matches the reason you made the charge.

6. Assign the proper tax code for the charge in the Tax column and press Tab. QuickBooks will calculate the proper amounts for the expense as well as the tax.

7. Click **Save & Close** to record the transaction and close the window.
Reconciling a Credit Card Statement

Your credit card issuer sends you a statement for each of your credit cards each month. The statement shows all the activity in your account since the previous statement:

- Beginning balance: the sum of cleared transactions at the beginning of the statement period
- Ending balance: the sum of cleared transactions at the end of the statement period
- Finance charges
- Credit card charges from purchases in the statement period
- Payments you made to the credit card issuer and other credits
- Other transactions affecting the balance of the account

To reconcile a credit card statement:

1. From the Home page, click Reconcile.
2. In the Account drop-down menu choose the appropriate credit card from the list.
3. In the Statement Date field enter the closing date of the statement you wish to reconcile.
4. In the Ending Balance field enter the ending balance of the statement you wish to reconcile.
5. If there were any Finance Charges, enter them in the appropriate field, and choose an expense account to categorize the finance charge expense.
6. Click Continue. Proceed to next exercise.

The statement your credit card issuer contains a list of cleared transactions for that month. The next step in the
reconciliation process is to mark transactions in QuickBooks as cleared if they appear on that statement and have matching amounts and dates.

To mark the transactions as cleared:

1. In the Charges and Cash Advances section of the window match the transactions with the charges on your statement. Click on each transaction that appears on your statement. This marks the transaction as cleared.

2. In the Payments and Credits section of the window click on each transaction that matches your statement to mark the payments as cleared.

3. If any transactions appear on the statement, but are not in QuickBooks, click Leave, and enter them through the proper forms. When you go back to the Reconciliation windows you should see them. You can also change any transaction you see on the list by double-clicking it, changing the amount/date and resaving it to make it match the statement.

4. When you are done with this process, the Difference in the bottom right corner should be zero. Click Reconcile Now.

5. If the credit card has a balance, QuickBooks asks you if you would like to enter a bill or write a cheque for the remaining balance on your credit card. You can choose one of these options or click Cancel if you would rather do it at another time. If you choose to do this, it is recommended to use a cheque and not a bill.
In the Select Reconciliation Report window you can choose to display or print your reconciliation reports. Reconciliation reports show you a summary of the reconciliation, or in the case of a detail report, the list of reconciled transactions.

Select Reconciliation Report

Congratulations! Your account is balanced. All marked items have been cleared in the account register.

Select the type of reconciliation report you’d like to see.

- [ ] Summary
- [ ] Detail
- [ ] Both

To view this report at a later time, select the Report menu, display Banking and then Previous Reconciliation.

Display  Print...  Close

NOTES
Paying a Credit Card

At the end of reconciliation QuickBooks asks if you want to make a payment towards the credit card right away, but you can enter these payments at any time. It is possible to enter these payments as bill, but it is highly recommended to use the Write Cheques window when making a credit card payment.

To enter a payment for a credit card:

1. After reconciling, select **Write a cheque for payment now**, or select **Write Cheques** from the Home page.
2. Click in the **Pay to the Order of** field and select the name of the credit card company.
3. If this is a handwritten cheque, enter the cheque number. Or if you need to print the cheque, choose Print Later. You can also record payments made by debit card by typing “DEBIT” into the No field or “EFT” for electronic funds transfers.
4. In the detail area, under Expenses, choose the credit card you are paying and the amount of the payment.
5. Click **Save & Close** to record the transaction.
Setting Up Asset Accounts

**NOTE:** The remaining sections are somewhat advanced. It may be advisable to consult with your accountant or tax professional for assistance in dealing with these topics.

An Other Current Asset account tracks assets that are likely to be converted to cash or used up within one year. If you buy and sell inventory, the value of your entire inventory on hand is usually shown in an Other Current Asset account called *Inventory Asset*. Other current assets might include treasury bills, certificates of deposit, prepaid expenses, prepaid deposits, reimbursable expenses, and notes receivable (if due within one year).

A Fixed Asset account tracks assets your business owns that are not likely to be converted into cash within a year. A fixed asset is usually something necessary for the operation of your business, like a vehicle, computer or photocopier.

**To set up an Other Current Asset account:**

1. On the **Home** page click **Chart of Accounts**.
2. Click the **Account** menu button then choose **New**.
3. Click **Other Account Types** and choose **Other Current Asset** from the drop-down list.

