

Chapter 1

The Big Interview

In This Chapter

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- ▶ Not getting discouraged about the big interview
- ▶ Surviving the big interview
- ▶ Telling your friends all sorts of war stories about the big interview
- ▶ Making the accrual-accounting adjustment
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I know that you're eager to get started. You've got a business to run. But before you can start using QuickBooks, you need to do some upfront work. Specifically, you need to prepare for the *QuickBooks EasyStep Interview*, and then you need to walk through the EasyStep Interview. (The EasyStep Interview is just a thorough question-and-answer session that QuickBooks uses to set itself up for you.) After you finish with the EasyStep Interview, you also probably need to fiddle with QuickBooks to get everything working just right. In this chapter, I describe how you do all this stuff.



I assume that you know how Windows works. If you don't, take the time to read Chapter 1 of your Windows User's Guide. Or try the appropriate edition of *Windows For Dummies* by Andy Rathbone (Wiley Publishing, Inc.).

Getting Ready for the Big Interview

You need to complete three tasks to get ready for the EasyStep Interview:

- ✓ You need to make an important decision about your conversion date (the date you convert from your old accounting system to QuickBooks).
- ✓ You need to prepare a trial balance as of the conversion date.
- ✓ You need to go on a scavenger hunt to collect a bunch of stuff that you'll need or find handy for the interview.

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The big decision

Before you start fiddling with your computer or the QuickBooks software, you need to choose the date — the so-called *conversion date* — on which you want to begin using QuickBooks for your financial record keeping.

This decision is hugely important because the conversion date that you choose dramatically affects both the work you have to do to get QuickBooks running smoothly and the initial usefulness of the financial information that you collect and record by using QuickBooks.

You've got three basic choices you can make:

- ✓ **The right way:** You can convert at the beginning of your accounting year (which is almost certainly the same as the beginning of the calendar year). This way is the right way for two reasons. First, converting at the beginning of the year requires the least amount of work from you. Second, it means that you have all the current year's financial information in one system.
- ✓ **The slightly awkward way:** You can convert at the beginning of some interim accounting period (probably the beginning of some month or quarter). This approach works, but it's slightly awkward because you have to plug your year-to-date income and expenses numbers from the old system into the new system. (If you don't know what an interim accounting period is, read Appendix B.)
- ✓ **The my-way-or-the-highway way:** You can convert at some time other than what I call the right way and the slightly awkward way. Specifically, you can choose to convert whenever you jolly well feel like it. You create a bunch of unnecessary work for yourself if you take this approach, and you pull out a bunch of your hair in the process. But you also have the satisfaction of knowing that through it all, you did it your way — without any help from me.

I recommend the right way. What this choice means is that if it's late in the year — say, October — I suggest that you just wait until January 1 of the next year to convert. If it's still early in the year, you can also retroactively convert as of the beginning of the year. (If you do this, you need to go back and do your financial record keeping for the first part of the current year by using QuickBooks: entering sales, recording purchases, and so on.)

If it's sometime in the middle of the year — say, Memorial Day or later — then you probably want to use the slightly awkward way. (I'm actually going to use the slightly awkward way in this chapter because if you see how to convert to QuickBooks by using the slightly awkward way, you know how to use both the right way and the slightly awkward way.)

The trial balance of the century

After you decide when you want to convert, you need a *trial balance*.

“Yikes,” you say. “What’s a trial balance?” A trial balance simply lists all your assets, liabilities, and owner’s equity account balances as well as the year-to-date income and expense numbers on a specified date (which, not coincidentally, happens to be the conversion date). You need this data for the EasyStep Interview and for some fiddling around that you need to do after you complete the EasyStep Interview.



Creating a trial balance doesn’t have to be as hard as it sounds. If you’ve been using another small-business accounting system, such as Intuit’s simpler Quicken product or Computer Associates’ Simply Accounting program, you may be able to have your old system produce a trial balance on the conversion date. In that case, you can get the balances from your old system. (Consider yourself lucky if this is the case.)

If your old system is rather informal (perhaps it’s a shoebox full of receipts) or if it tracks only cash (perhaps you’ve been using Quicken), you need to do a bit more work:

- ✓ To get your cash balance, you need to reconcile your bank account or bank accounts (if you have more than one bank account) as of the conversion date.
- ✓ To get your accounts receivable balance, you need to tally up the total of all your unpaid customer invoices.
- ✓ To get your other asset account balances, you need to know what each asset originally cost. For depreciable fixed assets, you also need to provide any accumulated depreciation that has been claimed for that asset. (*Accumulated depreciation* is the total depreciation that you’ve already expensed for each asset.)



By the way, refer to Appendix B if you have questions about accounting or accounting terminology, such as *depreciation*.

- ✓ To get your liability account balances, you need to know how much you owe on each liability. If you trust your *creditors* — the people that you owe the money to — you may also be able to get this information from their statements.

You don’t need to worry about the owner’s equity accounts. QuickBooks can calculate your owner’s equity account balances for you, based on the difference between your total assets and your total liabilities. This method is a bit sloppy, and accountants may not like it, but it’s a pretty good compromise. (If you do have detailed account balances for your owner’s equity accounts, use these figures — and know that you’re one in a million.)

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If you're using the slightly awkward way to convert to QuickBooks — in other words, if your conversion date is some date other than the beginning of the accounting year — then you also need to provide year-to-date income and expense balances. To get your income, cost of goods sold, expenses, other income, and other expense account balances, you need to calculate the year-to-date amount of each account. If you can get this information from your old system, that's super. If not, you need to get it manually. (If you suddenly have images of yourself sitting at your desk, late at night, tapping away on a ten-key, you're probably right. What's more, you probably also need to allocate half of another Saturday to getting up and running with QuickBooks.)

Just for fun, I've created the sample trial balance shown in Table 1-1. This table shows you what a trial balance looks like if you convert at some time other than at the beginning of the accounting year.

