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Ten Steps to Cleaning Up Your Client's QuickBooks Data

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AUTHOR'S NOTE

Though QuickBooks is very easy to use, our clients often create numerous setup and data entry errors that we have to troubleshoot. We have to do most of this troubleshooting at the end of the client's fiscal year, but if the client needs mid year financial statements (e.g., to secure a loan), you may need to clean up the client's data file at any time during the fiscal year.

The analyses in this book walk you through the most common types of setup and data entry errors, based on my over 10 years of experience working with clients who use QuickBooks. The analyses in this text focus mostly on cleaning up the General Ledger, to present financial statements and/or to prepare the client's annual business income tax return. Consequently, the steps are not designed to comprehensively troubleshoot the data file. Examples of QuickBooks data outside the scope of this text include, but are not limited to: Price Levels, Billing Rates, Terms (correct AR/AP aging), correct auto-entry of memorized transactions, correct formatting of custom (memorized) reports created by the client, correct setup of loans in the Loan Manager, or timesheet entries/time reporting.

I trust you will find the procedures practical and applicable to the types of data entry and setup errors your clients make in their QuickBooks files.

ABOUT THE AUTHOR

Joe Woodard is a Certified QuickBooks ProAdvisor and Trainer with over 10 years of experience supporting clients who use QuickBooks. Since Joe began teaching QuickBooks 6 years ago, he has taught over 10,000 QuickBooks users and QuickBooks consultants across the country. Joe currently works with Intuit (the developers of QuickBooks), The Sleeter Group (a prestigious and highly reputable national QuickBooks training provider), and Atlanta-area CPA firms to present advanced QuickBooks instruction to accounting professionals and QuickBooks users.

Joe publishes articles for the "Intuit ProConnection" newsletter several times each year. Joe also provides advisory services to Intuit regarding product development, project management, and training strategies for accounting professionals.

Joe co-authored two Intuit endorsed classroom curriculums focused on building successful QuickBooks consulting practices: The Sleeter Group's "QuickBooks Technology Workshop", and The Sleeter Group's "Practice Management and Marketing Seminar." Joe is also the co-developer of The Sleeter Group's "Successful QuickBooks Consulting System," a QuickBooks-centered practice management and marketing tool for CPAs and accountants.

Joe has built two successful accounting software consulting practices: the first in New Orleans, Louisiana and the second in Atlanta, Georgia – Creative Financial Software (CFS). CFS supports small businesses (ranging from $100,000 to $50 million in annual revenues), provided the company uses QuickBooks (SimpleStart, Basic, Pro, and Premier), QuickBooks Enterprise Solutions, QuickBooks Online, or QuickBooks Point of Sale. Joe is also a ProAdvisor for Fishbowl Inventory - a powerful inventory management and manufacturing solution that integrates with QuickBooks.

CFS also offers advisory services to CPA firms and other QuickBooks ProAdvisors across the country -- helping them to better service their clients who use QuickBooks.

www.cfsatlanta.com

ANALYZE QUICKBOOKS POSTING LISTS
Chart of Accounts
Item List
Payroll Item List
Fixed Asset Item List

ANALYSIS 1: QUICKBOOKS POSTING LISTS

There are 4 lists in QuickBooks that affect the General Ledger when used in a posting transaction (e.g., Invoices, Checks, Bills, etc.). The four lists are the Chart of Accounts, the Item List, the Payroll Item List and the Fixed Asset Item List. If your client does not accurately setup these lists, the General Ledger may be incorrect. In many cases the General Ledger will show material errors that have a profound affect on the Company's financial reporting and tax return.

This section includes the steps you need to ensure the accuracy of these posting lists.

Note: You need to perform these steps even if you setup the QuickBooks file for your client. During the day to day operation of QuickBooks, your client will add entries to at least one of the four posting lists regularly. Also, QuickBooks automatically creates certain Accounts and Payroll Items when your clients access certain windows within the program. For example, when your client opens an Invoice form for the first time, QuickBooks creates an account called Accounts Receivable. QuickBooks creates Cost of Goods Sold when your client opens the "New Item" window and selects Inventory as the Item Type. See the section entitled "Working with QuickBooks Auto-Created Accounts" below for more information.

Chart of Accounts Analyses

The Chart of Accounts is the foundational QuickBooks list. As you know, this list must be accurate for the financial reports to be accurate. When analyzing the Chart of Accounts consider the account type, account number (if applicable) and the order of the accounts within each account type. You should also consider the complexity of the Chart of Accounts and the necessity to streamline the list by merging duplicate or unnecessary accounts. Doing so will reduce data entry errors and will simplify management reports.

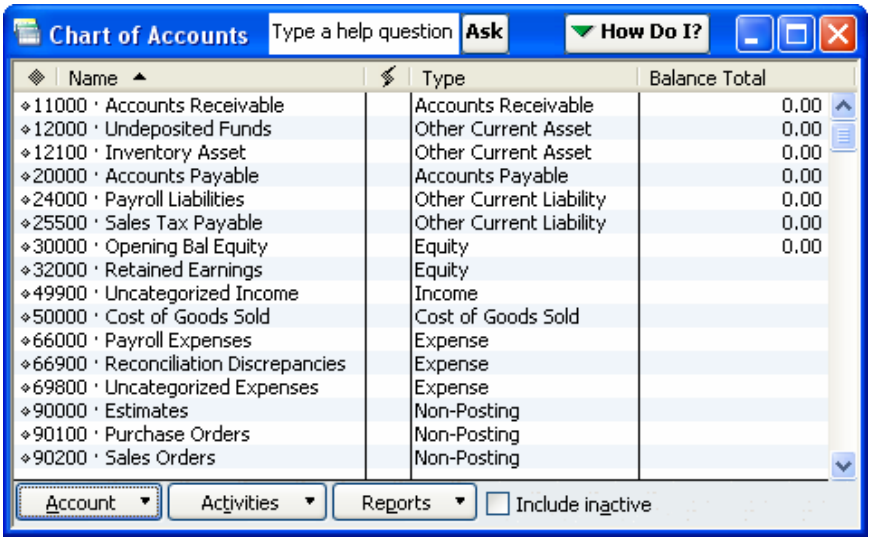
Working with QuickBooks Auto-Created Accounts

If you choose to have QuickBooks automatically setup an industry-specific Chart of Accounts during the Easy Step Interview, QuickBooks will automatically create numerous income and expense accounts, as well as some of the Balance Sheet accounts listed below. However, even if you bypass this step and choose to setup the Chart of Accounts yourself, QuickBooks will still automatically create certain accounts that are essential to the user's bookkeeping process. See the screenshot below for the auto-assigned account numbers and account types.

Note: QuickBooks 2007 uses 5 digits for auto-created accounts. In previous versions QuickBooks used 4 digits for auto-created accounts. If you prefer, you can edit the account numbers.

- Accounts Receivable (When You Open an Invoice/Payment/Credit Memo)
- Undeposited Funds (When You Open a Sales Receipt/Payment)
- Inventory Asset (When You Create the First Inventory Item)
- Accounts Payable (When You Open a Bill)
- Payroll Liabilities (When You Create a Data File)
- Sales Tax Payable (When You Turn on Sales Tax)
- Open Bal Equity (When You Create a New Balance Sheet Account)
- Retained Earnings (When You Create a Data File)

- Uncategorized Income (When You Enter an Opening Balance for a Customer)
- Cost of Goods Sold (When You Create the First Inventory Item)
- Payroll Expenses (When You Create a Data File)
- Reconciliation Discrepancies (When you adjust account balances using the Bank Reconciliation window)
- Uncategorized Expense (When You Enter an Opening Balance for a Vendor)
- Purchase Orders – Non posting account (When You Open the Create Purchase Orders Window)
- Estimates – Non posting account (When You Turn on Estimates)
- Sales Orders – Non posting account (When You Open the Create Sales Orders Window)



Name	Type	Balance Total
11000 · Accounts Receivable	Accounts Receivable	0.00
12000 · Undeposited Funds	Other Current Asset	0.00
12100 · Inventory Asset	Other Current Asset	0.00
20000 · Accounts Payable	Accounts Payable	0.00
24000 · Payroll Liabilities	Other Current Liability	0.00
25500 · Sales Tax Payable	Other Current Liability	0.00
30000 · Opening Bal Equity	Equity	0.00
32000 · Retained Earnings	Equity	
49900 · Uncategorized Income	Income	
50000 · Cost of Goods Sold	Cost of Goods Sold	
66000 · Payroll Expenses	Expense	
66900 · Reconciliation Discrepancies	Expense	
69800 · Uncategorized Expenses	Expense	
90000 · Estimates	Non-Posting	
90100 · Purchase Orders	Non-Posting	
90200 · Sales Orders	Non-Posting	

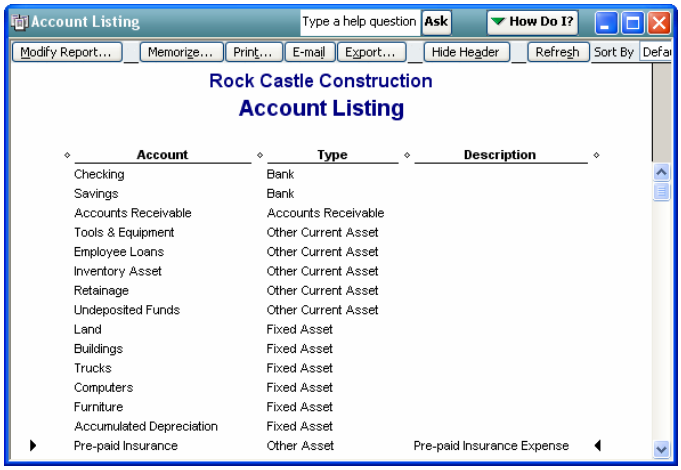
When you first setup a data file for your client, it is best to have QuickBooks automatically create these accounts by performing the action that prompts QuickBooks to add the account (e.g. turning on a preference or using an Opening Balance field). You can then edit the account numbers/names or make the accounts inactive. By doing so you will maintain better control over the structure of the Chart of Accounts not only during setup but also throughout the life of the data file.

Important: Before making an account inactive, make sure it is not an account QuickBooks needs in order to function properly. For example, the "Opening Balance Equity" account is necessary during the setup of the data file and the "Undeposited Funds" account is necessary for the Accounts Receivable feature (i.e. module) in QuickBooks to function properly. See the section below for more information on the use of QuickBooks-specific accounts.

Analyzing the Chart of Accounts

When you begin working with a new client, you should thoroughly analyze the Chart of Accounts – as well as all other QuickBooks lists. You should also analyze the Chart of Accounts monthly or at least quarterly to check any new accounts that QuickBooks or your client added to the list. Perform the following steps to analyze the Chart of Accounts.

Step 1. Select the Reports menu, select List, and then select Account Listing. Working from the Account Listing report instead of the Chart of Accounts window will give you greater flexibility. QuickBooks displays the window show below.



Account Listing

Type a help question | Ask | How Do I?

Modify Report... | Memorize... | Print... | E-mail | Export... | Hide Header | Refresh | Sort By | Defa

Rock Castle Construction

Account Listing

Account	Type	Description
Checking	Bank	
Savings	Bank	
Accounts Receivable	Accounts Receivable	
Tools & Equipment	Other Current Asset	
Employee Loans	Other Current Asset	
Inventory Asset	Other Current Asset	
Retainage	Other Current Asset	
Undeposited Funds	Other Current Asset	
Land	Fixed Asset	
Buildings	Fixed Asset	
Trucks	Fixed Asset	
Computers	Fixed Asset	
Furniture	Fixed Asset	
Accumulated Depreciation	Fixed Asset	
Pre-paid Insurance	Other Asset	Pre-paid Insurance Expense

Step 2. Review the list to make sure the accounts have the correct type and that the amount of detail is appropriate to the financial reports (check for too many or too few accounts). Also, make sure that any accounts with sub-accounts are grouped properly. For example, it is best for Professional Fees to include Accounting and Legal Fees only for tax reporting purposes. Other professional fees can be sub-accounts under a separate header account.
In the screenshot above, the account "Pre-Paid Insurance" has an incorrect type. The account type should be "Other Current Asset." To change the type, double-click the account on the Account Listing report and select the appropriate account type from the list.

Note: You cannot change the type of some accounts. For example, you cannot change the type of Accounts Receivable, Accounts Payable, and many of the accounts QuickBooks creates automatically – like Undeposited Funds.

Tip: If the client insists on maintaining more accounts than you prefer, you can group the accounts under header accounts. Then, you can streamline the financial statements by showing the header accounts only. You show the header accounts only by clicking the "Collapse" button at the top of the financial report. Accounts without a header account will still show on the collapsed report.

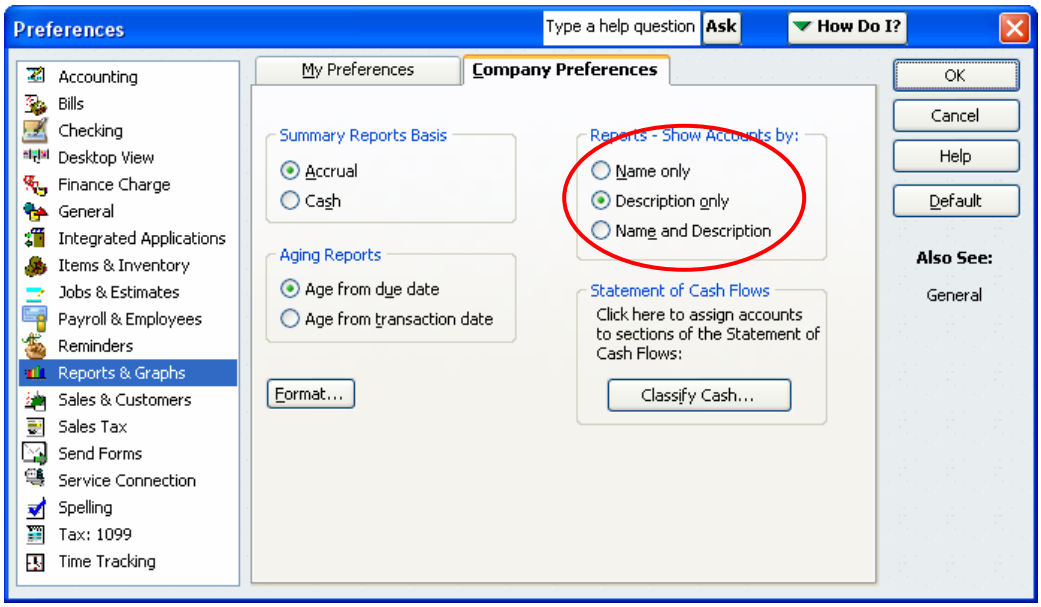
Step 3. Make sure that the account numbers break properly across the various account types. There are no traditional account breaks in QuickBooks. Instead, the accounts show in different areas on Financial Statements based on the Account Type. So, the Account Type is the QuickBooks version of account breaks. Still, it is best if the account numbers reflect the changes in account types.

Tip: Even if your client does not use the account numbers, you can still setup accounts numbers for the Chart of Accounts. Then, turn the account numbers off in the Accounting Company Preferences before your client begins using the file. When you turn off the account numbers, QuickBooks retains them in the database, but hides them on all drop-down lists, reports and transactions (e.g. Checks, Bills, and Deposits). When you are viewing information in the file (e.g. to prepare the tax return) you can turn the account numbers back on. If the client added accounts since you last analyzed the file, those new accounts will not have numbers – making the new accounts easy to identify.

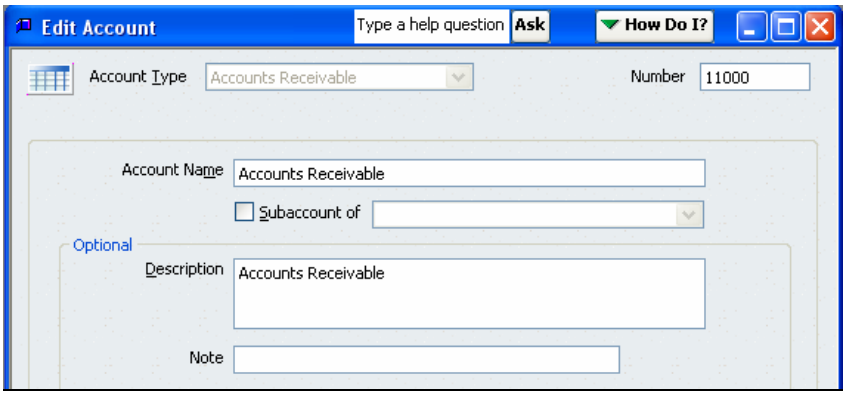
Tip: When you turn on Accounts Numbers, QuickBooks includes the account numbers on Financial Statements (Balance Sheet, Profit & Loss and Cash Flow Statement). There is no preference to hide the account numbers on these reports, unless you turn account numbers off, run the report and then turn account numbers back on. This option is particularly difficult for the client who operates in multi-user mode. Only the Administrator can change Company

Preferences and only when the file is in single user mode.

As a workaround, edit the Reporting Company Preferences (shown below) to display the Account Description instead of the Account Name on Financial Statements.



Then, enter the Account Name (e.g. Office Supplies) into the Description field in the Account Setup window as shown below.



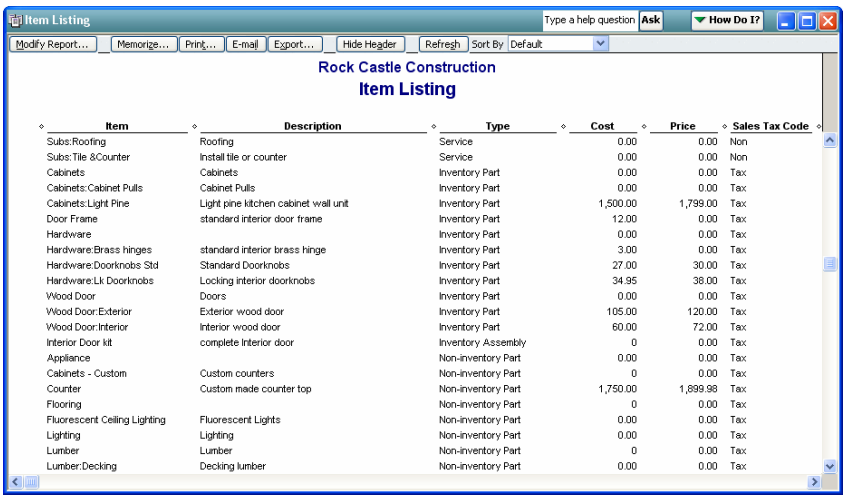
Note: Accounts without a description will still show on financial statements and will include the account number. This report setting will not impact the integrity of the financial reporting, just the way QuickBooks words the account line.

Important: You can merge most accounts together provided they have the same account type. QuickBooks does not allow you to merge certain accounts like Retained Earnings. When you merge two accounts together, consider the potential impact on previous period financial statements. If transactions dated in the previous reporting period are posted to the account, you should consider using a journal entry to zero the account balance and then make the account inactive. The same condition applies to changing account types, especially when the account type change causes QuickBooks to move the account balance from the Balance Sheet to the Profit & Loss (or vice versa).

Item List Analyses

The Item List is a unique concept to QuickBooks (and to those software solutions that attempt to clone QuickBooks). Simply put, an Item is a line on a Sales Form (e.g. Invoice, Credit Memo or Sales Receipt) or a Purchase Form (e.g. Purchase Order, Check, Bill or Credit Card Charge). Since the Item List is linked to the Chart of Accounts, the use of Items on posting transactions affects the General Ledger and can therefore impact the financial statements you present to the client and the tax return you prepare for the client. Perform the following steps to analyze the Item List:

Step 1. Select the Reports menu, select List, and then select Item Listing. QuickBooks displays the report shown below.



Item Listing

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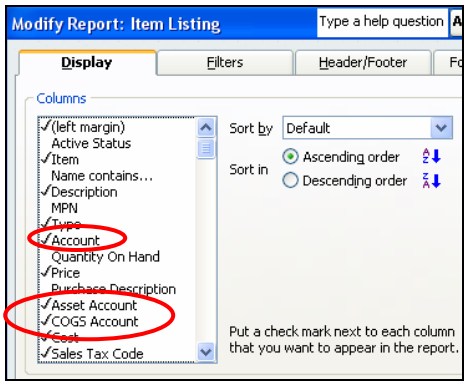
Item Listing

Item	Description	Type	Cost	Price	Sales Tax Code
Subs:Roofing	Roofing	Service	0.00	0.00	Non
Subs:Tile &Counter	Install tile or counter	Service	0.00	0.00	Non
Cabinets	Cabinets	Inventory Part	0.00	0.00	Tax
Cabinets:Cabinet Pulls	Cabinet Pulls	Inventory Part	0.00	0.00	Tax
Cabinets:Light Pine	Light pine kitchen cabinet wall unit	Inventory Part	1,500.00	1,799.00	Tax
Door Frame	standard interior door frame	Inventory Part	12.00	0.00	Tax
Hardware		Inventory Part	0.00	0.00	Tax
Hardware:Brass hinges	standard interior brass hinge	Inventory Part	3.00	0.00	Tax
Hardware:Doorknobs Std	Standard Doorknobs	Inventory Part	27.00	30.00	Tax
Hardware:Lk Doorknobs	Locking interior doorknobs	Inventory Part	34.95	38.00	Tax
Wood Door	Doors	Inventory Part	0.00	0.00	Tax
Wood Door:Exterior	Exterior wood door	Inventory Part	105.00	120.00	Tax
Wood Door:Interior	Interior wood door	Inventory Part	60.00	72.00	Tax
Interior Door kit	complete Interior door	Inventory Assembly	0	0.00	Tax
Appliance		Non-inventory Part	0.00	0.00	Tax
Cabinets - Custom	Custom counters	Non-inventory Part	0	0.00	Tax
Counter	Custom made counter top	Non-inventory Part	1,750.00	1,899.98	Tax
Flooring		Non-inventory Part	0	0.00	Tax
Fluorescent Ceiling Lighting	Fluorescent Lights	Non-inventory Part	0.00	0.00	Tax
Lighting	Lighting	Non-inventory Part	0.00	0.00	Tax
Lumber	Lumber	Non-inventory Part	0	0.00	Tax
Lumber:Decking	Decking lumber	Non-inventory Part	0.00	0.00	Tax

Step 2. Click Modify Report to add the following columns: Account, COGS Account and Asset Account as shown below.



Asset Account	Account	COGS Account
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Miscellaneous	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Materials	Cost of Goods Sold
Inventory Asset	Construction:Miscellaneous	Cost of Goods Sold

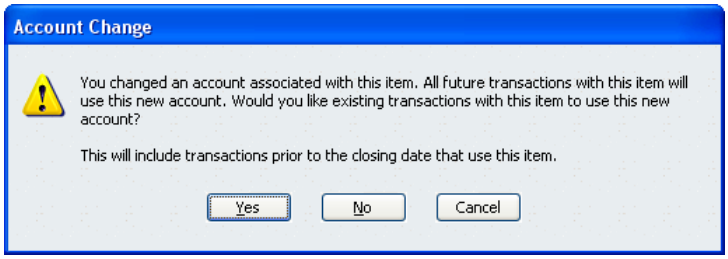
Step 3. Sort the report by the Account column to group all of the Items by the income account to which they are linked. This grouping allows you to easily locate any Items linked to non-income accounts in the Account field. In most cases (but not all), the Account column should show income accounts only. Certain Items that the client uses for purposes other than the sale of services or products may point to non-income accounts. For example, the client may use an item on a sales form to reduce the total of the invoice for retainage. The negative amount on the invoice will debit another current asset account called “Retainage.” If the purpose of the Item is not clear, discuss these Items with the client to gain a better understanding. Edit each Item as necessary so that it points to the correct account. See the important note below before making this change.

Step 4. Sort the report by the COGS Account column. All Inventory Items should show a Cost of Goods Sold type in this field. Two-sided Service, Non-inventory parts and Other Charge

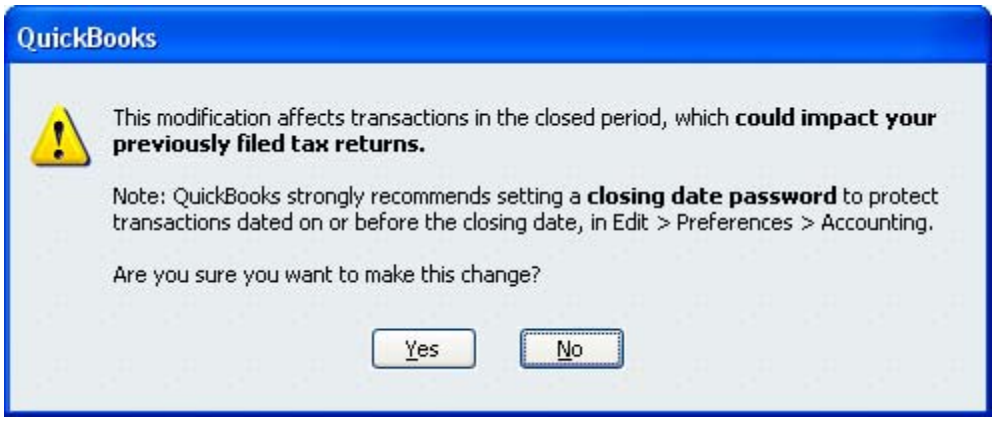
Items may point to a Cost of Goods Sold account or an expense account as appropriate. Edit each item as necessary so that it points to the correct account. See the important note below before making this change.

Step 5. Sort the report by the Asset account. Only Inventory Items use this field. Make sure that each Inventory Item points to an Other Current Asset type account. In most situations it is best to us a single Inventory Asset account to track inventory on the General Ledger. However, there are legitimate reasons to use multiple accounts – though this is rare. Discuss the use of multiple asset accounts with your client as necessary for more information. See the important note below before making this change.

Important Note: If you change the account to which an Item is linked, QuickBooks gives you two options.



Option 1: You can click "Yes" to make the change affect the General Ledger retroactively. If you select this option, QuickBooks will make adjustments to the General Ledger for all financial periods in which the Item is used. As a general rule, consider making the change retroactive if doing so will not impact net income or other critical balances associated with the income tax for the previous fiscal year.