4. Click **Continue**.

![Screenshot of QuickBooks chart of accounts](image)

Help me choose the right account type.
5. Enter the **Account Name** you would like to use. You can also enter a **Description** and an **Account No.** if you use account numbers in your company file.

![Add New Account dialog box](image)

**NOTES**

6. If this is an asset that you already own, you can click **Enter Opening Balance** and enter the value of the asset.

7. Click **Save & Close**.
Setting Up Fixed Asset Accounts to Track Depreciation

Fixed assets are equipment or property your business owns that is not for sale. Since they last a long time, you don’t completely charge their cost to the year in which you buy them. Instead, you spread their cost over several years. This is performed through depreciation.

To set up asset accounts to track a new purchase:

1. From the Home page, open the Chart of Accounts
2. Click the Account button and select New.
3. Select Fixed Asset as the type and click Continue.
4. Enter an appropriate name for the account. The make and model of the asset is a good choice.
5. Click Save & Close.

![Chart of Accounts](chart_of_accounts.png)
Once the fixed asset account has been set up, now it is time to create two subaccounts that are used to track the original purchase price of the asset as well as the depreciation over time.

To set up original cost and depreciation subaccounts for a new purchase:

1. From the Chart of Accounts, click the Account button and select New.
2. Select Fixed Asset as the type and click Continue.
3. Name the account “Original Cost” and then click the Subaccount of checkbox.
4. Click the drop down menu next to Subaccount of and select the fixed asset account you created earlier.
5. If this account is being created for a fixed asset account you already own, click Enter Opening Balance and enter the original cost of the asset and the original date of purchase.
6. Click Save & Close.
7. Repeat steps 1-6, but instead of “Original Cost” name the new account “Depreciation” and if this is an asset you already own that has been depreciated, be sure to include the depreciation amount in the Enter Opening Balance step.
Purchasing a Fixed Asset Without a Loan

There are two primary scenarios in which a fixed asset is purchased: the purchaser pays for the entire asset right away, and the more common situation, in which the purchaser makes a down payment on the asset, and takes out a loan to make up the difference.

Once the purchase is made, regardless of the scenario, it needs to be entered into QuickBooks, and doing so can be tricky.

**To purchase a new fixed asset without a loan:**

1. From the Home page, click the **Write Cheques** icon if you paid from a bank account or **Credit Card Charge** if you used a credit card.

2. Select the bank account used to purchase the asset along with the payee, amount of the payment, date of purchase and other details in the top half of the cheque window.

3. In the Account area, choose the **Original Cost** subaccount of the asset account along with the tax code for the purchase and any other description you’d like to enter for the purchase.

4. Click **Save & Close**.
Tracking a Loan with a Long Term Liability Account

A Long Term Liability account tracks debts that your business is not likely to pay off within a year. The most common long-term liabilities are loans that you expect to pay off in more than one year.

**Tracking a loan with a Long Term Liability account:**

1. From the Home page, click the **Chart of Accounts** icon.
2. Click the **Account** button then choose **New**.
3. In the **Add New Account** window select **Other Account Types** then choose **Long Term Liability** from the drop-down list.
4. Click **Continue**.
5. Enter a name that describes the account.
6. If this is a loan that you took out in a previous year, click **Enter Opening Balance** and enter the balance after your most recent payment along with date of that balance.
7. Click **Save & Close**.
Purchasing a Fixed Asset with a Loan

There are two primary scenarios in which a fixed asset is purchased: the purchaser pays for the entire asset right away, and the more common situation, in which the purchaser makes a down payment on the asset, and takes out a loan to make up the difference.

Earlier, an example of a fixed asset being purchased without a loan was explained. Now learn how to enter a fixed asset purchase involving a loan.

To purchase a new fixed asset with a loan:

1. From the Home page, click the Write Cheques icon if you paid from a bank account or Credit Card Charge if you used a credit card.
2. Select the bank account used to purchase the asset along with the payee, date of purchase and other details in the top half of the cheque window. Do not enter an Amount yet.
3. In the Account area, choose the Original Cost subaccount of the asset account along with the tax code for the purchase and any other description you’d like to enter for the purchase. In the Amount column, enter the full value of the asset.
4. In the second line of the Account area, choose the liability account being used to track the loan, and in the Amount column, enter the amount of the loan as a negative.
5. The total Amount of the cheque should now be in the amount of the down payment. Click Save & Close.
Recording a Payment on a Loan

When it’s time to make a payment on a loan, use the Write Cheques window to record a cheque to your lender. Assign part of the payment to loan interest expense and the remainder to loan principal.