Table 1-1 A "Slightly Awkward Way" Sample Trial Balance		
<i>Trial Balance Information</i>	<i>Debit</i>	<i>Credit</i>
<i>Assets</i>		
Checking	\$5,000	
Fixed assets	\$60,000	
Accumulated depreciation (fixed assets)		\$2,000
<i>Liabilities information</i>		
Loan payable		\$10,000
<i>Owner's equity and income statement information</i>		
Opening bal equity		\$20,000
Sales		\$60,000
Cost of goods sold	\$20,000	
Supplies expense	\$2,100	
Rent expense	\$4,900	
Totals	\$92,000	\$92,000

If you're converting at the very beginning of the accounting year, your trial balance looks instead like the one shown in Table 1-2. Notice that this trial balance doesn't have any year-to-date income or expense balances.

Table 1-2 A "Right Way" Sample Trial Balance		
<i>Trial Balance Information</i>	<i>Debit</i>	<i>Credit</i>
<i>Assets</i>		
Checking	\$5,000	
Fixed assets	\$60,000	
Accumulated depreciation (fixed assets)		\$2,000
<i>Liabilities information</i>		
Loan payable		\$10,000
<i>Owner's equity and income statement information</i>		
Opening bal equity		\$53,000
Totals	\$65,000	\$65,000



About those debits and credits

Don't get freaked out about those debits and credits. You just need to keep them straight for a few minutes. Here's the scoop: For assets and expenses, a *debit balance* is the same thing as a positive balance. So a cash debit balance of \$5,000 means that you have \$5,000 in your account. And \$20,000 of cost of goods sold means that you incurred \$20,000 of costs of goods expense. For assets and expenses, a *credit balance* is the same thing as a negative balance. So, if you have a cash balance of -\$5,000, your account is overdrawn by \$5,000. In the sample trial balance shown in Table 1-1, the accumulated depreciation shows a credit balance of \$2,000, which is, in effect, a negative account balance.

For liabilities, owner's equity accounts, and income accounts, things are flip-flopped. A credit balance is the same thing as a positive balance. So, an accounts payable credit balance of \$2,000 means that you owe your creditors \$2,000. A bank loan credit balance of \$10,000 means that you owe the bank \$10,000. And a sales account credit balance of \$60,000 means that you've enjoyed \$60,000 of sales.

I know that I keep saying this, but do remember that those income and expense account balances are year-to-date figures. They exist *only* if the conversion date is after the start of the financial year.

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The mother of all scavenger hunts

Even after you've decided when you want to convert to QuickBooks and have come up with a trial balance, you still need to collect a bunch of additional information. I'm just going to list these items in laundry-list fashion. What you want to do is find all this stuff and then pile it up (neatly) in a big stack next to the computer.

- ✓ **Last year's federal tax return.** QuickBooks asks which federal income tax form you use to file your tax return and also about your taxpayer identification number. Last year's federal tax return is the easiest place to find this stuff.
- ✓ **Copies of your most recent state and federal payroll tax returns.** If you prepare payroll for employees, QuickBooks wants to know about the federal and state payroll tax rates you pay as well as some other stuff.
- ✓ **Copies of all the unpaid invoices that your customers (or clients or patients or whatever) owe you as of the conversion date.** I guess this is probably obvious, but the total accounts receivable balance shown on your trial balance needs to match the total of the unpaid customer invoices.
- ✓ **Copies of all unpaid bills that you owe your vendors as of the conversion date.** Again, this is probably obvious, but the total accounts payable balance shown on your trial balance needs to match the total of the unpaid vendor bills.
- ✓ **A detailed listing of any inventory items you're holding for resale.** This list should include not only inventory item descriptions and quantities, but also the initial purchase prices and the anticipated sales prices. In other words, if you sell porcelain wombats and you've got 1,200 of these beauties in inventory, you need to know exactly what you paid for them.
- ✓ **Copies of the prior year's W-2 statements, W-4 statements for anybody you've hired since the beginning of the prior year, detailed information about any payroll tax liabilities you owe as of the conversion date, and detailed information about the payroll tax deposits you've made since the beginning of the year.** You need the information shown on these forms to adequately and accurately set up the QuickBooks payroll feature. I don't want to scare you, but this is probably the most tedious part of setting up QuickBooks.
- ✓ **If you're retroactively converting as of the beginning of the year, you need a list of all the transactions that have occurred since the beginning of the year: sales, purchases, payroll transactions, and everything and anything else.** If you do the right way conversion retroactively, you need to reenter each of these transactions into the

new system. You actually enter the information after you complete the EasyStep Interview that I describe later in this chapter. But you may as well get all this information together now, while you're searching for the rest of the scavenger hunt items.



If you take the slightly awkward way, you don't need to find the last item that I described in the previous list. You can just use the year-to-date income and expense numbers from the trial balance.

Doing the EasyStep Interview

After you decide when you want to convert, prepare a trial balance as of the conversion date, and collect the additional raw data that you need, you're ready to step through the EasyStep Interview.

Before you begin the interview, you have to start QuickBooks 2004. To do so, choose Start⇨Programs and then click the menu choices that lead to QuickBooks. (For example, I choose Start⇨Programs⇨QuickBooks Premier⇨QuickBooks Premier.)



QuickBooks comes in several flavors. The most common flavors are QuickBooks Basic, QuickBooks Pro, and QuickBooks Premier. These three programs differ in several significant ways: QuickBooks Pro adds the advanced job-costing and time-estimating features. It also includes the ability to share a QuickBooks file over a network, as I describe in Chapter 3. QuickBooks Premier adds features to QuickBooks Pro for accountants and auditors who want to use QuickBooks for rather large small businesses. I used QuickBooks Premier for writing this book, by the way, so the figures you see here may look a wee bit different from what you see on-screen in one or two special cases. But other than minor cosmetic differences, the three programs work the same way.

If this is the first time you've started QuickBooks, QuickBooks displays a message box that asks you how you want to start. For example, you can click a button that indicates you want to open a sample data file. What I suggest you do, however, is jump right into the fray. If you've never used QuickBooks before — the likely case if you've started your reading here — click the Set Up a New Data File for a Company button, which starts the EasyStep Interview. (If you've already been using an earlier version of QuickBooks or Quicken, click the buttons corresponding to these choices. QuickBooks then starts an abbreviated version of the EasyStep Interview.)

The real fun begins at this point. The EasyStep Interview starts automatically, displaying the dialog box shown in Figure 1-1.