Even if the retroactive changes do materially impact the financial statements, you can reverse the impact of the change on the previous reporting year by entering a journal entry dated the last day off the previous fiscal year. Then, enter a reversing the journal entry on the first day of the current year.

Option 2: As a second option you can click "No" to make the change affect future use of the Item only. If you select this option, you may need to adjust the year to date balances on the General Ledger as of the current date. You do not have the option to make the change retroactive for the current reporting period only.

Step 6. Make sure that all Inventory Parts have a Default Cost. If you sell the part when sufficient inventory is not on hand *and* before QuickBooks has the chance to establish an average cost, QuickBooks uses the default cost to estimate the cost of the sale of the part. QuickBooks uses the default cost to "guess" the Cost associated with the sale. The default cost needs to be as close to the actual cost as possible. Often, QuickBooks' guess is not accurate – meaning that the amount of cost assumed by QuickBooks may be different from the actual cost of the item recorded on a subsequent purchase form. QuickBooks automatically adjusts for this discrepancy. See the section below on troubleshooting Inventory for more information.

Step 7. Make sure all Sales Tax Items have the correct rate and sales tax reporting agency. QuickBooks links the Sales Tax Items to the Sales Tax Payable account and does not allow the user to re-direct the post to another account. As a result Sales Tax Items always post to the correct account, but the post may be overstated or understated depending on the accuracy of the sales tax rates. See the section on troubleshooting Sales Tax Payable for more information.

Note: Since this manual focuses on the accuracy of the QuickBooks General Ledger, there are no analyses in this section to check the accuracy of Bills of Materials (for Assembly Items) or Unit of Measure Conversions (introduced in QuickBooks 2007. Depending on the scope of your engagement with the client, you may need to analyze these areas of the Item List.

Payroll Items Analyses

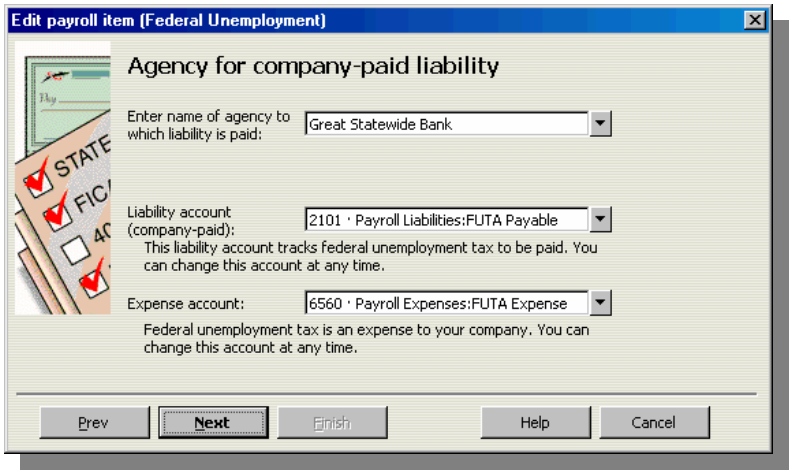
Step 1. Select Reports, select List and then select Payroll Item Listing.

Step 2. Click Modify Report.

Step 3. Create a modified Payroll Item Listing report to review the General Ledger accounts associated with each Payroll Item.

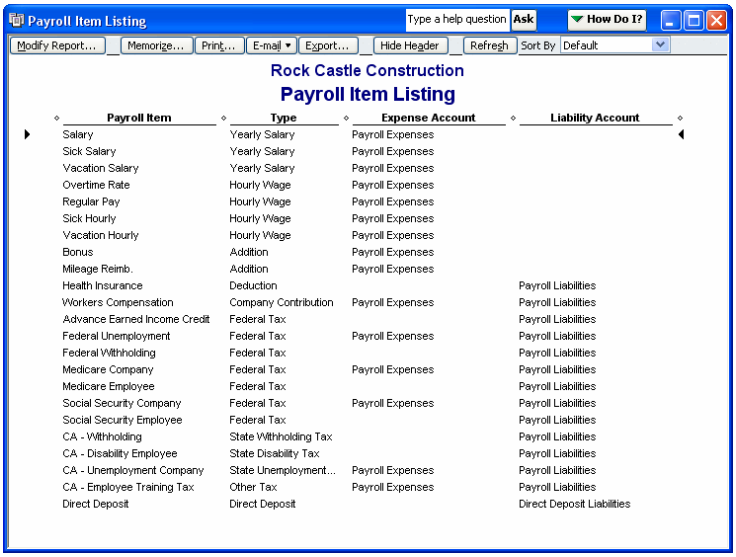
a. On the Display tab, show only the following columns: Payroll Item, Type, Expense Account, and Liability Account.

b. Review each account column.
Many times clients will post all Payroll Items to a single expense account (Payroll Expenses) and a single other current liability account (Payroll Liabilities). These two accounts are the default when you create new Payroll Items either using the Payroll Item List or the Payroll Setup Wizard. Though the default account postings are correct, you may prefer to edit each Payroll Item so that it posts to a specific sub account of Payroll Expenses and/or Payroll Liabilities (e.g. FUTA Expense and Federal Withholding respectively).



Note: When setting up a health insurance deduction Payroll Item, some clients may enter "Insurance Expense" in the Liability Account field. This set up is correct. When the Company withholds amounts from employee's paychecks for health insurance, the Payroll Item will credit "Insurance Expense" –reimbursing the Company for a portion of Insurance Expense incurred.

Important: When you update the information in the Account fields of the Payroll Item setup window, QuickBooks updates the General Ledger for all accounting periods in which the Payroll Item was used. To avoid this retroactive impact, create a new Payroll Item to replace the existing one, using the correct expense and/or liability account. Then, make the existing Payroll Item inactive. You will then need to update each Employee record to include your new Payroll Item. Unfortunately, you cannot replace any Federal Tax type Payroll Items. QuickBooks creates these Payroll Items automatically when you create a new data file. You can edit the Federal Tax type Payroll Items and you can make the Federal Tax type Payroll Items inactive, but you cannot create new Federal Tax type Payroll Items. If you need to correct the Account field of a Federal Tax type Payroll Item, enter a journal entry on the last day of the previous fiscal year to reverse the impact of your correction on prior reporting periods.



Payroll Item	Type	Expense Account	Liability Account
Salary	Yearly Salary	Payroll Expenses	
Sick Salary	Yearly Salary	Payroll Expenses	
Vacation Salary	Yearly Salary	Payroll Expenses	
Overtime Rate	Hourly Wage	Payroll Expenses	
Regular Pay	Hourly Wage	Payroll Expenses	
Sick Hourly	Hourly Wage	Payroll Expenses	
Vacation Hourly	Hourly Wage	Payroll Expenses	
Bonus	Addition	Payroll Expenses	
Mileage Reimb.	Addition	Payroll Expenses	
Health Insurance	Deduction		Payroll Liabilities
Workers Compensation	Company Contribution	Payroll Expenses	Payroll Liabilities
Advance Earned Income Credit	Federal Tax		Payroll Liabilities
Federal Unemployment	Federal Tax	Payroll Expenses	Payroll Liabilities
Federal Withholding	Federal Tax		Payroll Liabilities
Medicare Company	Federal Tax	Payroll Expenses	Payroll Liabilities
Medicare Employee	Federal Tax		Payroll Liabilities
Social Security Company	Federal Tax	Payroll Expenses	Payroll Liabilities
Social Security Employee	Federal Tax		Payroll Liabilities
CA - Withholding	State Withholding Tax		Payroll Liabilities
CA - Disability Employee	State Disability Tax		Payroll Liabilities
CA - Unemployment Company	State Unemployment...	Payroll Expenses	Payroll Liabilities
CA - Employee Training Tax	Other Tax	Payroll Expenses	Payroll Liabilities
Direct Deposit	Direct Deposit		Direct Deposit Liabilities

Step 4. Create a modified Payroll Item Listing report to review the accuracy of additions, deductions, payroll taxes and unemployment accruals associated with each Payroll Item.

Important: The information entered into the Tax Tracking field of the Payroll Item setup window affects the way the Payroll Item will report on the employee's W-2. Review this column very carefully to make sure the client selects the correct tax tracking type.

a. Select the Reports menu, select List, and then select Payroll Item Listing.

b. On the Display tab, modify the report to show only the following columns: Payroll Item, Type, Amount, Limit, Payable To, Tax Tracking, Based on Quantity and Gross or Net.

c. Review each Payroll Item to make sure it is set up correctly.

   i. Wage Items – QuickBooks selects the correct information for wage items automatically. Still review the wage items to make sure the user-defined name corresponds to the correct Wage type. For example, a Payroll Item called "Salary" should have a Salary Payroll Item type. Also, make sure Commission and Bonus Payroll Items have a Wage type. In some older versions of QuickBooks you had to use Addition type Payroll Items to use bonuses and commissions. Though the Paycheck detail is accurate either way, job costing and class tracking for payroll taxes reports accurately if all wages including bonuses and commissions use a Wage type Payroll Item.

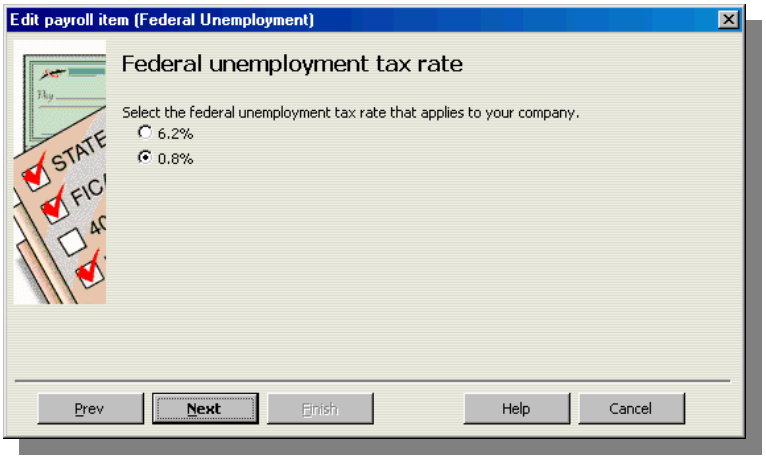
   ii. Addition Items and Deduction Items – The Tax Tracking Type and the affect on Gross or Net pay varies depending on the purpose of the Payroll Item and whether or not the Payroll Item is associated with a tax-exempt plan (e.g. deductions for FSA or Section 125). Review each item to make sure the additions and deductions affect Gross or Net pay correctly and that they have the correct impact on the W-2 (i.e., the correct Tax Tracking type).

   iii. Tax Type Payroll Items. – Review each Tax type Payroll Item for the following:

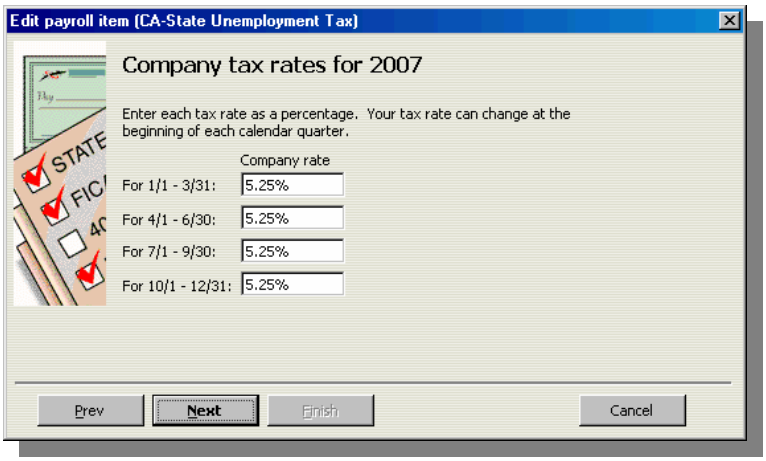
      1. Wage Bases (i.e., annual limits) QuickBooks enters amounts in the annual limit fields for all Federal Tax and State Tax Payroll Items. You cannot override the default annual limits. As long as the client's tax tables are up to date, the Annual Limits for these Payroll Items should be correct. If they are incorrect, update the client's tax tables.

         Note: QuickBooks may show incorrect wage base information during the first 4-5 weeks of the calendar year – even if payroll tax tables are up to date. If this is the case, report the issue to QuickBooks Payroll Services so they can update the tax tables. All updates to Annual Limits are usually resolved before your employee's reach the Annual Limit amount. If not, you will need to edit each employee's record to make them except from any payroll taxes with annual limits (e.g. FUTA, SUI, SDI, etc.) until QuickBooks issues the necessary update.

      2. Rates – The percentages in the Amount column are set by the tax tables. However, some tax items allow you to select different rates. For example, make sure the FUTA item reads 0.8% rather than 6.2% – if the client is subject to the FUTA deduction.

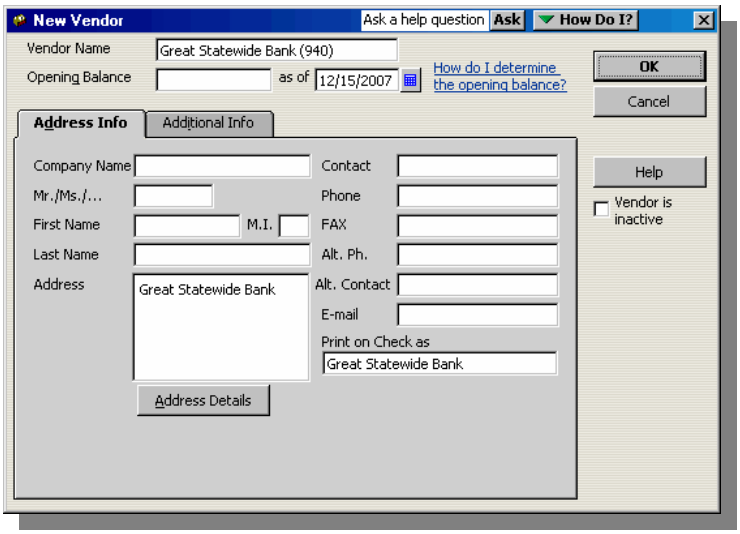


Also, make sure the client enters the correct rates for State Unemployment and any state-specific payroll taxes. These percentages (in most cases) are input fields and are not affected by tax table updates. The State Unemployment item allows you to set different percentage amounts for each quarter. As part of your analysis, double-click on the State Unemployment item to review each quarter's amount.



iv. Payees – Make sure each Payroll Deduction item and Tax type Payroll Item is linked to the correct Payee.

Tip: Enter a unique payee name for FUTA and SUI. When the client pays payroll liabilities, QuickBooks creates one check for each vendor. This behavior is similar to Bill Payments. However, the client needs to cut separate checks for FICA and FUTA and separate checks for State Withholding and SUI. Add (940) to the FUTA payee and (SUI) to the SUI payee. When you create the vendor records for these two Tax type Payroll Items, enter the vendor's name in the "Print on Check as" field.



v. Tax Tracking Type – Make sure each Payroll Item has the correct Tax Tracking Type. The Tax Tracking Type determines how the Payroll Item impacts the W-2.

vi. Based on Quantity - All Tax type Payroll Items should not be based on quantity.

vii. Gross or Net - The Gross or Net field is not applicable to Tax type Payroll Items.

Payroll Item Listing - Calculating Information

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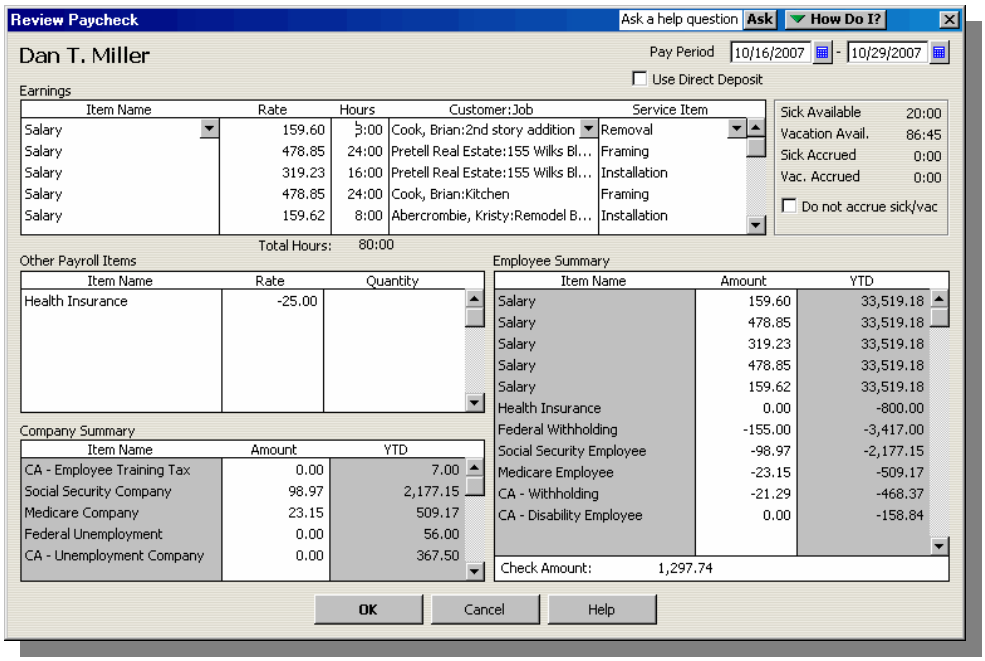
Payroll Item Listing - Calculating Information

Payroll Item	Type	Amount	Annual Limit	Payable To	Tax Tracking	Based On Quantity	Gross Or Net
Salary	Yearly Salary				Compensation	No	Gross
Sick Salary	Yearly Salary				Compensation	No	Gross
Vacation Salary	Yearly Salary				Compensation	No	Gross
Overtime Pay	Hourly Wage				Compensation	Yes	Gross
Regular Pay	Hourly Wage				Compensation	Yes	Gross
Sick Hourly	Hourly Wage				Compensation	Yes	Gross
Vacation Hourly	Hourly Wage				Compensation	Yes	Gross
Bonus	Addition		10,000.00		Compensation	No	Gross
Mileage Reimb.	Addition	0.32			Compensation	Yes	Gross
Health Insurance	Deduction		1,200.00	Sergeant Insurance	None	No	Net
Advance Earned Income Credit	Federal Tax			Great Statewide Bank	Advance EIC Payment	No	
Federal Unemployment	Federal Tax	0.8%	7,000.00	Great Statewide Bank	FUTA	No	
Federal Withholding	Federal Tax			Great Statewide Bank	Federal	No	
Medicare Company	Federal Tax	1.45%		Great Statewide Bank	Comp. Medicare	No	
Medicare Employee	Federal Tax	1.45%		Great Statewide Bank	Medicare	No	
Social Security Company	Federal Tax	6.2%	87,900.00	Great Statewide Bank	Comp. SS Tax	No	
Social Security Employee	Federal Tax	6.2%	87,900.00	Great Statewide Bank	SS Tax	No	
CA - Withholding	State Withholding Tax			Employment Development Department	SWH	No	
CA - Disability Employee	State Disability Tax	1.18%	68,829.00	Employment Development Department	SDI	No	
CA - Unemployment Company	State Unemployment Tax	5.25%	7,000.00	Employment Development Department	Comp. SUI	No	
CA - Employee Training Tax	Other Tax	0.1%	7,000.00	Employment Development Department	Co. Paid Other Tax	No	
Direct Deposit	Direct Deposit				None	No	

Important: When you update the information in the fields shown in the report above, QuickBooks does not change existing payroll transactions. The fields in the Payroll Item setup windows that affect existing transactions are: Expense Account, Liability Account and Payable to. However, the Payable to column will have no impact on the General Ledger.

Since the edits to the Payroll Items do not impact previous payroll periods you may need to manually edit employee paychecks for future pay periods to compensate for errors in previous pay periods. For example, if the employee deducts health insurance premiums from Gross Pay instead of from Net Pay

and the deduction is not associated with a qualified plan (e.g., Section 125), the Company under withheld for the employee – and may have under accrued on Company-paid payroll taxes. The Company may need to increase withholdings on future paychecks and increase payroll tax accruals to make sure each employee has the correct withholding amounts by the end of the year and that the Company pays the correct amount for payroll taxes, FUTA expense and SUI Expense.



Note: With certain types of Tax type Payroll Items, QuickBooks will update the withholdings for you – to compensate for under withholding in prior periods.

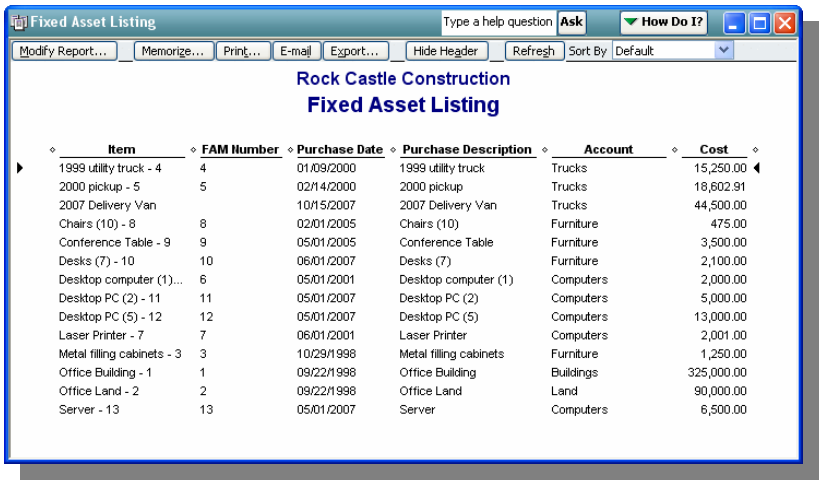
Important: Changes to the Gross or Net on Payroll Items will cause you (or QuickBooks) to reduce the net amount of an employee's paycheck for future pay periods. Make sure your client discusses the issue with each employee before editing future paychecks or before allowing QuickBooks to increase withholding on future paychecks.

Fixed Asset Item Analyses

QuickBooks uses Fixed Asset Item to track the company's specific assets, not just the book and basis value as shown in the Balance Sheet. Tracking the Fixed Assets individually allows you as the accountant (or the client if they have Enterprise Solutions or Premier: Accountant Edition) to depreciate the fixed assets using the Fixed Asset Manager. This level of Fixed Asset detail also helps the client to file property tax returns, if your state imposes this tax.

Perform the following steps to analyze the client's Fixed Asset Items:

Step 1. Select the Reports menu, select List, and then select Fixed Asset Listing. QuickBooks displays the report shown below.



Fixed Asset Listing

Rock Castle Construction

Fixed Asset Listing

Item	FAM Number	Purchase Date	Purchase Description	Account	Cost
1999 utility truck - 4	4	01/09/2000	1999 utility truck	Trucks	15,250.00
2000 pickup - 5	5	02/14/2000	2000 pickup	Trucks	18,602.91
2007 Delivery Van		10/15/2007	2007 Delivery Van	Trucks	44,500.00
Chairs (10) - 8	8	02/01/2005	Chairs (10)	Furniture	475.00
Conference Table - 9	9	05/01/2005	Conference Table	Furniture	3,500.00
Desks (7) - 10	10	06/01/2007	Desks (7)	Furniture	2,100.00
Desktop computer (1)...	6	05/01/2001	Desktop computer (1)	Computers	2,000.00
Desktop PC (2) - 11	11	05/01/2007	Desktop PC (2)	Computers	5,000.00
Desktop PC (5) - 12	12	05/01/2007	Desktop PC (5)	Computers	13,000.00
Laser Printer - 7	7	06/01/2001	Laser Printer	Computers	2,001.00
Metal filling cabinets - 3	3	10/29/1998	Metal filling cabinets	Furniture	1,250.00
Office Building - 1	1	09/22/1998	Office Building	Buildings	325,000.00
Office Land - 2	2	09/22/1998	Office Land	Land	90,000.00
Server - 13	13	05/01/2007	Server	Computers	6,500.00

Step 2. Make sure the client enters a purchase date and cost for each Fixed Asset Item. You may need to obtain this information from the client to enter missing detail or to confirm that the client's input is correct.

Step 3. Make sure the Fixed Asset Item is linked to the proper accounts and account type. All of the accounts should have a Fixed Asset account type. Many times the client will setup a separate account on the General Ledger for each Fixed Asset. You may need to merge these accounts together to reduce the number of Balance Sheet accounts. When you merge the accounts, QuickBooks will automatically update the Fixed Asset Items. Notice in the example above that several Fixed Asset Items are point to a single Fixed Asset Account (e.g., Trucks or Furniture).

Step 4. Compare the Fixed Asset Items to the Balance Sheet. You will often find that Fixed Assets Items collectively carry a higher basis than the amounts shown on the Balance Sheet. QuickBooks posts to the General Ledger if the client uses the Fixed Asset Item on a posting transaction (e.g. a Check, Bill or Sales Receipt). If the client enters a basis on the Fixed Asset Item setup window but does not use the Item in a transaction, QuickBooks will populate the Fixed Asset Item reports, but you will need to follow-up with a Journal Entry to post the basis to the General Ledger.

TROUBLESHOOTING BEGINNING BALANCES
Preventing Changes to Previous Reporting Periods
Locating & Reversing Changes to Previous Periods
Changes to Previous Periods that Are Difficult to Track

ANALYSIS 2: TROUBLESHOOTING BEGINNING BALANCES

QuickBooks has what I like to call a "perpetually posting nature." By this I mean that users update the General Ledger each time they enter a new posting transaction (e.g. Invoice, Bill, or Check), edit an amount on a previously recorded transaction, void a transaction, or delete a transaction.

QuickBooks also has what I like to call a "perpetually open nature." By this I mean that individual transactions are never removed from the database, e.g., through a year end close.

Note: QuickBooks has a file condensing feature that removes transaction-level detail from the database. However, this feature is designed to reduce the size of the data file, not to perform a year-end close. Also, it is important to review your financial reports and other critical reports like Open Invoices and Unpaid Bills immediately after condensing the file. In rare occurrences the condense feature will cause reporting issues in the current financial period. If this happens, it is almost never possible to adjust the information off the reports, since the data in the condensed period is locked. Also, you cannot post transactions to the General Ledger dated during the period you condense.