To record a payment on a loan:

1. From the Home page click the Write Cheques.
2. In the Pay to the Order of field enter the name of the lender.
3. Enter the dollar amount of the payment in the Amount field.
4. Click in the Account column on the Expenses tab and enter the liability account you are paying against. For the Amount, enter the amount of principal you are paying off with this payment.
5. Click on the second line under Account, and choose the Interest Expense account. Then, in the Amount column, enter the amount of the payment that is going towards interest.
6. Click Save & Close to record the payment.
Depreciating an Asset

Depreciation allows you to account for the expense of large purchases over time so that instead of reporting the entire cost in just one year it can be divided into multiple years. There are many different methods for calculating depreciation, and QuickBooks does not do this for you. For more information on the depreciation of assets, please consult an accountant.

Depreciation is usually entered with a journal entry.

To depreciate an asset:

1. Select the Company menu and choose Make General Journal Entries.
2. In the Date field, enter the date of the depreciation.
3. In the first row, under Account, enter the Depreciation Expense account.
4. In the Debit column, enter the amount being depreciated.
5. In the second row, under Account, enter the Depreciation subaccount for the fixed asset.
6. In the Credit column, enter the amount being depreciated.
7. Click Save & Close.
Review Activities

1. From the File menu in QuickBooks, choose Open or Restore Company. QuickBooks displays the Open or Restore Company window.
2. Select Restore a backup copy and click Next.
3. Select Local backup and click Next.
4. In the Open Backup Copy window, navigate to the appropriate directory.
5. Select the qlesson.qbb file, and then click Open.
6. In the Open or Restore Company window, click Next.
7. Navigate to your directory.
8. In the File Name field of the Save Company File As window, type Lesson8 and then click Save.
9. Click OK when you see the message that the file has been successfully restored.

- Create a new credit card account named Visa 2, and make it a subaccount of Credit Cards. Also, when creating the credit card, give it an opening balance of $200 with an As of date of the last day of last month.
- Enter a credit card charge using the Visa 2 account. In the Purchased From field, enter Jesse’s Convenience Store. The purchase took place on the 5th of the current month and was for $38.23. For the Account, use Vehicles: Fuel and apply Standard Tax.
- Enter a credit card charge using the Visa 2 account. In the Purchased From field, enter Jeanne’s Compu-Excellence. The purchase took place on the 10th of the current month and was for $125.78. For the Account, use Computer and Internet Expenses and apply Standard Tax.
- Enter a credit card charge using the Visa 2 account. In the Purchased From field, enter Fisher Supplies. The purchase took place on the 15th of the current month and was for $85.22. For the Account, use Office Supplies and apply Standard Tax.
- Now it’s time to pay the credit card! Go to Write Cheques, and enter a payment using your Chequing account to pay off Visa 2. Create a new vendor named Visa and name them as the payee. Make the payment a debit card charge by entering DEBIT in the No. field of the cheque, and pay off the credit card with $200. Also, enter the 25th of the current month as the payment date. Be sure to mark the transaction as exempt from taxes.
- You’ve received your credit card statement so it’s time to reconcile. Select Reconcile, and perform a reconciliation using the last day of the current month as the Statement Date. The statement says that you had $265.12 as the ending balance for the card over this period, and you also had $15.89 worth of finance charges which were applied on the last day of the month. Be sure to use an interest expense account appropriate for this charge. All of the charges in QuickBooks appeared on the statement. When asked if you want to pay the outstanding balance, Cancel.
- Set up a new fixed asset named Work Truck and set up depreciation and original cost subaccounts for it as well.
- Set up a new long term liability account named Car Note.
- Purchase the Work Truck fixed asset using a Cheque transaction. Make the cheque out to Truck Dealership using the Chequing account, and it should have cheque number 108. The transaction took place on the 20th of the previous

month. The truck's value is $25,678.28 and should have standard tax applied to it. As part of the purchase of the truck you also took out a loan, and it needs to be included on the cheque as Car Note. The amount of the loan was $17,000.

Make a payment towards the Car Note using a Cheque transaction. Make the cheque out to Lender using the Chequing account, and it should have cheque number 109. The transaction took place on the 20th of current month. The loan payment was made up of $308.18 worth of principal and $87 worth of interest.

Now it is time to depreciate your new Work Truck. Perform a depreciation of $500 on the last day of the current year.