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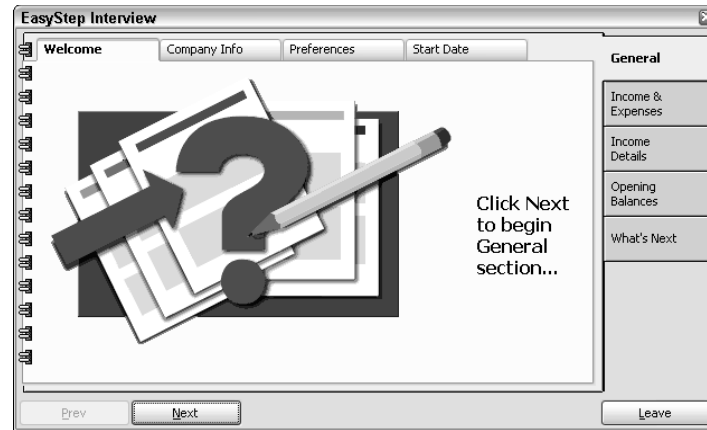


Figure 1-1:
The
EasyStep
Interview
dialog box.



If you're not starting QuickBooks for the first time but you want to step through the EasyStep Interview to set up a new company anyway, choose File⇨New Company. Or, if you want to step through the interview for a company you've already set up (but perhaps set up incorrectly or incompletely), choose File⇨EasyStep Interview.

To begin the interview, click the Next button. The next page of dialog box information asks whether you're upgrading from a previous version of Quicken or QuickBooks. You're probably not (or you wouldn't be reading this chapter), so click the No, I'm Not Upgrading option and then continue with the interview by clicking the Next button. Each time you finish a page of the interview, click the Next button to continue.

After QuickBooks starts, you may also see a message box that asks whether you want to register QuickBooks. You can use the product roughly a couple dozen times and then — whammo — either you register it or you can't use it. I don't like being forced to do something, but getting worked up about having to register QuickBooks is a waste of time. The simplest option is to just register. Here's how: When QuickBooks displays the message box that asks whether you want to register, click Online to register online or Phone to register over the phone. If you go with the phone option, QuickBooks displays another dialog box that gives you a telephone number to call and provides a space for you to enter your registration number.

I'm not going to provide you with a blow-by-blow account of what happens when you take the interview. A much better approach is for me to provide you with a handful of key tips that you can read now and then use later (during the interview) to make the process as easy and as fast as possible.

Tip 1: Learn the interview protocol

For the most part, to complete the EasyStep Interview, all you do is fill in text boxes with the information that QuickBooks requests (see Figure 1-2) or answer questions by clicking buttons clearly marked Yes or No.

Figure 1-2:
Enter your
company's
trade name
and legal
name in this
dialog box.

The screenshot shows the 'EasyStep Interview' window with the 'Company Info' tab selected. The 'General' section on the right lists 'Income & Expenses', 'Income Details', 'Opening Balances', and 'What's Next'. The main area is titled 'Your company name' and contains two text input fields. The first field is labeled 'Company Name' and contains the text 'Pine Lake Porcelain'. The second field is labeled 'Legal name' and contains the text 'Pine Lake Porcelain, Inc.'. Below these fields is a 'Tell Me More' section with the question 'What if I have more than one business?' and a 'More' button. At the bottom of the window are three buttons: 'Prev', 'Next', and 'Leave'.



If you ever decide that you want to change some piece of information that you've entered on a previous page of the EasyStep Interview dialog box, you can just click the Prev button to back up. If you get partway through the interview process and decide that it's not worth the time, just click the Leave button in the lower-right corner, and QuickBooks closes the EasyStep Interview dialog box. If, after leaving the interview, you realize that you've made a mistake, all you have to do is choose File⇨EasyStep Interview and then use the tabs shown in Figure 1-2 to go back and change something you entered.

Here are a few extra notes that may come in handy:

- ✓ The EasyStep Interview dialog box appears every time you start a new company (which you do by choosing File⇨New Company).
- ✓ When you click the tabs on the right side of the EasyStep Interview dialog box, the tabs at the top change accordingly. This change comes in handy when you're leafing through the 60 or 70 pages of information that appear in the EasyStep Interview dialog box.
- ✓ QuickBooks purposely makes it difficult to delete a company you create in QuickBooks, so don't make up an imaginary company to play with unless you're familiar enough with your operating system to delete files.

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Tip 2: Take your time

As you step through the interview process, the EasyStep Interview dialog box displays a bunch of different pages with suggestions, instructions, and advice. Take the time to read this information. Click the Help button if you have questions. If the EasyStep Interview suggests that you view some related document with helpful information, do so.

Tip 3: Get industry-specific advice

Industry-specific advice is one of the handiest QuickBooks features. For example, are you a rancher or a farmer? QuickBooks includes a detailed online document that describes some of the unique accounting challenges your business faces, provides tips for making your record keeping easier, and points out QuickBooks features that may be of particular interest to someone like you. Are you a retailer? A manufacturer? A writer? A consultant? You can get this same sort of information, too.

QuickBooks displays industry-specific tips and tidbits of information throughout the interview. Keep your eyes peeled for the green arrows that mark these little hints. Let me mention one other quick pointer about this industry-specific information stuff: You may not understand everything you read. That's okay. You still want to read the tips and maybe jot them down on a piece of paper as you go along. As you work with QuickBooks and find out more about it, you'll find that more and more of the information provided in the industry-specific tips makes sense.



To view a document of industry-specific information at any time, click Support on the Navigation bar and click the Industry-Specific Information hyperlink. Click the List of Industries hyperlink and then select your industry from the list in the Help window that QuickBooks displays. To print a copy of the information, click the Options button and choose Print Topic from the drop-down menu.

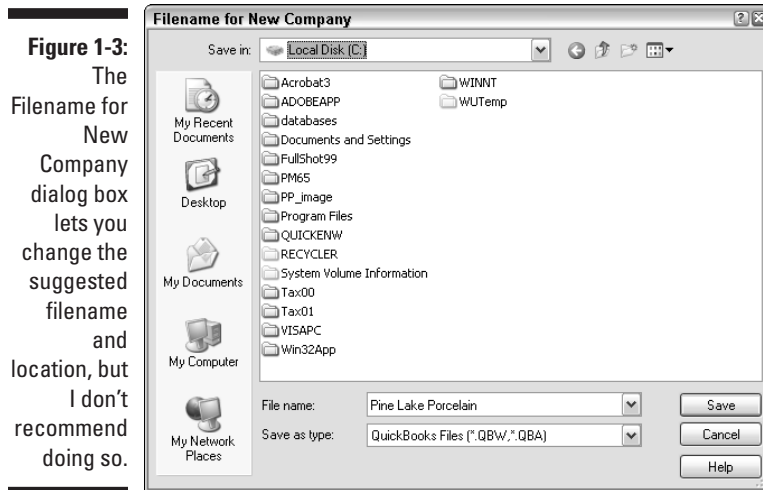


Some of the hyperlinks lead to resources at the www.quickbooks.com Web site, so you may be prompted to make an Internet connection to access that information.