This perpetually posting and perpetually open behavior in QuickBooks:

- Allows users to have real time, down-to-the-minute financial information with which to manage their businesses.
- Allows users to create very detailed and highly customized reports.
- Allows users to display reports using either cash or accrual basis.
  (Note: This feature affects open (unpaid) transactions that post to Accounts Payable or Accounts Receivable, with an offset to one or more Income Statement accounts. For example, an open Invoice that debits Accounts Receivable and credits Sales will not show on cash basis reports. QuickBooks does not include other accrual postings (e.g., Prepaid Expenses or Accrued Payroll) when converting from the accrual to the cash basis. You have to adjust those using journal entries.)
- Allows users to create, edit, void, and delete transactions dated in previous reporting periods.

Because QuickBooks users can create, edit, void and delete transactions dated in previous reporting periods, you will need begin your year-end work by making sure the beginning balances for the period agree to your records (e.g., last month's compilation or last year's tax return/presented financial statements). You can perform the following steps to prevent changes to previous reporting periods and, as necessary, to reverse changes your clients make to previous reporting periods.

Preventing Changes to Previous Reporting Periods

Perform the following steps to prevent changes to previous reporting periods:

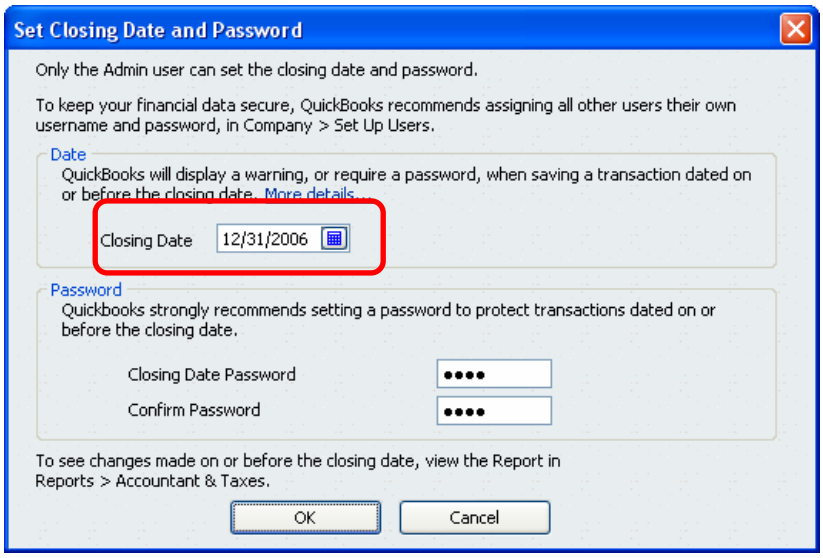
Step 1: Set a Closing Date

In Accounting Company Preferences you can set a Closing Date. The Closing Date prevents users from adding, editing, voiding, or deleting transactions dated on or before the Closing Date. The

Closing Date could be accurately named the “Locking Date” since this describes the effect of this date on the data file.

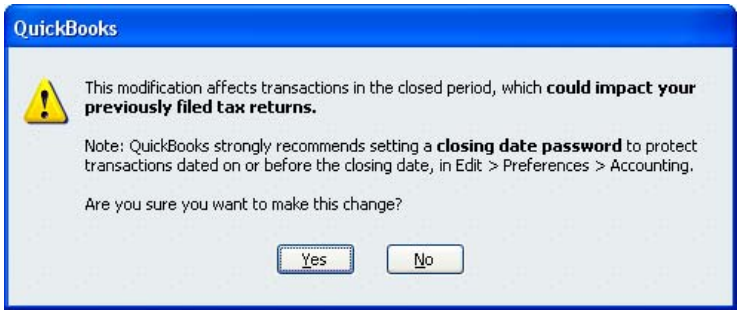
Note: Only the Administrator of the file working in single user mode can set the Closing Date.

Tip: When setting a Closing Date you can enter any day during the year. Strategic options include the last day of the previous fiscal year, previous quarter or previous month. If you choose the latter, you or the client should set the Closing Date after entering any monthly adjusting entries and after you or the client completes the bank reconciliation for the month.

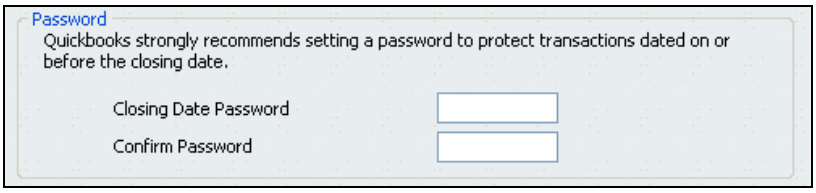


Step 2: Set a Closing Date Password

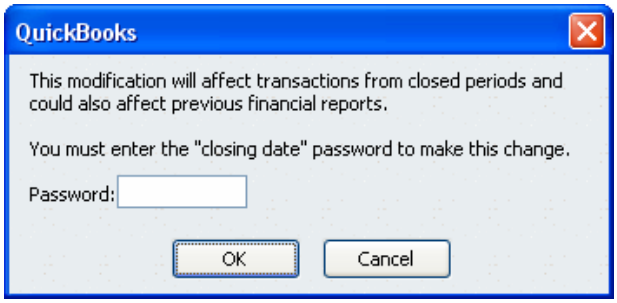
The Administrator of the file can always bypass the Closing Date. Other users can also bypass the Closing Date if their user permissions allow them to do so. If the Administrator (or other users with the rights to bypass the Closing Date) attempt to add, edit, void, or delete a transaction dated on or before the Closing Date, QuickBooks will display the following message.



To further protect closed periods you can set a Closing Date Password. If you do, all users (including the Administrator) have to enter a password before making changes to closed periods.



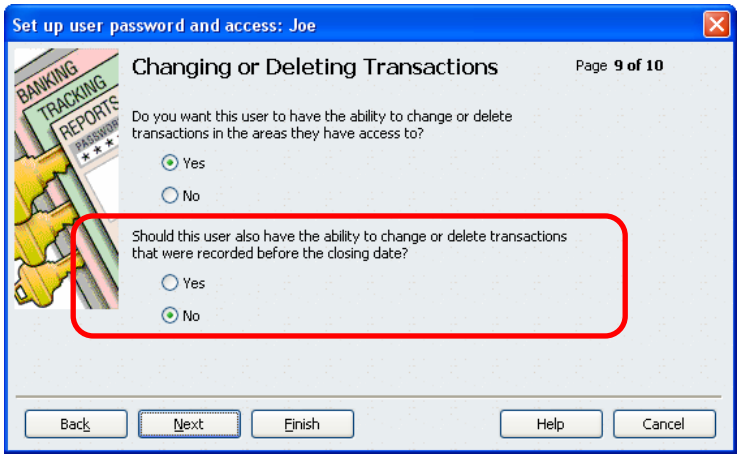
When a user attempts to add, edit, or delete a transaction in a closed period, QuickBooks now displays the following message, prompting the user to enter a Closing Date password.



Tip: Since the Administrator of the file can always edit or remove the Closing Date Password, hiding the password from the client is not advised. Instead, you can make the password itself a message that they should not make changes to the previous reporting period. For example, you could use "Don't do this" or "Call Accountant" as your Closing Date password.

Step 3: Edit User Permissions to Prevent Uses from Bypassing the Closing Date

When setting up non-administrator users in the data file, you can prevent users from recording, editing or deleting transactions dated on or before the Closing Date.



When a non-administrative user attempts to enter, edit, or delete a transaction in a closed period, QuickBooks now displays the following message.

Even if the user knows the Closing Date password, (s)he will not be able to make the change without logging off and then logging back in as the Administrator of the file (assuming (s)he knows the Administrator password).

Step 4: Create a User Profile (i.e., Alternate Login) for File Administrator

It is best to discourage your clients from using QuickBooks as the Administrator of the file. Even in a single-user environment there should be at least three QuickBooks users: Admin, Owner and

CPA/Consultant. (You do not have to purchase multiple licenses of QuickBooks to set up additional user profiles.)

When you set up the user profile for the Owner (and all other user profiles), prevent the user from making changes to closed periods as described in Step 3 above. Though the owner could always log on as the Administrator and then make the change, the extra steps involved will reduce the likelihood of changes to the previous period.

Tip: Use a Closing Date password with a message like, "Call CPA." The administrator will be less likely to simply remove the closing date in frustration if it is simple and will be more likely to call you if they have to type the instruction in to make the change to the previous period. As another option you could use your firm's phone number as the Closing Date password.

Locating and Reversing Changes Made to Previous Reporting Periods

The Audit Trail

The Audit Trail lists all transactions entered into the file and the complete history of edits, deletions and/or voids for those transactions. If a client makes a change to a prior period transaction, the Audit Trail will record that change. However, consider the following when using the Audit Trail to troubleshoot the Beginning Balance column:

- If the client has been using QuickBooks for 6 months or more, the Audit Trail report will probably contain huge amounts of data. Normally you can use filters to streamline the amount of data and to locate individual transactions. However, the data on the Audit Trail report includes deleted transactions. Since QuickBooks' filters do not consistently work on "hard text"' data, the filters for hard text will provide less than consistent results. Though the Audit Trail is a powerful report, especially when searching for fraudulent behavior, using the Audit Trail to troubleshoot Beginning Balances creates the classic "needle in a haystack" scenario.

Tip: Export the Audit Trail to Excel using the Advanced Setting called "Audit Filtering." You will then have limited filtering capability built into the Excel spreadsheet. You can also use the Excel find command to search for all data on the report.

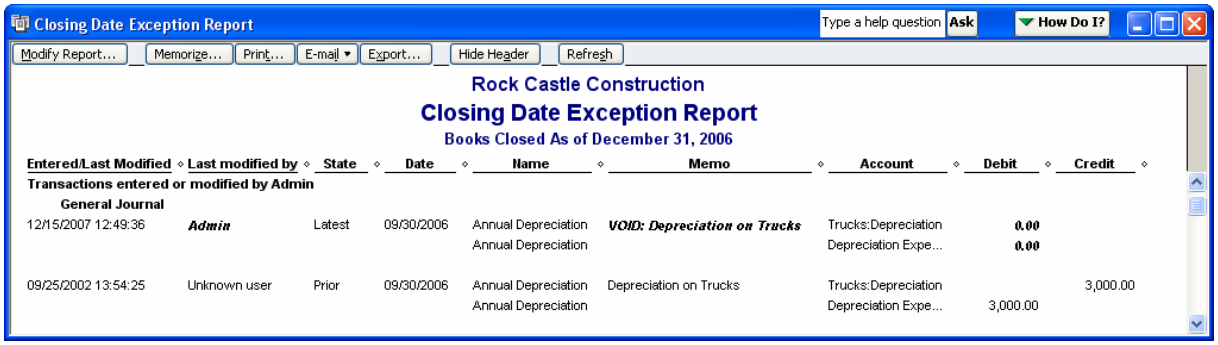
- If your clients use QuickBooks 2005 or prior, they can turn the Audit Trail off – or never turn the Audit Trail on. The report does not track transaction activity while turned off.

Tip: Strongly encourage your clients to use QuickBooks 2006 or later so the Audit Trail will be on at all times. You cannot turn the Audit Trail off in version 2006 or later. Also, in both versions 2006 and 2007, QuickBooks made changes to make the Audit Trail more complete and much easier to read.

The Closing Date Exception Report

The Closing Date Exception Report tracks changes made to transactions dated on or before the Closing Date. The report shows the original posts (debits and credits) as well as the current condition of the transaction. You can use this information to enter an adjusting entry that resets the Prior Period Ending balances and then reverse your entry in the current period.

In the screenshot below a user voided a transfer. The Closing Date is set to 12/31/2006 and the transfer is dated 12/31/2005.



Closing Date Exception Report

Rock Castle Construction

Closing Date Exception Report

Books Closed As of December 31, 2006

Entered/Last Modified	Last modified by	State	Date	Name	Memo	Account	Debit	Credit
Transactions entered or modified by Admin								
General Journal								
12/15/2007 12:49:36	*Admin*	Latest	09/30/2006	Annual Depreciation	*VOID: Depreciation on Trucks*	Trucks:Depreciation	0.00	
				Annual Depreciation		Depreciation Expe...	0.00	
09/25/2002 13:54:25	Unknown user	Prior	09/30/2006	Annual Depreciation	Depreciation on Trucks	Trucks:Depreciation		3,000.00
				Annual Depreciation		Depreciation Expe...	3,000.00	

To correct the 12/31/2006 balances you can:

1. Edit the Transfer to restore the original detail. You can double-click on the Transfer shown in the report above to quickly access the transaction. Note: If the Current Transaction section shows a deleted transaction, you cannot double-click to show the transaction. You will have to re-enter the transaction or enter an adjusting entry (option 2 below).

2. Enter an adjusting entry that debits Opening Balance Equity and Credits Trucks: Depreciation.

Important: This report is the most useful when troubleshooting changes to the previous reporting period. However, the report above populates only while the Closing Date is turned on. Adding a Closing Date after the fact will not retroactively populate the report.

The Voided/Deleted Transactions Report

If your client uses any edition of QuickBooks 2005 or later, QuickBooks creates an activity log of all voids and deletions of existing transactions. This report is a great alternative when the client does not set a Closing Date or temporarily removes the Closing Date.

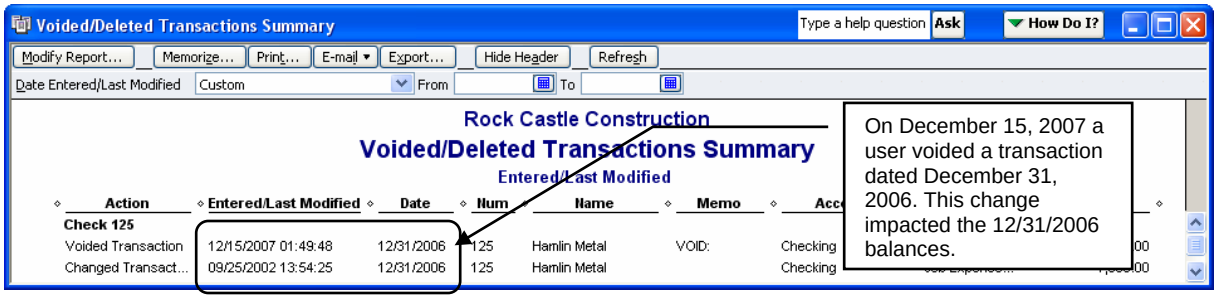
This report is not dependent on the Closing Date because QuickBooks tracks the activity whether or not the transaction is dated in a previous reporting period. This “always on” report is also not dependent on any other Company Preference settings (e.g. Audit Trail).

Most users do not intentionally enter or edit transactions in closed periods. Instead, most users simply need to void or delete transactions from the previous accounting period (e.g., checks that will never clear or invoices they wish to write off) and do not consider the impact of these deletions and voids on the previous year’s General Ledger. The Voided/Deleted Transactions Report therefore tracks many (and in some cases all) of the changes to closed financial periods.

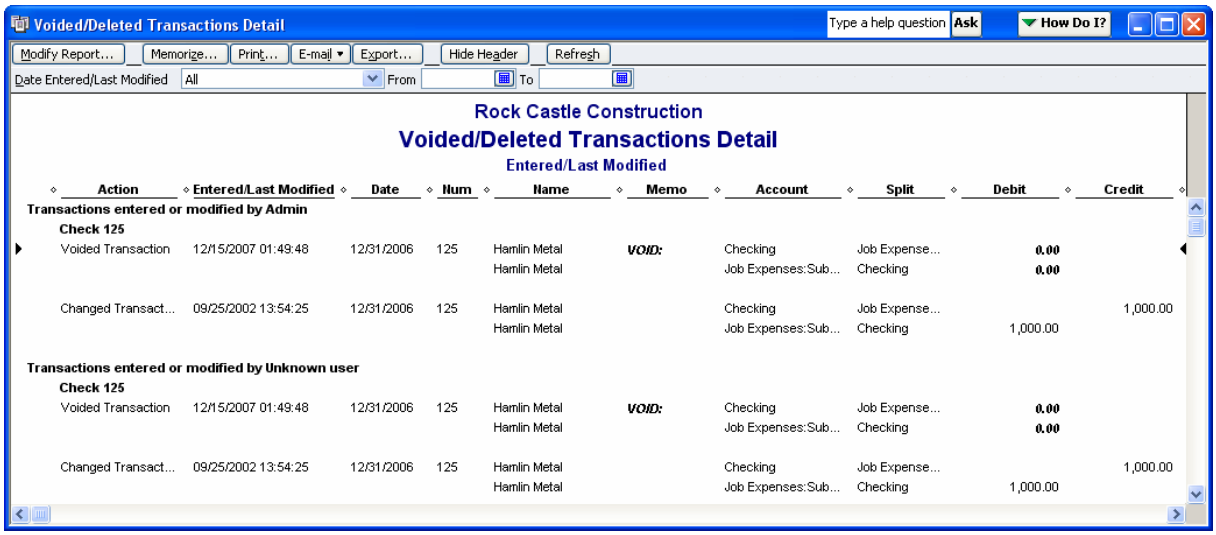
Perform the following steps to locate voids/deletion of transactions in previous fiscal reporting periods:

Step 1. To access the Voided/Deleted Transactions Report, select the Reports drop-down menu, select Accountant & Taxes, and then select Voided/Deleted Transactions.

Step 2. As you scan the report, look for transactions dated in the previous reporting period that were modified in the current report period.



Step 3. To display more information about a transaction, double-click on the Original Transaction line. QuickBooks will then display way the Original transaction posted to the General Ledger in debits and credits.



Step 4. Enter a Journal Entry to restore the General Ledger to its original condition as of 12/31/2006 (i.e., pre-void/pre-deletion). Keep in mind that numerous transactions may be voided and/or deleted. You could adjust all of these with a single journal entry if you prefer. Alternatively you can adjust the actual voided transaction to re-enter the original detail or if the user deleted the transaction you can re-enter it with the original information.

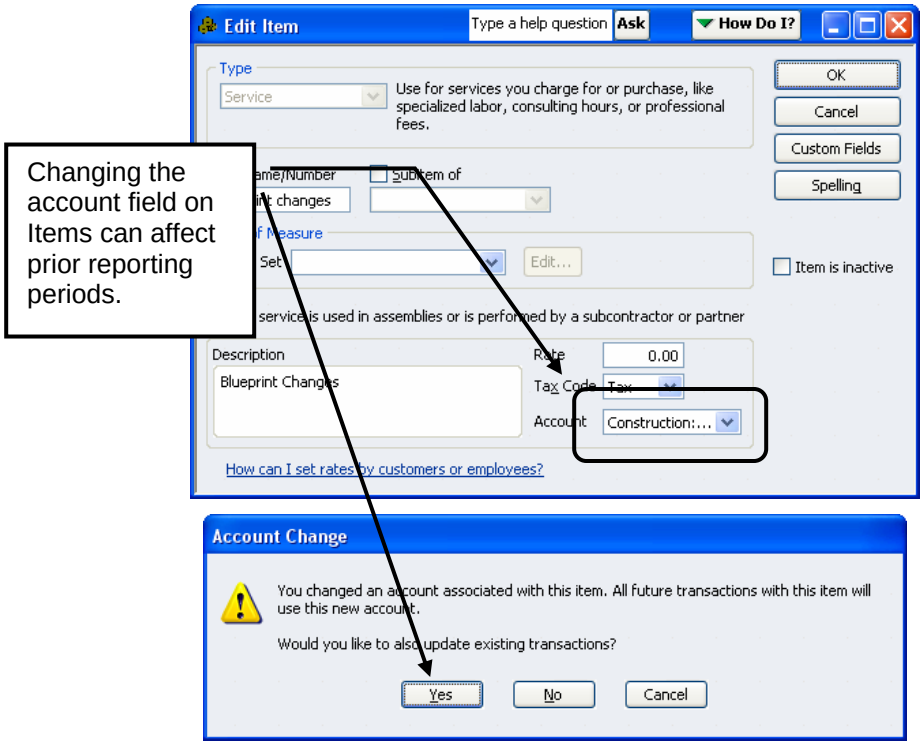
Step 5. If the user needs to void or delete the transaction (i.e. if the void/deletion was not an accident), enter a reversing journal entry dated during the current financial period (e.g. 01/01/2007).

Changes to Previous Period Data that are Difficult to Track

There are certain changes to QuickBooks that you cannot track using any of the methods in this article.

Changes to the Account Fields in Item, Payroll Item, and Fixed Asset Item Setup Windows

When you make a change to the account(s) with which an Item is associated, QuickBooks gives you the option of making the change retroactive to all financial periods in which the Item was used.



Changing the account field on Items can affect prior reporting periods.

If the user clicks “Yes” on the window shown above, QuickBooks changes the way each transaction that uses this Item posts to the General Ledger, including transactions in previous reporting periods. This type of change is protected by the Closing Date. However, QuickBooks does not track the changes on the Closing Date Exception report, the Audit Trail report or any other QuickBooks report.

When you make changes to the account field(s) in Payroll Item or Fixed Asset Item setup windows, QuickBooks always makes the changes to the General Ledger retroactive. Also, changes to the account field(s) in Payroll Items and Fixed Asset Items are not protected by the Closing Date.

Tip: If your client made changes to the Account fields in Item, Payroll Item or Fixed Asset Item setup windows, you can either edit the Items to restore the original account(s) or you can enter an adjusting entry to reverse the impact of the account change on the General Ledger.

If the change to the account field is appropriate, you should enter a Journal Entry to adjust the prior period and then leave the new account in the Item, Payroll Item or Fixed Asset Item setup window. That way all transactions dated in the *current* period that use the Item, Payroll Item or Fixed Asset Item will post accurately. If the change to the account field is incorrect, you should edit the Item, Payroll Item or Fixed Asset Item setup window to restore the original account(s) and make your changes retroactive (if prompted).

Note: When you edit the account field(s) in Payroll Items, QuickBooks does not change historical payroll information, just the impact of payroll transactions on the General Ledger. When you edit the account field in Fixed Asset Items, QuickBooks does not change the depreciation schedules, just the General Ledger postings for transactions that include the Fixed Asset Item (e.g., a check used to purchase the Fixed Asset).

Merging Accounts

When you merge two accounts together, QuickBooks combines all of the General Ledger activity for both accounts. For example, if you rename an Expense account called Travel so that it has the same account number or account name as an Expense account called Meals & Entertainment, QuickBooks edits each transaction in the data file that posted to the Travel account and replaces it with the Meals & Entertainment account.

QuickBooks also changes each Item, Payroll Item or Fixed Asset items that post to that account (if applicable) so that they include the Meals & Entertainment account. The transactions that include the Item, Payroll Item or Fixed Asset Item then post differently to the General Ledger as a result of the account merger.

If a Closing Date is set, the closing date prevents users from merging accounts unless the user has the authority to bypass the Closing Date and then enter the Closing Date Password (if the password is set). However, changes to previous reporting periods as the result of accounting mergers do not appear on the Closing Date Exception Report or on the Audit Trail.

Tip: To locate account mergers performed by your client, compare the Trial Balance in your files with the current Trial Balance produced by QuickBooks. When you see missing account(s) on the current Trial Balance, refer to the Chart of Accounts to see if the account still exists. Make sure to include inactive accounts when viewing the Chart of Accounts. If the account is not on the Chart of Accounts, it is safe to assume that the client merged the account with another account. If the account still exists but now carries a zero balance, the client probably entered an adjusting entry to clear the account balance, or the client edited previously recorded transactions to clear the account balance. If the client entered or modified transactions to clear the account balance, QuickBooks will include that activity in the Closing Date Exception report – provided that the Closing Date was set at the time of the changes.

Note: If the client merged two accounts together, the merger is irreversible. You will have to re-create the missing account and then enter an adjusting entry to correct of the changes to the previous reporting period(s).

Changing Account Types

You can edit most account types in QuickBooks. When you change the type of an account, QuickBooks places the account balance in a different section of the Financial Statements. This type of change is always retroactive.

For example, if you change the type of an account from “Other Current Asset” to “Expense,” QuickBooks will move the Debit balance in the account from the Balance Sheet to the Income Statement. Needless to say, this type of change may have a material impact on Financial Statements, including Financial Statements in previous reporting periods.

Changes to account types are not protected by the Closing Date are not tracked on the Closing Date Exception report – or on any other QuickBooks report. However, you can easily locate this type of change by comparing printed copies of the Financial Statements with the current Financial Statements generated in the QuickBooks data file.

Unlike account merges, this type of change is reversible – unless the client changed to an account type that doesn’t allow changes like Accounts Receivable or Accounts Payable. If you learn that a client changed the type of an account, simply change the type back and you will restore the integrity of prior period reports – and the current year’s beginning balances.

BANK RECONCILIATION ANALYSES AND CORRECTIONS
Correcting the Beginning Balance
Troubleshooting "Forced" Bank Reconciliations
Clearing Bank Reconciliation History
Deleting Old, Uncleared Transactions

ANALYSIS 3: CASH POSITION/BANK RECONCILIATION

If your client's account is accurately reconciled to the bank and all uncleared transactions represent outstanding disbursements and receipts, the cash position will be accurate. To analyze the client's cash position we will therefore analyze the accuracy of the bank reconciliations.

Bank Reconciliations errors are common among QuickBooks users. Many users do not understand how the reconciliation works and have never performed a bank reconciliation outside of QuickBooks—including their own personal checkbook. Also, reconciliations of bank accounts with high transaction volume can be tedious, complicated and time consuming to perform.

As a QuickBooks consultant, you will need to understand some of the common mistakes that users make and how to correct those mistakes. Perform the following procedures to locate and correct bank reconciliation errors.

Correcting the Beginning Balance

QuickBooks calculates the amount in the Beginning Balance field by adding all reconciled increases in the bank account (debits) and subtracting all of the reconciled disbursements from the bank account (credits).

Causes of Incorrect Beginning Balances

If the Beginning Balance field does not agree to the ending balance of the previous month's bank statement, the client:

Cause 1: Entered the wrong ending balance on the previous month's bank reconciliation

Cause 2: Edited the amount on a reconciled transaction

Cause 3: Removed the cleared status of a reconciled transaction

Cause 4: Deleted a reconciled transaction

Cause 5: Changed the Bank Account on a Reconciled Check or Deposit

Cause 1: Entering the wrong ending balance on the previous month's bank reconciliation.

Use the client's printed bank reconciliation reports to see what ending balance they entered for the previous month. If the client did not print the bank reconciliation report, you can view the archived copy by clicking the Locate Discrepancies button on the Bank Reconciliation window. QuickBooks Pro and above allow you to create an Adobe Acrobat copy of the previous bank reconciliation reports. The QuickBooks bank reconciliation reports reflect any changes made since the last reconciliation, but the Acrobat reports do not. If the client entered the wrong ending balance, Undo the previous month's bank reconciliation and re-perform it using the correct ending balance.

Tip: It is best not to adjust the beginning balance by entering and then reconciliation a journal entry to cash. This is a quick solution to resetting the Beginning Balance, but if the client reconciled the previous month with the wrong ending balance, there are cleared transactions that should be uncleared and vice versa. It is best to re-perform the entire bank reconciliation.

Causes 2-5: Using the Reconciliation Discrepancy Report Track Changes to Cleared Transactions

Use the Reconciliation Discrepancy Report to locate and reverse the changes your client made to reconciled transactions. The Reconcile Discrepancy Report shows the most common changes to reconciled transactions, including the transaction information before and after the change. This allows you to see the net effect of the change on the Beginning Balance field.

Perform the following steps to correct the beginning balance for edits or voids to reconciled transactions:

Step 1. Select the Reports menu, select Banking, and then select Reconciliation Discrepancy. Enter the appropriate bank account when prompted. QuickBooks shows all of the changes to and deletions of reconciled transactions since your last reconciliation. (The only type of change not tracked by the report is an edit to the bank account field of the check/deposit. This latter type of change to a reconciled transaction is very rare.) QuickBooks shows both the type of the change and the effect the change has on the Beginning Balance amount.

Note: QuickBooks will not show changes to reconciled transactions unless the change impacts the Beginning Balance field (e.g., edits to the memo field of a reconciled check are not tracked).

Step 2. If the client **removed the cleared status** of a reconciled transaction, locate the check in the bank account register and click the cleared column to restore the cleared status.

Note: If a transaction has never been reconciled, adding a check mark in the bank account register will not affect the Beginning Balance. However, if the transaction was previously reconciled, *restoring* the check mark in the account register will affect the Beginning Balance.

Step 3. If the client **changed the amount of a reconciled transaction**, refer to the Reconciled Amount column of the report and note the amount of the check at the time it was reconciled. Then, use QuickZoom to open the check and restore the original, reconciled amount.

Step 4. If the client **deleted a reconciled transaction**, re-enter the transaction manually. Refer to source documents or to the Audit Trail as necessary to re-enter the deleted transaction accurately. Then, perform the following steps to correct the Beginning Balance.

a. Open the Bank Reconciliation window. Note that the Beginning Balance does not yet reflect the transaction you re-entered. When a user deletes a reconciled transaction, you have to re-reconcile the transaction using the Bank Reconciliation window.

b. Enter the date of the previous bank reconciliation in the *Statement Date* field.

c. Enter the ending balance net of the transaction you are re-reconciling. For example, if the Beginning Balance shows $1000 and you are re-reconciling a check for $200, enter $800 in the Ending Balance field. If re-entering the deleted

checks is the last step you perform to correct the Beginning Balance field, the ending balance you enter should agree to the ending balance on the bank statement.

d. Enter the date of the previous bank reconciliation in the *Date* fields for service charges and interest.

e. On the "Reconcile – Checking" window, locate the deleted transaction and clear it. Then, confirm that the Difference field shows 0.00 and click Reconcile Now.

f. Re-open the Bank Reconciliation window and confirm that the Beginning Balance field reflects your re-reconciled transaction(s).

Note: When you perform two bank reconciliations using the same statement date, QuickBooks creates a single, consolidated bank reconciliation report. QuickBooks uses the ending balance from the Bank Statement, not the amount you entered when re-reconciling deleted transactions.

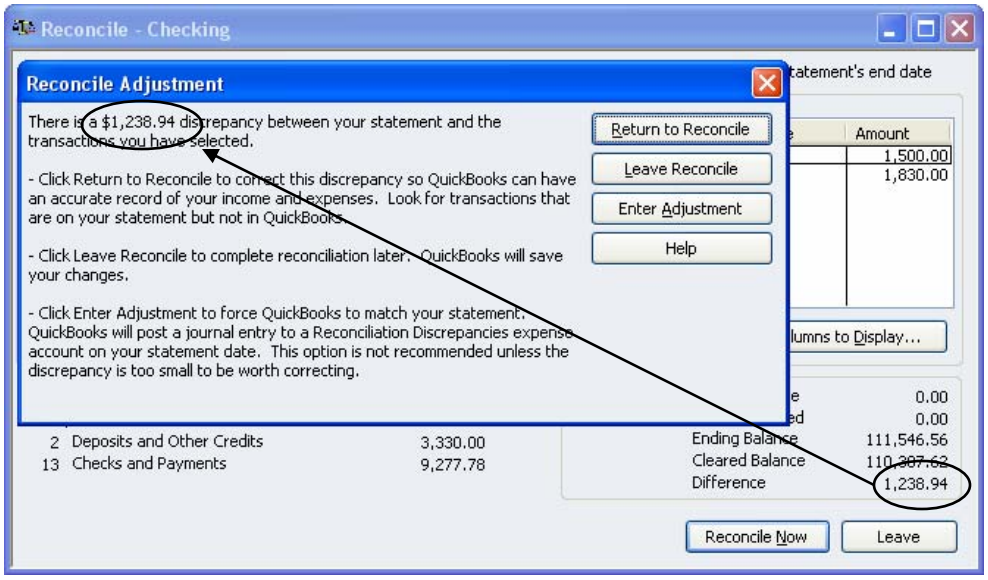
Important: QuickBooks clears the Reconciliation Discrepancy Report as soon as you perform the next bank reconciliation. For that reason, it is important that you research Beginning Balance discrepancies before performing the next bank reconciliation.

Tip: If you need to research discrepancies for multiple months, create a QuickBooks Bank Reconciliation Detail report and then print the previous report (PDF version) for that month. The QuickBooks report is dynamic (reflecting the changes and deletions to the cleared transactions). The PDF report is static (showing the bank reconciliation detail as it existed on the day the user reconciled the account. Then, cross-reference the two reports to find the specific transactions that the client deleted or modified. You can print both types of bank reconciliation reports by clicking Locate Discrepancies on the Begin Reconciliation window. Alternatively, you can create a backup of the data file and undo the bank reconciliation for previous months. After you undo each reconciliation, create a Previous Reconciliation Discrepancy report, and then export the report to Excel (or print). Then, restore your backup copy and edit each bank reconciliation period individually, using the original statement ending dates.

Note: The Reconciliation Discrepancy report will not track **changes to the Bank Account on a reconciled Check or Deposit**. If you know the client entered the ending balance correctly on the previous month's bank reconciliation and you cannot find the cause of the discrepancy on the Reconciliation Discrepancy report, you can deduce that changing the bank account is the cause of the problem. Compare the Acrobat (static) bank reconciliation report to the QuickBooks report (dynamic) to locate the specific transaction(s) with this type of change.

Troubleshooting Forced Bank Reconciliations

When a user clicks "Reconcile Now" when the difference field is not "0.00," QuickBooks allows the user to create an adjustment that forces the bank reconciliation to zero. QuickBooks offsets the bank account adjustment to an auto-created account called Reconciliation Discrepancies. This automated adjustment in QuickBooks is designed for small rounding discrepancies. However, clients often use the adjustment process in QuickBooks for larger discrepancies.



If your client creates a Balance Adjustment while performing a bank reconciliation you have two options:

Option 1: Run a QuickReport on the Reconciliation Discrepancies account, QuickZoom on each adjustment on the report and then delete the entry or entries. Then, undo the Bank Reconciliation(s) and re-perform the bank reconciliation(s) accurately.

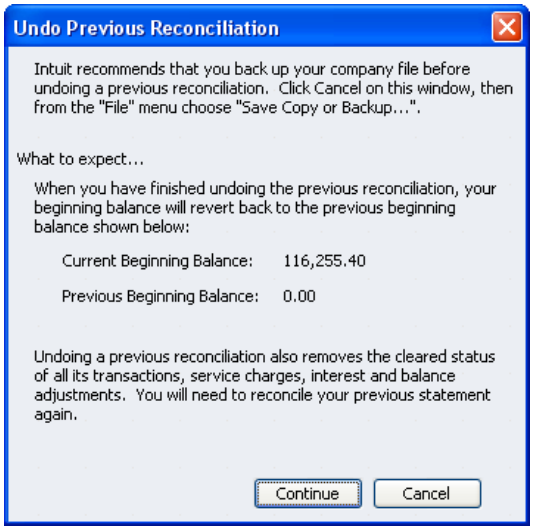
Note: If your client uses QuickBooks 2005 or older, the entry will be in the Opening Balance Equity account register, not the Reconciliation Discrepancies QuickReport. In version 2005 and prior, QuickBooks does not auto-create Reconciliation Discrepancies.

Note: If your client uses version 2003 or older, you will have to undo the bank reconciliation manually – by removing the checkmark on each transaction that the client cleared during the bank reconciliation. Refer to the Bank Reconciliation reports to determine which transactions you should "unclear." You cannot upgrade the client to a later version of QuickBooks and then undo the bank reconciliation. Only reconciliations performed using QuickBooks 2004 or later will allow you to use the "Undo Bank Reconciliation" tool.

Perform the following steps to undo the Bank Reconciliation:

Step 1. Open the Bank Reconciliation window.

Step 2. Click Undo Bank Reconciliation. (In older versions of QuickBooks you will need to click Locate Discrepancies and then click Undo Bank Reconciliation.)



Step 3. Repeat the process as many times as necessary for you to re-perform all of the forced bank reconciliations.

Option 2: Create an Adjusting Entry to clear the balance in Reconciliation Discrepancies (or Opening Balance Equity) for all Balance Adjustments. If each Balance Adjustment created by QuickBooks is immaterial, you can create an adjusting entry to zero the balance in Reconciliation Discrepancies/Opening Balance Equity. Offset the adjustment to an expense account (e.g. Office Supplies, Bank Service Charges or Miscellaneous Expense).

Important: Before you enter an adjustment as described above, consider not only the impact on the General Ledger but also the impact on future bank reconciliations. Though the amount of the adjustment above ($1,238.94) may not be material for some clients, it is an adjustment for purposes other than rounding. If the client forced the account to balance, future bank reconciliations in QuickBooks may include transactions that will never show on future bank statements. The opposite may also apply.

Since the Balance Adjustment already impacts cash (debit/credit Cash, debit/credit Reconciliation Discrepancies/Opening Balance Equity) – the client will cause cash to be understated or overstated when he removes or adds transactions while performing future bank reconciliations. Except for very small adjustments - related to issues like rounding discrepancies - it is usually best to delete the Balance Adjustment in the Reconciliation Discrepancies QuickReport (or Opening Balance Equity register) and re-perform the bank reconciliation accurately – as described in Option 1 above.

Resetting the Bank Reconciliation Feature for the Current Period

At times clients will perform bank reconciliations that are replete with errors. Other times clients will never reconcile the bank account, and since individual transactions may or may not tie exactly to the bank statement, it would be very time consuming for you to perform annual bank reconciliations for each fiscal year make the feature current.

If the client has performed only one erroneous bank reconciliation, you may want to undo the reconciliation and re-perform the bank reconciliation correctly. However, if the bank reconciliation feature is hopelessly distorted or has extremely incomplete reconciliation history, you may need to reset the bank reconciliation feature as described below. When deciding whether or not to use the method below, consider the time required to reconcile or re-reconcile the account.

Step 1. Create a bank reconciliation manually for the current period, independently of QuickBooks.

Step 2. If the bank reconciliation reveals transactions the client did not enter into QuickBooks, enter each transaction in the check register. If the bank reconciliation shows duplicate transactions or transaction that you need to void, delete or void these transactions. By the end of this step, the cash balance in QuickBooks should agree to the *book* balance on your manual bank reconciliation.

Tip: If you have to enter numerous missing transactions, summarize the unrecorded transactions using a journal entry. Do this only if the transactions show on the bank statements. Record a single credit or debit to checking for the net amount of all unrecorded, cleared transactions and post to the appropriate offset accounts (e.g., Interest Income or Bank Charges).

Step 3. Using the Bank Reconciliation feature, clear all existing transactions (including those entered in Step 2) and enter whatever amount is necessary in the Ending Balance field to force the difference to zero. Click **Reconcile Now** and print a Bank Reconciliation report for your records.

Step 4. Using a journal entry, enter a separate credit to checking for each outstanding check and a separate debit for each uncleared deposit per the manual bank reconciliation performed in Step 1. Enter the applicable check number in the *Memo* field of each credit line. Enter an offset amount to the “Checking” account to balance the entry. Since all credits and debits are posted to the “Checking” account, this journal entry will not change the balance in the checking account.

Step 5. Clear the offsetting debit or credit from Step 4 through the Bank Reconciliation feature. Open the Bank Reconciliation window for the account. Using the bank statement from your manual bank reconciliation (Step 1) enter the bank statement ending balance in the *Ending Balance* field. Enter the bank statement date in the *Statement Date* field. Then click Continue**.** Locate and clear the offsetting entry. The difference field should show 0.00. Click Reconcile Now and print a Reconciliation Detail report for your records.

Step 6. Open the Bank Reconciliation window to confirm that the Beginning Balance agrees to the bank. Also confirm that the list of outstanding checks and deposits agrees to the manual bank reconciliation from Step 1.

Voiding Transactions in Previous Fiscal Periods

If there are uncleared checks dated more than 6 months in the past or uncleared Deposits dated more than 1 month in the past, have the client research the transaction to make sure there are not errors on the part of the bank. Then, void these uncleared transactions to arrive at a good cash position. Perform the following steps so voiding the check will not impact the previous financial reporting year.

Step 1. Enter a deposit in the current period that uses the same General Ledger accounts as the original check. See the section entitled, “Special Situations” below.

Step 2. Use the Bank Reconciliation window to clear both the original check and the deposit/entry from Step 1 above. Use the date of the most recently reconciled bank statement for this reconciliation. Also, use the amount in the Beginning Balance field as the Ending Balance. This step will have no impact on the beginning balance or the bank accounts on the General Ledger.

Note: When you perform two bank reconciliations with the same date, QuickBooks combines the cleared transactions onto a single Bank Reconciliation report. If you prefer, you can print the bank reconciliation reports or inform the client of the need to do so. Even though the Beginning Balance doesn’t change, the reports will now include the voided checks and the deposits you entered in Step 1 above.

Note: When you void a check in QuickBooks 2006 and 2007 Pro and above the program will automatically enter and reconcile adjusting entries to protect the prior period balances. However, this feature only works on Checks (not bill payments, paychecks, sales tax payments, etc), and only if the check is offset only expense or other expense accounts. This tool will only work if the Check is dated in a Closed period.

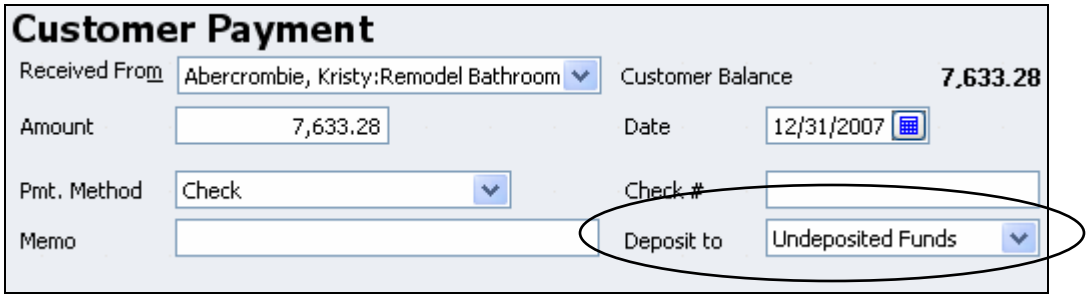
Special Situations:

1. **Bill Payments**. If a Bill Payment does not clear, use the account(s) from the original Bill on the deposit from Step 1 above. QuickBooks recorded both accrual and cash basis expense for the previous reporting period because of the Bill Payment, even though the Bill Payment did not clear. The Deposit you enter in Step 1 above will affect both accrual and cash basis reports as well.
2. Checks and Bill Payments for the purchase of **Inventory Items**. If a Check or Bill payment for Inventory items doesn't clear, there are most likely duplicate transaction in the file. These duplicate transactions caused an understatement in cash with an offsetting overstatement in Inventory counts and values. You have two options:
    a. If the client performed a physical inventory and adjusted quantity on hand since recording the duplicate Check or Bill/Bill Payment, enter a deposit using the same account the client used on the Inventory Adjustment (e.g., Inventory Variance).
    b. If the client did not perform a physical inventory or adjust the quantity on hand, spot check the shelf to make sure the inventory items on the Check/Bill are really overstated in QuickBooks. To adjust both the understatement in cash and the item-specific overstatement in Inventory, you cannot use a Deposit as described in the method above. The Deposit window does not allow you to select Items. Instead, use an Inventory Adjustment. Offset your Inventory adjustment to the applicable bank account. Then, perform Step 2 above to clear both the inventory adjustment (debit to cash) and the disbursement (credit to cash) from the Bank Reconciliation window.

TROUBLESHOOTING UNDEPOSITED FUNDS
The Correct Use of Undeposited Funds
The Most Common Client Errors
Correcting the Errors
Reporting *Correct* Balances in Undeposited Funds

ANALYSIS 4: TROUBLESHOOTING UNDEPOSITED FUNDS

Undeposited Funds is a clearing account (Other Current Asset type) that QuickBooks uses to track receipts from customers that are applied to Accounts Receivable but are not yet deposited at the bank. When clients receive payments from customers (using either the Sales Receipt or Receive Payments window), they have the option of posting the receipts to the Undeposited Funds clearing account (debit).



Then, when they deposit the receipts, using the Make Deposits window, QuickBooks reduces the balance in Undeposited Funds (credit) and increases a bank account balance (debit).

QuickBooks automates these General Ledger postings, and walks the client through the deposit process using an intuitive (no pun intended) and user friendly series of windows.

The Problem: You may find that your client records receipts and cash sales to Undeposited Funds, but never uses these Undeposited Funds to create deposits. This results in an overstatement in Undeposited Funds (that never cleared) and an overstatement in income (usually).

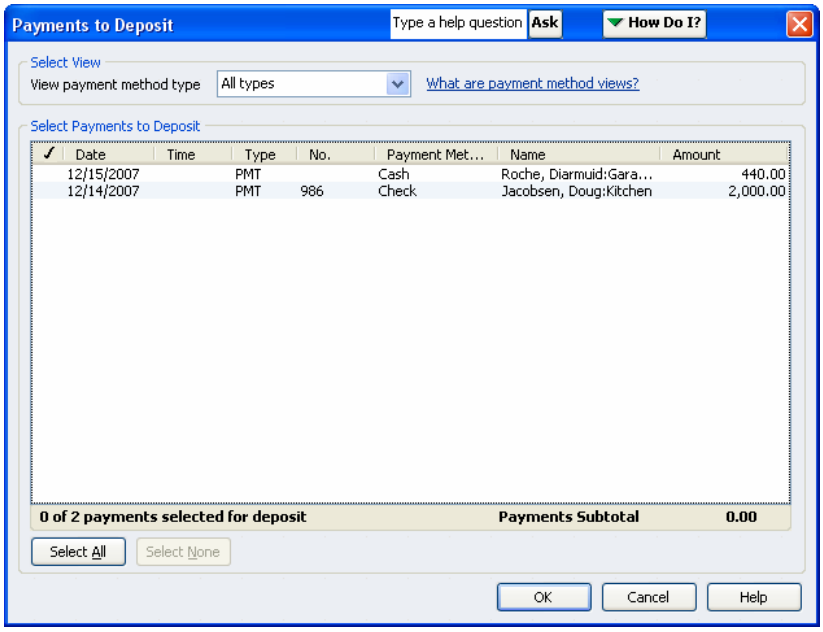
The Correct Use of Undeposited Funds

Step 1: The client records customer receipts (Receipt Payments and/or Sales Receipts windows) and posts the receipts to the Undeposited Funds account by selecting “group with other Undeposited Funds” at the bottom of the form. In QuickBooks 2006 and later you can hide the “Deposit To” field so all payments and Sales Receipts will post to Undeposited Funds automatically.
If the transaction is an Accounts Receivable payment (Receive Payments), QuickBooks credits Accounts Receivable and debits Undeposited Funds. If the transaction is a cash sale (Sales Receipt), QuickBooks credits income* and debits Undeposited Funds.

*Sales Receipts will often post to multiple types of accounts (e.g. liabilities like Sales Tax Payable). Income, however, is the most common.

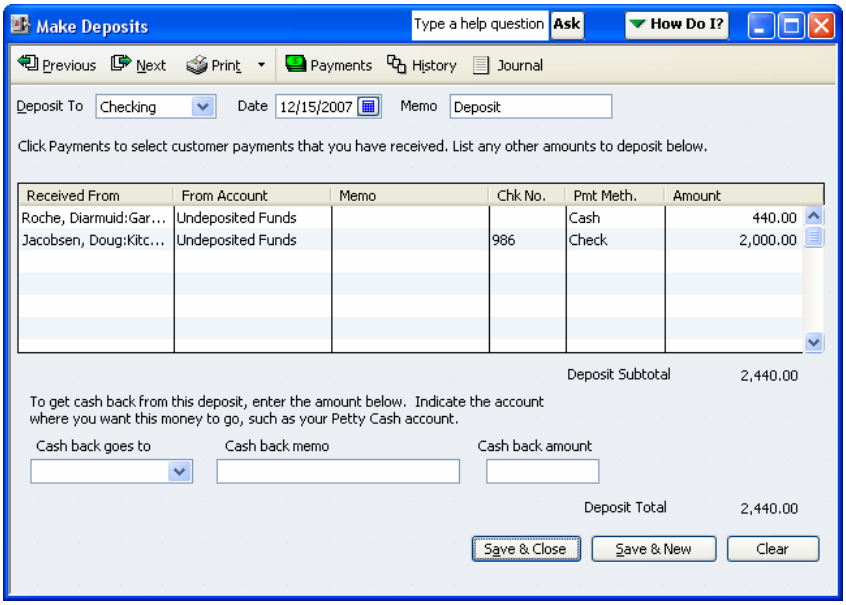
Step 2: For QuickBooks to clear the balance in Undeposited Funds, the client needs to open the Make Deposit window when they are ready to deposit the customer receipts. QuickBooks then

displays the Payments to Deposit window that segregates the receipts by type. See the figure below.



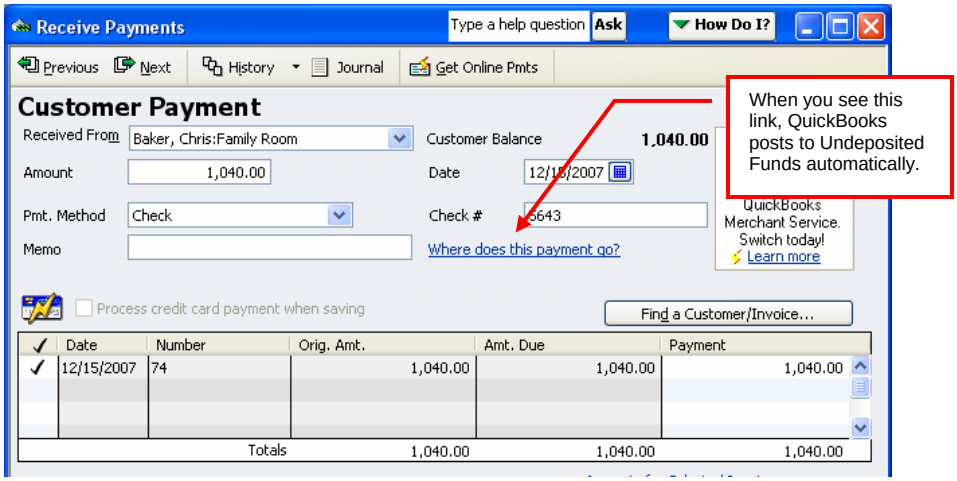
Step 3: The user selects which receipts she wants to include on the deposit and QuickBooks automatically creates the deposit detail.

The Result: The deposit debits a bank account (to increase the balance) and credits Undeposited Funds (to clear). See the figure below.

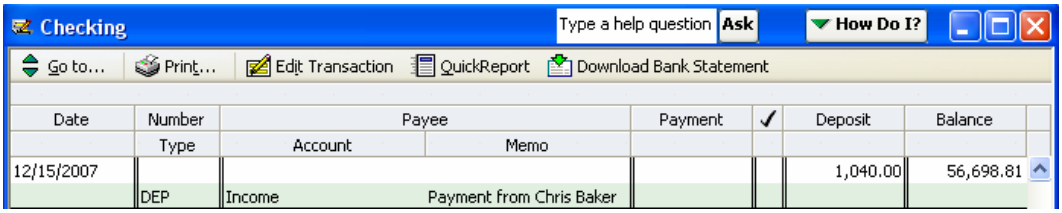


The Most Common Client Errors with Undeposited Funds

Step 1: The client records customer receipts and posts the receipts to the Undeposited Funds account.



Step 2: (Where the error occurs) The client enters the deposit in the *bank account register*, bypassing the Payments to Deposit window. (See the figure below).