Tip 4: Accept the suggested filename and location

A few minutes into the EasyStep Interview, QuickBooks asks you to specify a name and location for the file that it uses to store your accounting information

(see Figure 1-3). This will normally be your company name, anyway. I can think of no good reason why you need to fiddle with or change the suggested filename or location. Don't do it. Let QuickBooks name the QuickBooks file whatever it wants and let QuickBooks store the file wherever it wants.



Tip 5: Go with the suggested chart of accounts

Immediately after you name the file that QuickBooks uses for storing your financial information, the EasyStep Interview displays a dialog box that shows a list of accounts that QuickBooks wants to use for tracking your business's financial condition. This dialog box also asks whether the list of accounts is the one that you want to use. Unless you know quite a bit about accounting and are willing to learn just as much about QuickBooks, I recommend that you accept the suggested chart of accounts. You make your future record keeping much easier by doing so.

Tip 6: Consider tracking all your expenses with your checkbook

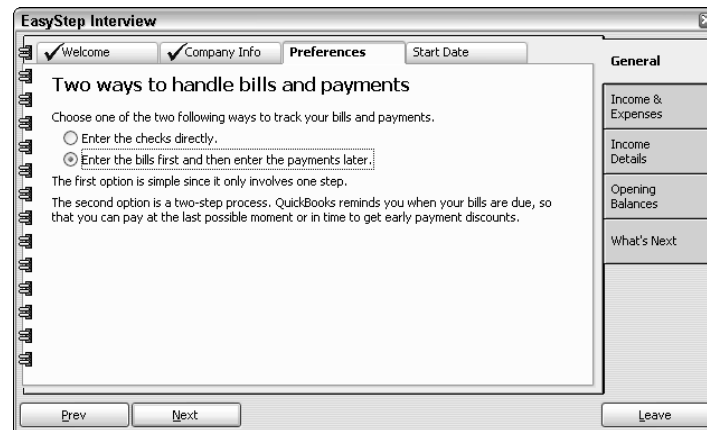
You get two choices regarding how to record your expenses:

- ✓ By using just your checkbook
- ✓ By creating a bills-to-pay list

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QuickBooks asks this question in the dialog box page shown in Figure 1-4. I want to be careful about what I say next because the decision you make in this dialog box can really screw up your business. But here's my suggestion: I think that you should consider taking the first option — the one that says you want to record bills by using your checkbook. You choose the first option, which I'm hesitantly recommending here, by clicking the Enter the Checks Directly option button.

Figure 1-4:
Simplify your bill paying by choosing to record bills when you write checks.



Now before you rush off to the next EasyStep Interview question, confident and happy in my suggestion, let me tell you about the implicit trade-off you're making. If you choose the Enter the Checks Directly option, you do simplify your record keeping — which is why I suggest that you take this route. But the catch is that you can't track your unpaid bills as closely. Until you sit down to actually write checks for your bills, you don't really know (precisely) how much money you owe vendors. What's more, you can't separate the actual incurring of some expense from the cash outflow that pays the expense. So, by taking the Enter the Checks Directly option, you're unable to do finely tuned accrual-basis accounting (unless you pay bills when you incur them). And you aren't able to closely monitor the money that you owe to vendors.



In my business, I do use the Enter the Checks Directly option. I do so to simplify my record keeping. But I'm probably a little unusual (at least for a small business) for a couple of reasons. First, almost all my expenses get negotiated upfront and then get fixed by contract. (With the help of other writers and a team of editors and desktop publishers, I write and package books and technical reference materials.) For this reason, I don't use and don't need to use QuickBooks to keep track of and remind me about my unpaid bills. In effect, the negotiations and contracts do that.

Second, I've actually been in business for quite a while — more than 15 years, in fact. So I don't have the cash flow problems that many (most?) small

businesses have, which means that if I want to produce an accurate profit and loss statement or an accurate balance sheet — one that includes all my expenses — I can just pay all my unpaid bills.

I guess the bottom line here is this: If you don't need to use QuickBooks to closely monitor your unpaid bills and if you don't mind the profit-calculation precision that you lose because of the lag between the time you incur some expense and the time you pay the bill by writing a check, go ahead and use the Enter the Checks Directly option. This choice greatly simplifies one area of your record keeping. Otherwise, go with the second option. (To choose the second option, mark Enter the Bills First and Then Enter the Payments Later, as shown in Figure 1-4.)

Tip 7: Add accounts you need

As you step through the interview's questions, QuickBooks asks a few times whether you want to add an account (see Figure 1-5). Go ahead and do this — and feel comfortable doing so. Adding accounts isn't hard. (You need an account for each individual asset, liability, income, or expense amount you want to track.)

Figure 1-5:
During the
EasyStep
Interview,
QuickBooks
asks
whether you
want to add
accounts.



Tip 8: Provide inventory, customer, vendor, and other financial information

The last part of the EasyStep Interview asks you to describe in detail your inventory, your customer receivables, your vendor payables, and most (maybe all) of the other business assets and business liabilities that your firm owns or owes.

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Provide this information in detail, and be very careful so that what you enter is correct and makes sense. If your current accounting system doesn't provide this data or seems riddled with errors and inconsistencies, you want to clean up your financial records before you enter this information into QuickBooks.

The Rest of the Story

Throughout the preceding sections in this chapter, I describe how you prepare for and then step through the EasyStep Interview. But even after the EasyStep Interview is over, you probably need to take care of two other little jobs:

- ✓ If you want to use accrual-basis accounting, you need to make an adjustment.
- ✓ You need to describe your current business finances.

These chores aren't time-consuming, but they are the two most complicated tasks that you need to do to set up QuickBooks. (If you're not sure what the big deal is about accrual-basis accounting, I respectfully suggest that you take a break here and read Appendix B.)

Should you get your accountant's help?

Oh, shoot. I don't know. If you follow my directions carefully and your business's financial affairs aren't wildly complex, I think that you can probably figure out all this stuff on your own.

Having said that, however, I suggest that you at least think about getting your accountant's help at this juncture. Your accountant can do a much better job of giving you advice that may be specific to your situation. In many cases, your accountant can give you your beginning trial balance amounts that agree with your tax returns. The accountant probably knows your business and can keep you from making a terrible mess of things, just in case you don't follow my directions carefully.

By the way, if you do call upon your accountant to help you with the tasks in this chapter, bookmark the page with the sidebar "For accountants only" (elsewhere in this chapter) and ask your financial wizard to read it. The sidebar summarizes what you've accomplished thus far. (If you're going to do all this stuff yourself, reading the sidebar isn't a bad idea.)

Just so you know, one of the things that, as a CPA, I do for my clients is help them set up QuickBooks. Because I do this, I can give you a couple of pieces of useful information about getting a CPA's help in setting up. First, your CPA,

assuming he or she already knows QuickBooks, should be able to help you through the setup process in a couple of hours. So, your CPA will do it (or help you do it) much faster than you can on your own. Second, an hour or so of tutoring from your CPA should mean that you get enough help to record all your usual transactions. With just this help, you can find out how to pay your bills, how to invoice customers exactly the way you want, and how to produce reports. I used to pooh-pooh this kind of hand-holding, but the older (and hopefully wiser) I get, the more I see that business owners and bookkeepers benefit from this upfront help. A bit of planning and expert advice in the beginning can save you a whole lot of trouble later on.

Adjusting for accrual-basis accounting

If you want to use accrual-basis accounting — and I recommend that you do — you need to camouflage a couple of goofy accounts, called *suspense accounts*, that QuickBooks creates when you set up the Item, Customer, and Vendor lists. (Accrual-basis accounting more accurately measures your profits and financial condition by using a handful of accounting tricks, so you really do want to use accrual-basis account. Check out Appendix B for more information.)

Figure 1-6 shows a sample trial balance after I've entered the inventory, accounts receivable, and accounts payable balances. (These account balances get set up indirectly, as noted in the nearby sidebar containing information for accountants. When you set up your Item, Customer, and Vendor lists, you also create account balances for inventory, accounts receivable, and accounts payable.)

You can produce your own half-complete trial balance from inside QuickBooks by choosing Reports⇨Accountants & Taxes⇨Trial Balance. QuickBooks displays the trial balance report in a document window.

If you need to do so, enter the conversion date in the As Of box by clicking the box and typing the conversion date in MM/DD/YYYY fashion. Figure 1-6, for example, shows the conversion date 8/31/2004 in the As Of box. You can set the From box to any value. The From to To range just needs to end with the conversion date. Make a note of the credit and debit balances shown for the Uncategorized Income and Uncategorized Expenses accounts.

Note: To make the figures bigger and therefore easier to read, I'm just showing the actual report window in which the trial balance report appears. Your on-screen windows will look a little different from this — unless you choose the View⇨Multiple Windows command (which is what I've done).

If you want, you can print the report by clicking the Print button and then, when QuickBooks displays the Print Report dialog box, by clicking its Print button. Yes, you click *two* Print buttons.

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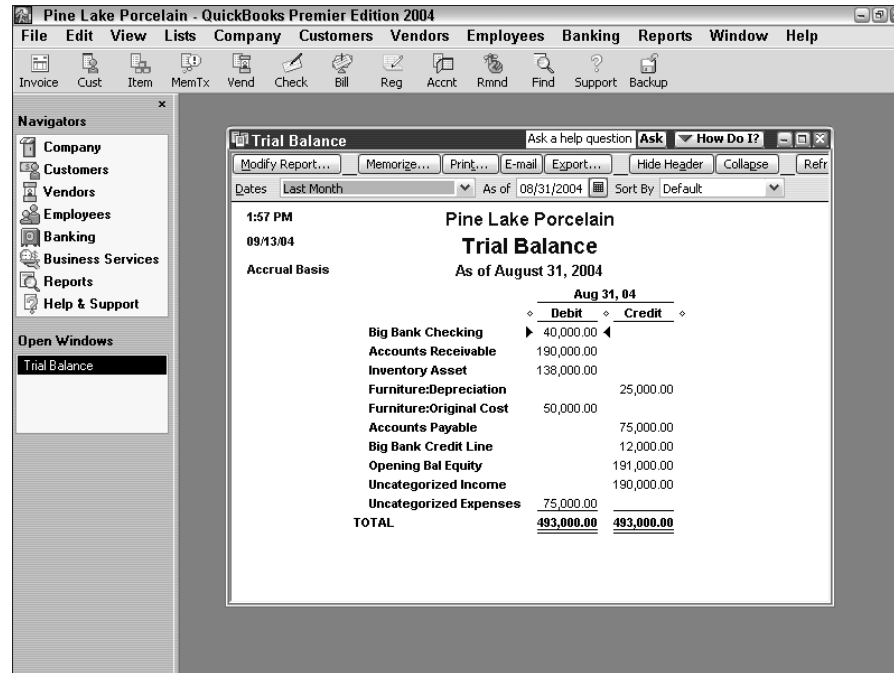


Figure 1-6:
A sample
trial
balance.

After you have the conversion date balances for the Uncategorized Income and Uncategorized Expenses accounts, you're ready to make the accrual accounting adjustment. To do so, follow these steps:

- 1. Choose Lists⇨Chart of Accounts to display that window.**

QuickBooks displays the Chart of Accounts window, shown in Figure 1-7.