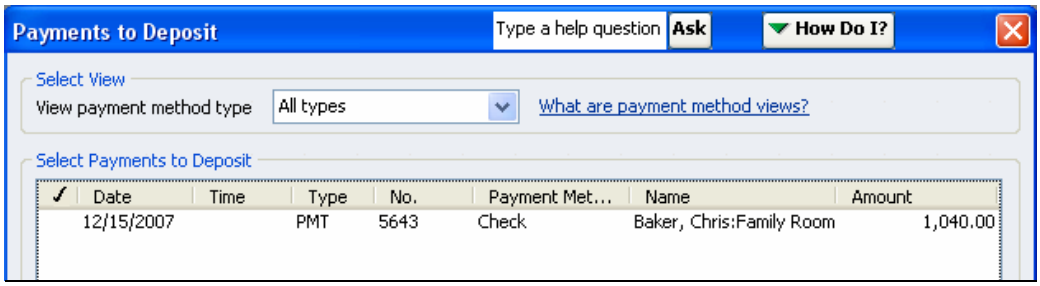


Recording deposits in the bank account register debits a bank account and credits whatever account the client enters in the "account" field of the register entry (usually income).

The result: An overstatement in income and an overstatement in Undeposited Funds.

Correcting the Error

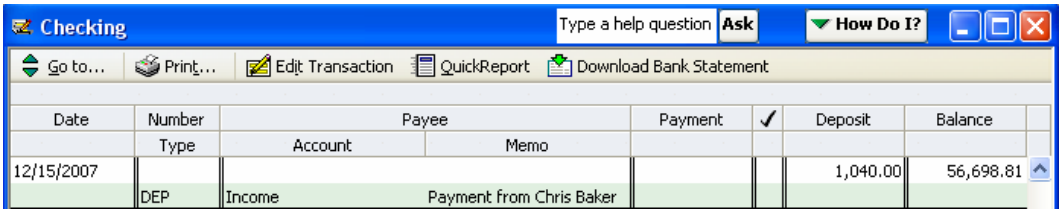
Step 1: Open the Make Deposits window. QuickBooks will display the Payments to Deposit window. The total Undeposited Funds on this window will agree to your Balance Sheet. Hint: Make sure the date of your Balance Sheet allows for all Undeposited Funds activity.



Step 2: Discuss the details with your client to make sure the receipts on this window are already deposited in the bank. Hint: Receipts dated more than 30 days in the past are mostly likely deposited into QuickBooks through other methods.

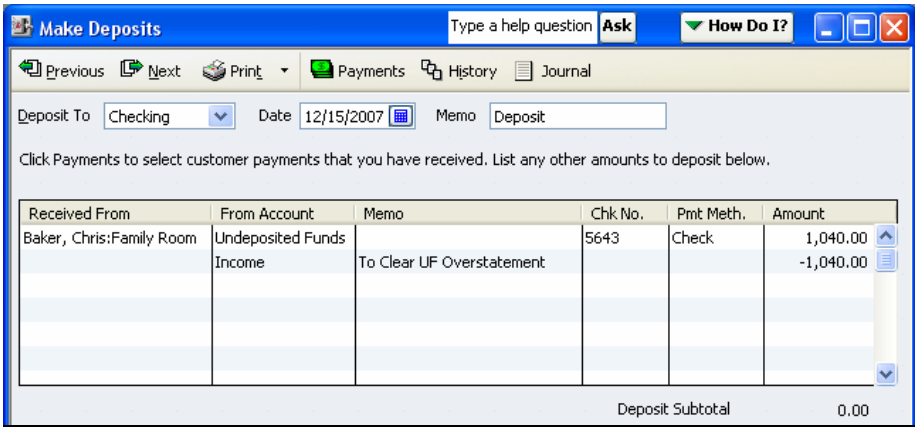
Step 3: Close the Payments to Deposit window and look for the deposits the client entered directly into the register. Hint: Each register entry will probably be the exact amount of the Undeposited Funds (Payment to Deposit) for that day. If not, the register entry will almost always be located within a week of the Undeposited Funds.

Step 4: Note the offset account(s) and create a total for each account. We will assume the client posted every register deposit to income as shown below for this example.



Step 4: Return to the Payments to Deposit window. Select all of the payments that you need to clear from Undeposited Funds. QuickBooks will create a single deposit.

Step 5: On the first blank line of the deposit, enter the income account (or appropriate account in the "From Account" column. Then, enter a negative amount in the Amount column to zero the deposit. The transaction will credit Undeposited Funds (to correct the overstatement) and will debit income (to correct the overstatement).

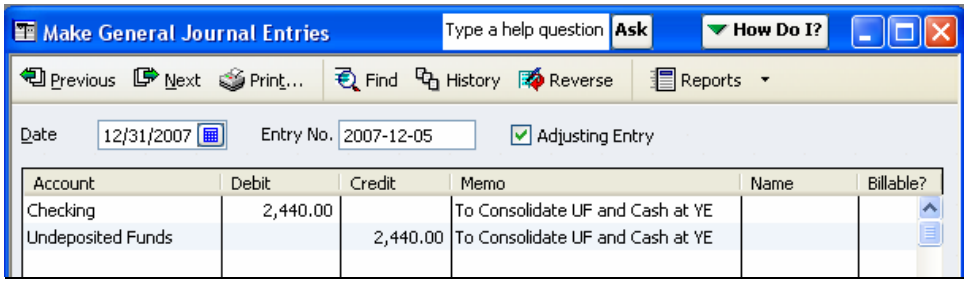


Note: If you want the adjustment to income to show in the Adjustments column of the Working Trial Balance, use a journal entry to debit Undeposited Funds and credit Income instead. Then, open the Make Deposits window. Your adjusting entry will show as a negative line on the deposit to zero the balance – similar to the screenshot above.

Handling Correct Balances in Undeposited Funds

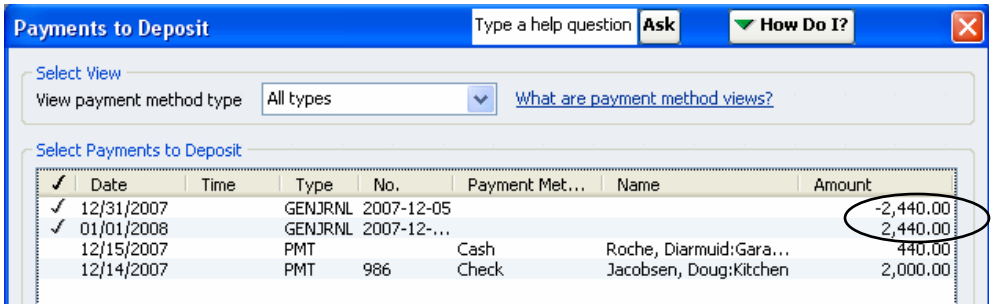
Many times the balance in Undeposited Funds will be accurate. For example, a client could enter customer receipts into QuickBooks on December 29 and group the receipts with Undeposited Funds. Then, the client could enter a deposit (correctly) on January 2 to clear Undeposited Funds and to increase cash. If you are using your client's data file to prepare a tax return or financial statement as of December 31, there will be a *correct* balance in Undeposited Funds, representing cash on hand (though not in the bank) at year end. Perform the following steps in QuickBooks to adjust:

Step 1: Enter an adjusting entry that credits Undeposited Funds (to zero) and debits cash (or another appropriate offset). See figure below.

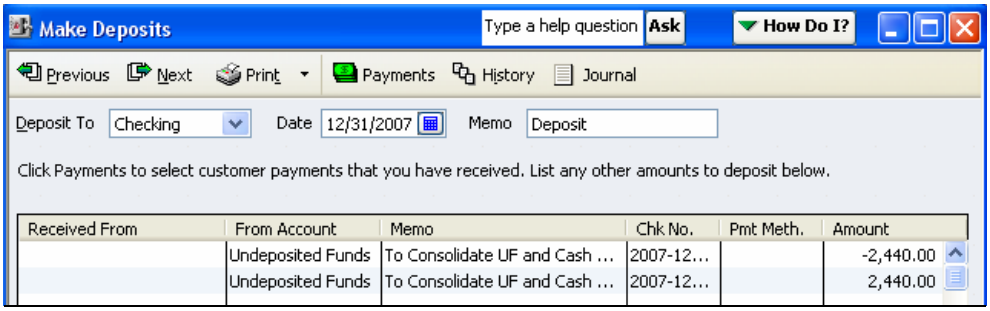


Step 2: Enter a reversing entry on January 1 to debit Undeposited Funds and credit cash.

Step 3: Open the Make Deposits widow. The adjusting entry will show as a negative line entry in the Payments to Deposit window. The reversal will show as a positive line entry in the window.



Step 4: Select the entry (negative) and the reversal (positive) and click OK. QuickBooks will create a "deposit" with positive and negative offsetting amounts. Make sure to date the deposit as of your financial reporting date (12/31/2007), and then save the deposit.



Note: The deposit you record in steps 3 and 4 above will have no affect on the General Ledger. However, if you do not perform these steps, the adjusting entry (and reversal) will show in the Payments to Deposit window indefinitely as an eyesore for your clients.

TROUBLESHOOTING ACCOUNTS RECEIVABLE
Comparing Total Open Invoices to the Balance Sheet
Reviewing the Open Invoice Report for Positive/Negative Offsets
Reviewing the Open Invoice Report for Receivables 90 Days or Older
Review the report for Customers/Jobs with Credit Balances
Troubleshooting AR Balances on the Cash Basis Balance Sheet

ANALYSIS 5: TROUBLESHOOTING ACCOUNTS RECEIVABLE AND PAYABLE

This section uses Accounts Receivable for all analyses and screenshots. Though the actual step by step process may vary somewhat, you can easily apply the concepts to Accounts Payable.

Reviewing the Open Invoice Report (i.e. Subsidiary Ledger)

The Open Invoice Report acts a subsidiary ledger for Accounts Receivable. This report contains a list in alphabetical order of all customers who owe the company money.

The information on this report allows you to locate and correct several types of data entry errors associated with Accounts Receivable. Perform the following analyses:

Compare Total Open Invoices to A/R on the Balance Sheet

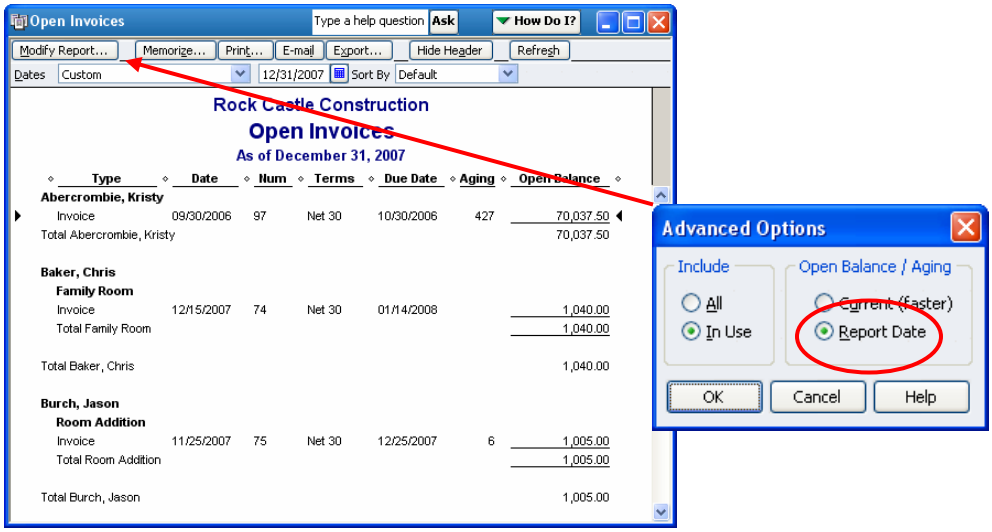
When verifying the Accounts Receivable balance on the Open Invoices Report to Accounts Receivable on the Balance Sheet, you must pay close attention to the date field. The Open Invoices Report always defaults to the current date.

Step 1. Create an Open Invoices Report and set the date to 12/31/2007.

Step 2. Set the Date to Agree to the Balance Sheet. Since this chapter uses the QuickBooks sample data file for Rock Castle Construction, we will assume “today” to be 02/20/2008, analyzing the data file to create an income tax return for the fiscal year end of 12/31/2007.

Step 3. On the Open Invoice report, click “Modify Report” and on the display tab click “Advanced.” QuickBooks displays the window shown below. Click “Report Date” in the Open Balance/Aging section.

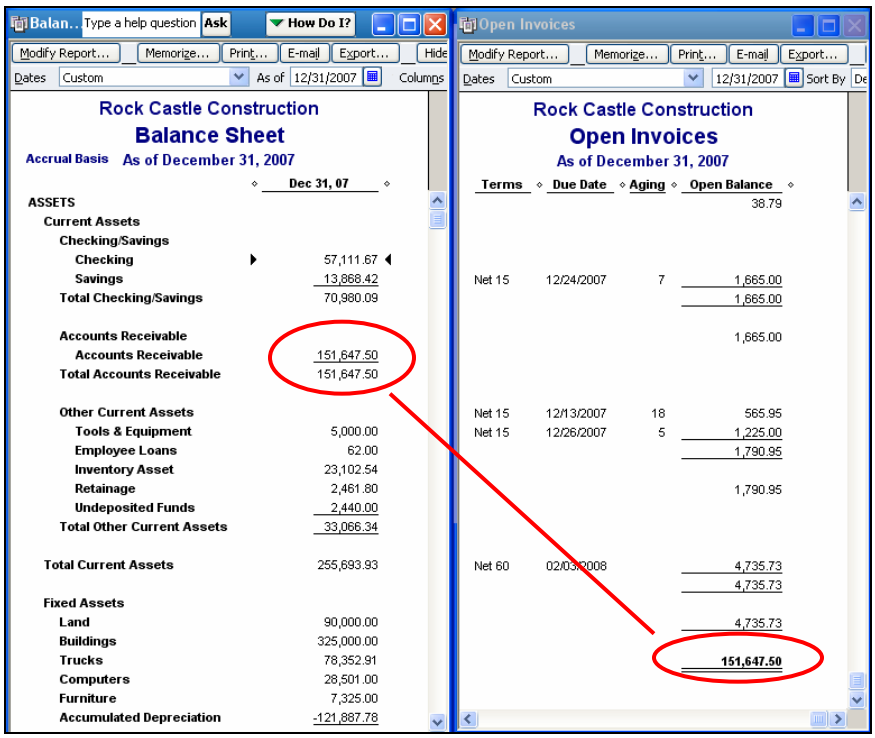
Note: If you do not select “Report date,” QuickBooks will show all of the invoices dated on or before 12/31/2007 that are *currently* open as of the current date (i.e. today). If you received a payment against the invoice between 12/31/2007 and the current date, QuickBooks will not display that invoice on the report.



Step 4. Create a Balance Sheet report as of 12/31/2007 – same date as the Open Invoice Report.

Step 5. Compare the amount located at the bottom of the Open Invoice Report with the amount located on the Balance Sheet for Accounts Receivable.

Note: If the two reports do not agree, you may have a data file corruption. Rebuild the data file. If this does not solve the problem, contact Intuit technical support.



Review the Report for Negative/Positive Offsets

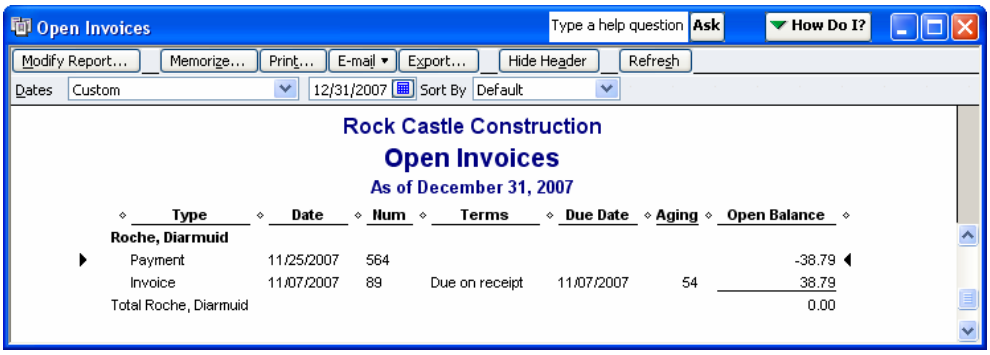
Once you have created the Open Invoices Report, you need to review this report for negative/positive offsets. Negative/positive offsets show when a customer has an invoice and a payment/credit but the payment/credit has not been applied. Basically the customer is showing a

zero balance but with transactions showing still on the Open Invoice. To remove these transactions from the report, you will need to apply the payment/credit to the invoice.

Note: Unless you apply the payments/credits to their respective invoices, QuickBooks will not show the income associated with the customer payment on cash basis reports. The understatement in cash basis income is offset by an understatement in Accounts Receivable on the cash basis balance sheet. In most cases QuickBooks shows negative Accounts Receivable.

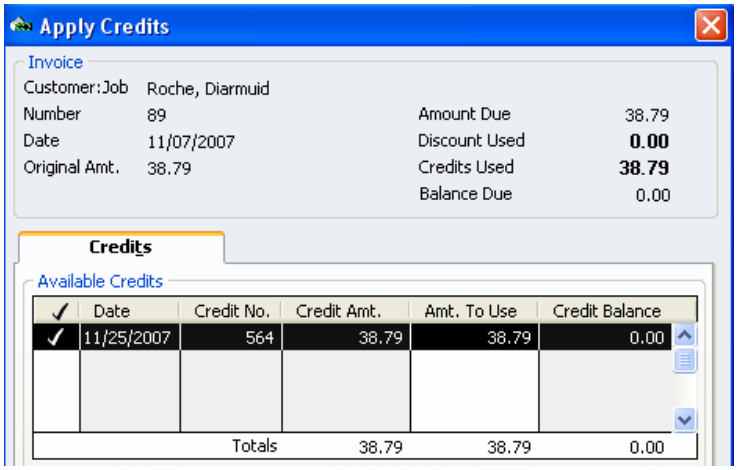
To correct the problem, you or the client should perform the following steps:

Step 1. Create an Open Invoices report and review the report for positive and negative offsets.



Tip: the positive and negative amounts may or many not cause the customer's overall balance to be zero

Step 2. For each invoice with an Unapplied Payment or Credit Memo, double-click the Invoice on the report to display the Create Invoice window. At the bottom of the window click "Apply Credits." Use that window to apply the payments/Credit Memos to the invoice. Then, click Done on the Apply Credits window and Save & Close on the Create Invoice window.



Step 3. Repeat Step 2 for each Invoice with an unapplied Payment/Credit Memo.

Note: When using Jobs, the Credit Memo must show both the Customer and the Job name. If it does not, you will need to edit the Credit Memo to include the job name. Then, perform steps 2 and 3 above. If you need to apply a Credit Memo to multiple jobs, you may have to enter Credit Memos to sub-divide the total credit amount by each specific job. The same rule applies to journal entries that credit Accounts Receivable.

Tip: Consider the amount of time involved in this process. If there are numerous unapplied payments or Credit Memos it may be best to have the client perform the above steps to clean up the file. If having the client do the work is not feasible, you can simply leave the positive/negative offsets on the Open Invoices report. For cash basis reporting you will have to enter a journal entry to Debit Accounts Receivable for the total of all unapplied payments and Credit Sales or the appropriate offset accounts. To make this a Cash Basis entry, Accounts Receivable must be on the second or subsequent line of the journal entry.

Review the Report for Amounts Greater than 90 Days Past Due

When reviewing the Open Invoice Report, you discover invoices that are 90 days past due. Below are two reasons and solutions to dealing with past due invoices.

Reason 1: Payments are Not Applied to Invoices.

See the section above for more information

Reason 2: Invoices are Not Collectible

When invoices are deemed not collectible, they need to be written off. There are two methods in writing off uncollectible invoices. The method used depends upon the basis of accounting used by the company.

- The accrual basis of accounting allows you create an item called bad debt and link the item to bad debt expense. You can then use this item on a Credit Memo to clear the receivable. The Credit Memo will credit Accountants Receivable and will debit Bad Debt expense.
- The cash basis requires you to enter a Credit memo with the same Item detail you used in the original invoice.

Note: If the original invoice has inventory items (less likely with the cash basis), create an Other Charge Item that posts to Inventory Variance or another appropriate Cost of Goods Sold account. Use this item to write off the portion of the bad debt related to the sale of inventory items.

Review the Report for Negative Customer Balances

Reason 1: Customer has a Legitimate Credit Balance

Option 1: Refund the Customer

Step 1. Use the Write Checks window to create a refund check to the customer. On the Expenses tab, code the check to Accounts Receivable. Then, enter the appropriate customer and job in the Name column of the Expense tab.

Step 2. Open the Receive Payments window. The check shows on this window as an invoice. Click the Discounts/Credits button to apply the credit to your refund check.

Option 2: Apply to a Future Invoice.

Note: The issue of job-specific credits applies to this section. See the note on page 40 for more information.

On the accrual basis you have two options:

Option 1: Since the client will retain the money received by the customer, it may be appropriate to report a reduction in Accounts Receivable on the accrual basis.

Option 2: If the payment represents a pre-payment for services to be rendered, you may need to debit Accounts Receivable and credit a liability account (e.g. unearned income).

On the cash basis, you need to enter a journal entry that credits income and debits Accounts Receivable. See the Tip on page 40 for more information.

With both options, enter a reversing entry dated on the first day of the following year. Then, use the Receive Payments window to apply your two entries together. Doing so will remove the entries from the clients Open Invoices report.

Reason 2: Payments Are Applied to the Wrong Customers/Jobs

Some payments could have been erroneously coded to the wrong customer/jobs. If you discover a payment has been coded to the wrong customer's job, double click on the payment, edit the customer or job name and then apply the payment to the correct invoice.

Troubleshooting A/R Balances on the Cash Basis B/S

Why QuickBooks Reports A/R on the Cash Basis Balance Sheet

Accounts Receivable exists on the cash basis for the following reasons:

Reason 1: Credits and/or payments have not been applied to invoices. See the section entitled "Review the Report for Negative/Positive Offsets" on page 39 for more information.

Reason 2: An Item on an Invoice posts to a Balance Sheet account. Examples include invoices with Retainage (contractors) or retainers (legal). Though this is not an improper use of an invoice, you must investigate the reason for the cash basis balance in Accounts Receivable.

Completing the Cash Basis Conversion

Perform the following steps when you have a cash basis Balance in Accounts Receivable.

Step 1. Create a cash basis Balance Sheet. For this example, the cash basis balance in Accounts Receivable is $8,421.52.

Step 2. Double click on the balance in Accounts Receivable.

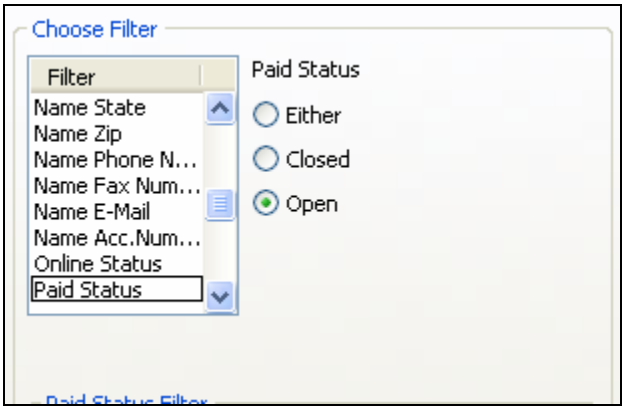
Step 3. QuickBooks displays a Transaction by Account report. Click Modify Report and edit the report settings as follows:

a. On the Display Tab, remove the date in the From field and enter the Balance sheet date in the To field.

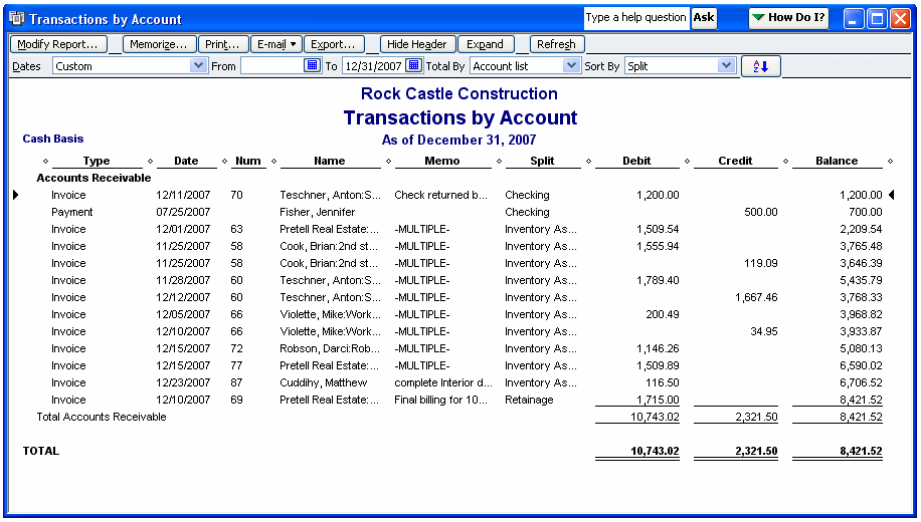
b. On the Display Tab, click the Advanced Tab and select As of Report Date.

c. On the Display Tab, sort the report by the "Split" column.

d. On the Filters tab, filter the report by Paid Status for "Open."



Step 4. Review the report detail. The report now shows only the transactions that QuickBooks did not reverse as part of the cash basis conversion. On the screenshot below, note that the Invoices offset to four Balance Sheet accounts: Checking (an invoice for a bounced check and an unapplied payment), Retainage (to bill the customer for the retainage amount withheld on a previous invoice) and Inventory (for the use of Inventory Items). You will most often not have to clear offsets to Inventory Asset on the cash basis. However, the other issues are somewhat common.



Transactions by Account

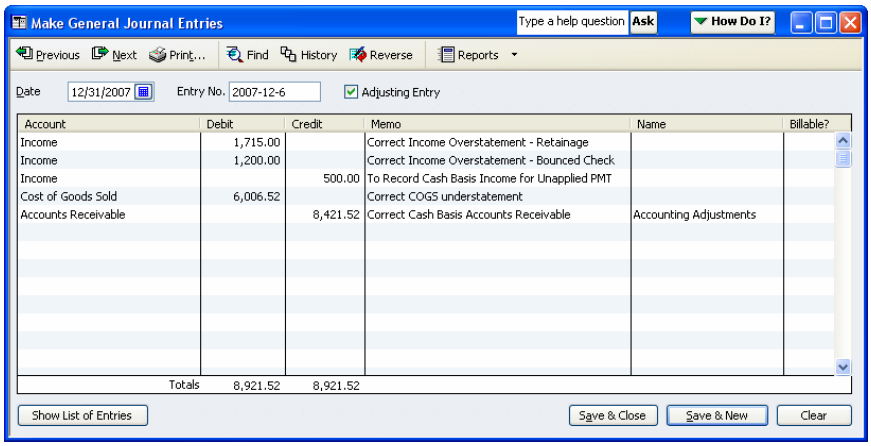
Rock Castle Construction
Transactions by Account
As of December 31, 2007
Cash Basis

Type	Date	Num	Name	Memo	Split	Debit	Credit	Balance
Accounts Receivable								
Invoice	12/11/2007	70	Teschner, Anton:S...	Check returned b...	Checking	1,200.00		1,200.00
Payment	07/25/2007		Fisher, Jennifer		Checking		500.00	700.00
Invoice	12/01/2007	63	Pretell Real Estate:...	-MULTIPLE-	Inventory As...	1,509.54		2,209.54
Invoice	11/25/2007	58	Cook, Brian:2nd st...	-MULTIPLE-	Inventory As...	1,555.94		3,765.48
Invoice	11/25/2007	58	Cook, Brian:2nd st...	-MULTIPLE-	Inventory As...		119.09	3,646.39
Invoice	11/28/2007	60	Teschner, Anton:S...	-MULTIPLE-	Inventory As...	1,789.40		5,435.79
Invoice	12/12/2007	60	Teschner, Anton:S...	-MULTIPLE-	Inventory As...		1,667.46	3,768.33
Invoice	12/05/2007	66	Violette, Mike:Work...	-MULTIPLE-	Inventory As...	200.49		3,968.82
Invoice	12/10/2007	66	Violette, Mike:Work...	-MULTIPLE-	Inventory As...		34.95	3,933.87
Invoice	12/15/2007	72	Robson, Darci:Rob...	-MULTIPLE-	Inventory As...	1,146.26		5,080.13
Invoice	12/15/2007	77	Pretell Real Estate:...	-MULTIPLE-	Inventory As...	1,509.89		6,590.02
Invoice	12/23/2007	87	Cuddihy, Matthew	complete Interior d...	Inventory As...	116.50		6,706.52
Invoice	12/10/2007	69	Pretell Real Estate:...	Final billing for 10...	Retainage	1,715.00		8,421.52
Total Accounts Receivable						10,743.02	2,321.50	8,421.52
TOTAL						**10,743.02**	**2,321.50**	**8,421.52**

Step 5. For unapplied payments, you can remove the amount from Accounts Receivable by double-clicking the payment and then applying it to the correct invoice. However, if the payment is a pre-payment for services to be rendered, you should leave the payment unapplied and then adjust Accounts Receivable using a Journal Entry.

Step 6. Enter a journal entry to adjust Accounts Receivable and make sure Accounts Receivable is on the second or subsequent line. Create a customer called Accounting Adjustments for the adjustment to Accounts Receivable.

Note: You will not necessarily use the same accounts as those that show on the report above. For example, if the client has adjusted inventory to agree to a physical inventory count, you need to offset your AR adjustment to Cost of Good Sold (i.e. Inventory Variance). For unapplied payments, offset the entry to income. For retainage, you also offset to income. For the first line of the report above, the client used the Invoice to record a bounced check. That line should also post to income on your entry since the client increased cash basis income when receiving the original check. Since the check bounced, cash basis income is overstated.



Make General Journal Entries

Date 12/31/2007 Entry No. 2007-12-6 Adjusting Entry

Account	Debit	Credit	Memo	Name	Billable?
Income	1,715.00		Correct Income Overstatement - Retainage		
Income	1,200.00		Correct Income Overstatement - Bounced Check		
Income		500.00	To Record Cash Basis Income for Unapplied PMT		
Cost of Goods Sold	6,006.52		Correct COGS understatement		
Accounts Receivable		8,421.52	Correct Cash Basis Accounts Receivable	Accounting Adjustments	
Totals	8,921.52	8,921.52			

Step 7. Reverse the Journal Entry on the first day of the following fiscal year.

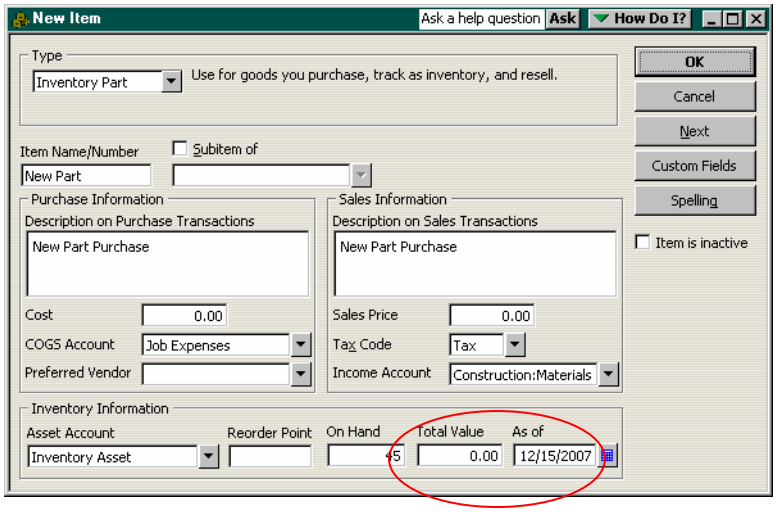
Step 8. Use the Receive Payments window to apply the journal entry and the reversing entry to each other. If you do not, the Open Invoice report will show activity for a customer called “Accounting Adjustments.”

TROUBLESHOOTING INVENTORY
Average Cost Calculation
On Hand Quantity
How QuickBooks Processes Negative Inventory Counts

ANALYSIS 6: TROUBLESHOOTING INVENTORY

Average Cost Calculation

Average Cost may be incorrect if the client used the New Item window to enter the quantity on hand and did not enter a value (or entered an incorrect value) in the Total Value field.



On Hand Quantity

If the client has inventory, advise them to conduct a physical inventory at year-end and to make adjustments to inventory counts and values *before* giving you the file. Use their physical inventory worksheet to review a sample of inventory items.

Note: If the client tracks inventory *periodically*, they may need your assistance recording the adjustment to ending inventory and Cost of Goods Sold.

Negative Quantity on Hand

QuickBooks allows you to sell inventory on sales forms even when QuickBooks does not show a sufficient on hand quantity. Doing so will drive inventory quantity on hand negative. In the absence of actual cost, QuickBooks guesses at the cost of the inventory and then adjusts the Cost of Goods Sold in two different ways:

1. If the purchase form or inventory adjustment is dated prior to the invoice that causes inventory to be negative, QuickBooks adjusts Cost of Goods Sold on the invoice. Adjusting inventory on the invoice will assure accurate job costing and class tracking for the debit to Cost of Goods Sold.

2. If the purchase form or inventory adjustment to receive inventory is dated after the invoice that causes inventory to be negative, QuickBooks adjusts Cost of Goods Sold on the purchase form, not the original invoice. Because the adjustment takes place on the

Purchase Form, the Cost of Goods Sold does not track accurately by Class or by Customer/Job. The fastest way to identify these adjustments is to run a Profit & Loss report and then total by Customer/Job. (Don't use a Profit & Loss by Job report. If you create the Profit & Loss and then total by Job, income, costs and expenses not assigned to a job will show in a column to the right of the report called "No Name."

Tip: Rather than entering an adjustment to assign the costs to the proper customer or class, consider entering an inventory adjustment to replenish the stock and date the inventory adjustment *before* the date of the sales form on which inventory went negative. QuickBooks will then remove the adjustment to Cost of Goods Sold from the purchase transaction and will adjust the Cost of Goods Sold on the sales form instead.

Ensure that the average cost for the inventory item is corrected, even given the purchase form auto-adjustments entered by QuickBooks. Then, consult with the client regarding the importance of selling inventory only when the system shows a sufficient quantity on hand – even if they must enter an inventory adjustment just prior to entering the sales form. Ideally, the client will count the inventory for the part(s) she is trying to sell and then enter an Inventory adjustment per the actual count.

Note: If you backdate an Inventory Adjustment, QuickBooks re-calculates its Average cost calculation for each sales transaction dated on or after the date of the inventory adjustment. Inventory Adjustments to the quantity on hand affect sales forms on which QuickBooks "guesses" only. Inventory adjustments to the *value* of an inventory item may impact *all* sales forms dated after the date of the adjustment. This ability to back date inventory adjustments is therefore extremely powerful, when used correctly.

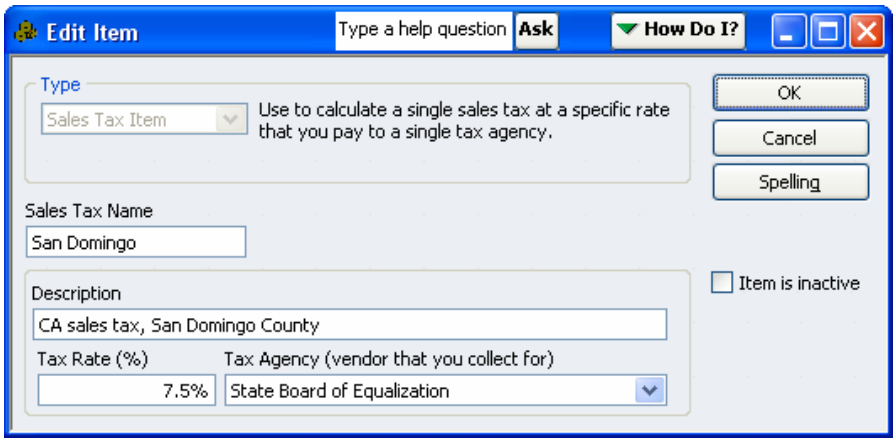
TROUBLESHOOTING SALES TAX PAYABLE
Review Sales Tax Item Setup Windows
Review the Sales Tax Codes in Sales Item Setup Windows
Review the Default Sales Tax Codes in Customer Setup Windows
Compare the Balance in Sales Tax Payable to the Sales Tax Return

ANALYSIS 7: TROUBLESHOOTING SALES TAX PAYABLE

In QuickBooks, Sales Tax tracking is much more than a Current Liability balance on the Balance Sheet. In addition to accruing Sales Tax Payable, QuickBooks also computes and tracks Sales Tax Payable based on:

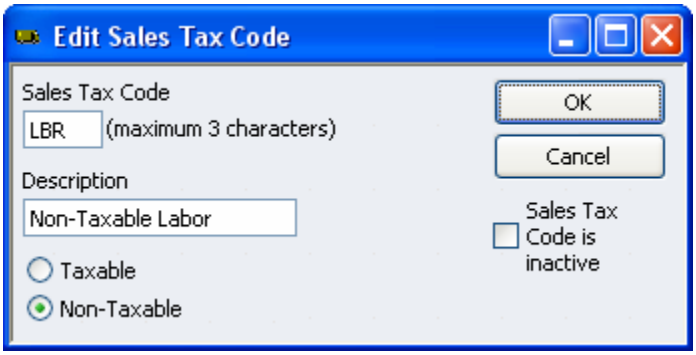
Step 1. **Sales Tax Items** – You use Sales Tax Items to track sales tax accruals by taxing authority (e.g. county and/or state).

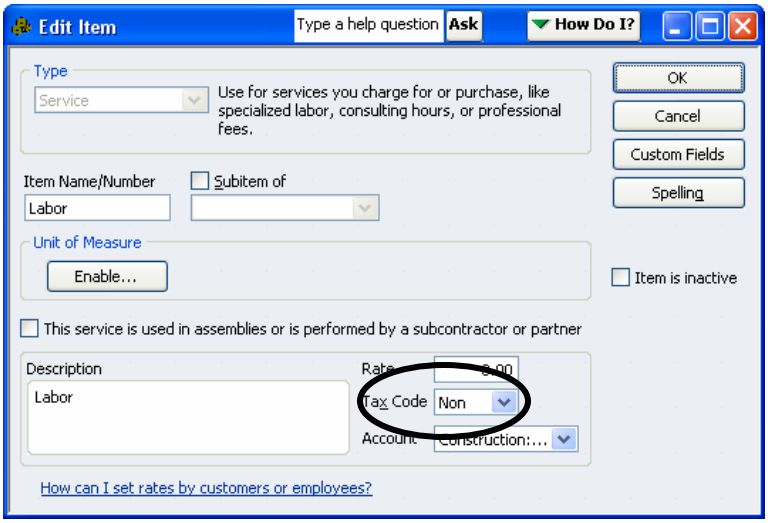
Note: You may have multiple Sales Tax Items (i.e., taxing authorities) per Tax Agency (i.e., sales tax vendor).



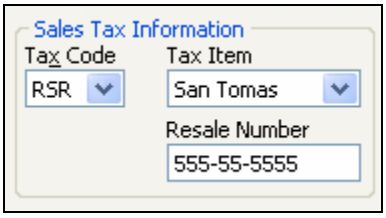
Step 2. **Sales Tax Codes** – Sales Tax Codes cause sales to be taxable or non-taxable and they also track the reason why you charge or do not charge sales tax. Sales Tax Codes are assigned to:

a. **Sales Items** – For example, you could use a non-taxable sales tax code called "LBR" (Labor) for Service Items as shown below. You can override a Sales Item's default Sales Tax Code if necessary when you use the Item on a sales form.





b. **Customers** – For example, you could use a non-taxable Sales Tax Code called "RSR" (Reseller) for resellers. You can override the Customer's default Sales Tax Code if necessary when creating sales forms.



This multi-level sales tax tracking allows your client to create very detailed sales tax reports like the Sales Tax Liability Report and the Sales Tax Revenue Summary Report to facilitate the preparation of the Company's sales tax returns. However, due to the complexity of the sales tax tracking, making corrective adjustments to Sales Tax Payable is more involved than simply entering a Journal Entry to correct the balance.

When troubleshooting sales tax tracking in QuickBooks you need to review both the sales tax setup and the Sales Tax Payable ledger. This article includes the following analyses, with detailed, step-by-step instructions:

- Review Sales Tax Item Setup Windows (Setup Analysis)
- Review the Sales Tax Codes in Sales Item Setup Windows (Setup Analysis)
- Review the Sales Tax Codes in Customer Setup Windows (Setup Analysis)
- Compare the Balance in Sales Tax Payable on the Balance Sheet to the Company's Most Recent Sales Tax Return (General Ledger Analysis)

Analysis 1: Review Sales Tax Item Setup Windows

Perform the following steps to review Sales Tax Item setup windows:

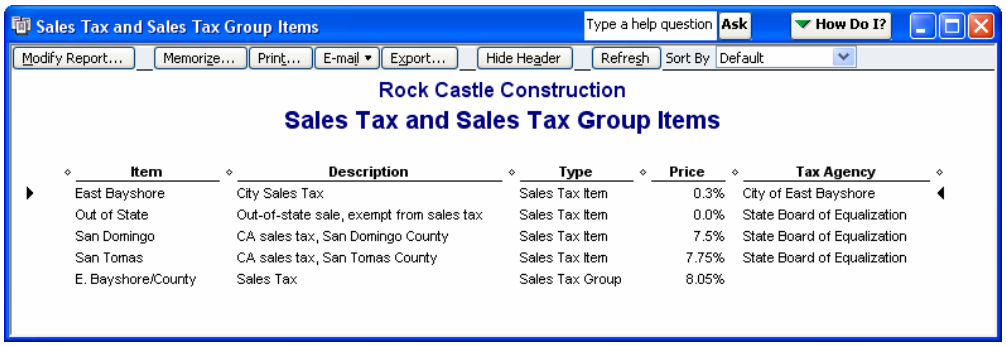
Step 1. Select the Reports drop down menu, select List, and then select Item Listing to create an Item Listing Report.

Step 2. Filter the Item Listing report by Item for all "Sales Tax Items." The report will include sales tax group items as well.

Step 3. Remove all columns from the report except: Item, Description, Type, and Price. Then add a column for Tax Agency.

Note: When viewing Sales Tax and Sales Tax Group Items, the Price column shows the sales tax rate.

Step 4. Assign an appropriate report title (as shown below) and then memorize the report for future use.



Item	Description	Type	Price	Tax Agency
East Bayshore	City Sales Tax	Sales Tax Item	0.3%	City of East Bayshore
Out of State	Out-of-state sale, exempt from sales tax	Sales Tax Item	0.0%	State Board of Equalization
San Domingo	CA sales tax, San Domingo County	Sales Tax Item	7.5%	State Board of Equalization
San Tomas	CA sales tax, San Tomas County	Sales Tax Item	7.75%	State Board of Equalization
E. Bayshore/County	Sales Tax	Sales Tax Group	8.05%	

Step 5. Review each Sales Tax Item on the report to make sure the Sales Tax Item is setup correctly. Look for the following information:

a. **Tax Rate** – Make sure the tax rate is correct.

Note: The Sales Tax Item may be part of a Sales Tax Group. In this case you will need to combine the tax rates for all items in the Sales Tax Group to make sure the rate is correct. Use QuickZoom (double-click) if you want to see the details of the Sales Tax Group Item setup.

b. **Tax Agency** – Make sure each Sales Tax Item is associated with the correct Tax Agency (vendor record). Consider that the Company may have multiple vendor records for the same Tax Agency. For example, you may find a vendor spelled "State Board of Equalization," and another vendor spelled "St. Board of Equalization." If you find duplicate vendor records, merge the records together using the Vendor Center.

Important: Make sure the Company did not intentionally create the duplicate records. For example, in Georgia you would pay both your sales tax payment and your state withholding payment to the same vendor. The client may prefer to keep these two vendors separate. If this is the case you should not merge the vendor records. Instead, edit the Sales Tax Item setup windows as necessary so that all sales tax items use the same vendor.

Important: Changing the tax rate in a Sales Tax Item setup window does not impact existing transactions. If you determine that the client has been under-collecting or over-collecting sales tax you may need to enter a Sales Tax Adjustment (or Journal Entry) to correct the balance. If this is the case, advise the client to make the appropriate adjustment on their next Sales Tax Return.

Analysis 2: Review the Sales Tax Codes in Sales Item Setup Windows

Perform the following steps to review the Sales Item setup windows:

Step 1. Select the Reports menu, select List and then select Item Listing to create an Item Listing Report.

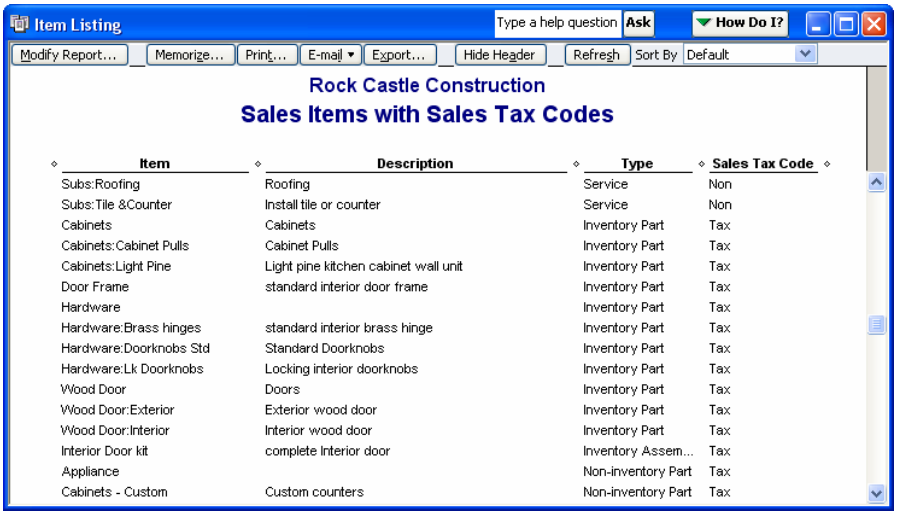
Step 2. Modify the Report as follows:

a. On the Display tab, remove all of the columns except: Item, Type, Description, and Sales Tax Code.

b. Filter the report by Item for "All Sales Items."

c. Enter an appropriate Report Title as shown in the screenshot below.

d. Memorize the report for future use.



Item	Description	Type	Sales Tax Code
Subs:Roofing	Roofing	Service	Non
Subs:Tile &Counter	Install tile or counter	Service	Non
Cabinets	Cabinets	Inventory Part	Tax
Cabinets:Cabinet Pulls	Cabinet Pulls	Inventory Part	Tax
Cabinets:Light Pine	Light pine kitchen cabinet wall unit	Inventory Part	Tax
Door Frame	standard interior door frame	Inventory Part	Tax
Hardware		Inventory Part	Tax
Hardware:Brass hinges	standard interior brass hinge	Inventory Part	Tax
Hardware:Doorknobs Std	Standard Doorknobs	Inventory Part	Tax
Hardware:Lk Doorknobs	Locking interior doorknobs	Inventory Part	Tax
Wood Door	Doors	Inventory Part	Tax
Wood Door:Exterior	Exterior wood door	Inventory Part	Tax
Wood Door:Interior	Interior wood door	Inventory Part	Tax
Interior Door kit	complete Interior door	Inventory Assem...	Tax
Appliance		Non-inventory Part	Tax
Cabinets - Custom	Custom counters	Non-inventory Part	Tax

Note: Item Types consistently correspond to the Item's taxable status. Make sure each item has the correct Sales Tax Code. Since Sales Tax Codes make items taxable or non-taxable and also track the reason why you charged or didn't charge sales tax, incorrect default Sales Tax Codes could: 1) Cause errors in sales tax calculations on sales forms. 2) Cause errors on the Sales Tax Revenue Summary report. For example, if a non-taxable Service Item uses the RSR (Reseller) Sales Tax Code, QuickBooks will calculate sales tax correctly on sales forms, but on the Sales Tax Revenue Summary report the Reseller sales would be overstated and the Labor (LBR) sales would be understated.

Step 3. As necessary, QuickZoom (double-click) on Sales Items to correct the default Sales Tax Code.

Note: Changing the default Sales Tax Codes does not impact existing transactions. If you determine that the client has been under-collecting or over-collecting sales tax you may need to enter a Sales Tax Adjustment (or Journal Entry) to correct the balance. If this is the case, advise the Company to make the appropriate adjustment on its next Sales Tax Return.

Analysis 3: Review the Default Sales Tax Codes in Customer Setup Windows

Perform the following steps to analysis the default Sales Tax Codes in the Customer Setup windows:

Step 1. Select the Reports menu, select List and then select Customer Phone List.

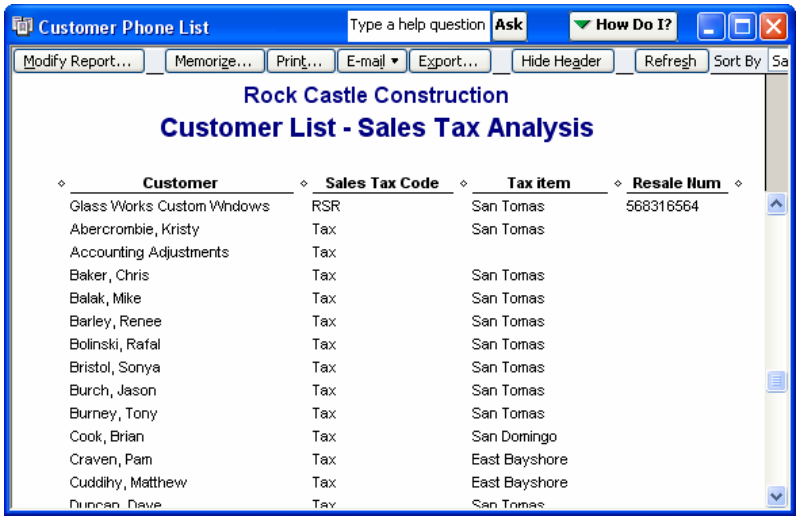
Step 2. Remove the Phone column and add the following columns to the report: Sales Tax Code, Sales Tax Item, and Resale Number.

Step 3. Enter an appropriate Report Title as shown in the screenshot below.

Step 4. Sort the report by Sales Tax Code. Sorting the report by Sales Tax Code – in either ascending or descending order, is necessary to:

a. Segregate the Customer records on the report from the Job Records.
Job Records do not have a Sales Tax Code field. When you enter a Job name on a sales form, QuickBooks refers to the Custom Record to determine the Sales Tax Code to be used.

b. Segregate the taxable customers from the non-taxable customers.
For most Companies, the majority of the customers will either be taxable or non-taxable. A Company that sells directly to its customers will have mostly taxable customers, as shown in the screenshot below. Non-taxable customers would be the exception. A wholesaler will have mostly non-taxable customers. In this case, taxable customers would be the exception. Review the report for the Sales Tax Code exceptions and make sure the exception correctly applies to that Customer.

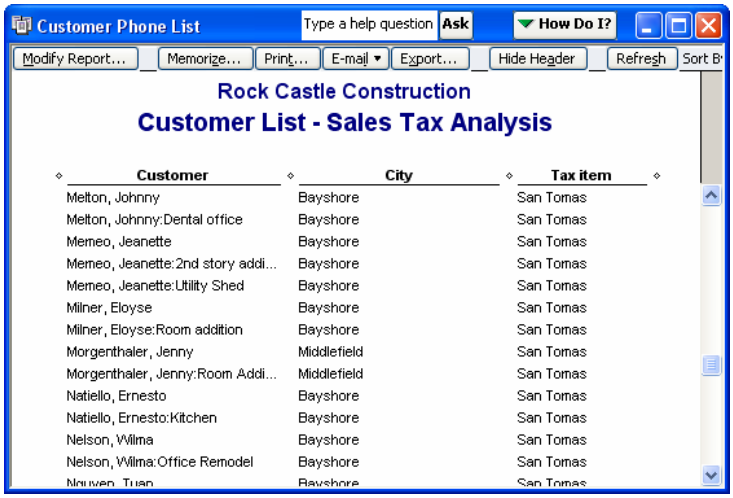


Customer	Sales Tax Code	Tax item	Resale Num
Glass Works Custom Windows	RSR	San Tomas	568316564
Abercrombie, Kristy	Tax	San Tomas	
Accounting Adjustments	Tax		
Baker, Chris	Tax	San Tomas	
Balak, Mike	Tax	San Tomas	
Barley, Renee	Tax	San Tomas	
Bolinski, Rafal	Tax	San Tomas	
Bristol, Sonya	Tax	San Tomas	
Burch, Jason	Tax	San Tomas	
Burney, Tony	Tax	San Tomas	
Cook, Brian	Tax	San Domingo	
Craven, Pam	Tax	East Bayshore	
Cuddihy, Matthew	Tax	East Bayshore	
Duncan, Dave	Tax	San Tomas	

Step 5. In the report above all of the customers are taxable except Glass Works Custom Windows. Glass Works is the only "exception" customer. Use this report to confirm that Glass Works is a reseller and that the customer record includes the correct resale number.