- 2. Double-click Opening Bal Equity in the Chart of Accounts list to display that account.**

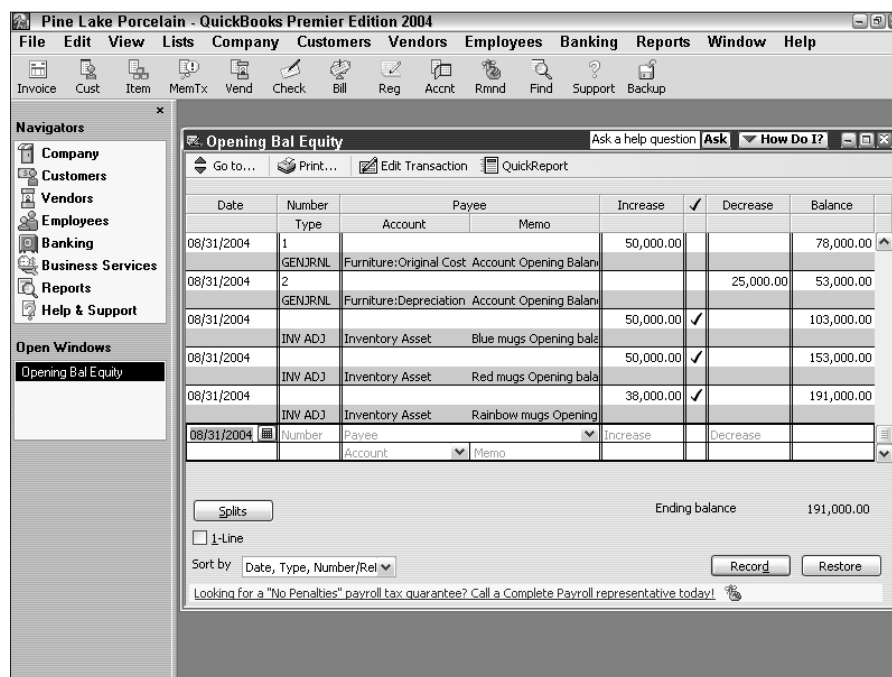
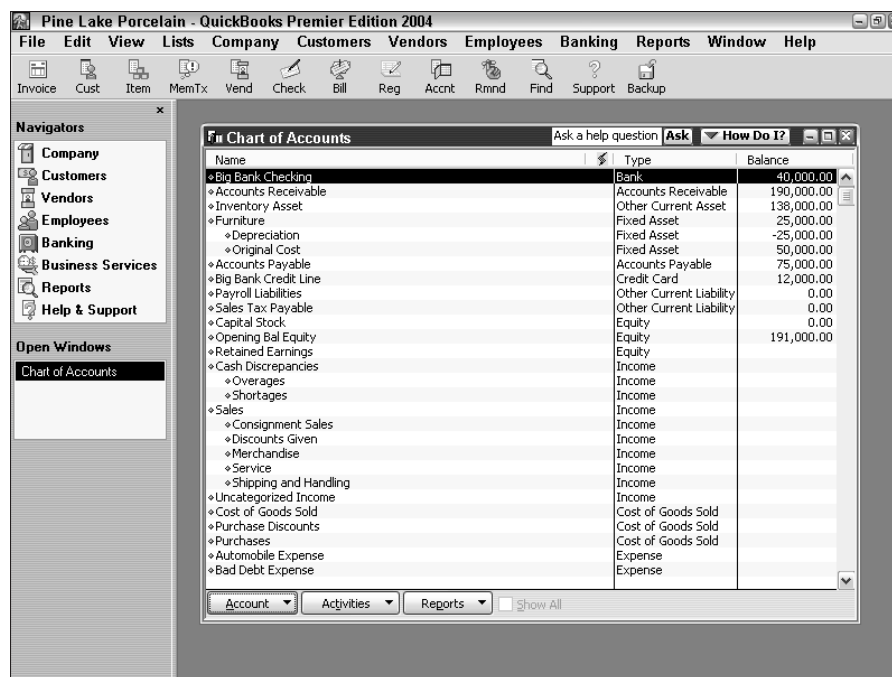
Opening Bal Equity is listed after the liability accounts. QuickBooks displays the register — just a list of transactions — for the account named Opening Bal Equity. Figure 1-8, coincidentally, shows this register.

- 3. Select the next empty row of the register if it isn't already selected (although it probably is).**

You can select a row by clicking it, or you can use the up- or down-arrow key to move to the next empty row.

- 4. Type the conversion date in the Date field.**

Move the cursor to the Date field (if it isn't already there) and type the date. Use the MM/DD/YYYY format. For example, you can type either **08312004** or **8/31/2004** to enter August 31, 2004.



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5. Type the Uncategorized Income account balance (from the trial balance report) in the Increase field.

In Figure 1-6, for example, the Uncategorized Income account balance is \$190,000. In this case, click the Increase field and type **190000** in the field. (You don't need to include the dollar sign or the comma; QuickBooks adds the punctuation for you.)

6. Type Uncategorized Income (the account name) in the Account field.

Select the Account field, which is on the row under the word Payee, and begin typing **Uncategorized Income**, the account name. As soon as you type enough of the name for QuickBooks to figure out what you're typing, it fills in the rest of the name for you. When this happens, you can stop typing.

7. Click the Record button to record the Uncategorized Income adjustment transaction.**8. Again, select the next empty row of the register.**

Click the row or use the up- or down-arrow key.

9. Type the conversion date in the Date field.

Move the cursor to the Date field (if it isn't already there) and type the date. You use the MM/DD/YYYY format. You can type **8/31/2004**, for example, to enter August 31, 2004.

10. Type the Uncategorized Expenses account balance in the Decrease field.

In Figure 1-6, for example, the Uncategorized Expenses account balance is \$75,000. In this case, you click the Decrease field and then type **75000** in the field. I've said this before, but I'll say it again because you're just starting out: You don't need to include any punctuation, such as a dollar sign or comma.