Tip: For not-for-profit customers use a Sales Tax Code called "NFP" and enter the sales tax exemption number in the Resale Number field.

Step 6. Remove the Sales Tax Code and Resale Number columns and add the City column as shown below.



Customer	City	Tax item
Melton, Johnny	Bayshore	San Tomas
Melton, Johnny:Dental office	Bayshore	San Tomas
Memeo, Jeanette	Bayshore	San Tomas
Memeo, Jeanette:2nd story addi...	Bayshore	San Tomas
Memeo, Jeanette:Utility Shed	Bayshore	San Tomas
Milner, Eloyse	Bayshore	San Tomas
Milner, Eloyse:Room addition	Bayshore	San Tomas
Morgenthaler, Jenny	Middlefield	San Tomas
Morgenthaler, Jenny:Room Addi...	Middlefield	San Tomas
Natiello, Ernesto	Bayshore	San Tomas
Natiello, Ernesto:Kitchen	Bayshore	San Tomas
Nelson, Wilma	Bayshore	San Tomas
Nelson, Wilma:Office Remodel	Bayshore	San Tomas
Nguyen, Tuan	Bayshore	San Tomas

Step 7. Compare the City field to the Sales Tax Item to make sure each customer's default Sales Tax Item is correct. Consider the following when conducting this analysis:

a. Unless the Company delivers or ships the product to the customer's location, the Sales Tax Agency may need to be based on the Company's location instead of

the customers. If this is the case, almost all of the customers would have the same Sales Tax Item. Sort the report by Sales Tax Item and look for the exceptions.

Note: For our example, Rock Castle Construction ships products to customers in addition to providing construction services.

Tip: If the Company ships or delivers its products or if the Company has multiple locations, this analysis could take over an hour (or even several hours) to complete. It may be best to have the Company's bookkeeper conduct this analysis. This level of work may not be the best use of your client's consulting dollars.

Step 8. If you determine that the Company has been under-collecting or over-collecting sales tax as the result of incorrect Sales Tax Items, you may need to enter a Sales Tax Adjustment (or Journal Entry) to correct the balance. This is only an issue if the Sales Tax Items have different rates. If you have to adjust the balance in Sales Tax Payable, advise the client to make the appropriate adjustment on their next Sales Tax Return.

Analysis 4: Compare Sales Tax Payable to the Tax Return

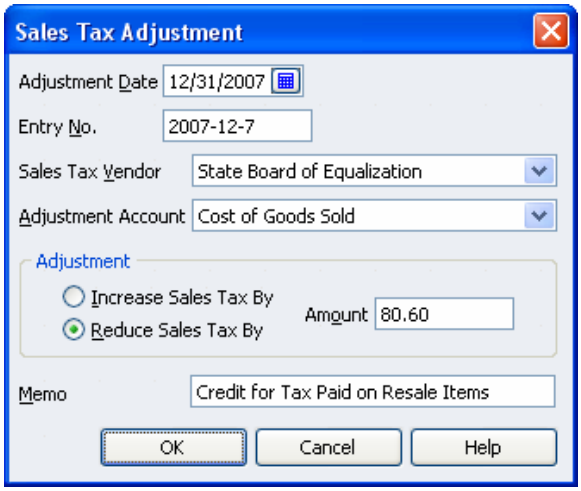
Every business has an allotted time period between the end of the month or quarter and the due date for the sales tax return and sales tax payment. During this time, the sales tax return should agree to the balance in Sales Tax Payable on the Balance Sheet (dated the same date as the return) – allowing you to confirm the accuracy of the Balance. Perform the following steps to research discrepancies between the return and the Balance Sheet, and to make any necessary adjustments.

Step 1. Work with the client to prepare the monthly/quarterly sales tax return (if necessary).

Tip: Though the Sales Tax Liability and Sales Tax Revenue Summary reports in QuickBooks may contain *historical* data entry errors, you may be able to use a Sales Tax Liability report and a Sales Tax Revenue Summary report with the date range filtered for the *current sales tax reporting month/quarter* to help you prepare the return.

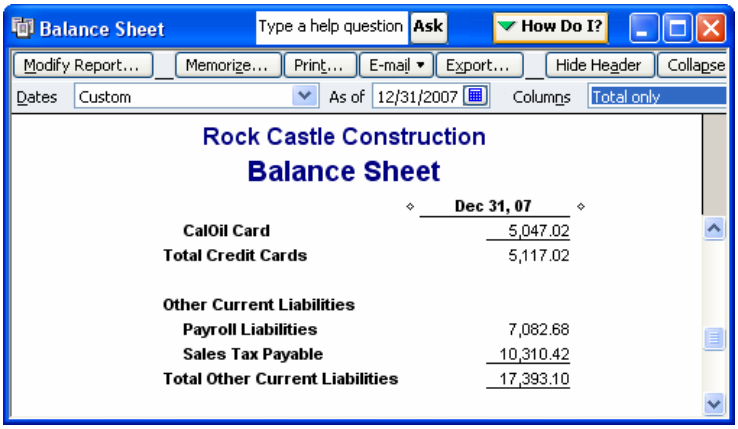
Step 2. Enter a Sales Tax Adjustment or a Journal Entry for adjustments to sales tax recorded on the return (e.g., timely filing discounts, sales tax paid on resale items, penalties, interest, etc.). Make sure the adjustments have the same date as the Sales Tax Return you prepared in Step 1 above. For our example, the Sales Tax Return shows a credit of $80.60 for sales tax paid on resale products.

Note: When you enter a Sales Tax Adjustment in QuickBooks as shown below, QuickBooks creates a Journal Entry. There is no Transaction Type for Sales Tax Adjustments in QuickBooks.



Step 3. Create a Balance Sheet dated the same date as your sales tax return. Make sure to use the appropriate reporting basis (cash or accrual). If there is no discrepancy, proceed to Step 8 below.

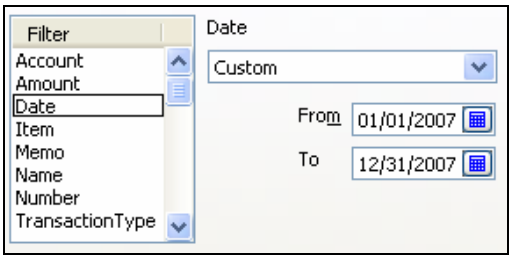
Even though we entered the credit in Step 2 above, the Balance Sheet below is $1,911.11 higher than the prepared Sales Tax Return. The balance due on the return is $8,399.31 and the balance on the Balance Sheet shown below is $10,310.42.



Step 4. If the discrepancy is immaterial, enter a Journal Entry or Sales Tax Adjustment to force the balance in Sales Tax Payable to agree to the Sales Tax Return. Offset the immaterial adjustment to the Income Statement (e.g. Sales or Miscellaneous Expense). Then, proceed to Step 8 below.

Step 5. If the discrepancy is material, you will need to research the reason for the discrepancy so you can offset your Sales Tax Adjustment to the appropriate account(s). Use QuickZoom (double-click) to see the details behind the Sales Tax Payable balance on the Balance Sheet. QuickBooks will create a Transaction Detail Report for the Sales Tax Payable account. Filter the report as follows:

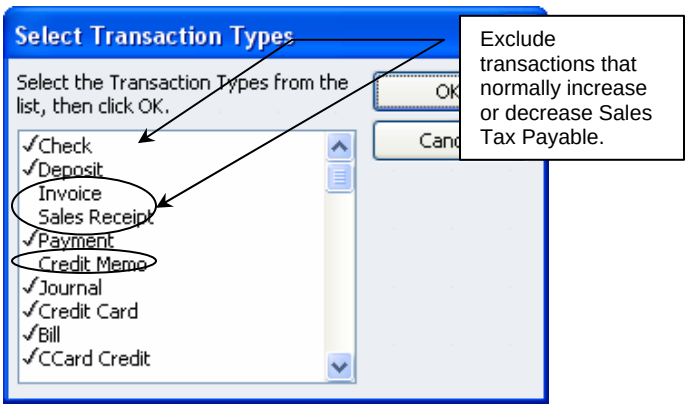
a. Determine the most recent reporting date with a correct balance in Sales Tax Payable. (e.g., the last day of the previous fiscal year). Set your date range to begin one day after this date and to end on the date of the Sales Tax Return you prepared in Step 1 above.



b. Filter the report by transaction type to include all transactions *except*: Invoices, Sales Receipts, Credit Memos and Sales Tax Payments.

Note: Sales Tax Payments are a specific transaction type – not to be confused with Checks or Bill Payments.

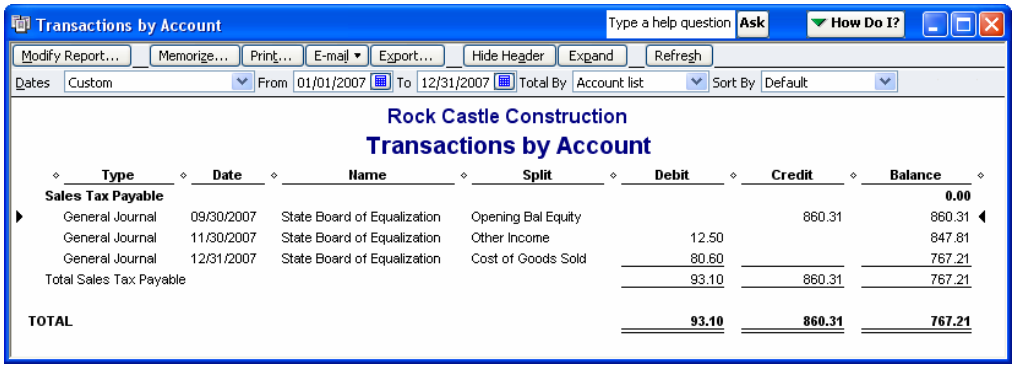
Note: Ideally you would exclude Sales Tax Adjustments. However, sales tax adjustments are not a unique transaction type. Each time you enter a sales tax adjustment QuickBooks creates a Journal Entry transaction. As a result you cannot exclude them from the report.



c. Review each Journal Entry transaction on the report to make sure the transaction correctly posts to Sales Tax Payable. If the entry is related to an adjustment recorded on the sales tax return, the entry is correct. For example, Journal Entry transactions used to record timely filing discounts or credits for sales tax paid on resale items are correct (see Step 2 above). If the entry is not related to an adjustment recorded on the sales tax return, you may need to reverse the entry. Date your reversing adjustments on the same date as the Sales Tax Return you prepared in Step 1 above. If the balance in Sales Tax Payable is still incorrect after you enter these adjustments, proceed to letter d below.

Tip: If there are numerous transactions on the report, sort the report by transaction type to group all of the Journal Entries (i.e., Sales Tax Adjustments) together.

Note: On the report below there are three Journal Entries. The entry on 09/30/2007 sets the opening balance for the account. Rock Castle Construction began tracking Sales Tax in QuickBooks on 09/30/2007. The other two entries reflect adjustments recorded on the sales tax return and are therefore correct. No action is required based on the information shown on this report.



Transactions by Account

Type a help question | Ask | How Do I?

Modify Report... | Memorize... | Print... | E-mail | Export... | Hide Header | Expand | Refresh

Dates Custom | From 01/01/2007 | To 12/31/2007 | Total By Account list | Sort By Default

Rock Castle Construction

Transactions by Account

Type	Date	Name	Split	Debit	Credit	Balance
Sales Tax Payable						**0.00**
General Journal	09/30/2007	State Board of Equalization	Opening Bal Equity		860.31	860.31
General Journal	11/30/2007	State Board of Equalization	Other Income	12.50		847.81
General Journal	12/31/2007	State Board of Equalization	Cost of Goods Sold	80.60		767.21
Total Sales Tax Payable				93.10	860.31	767.21
TOTAL				**93.10**	**860.31**	**767.21**

d. Review each Check or Bill Payment on the report to make sure the amount of the Check or Bill Payment agrees to the amount due on the Sales Tax Return for that period. If the amount of the check is incorrect, enter an adjusting entry dated as of your most recent sales tax return. If the balance in Sales Tax Payable is now correct, proceed to Step 8 below. If the balance in Sales Tax Payable is still incorrect, proceed to Step 6 below.

Note: If the QuickBooks user has been paying sales tax correctly, the report should not show any Checks or Bill Payments. Sales Tax Payments are a separate transaction type that we excluded from the report in letter b above.

Important: Journal Entries shown on the Sales Tax Payable transaction detail report may already adjust the account for the incorrect payment amount. Also, consider that overpayments may be applied to future returns as carry-forward credits. In either of these cases you should not adjust the balance in Sales Tax Payable. With carry forward credits, adjust the sales tax return instead.

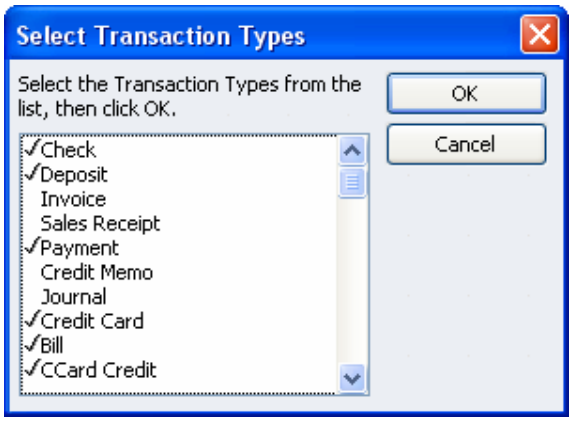
Step 6. Create a Vendor QuickReport for vendor(s) to whom you pay sales tax (e.g., State Board of Equalization).

a. Review the Vendor List to make sure there aren't multiple vendors with similar names before you create the Vendor QuickReport. For more information see Analysis 1, b above for more information.

b. Filter the Vendor QuickReport as follows:

i. By date using the same date range as you used in Step 5.a above.

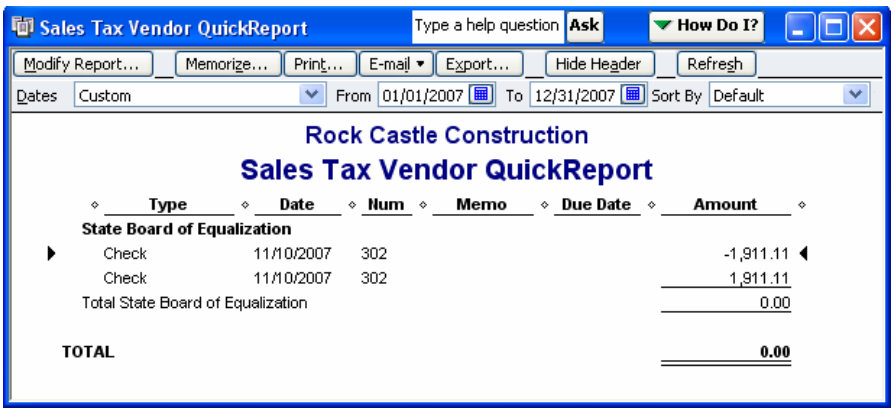
ii. By transaction type for the same transactions you used in Step 5.b above. For this step, exclude General Journal Entries from the report as well.



iii. Remove the account filter so the report will include transactions that post to accounts other than Sales Tax Payable.

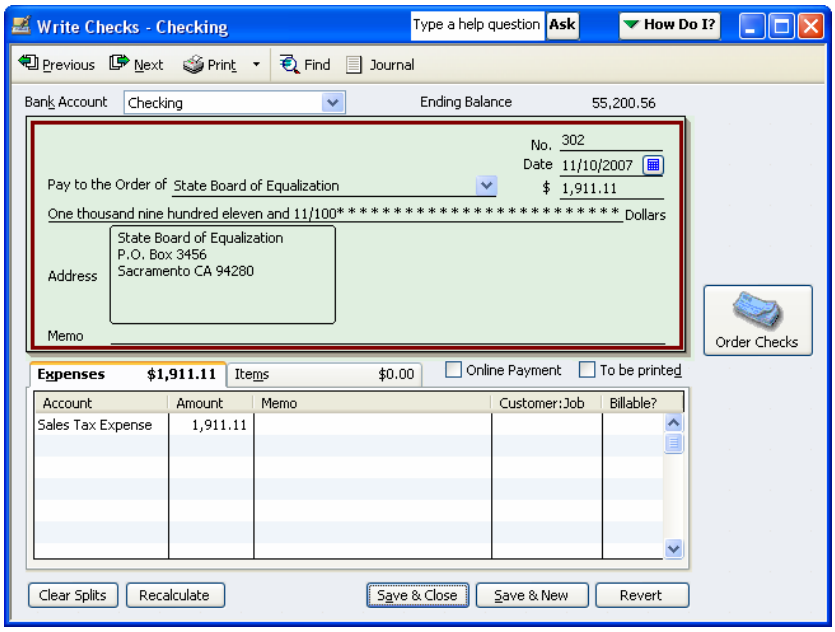
iv. QuickBooks will display the report shown below. Review the list of transactions to see if any single transaction (or grouping of transactions) ties to the overstatement or understatement in Sales Tax Payable. If you cannot tie the transactions in this way, QuickZoom on each transaction to research the postings involved. The most common error is one or more Checks used to pay sales tax that are coded to an account other than Sales Tax Payable (e.g., the check could be coded to Sales Tax Expense).

Tip: If there are numerous transactions on the report, sort the report by Transaction Type to group all of the Checks and Bill Payments together.



v. Double-click the transaction to view the General Ledger accounts to which the transaction posts. QuickBooks will display the transaction entry form as shown below.

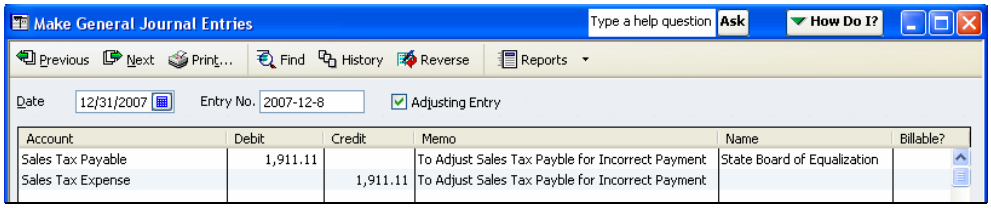
Tip: If there are numerous Checks and/or Bill Payments you may want to add an Account column and a Split column to the Vendor QuickReport. By doing so you won't have to double-click the transaction to see the General Ledger postings. As with any QuickBooks detail report you can add Debit and Credit Columns as well. By adding these columns, the Vendor QuickReport will be similar to the General Ledger report.



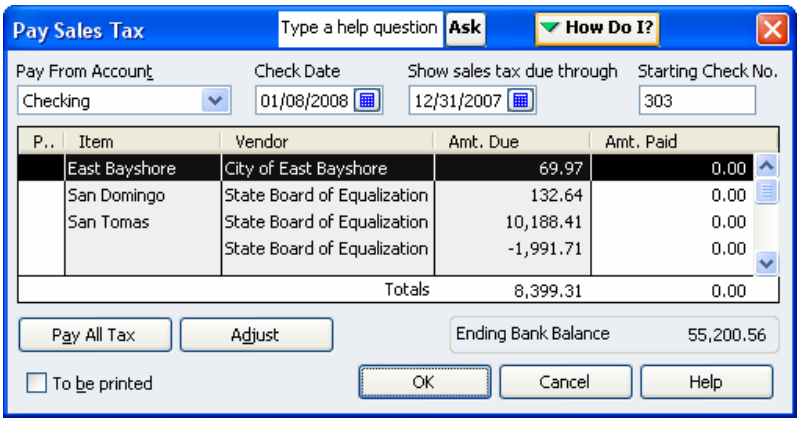
Step 7. When you have located the erroneous transaction(s), you can either edit the transaction(s) or enter an adjusting entry. Notice that the Check above posts to Sales Tax

Expense – a common data entry error. You could enter Sales Tax Payable in the Expense tab of the Check form, or you could enter an adjusting entry as show below. The adjusting entry corrects the balance in both Sales Tax Expense and Sales Tax Payable.

Important: When adjusting Sales Tax Payable, make sure the use the correct Sales Tax Vendor. In our case the adjustment is associated with the State Board of Equalization vendor.

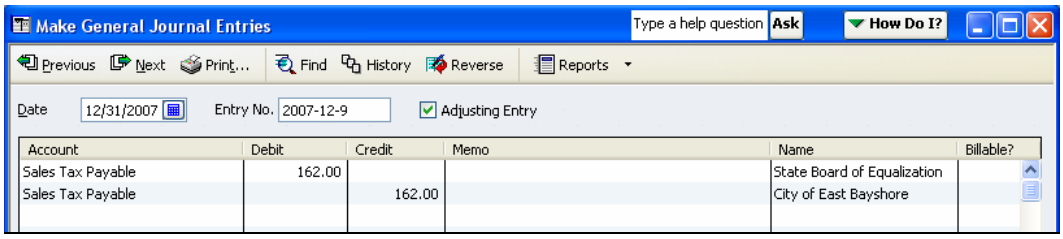


Step 8. Once the balance in Sales Tax Payable is correct, create a Sales Tax Liability report or open the Pay Sales Tax window to make sure the total amount for each vendor agrees to the Company's most recent sales tax return(s) (or to $0.00 if the Company has already paid sales tax for the most recent sales tax return(s)).

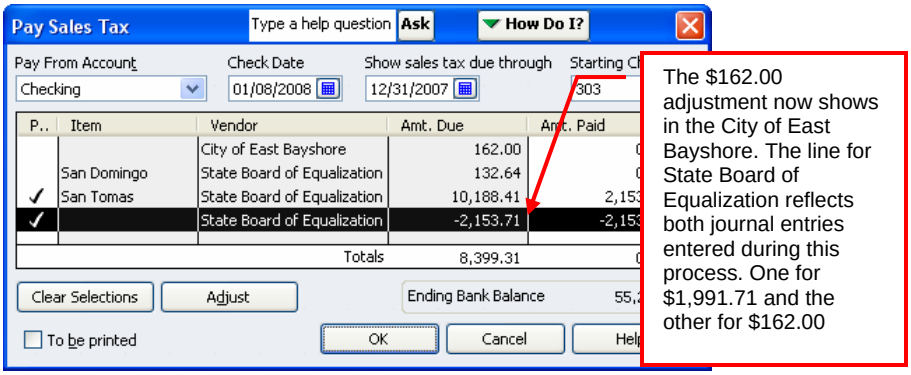


Step 9. If you need to shift amounts on the Pay Sales Tax window or Sales Tax Liability report from one vendor to another, enter a journal entry as shown below. The entry below debits and credits the same account (Sales Tax Payable) so the entry has no net impact on the Balance Sheet.

Note: Though the Sales Tax Payable column on the Sales Tax Liability Report will shift from one vendor (row) to another, the adjustment shown below has no impact on the Sales and Tax Collected columns of the Sales Tax Liability Report.

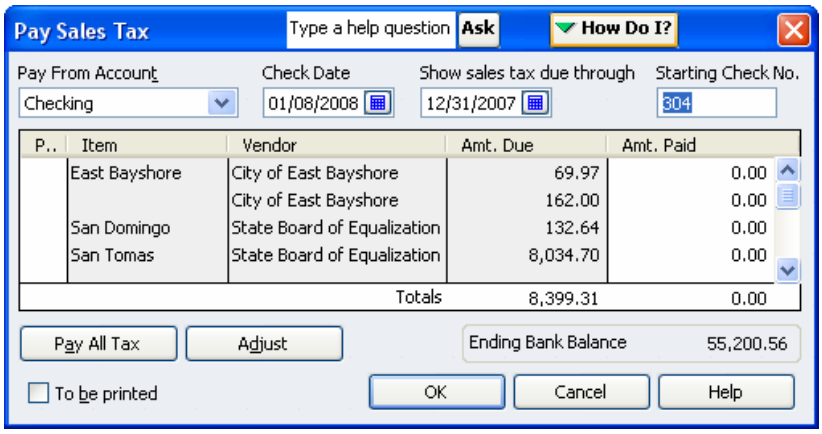


Step 10. QuickBooks creates a separate Sales Tax Payment for each vendor shown on the Pay Sales Tax window (on selected lines only). Notice that the adjustment to Sales Tax Payable for the incorrectly coded check (Step 7 above) shows on a separate line, associated with the State Board of Equalization vendor record. QuickBooks uses this separate line for all transactions that affect Sales Tax Payable without affecting a Sales Tax Items. For example, if we had entered multiple adjustments or if there were Checks/Bill Payments used to pay sales tax, QuickBooks would have netted the adjustments together by vendor.



Step 11. Once the balance in Sales Tax Payable and the total for each Sales Tax Vendor are correct, create a Sales Tax Payment to clear erroneous detail from the Pay Sales Tax window as shown above. The total check amount will always be zero. You perform this step to remove your adjustment from the Pay Sales Tax window.

Step 12. Once all of the information is correct, click OK. Then, re-open the Pay Sales Tax window to confirm that QuickBooks cleared all adjustments and erroneous detail from the window – as shown below. The total sales tax due will not have changed.