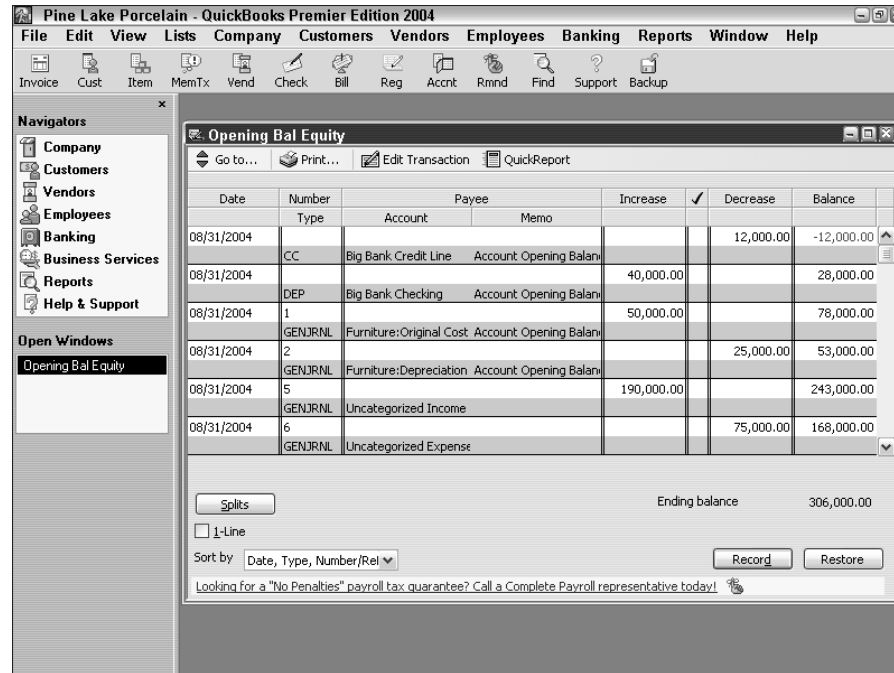
11. Type Uncategorized Expenses (the account name) in the Account field.

Select the Account field, which is on the second line of the register transaction, and begin typing **Uncategorized Expenses**, the account name. As soon as you type enough of the name for QuickBooks to figure out what you're typing, it fills in the rest of the name for you.

12. Click the Record button to record the Uncategorized Expenses adjustment transaction.

Figure 1-9 shows the Opening Bal Equity register with the correction transactions. The correction transactions are numbered with a 5 and a 6. See them? They're at the bottom of the register.

Figure 1-9:
The fifth
and sixth
transactions
shown
fix the
uncategor-
ized income
and uncate-
gorized
expenses
account
balances.



You can close the Opening Bal Equity register, too, at this point. You're finished with it. (One way to close it is to click the Close button — this is the little button with an X in the upper-right corner of the register window.)

You can check your work thus far — and checking it *is* a good idea — by producing another copy of the trial balance report. What you want to check are the Uncategorized Income and Uncategorized Expenses account balances. They should both be zero — as shown in Figure 1-10.



You can produce a trial balance by choosing Reports⇨Accountant & Taxes⇨Trial Balance. QuickBooks displays the trial balance report in a document window. If you need to enter the conversion date in the As Of box, click the box and type the conversion date in MM/DD/YYYY fashion into the box.

If the Uncategorized Income and the Uncategorized Expenses account balances don't show zero, you (with my help, of course) may have botched the accrual adjustment. To fix the mistake, redisplay the Opening Bal Equity register, select the adjustment transactions, and then check the account, amount, and field (increase or decrease). If one of the fields is wrong, select the field and replace its contents by typing over them.

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Part I: You Gotta Start Someplace

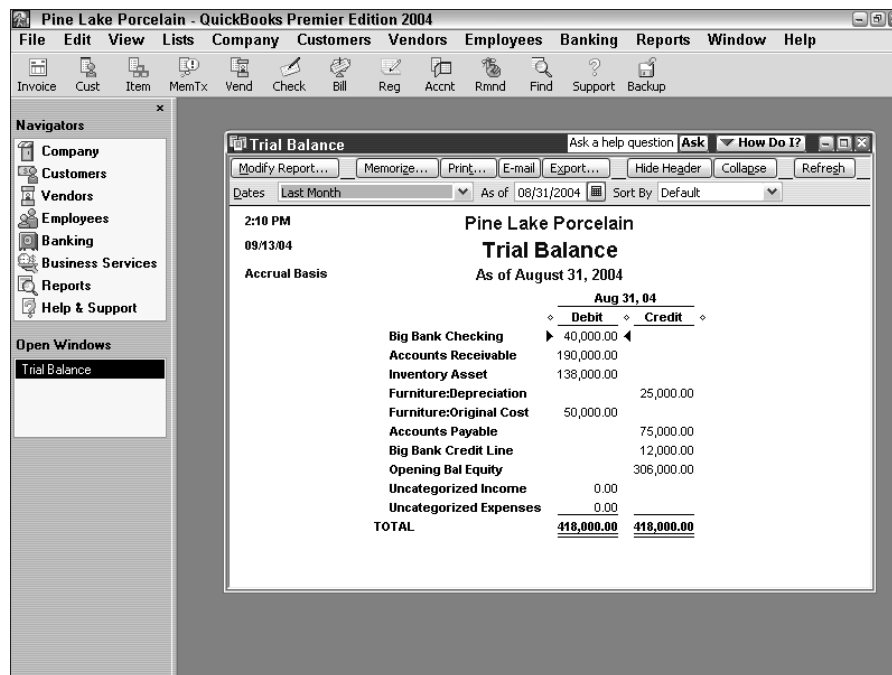


Figure 1-10:
Another
sample trial
balance.

Supplying the missing numbers

You're almost done. Really. Your last task is to enter the rest of the trial balance into QuickBooks. To perform this task, of course, you need to already have a trial balance as of the conversion date. But you should have one. (I talk about this earlier in the chapter in the section, "The trial balance of the century.") Follow these steps:

1. Display the General Journal Entry window.

Choose the Company→Make Journal Entries command. QuickBooks displays the Make General Journal Entries window, shown in Figure 1-11.

2. Type the conversion date in the Date field.

Move the cursor to the Date field (if it isn't already there) and type the date. As you may know by now, you use the MM/DD/YYYY format. For example, type **10/31/2004** for October 31, 2004. (Or **10312004**, if you don't want to put the slashes in.)

3. Type each trial balance account and balance that isn't already in the half-completed trial balance.

Okay. This step sounds confusing. But remember that you've already entered your cash, accounts receivable, inventory, and accounts payable account balances, as well as most other liability account balances and a portion of the Opening Bal Equity account balance as part of the EasyStep Interview.

So what you need to do now is enter the rest of the trial balance: specifically, the year-to-date income and expense account balances and the remaining portion of the Opening Bal Equity. To enter each account and balance, use a row of the Make General Journal Entries window's list box. Figure 1-12 shows how this window looks after you enter the rest of the trial balance into the list box rows.

4. Click Save & New to record the general journal entries that set up the rest of your trial balance.

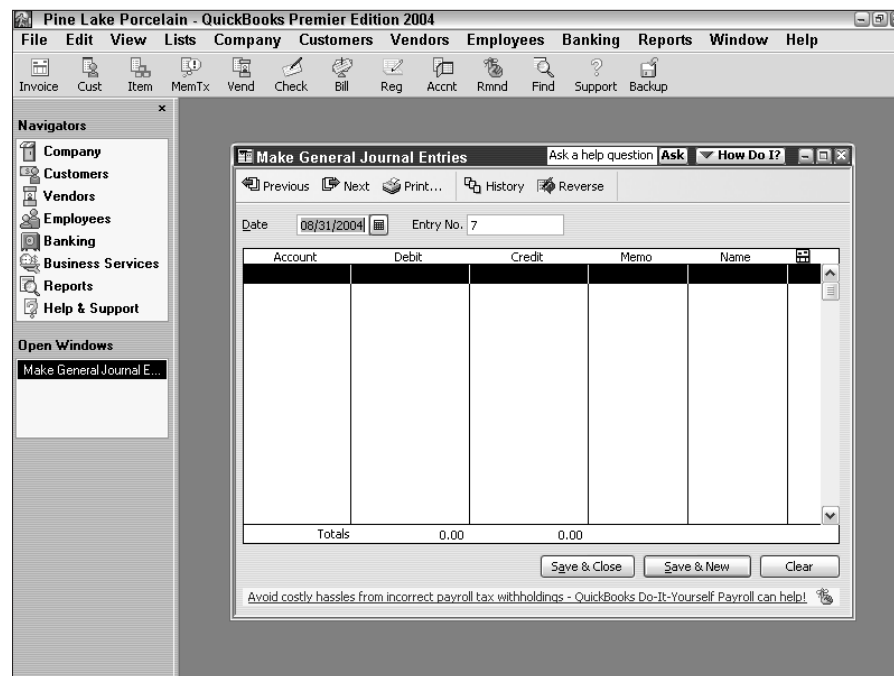


Figure 1-11:
The empty
Make
General
Journal
Entries
window.

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For accountants only

If you're reading this sidebar, I assume that you're an accountant who's been asked to help your client with the last piece of the QuickBooks conversion. Of course, you understand double-entry bookkeeping, and presumably you're familiar with the general mechanics involved in converting to new accounting systems. With those two caveats, you're ready to start.

First, your client has probably already installed QuickBooks and then, by running something called the EasyStep Interview, partially set up a chart of accounts and loaded three master files: the Item list, the Customer list, and the Vendor list. The Item list master file describes the inventory account balances. (QuickBooks uses an average costing assumption.) The Customer list master file describes the accounts receivable balances. The Vendor list master file describes the accounts payable balances. Because your client has set up these master files, QuickBooks has made three journal entries, which I describe in the following paragraphs. (I'm using Xs to represent numbers, in case you're not familiar with this convention.)

To set up the conversion date inventory balance (if inventory exists), QuickBooks has created the following entry:

	<i>Debit</i>	<i>Credit</i>
Inventory Asset	\$X,XXX	
Opening Bal Equity		\$X,XXX

To set up the conversion date accounts receivable (A/R) balance (if A/R exists), QuickBooks has created the following entry:

	<i>Debit</i>	<i>Credit</i>
Accounts Receivable	\$X,XXX	
Uncategorized Income		\$X,XXX

To set up the conversion date accounts payable (A/P) balance (if A/P exists), QuickBooks has created the following entry:

	<i>Debit</i>	<i>Credit</i>
Accounts Payable		\$X,XXX
Uncategorized Expenses	\$X,XXX	

To complete the picture, you need to do two little housekeeping chores. If your client plans to use accrual-basis accounting, you need to get rid of the credit to the Uncategorized Income account and the debit to the Uncategorized Expenses account. (These two accounts are really just suspense accounts.) And you need to load the rest of the trial balance. I describe the steps for accomplishing these tasks in the section "Supplying the missing numbers," elsewhere in this chapter.

Checking your work one more time

Checking your work again is a good idea. Produce another copy of the trial balance report, as shown in Figure 1-13. Check that the QuickBooks trial balance is the same one that you wanted to enter.

Figure 1-12:
The
completed
Make
General
Journal
Entries
window.

Account	Debit	Credit	Memo	Name
Sales:Merch...		250,000.00		
Cost of Goods S...	100,000.00			
Rent	30,000.00			
Opening Bal Eq...	120,000.00			
	0.00			
Totals	250,000.00	250,000.00		

Figure 1-13:
After you
finish
setting up
the trial
balance and
adjusting
the Opening
Bal Equity
value,
prepare one
final copy
of the
QuickBooks
trial
balance.

Pine Lake Porcelain
Trial Balance
As of August 31, 2004

	Debit	Credit
Big Bank Checking	40,000.00	
Accounts Receivable	190,000.00	
Inventory Asset	138,000.00	
Furniture:Depreciation		25,000.00
Furniture:Original Cost	50,000.00	
Accounts Payable		75,000.00
Big Bank Credit Line		12,000.00
Opening Bal Equity		186,000.00
Sales:Merchandise		250,000.00
Uncategorized Income	0.00	
Cost of Goods Sold	100,000.00	
Rent	30,000.00	
Uncategorized Expenses	0.00	
TOTAL	548,000.00	548,000.00

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Remember that you can produce a trial balance by choosing Reports⇨Accountant & Taxes⇨Trial Balance. Be sure to enter the conversion date in the As Of box. If the QuickBooks trial balance report agrees with what your records show, you're finished.



If the QuickBooks trial balance doesn't agree with what your records show, you need to fix the problem. Fixing it is a bit awkward but not complicated. Choose Reports⇨Accountant & Taxes⇨Journal. QuickBooks displays a report or journal that lists all the transactions that you or QuickBooks has entered as part of setting up. (The Dates, From, and To text boxes need to specify the conversion date.) Scroll through the list of transactions until you get to the last one. The last transaction is the one that you entered to set up the rest of the trial balance, and it names recognizable accounts and uses familiar debit and credit amounts. Double-click this transaction. QuickBooks redisplay the Make General Journal Entries window with the botched transaction. Find the mistake and then fix the erroneous account or amount by clicking it and typing the correct account or amount.

Congratulations! You're done.