TROUBLESHOOTING PAYROLL LIABILITIES
Modifying the Payroll Liabilities Report to Reflect GL Activity
Comparing Payroll Liabilities to the Balance Sheet
Resetting Payroll Liability Detail

ANALYSIS 8: TROUBLESHOOTING PAYROLL LIABILITIES

Almost everyone agrees that QuickBooks has greatly simplified the bookkeeping process. However, no software solution – however user friendly – can prevent data entry errors. When QuickBooks users set up or use QuickBooks incorrectly, they turn to their accountants to help them restore the accuracy of their accounting information. Troubleshooting errors in your clients' QuickBooks data files is therefore a staple of any healthy QuickBooks consulting practice.

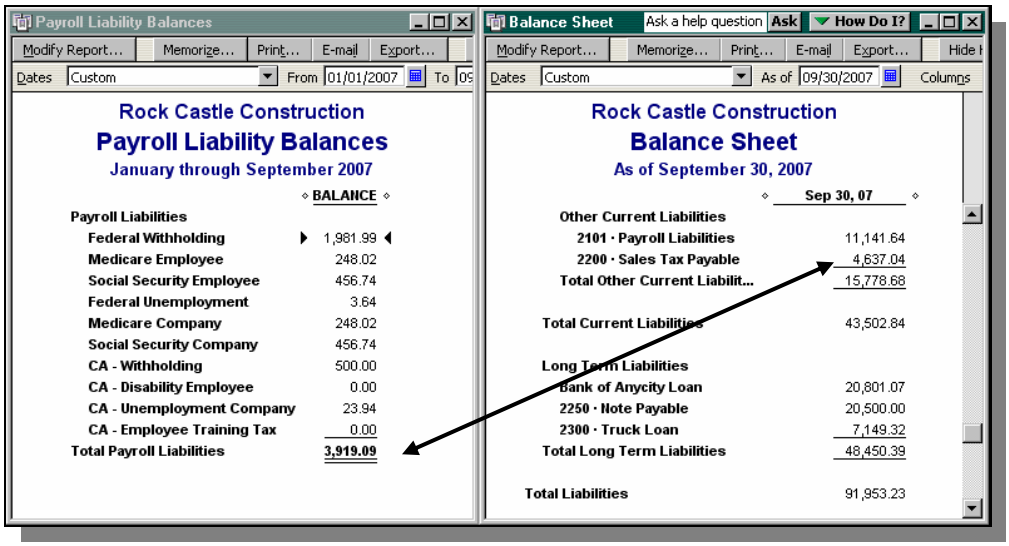
Payroll transactions are one of the trickiest and most complicated areas in bookkeeping. Though QuickBooks has streamlined the payroll process greatly with user-friendly windows and integrated tax tables, many clients will still set up or use the system incorrectly.

This article focuses on discrepancies between the Payroll Liability Balances report and the Balance Sheet. If both reports agree but are equally incorrect, there are probably calculating or setup errors with QuickBooks payroll. Look for:

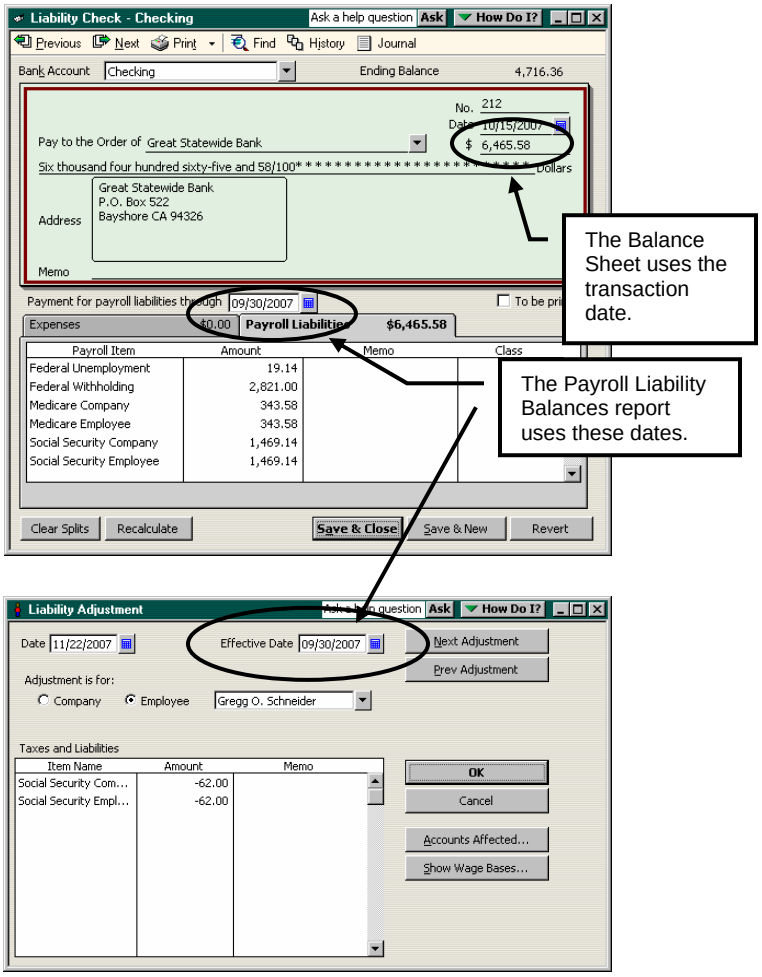
- Obsolete Payroll Tax Tables.
- Incorrect rates in Payroll Item setup widows. Note: QuickBooks sets the rates for Federal Withholding, FICA (employee and company), Federal Unemployment, and State Withholding. You will need to review the Payroll Item setup for user-specific deductions (e.g., garnishments), State Unemployment, and other state-specific withholdings and accruals (e.g., disability).
- Payroll Items with a Liability Account field that post to an incorrect account type. QuickBooks will not post to Payroll Liabilities on either the Balance Sheet or the Payroll Liability Balances report if the user does not enter an account with an "Other Current Liability" or "Long Term Liability" type. This type of error usually causes both the Balance Sheet and the Payroll Liability Balances report to be understated. Consider that some Payroll Items appropriate credit expense accounts or asset accounts using the Liability Account field (e.g., health insurance deductions from net pay).

Step 1: Create a Modified Payroll Liability Balances Report

The Balance Sheet and Payroll Liability Balances Report below do not agree – even though the General Ledger and the QuickBooks Payroll Reports are completely accurate.



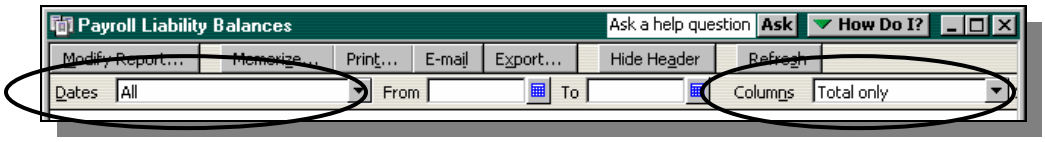
The two reports do not agree because they are built on two different dates. Though the reports seem to show the same date information at the top of the report windows, the date fields at the top of the Payroll Liability Balances report represent the Paid Through date and/or the Effective date. The Paid Through date appears on Payroll Liability Checks and the Effective Date field shows on Payroll Liability Adjustments, as shown below.



Because the Payroll Liability Balances report and the Balance Sheet calculate on two different dates, you will need to modify the Payroll Liability Balances report to accurately compare the report to the Balance Sheet. Perform the following steps:

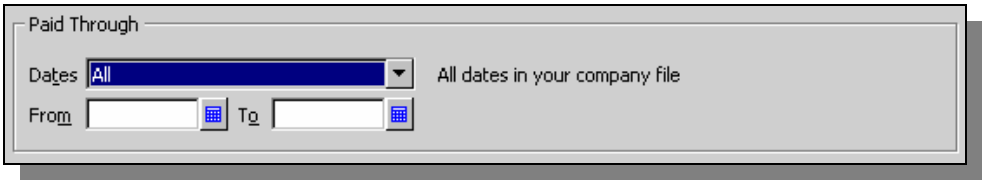
Step 1. Select the *Reports* menu, select *Employees & Payroll,* and then select *Payroll Liability Balances*.

Step 2. Select *All* in the Dates field drop-down menu as shown below.
When you select *All* in the Dates field, QuickBooks will no longer refer to the Paid Through date when calculating the report.

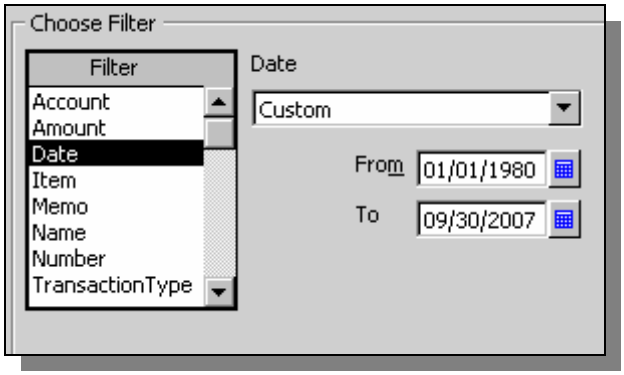


Step 3. Select *Total only* in the Columns field drop-down menu as shown above.
By default, QuickBooks 2004 selects *Month* in this field. In some previous versions of QuickBooks this field may have *Total only* already selected.

Step 4. Click *Modify Report*
Notice on the Display tab that the Paid Through date range is set to *All*. See the figure below. This setting is the same as the Dates field on the report window.



Step 5. Select the Filters tab and filter the report by *Date*. Enter a date in the *From* field that pre-dates the use of the QuickBooks file (e.g., 01/01/1980). Then, enter the date of the Balance Sheet to which you are comparing this report in the *To* field. This setting has the same effect as entering 09/30/2007 in the *As of* field on the Balance Sheet.

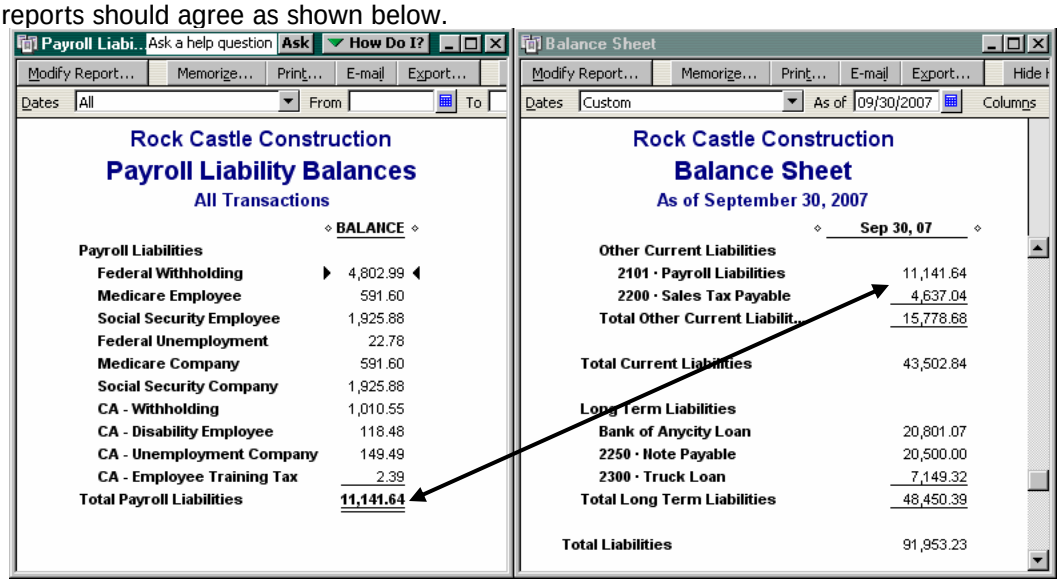


Step 6. Click **OK**. Memorize the report for future reference.

Step 7. **Important:** You will need to use the Filters tab of the Modify Report window to update the date range the next time you use this report to analyze the client's payroll.

Step 8. Create a Balance Sheet report and compare the information on the two reports. If both your Payroll Liability account(s) and your Payroll Item detail are accurate, the two

reports should agree as shown below.



Payroll Liabi... | Ask a help question | Ask | How Do I?

Modify Report... | Memorize... | Print... | E-mail | Export...

Dates All From To

Rock Castle Construction

Payroll Liability Balances

All Transactions

	BALANCE
Payroll Liabilities	
Federal Withholding	4,802.99
Medicare Employee	591.60
Social Security Employee	1,925.88
Federal Unemployment	22.78
Medicare Company	591.60
Social Security Company	1,925.88
CA - Withholding	1,010.55
CA - Disability Employee	118.48
CA - Unemployment Company	149.49
CA - Employee Training Tax	2.39
Total Payroll Liabilities	11,141.64

Balance Sheet

Modify Report... | Memorize... | Print... | E-mail | Export... | Hide

Dates Custom As of 09/30/2007 Columns

Rock Castle Construction

Balance Sheet

As of September 30, 2007

	Sep 30, 07
Other Current Liabilities	
2101 · Payroll Liabilities	11,141.64
2200 · Sales Tax Payable	4,637.04
Total Other Current Liabilit...	15,778.68
Total Current Liabilities	43,502.84
Long Term Liabilities	
Bank of Anycity Loan	20,801.07
2250 · Note Payable	20,500.00
2300 · Truck Loan	7,149.32
Total Long Term Liabilities	48,450.39
Total Liabilities	91,953.23

Tip: With both reports displayed (and no other QuickBooks windows open), select *Tile Vertically* from the Window drop down menu. Doing so will help you to compare the two reports. If you prefer, you can modify the Balance Sheet to include the Payroll Liability account(s) only and memorize the report for future reference.

Step 2: Troubleshoot Discrepancies between the Payroll Liabilities Report and the Balance Sheet

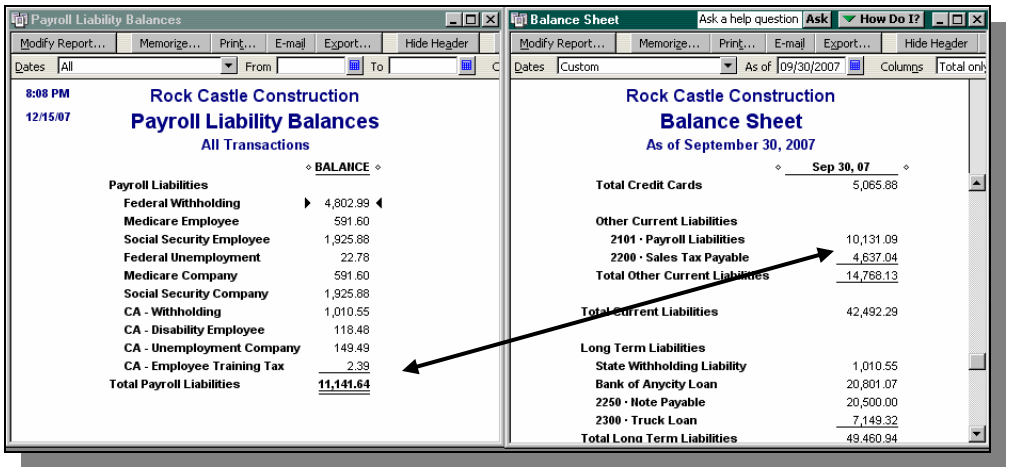
There are several reasons why the modified Payroll Liability Balances report will disagree with the Balance Sheet:

Reason 1: A Payroll Item posts to a *liability* account other than Payroll Liabilities

QuickBooks builds the Payroll Liability Balances report based on Payroll Item detail. QuickBooks will include Payroll Items that meet two criteria:

1. The Payroll Item must have a *Liability Account* field. This includes all Deduction and Withholding Payroll Items as well as Advanced Earned Income Credit, Social Security, Medicare, Unemployment and Disability Payroll Items. Other state-specific Payroll Items may have a *Liability Account* field as well.
2. The *Liability Account* field in the Payroll Item setup must post to an account with an Other Current Liability or Long Term Liability type. Some Deduction Payroll Items may credit another type of account in the *Liability Account* field other than a Liability account. For example, deductions for the employee-paid portion of Heath Insurance may credit (reduce) Insurance Expense. Also, deduction items for the re-payment of employee advances may reduce (credit) Due from Employees (an other current asset account).

The Balance Sheet and Payroll Liability Balances reports below do not agree.



Perform the following steps to review the accounts in the Liability Account fields of the Payroll Item setup windows.

Step 1. Create a modified Payroll Item Listing report to review the General Ledger accounts associated with each Payroll Item.

a. On the Display tab, show the following columns: Payroll Item, Type, and Liability Account.

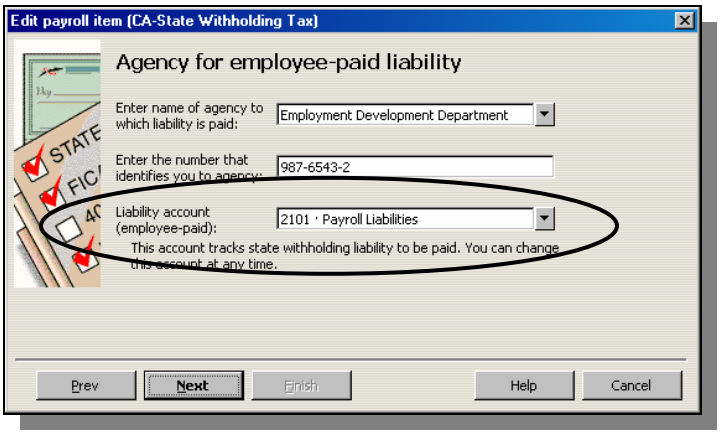
b. On the Filters tab, remove the Active Status filter. QuickBooks will now show all of the Payroll Items on the list.

c. On the Header/Footer tab, enter "Payroll Item Listing – Liability Accounts" in the Report Title field. QuickBooks will display the report shown below. Memorize the report for future use.

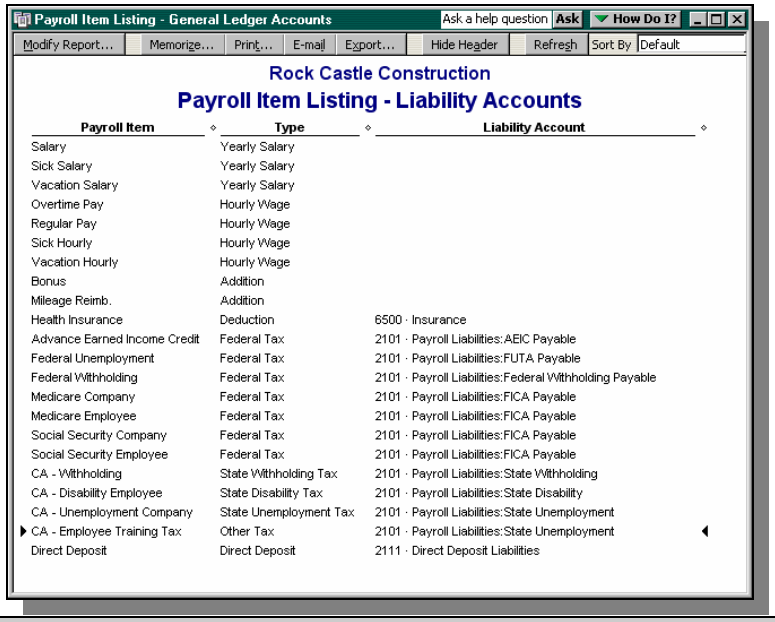
QuickBooks does not refer to this Payroll Item when calculating the Payroll Liability Balances report.

This account is a Long Term Liability type and will not affect the Payroll Liabilities account or sub-accounts on the Balance Sheet.

Step 2. Review the Liability Account column. Make sure that each account posts to Payroll Liabilities – or to a sub-account of Payroll Liabilities. If there are exceptions – like Health Insurance – make sure the exceptions accurately post to an account with a type other than Other Current Liabilities or Long Term Liabilities. Edit the Liability account field in each Payroll Item as necessary.



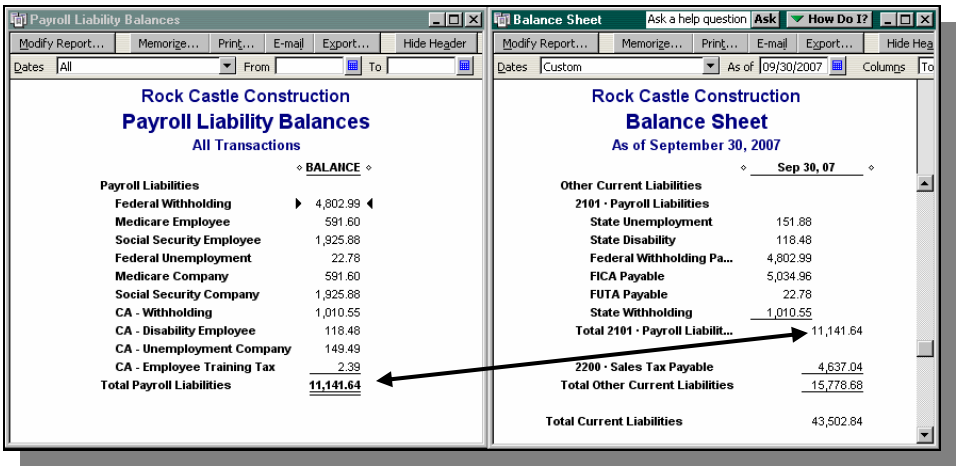
Step 3. (Optional) If all of the Payroll Items post to a single Payroll Liabilities account, (the default for QuickBooks Payroll Setup wizard), edit the Payroll Items and enter an appropriate sub-account of Payroll Liabilities. Doing so will provide greater detail on the Balance Sheet and will facilitate the reconciliation of the two reports. After you perform this step QuickBooks will update the Payroll Item Listing report as shown below.



Payroll Item	Type	Liability Account
Salary	Yearly Salary	
Sick Salary	Yearly Salary	
Vacation Salary	Yearly Salary	
Overtime Pay	Hourly Wage	
Regular Pay	Hourly Wage	
Sick Hourly	Hourly Wage	
Vacation Hourly	Hourly Wage	
Bonus	Addition	
Mileage Reimb.	Addition	
Health Insurance	Deduction	6500 · Insurance
Advance Earned Income Credit	Federal Tax	2101 · Payroll Liabilities:AEIC Payable
Federal Unemployment	Federal Tax	2101 · Payroll Liabilities:FUTA Payable
Federal Withholding	Federal Tax	2101 · Payroll Liabilities:Federal Withholding Payable
Medicare Company	Federal Tax	2101 · Payroll Liabilities:FICA Payable
Medicare Employee	Federal Tax	2101 · Payroll Liabilities:FICA Payable
Social Security Company	Federal Tax	2101 · Payroll Liabilities:FICA Payable
Social Security Employee	Federal Tax	2101 · Payroll Liabilities:FICA Payable
CA - Withholding	State Withholding Tax	2101 · Payroll Liabilities:State Withholding
CA - Disability Employee	State Disability Tax	2101 · Payroll Liabilities:State Disability
CA - Unemployment Company	State Unemployment Tax	2101 · Payroll Liabilities:State Unemployment
CA - Employee Training Tax	Other Tax	2101 · Payroll Liabilities:State Unemployment
Direct Deposit	Direct Deposit	2111 · Direct Deposit Liabilities

Important: When you change the accounts in the Payroll Item setup window, QuickBooks will update all transactions in the data file that include the Payroll Item. Consider the impact on prior period reporting when performing step 2 and 3 above. You may need to enter a Journal Entry as of the last day of the previous fiscal reporting period to reverse the retro-active impact of your edits to the Payroll Items.

Step 4. Compare the Balance Sheet to the modified Payroll Liability Balances report. If the two reports still do not agree, you can continue troubleshooting the problem as described in the following sections. The two reports below now agree. Notice that the Balance Sheet now shows separate balances for each type of Payroll Liability.

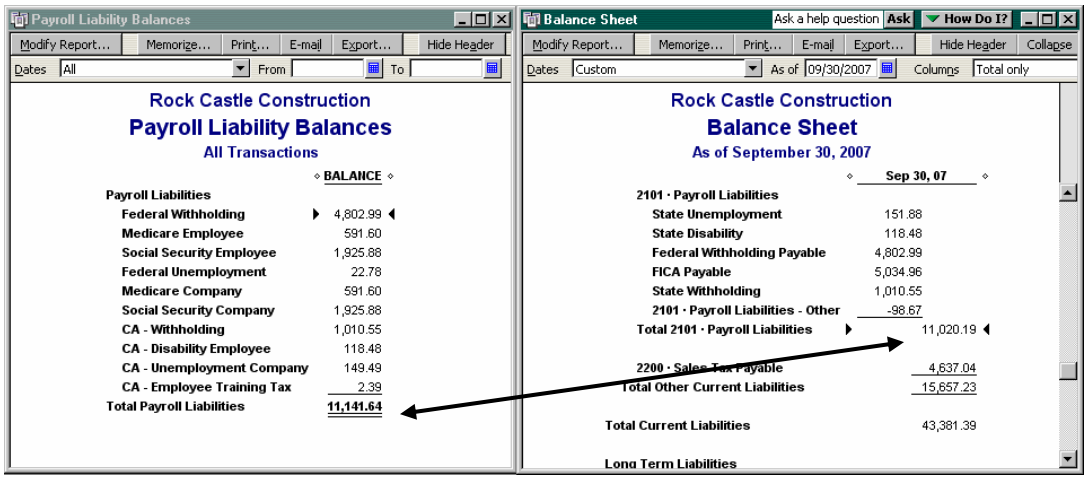


Tip: To help prevent the issue above, use the Payroll Liabilities account that QuickBooks included on the Chart of Accounts when you created the data file. If you do so, QuickBooks will refer to that account as the default when users setup new Payroll Items. Even if users accept the default account when setting up new Payroll Items, the two reports above will agree. You can always edit the Payroll Item later so that it posts to a more specific sub-account. If you have already created another Payroll Liabilities account, merge your account with the one that QuickBooks created. Make sure the merge retains the QuickBooks account, not the one you created. Then, you can rename the QuickBooks-created account if you prefer.

Reason 2: A User Adjusted a Payroll Liability Account Incorrectly

Since non-payroll transactions do not have a field for Payroll Items, these transactions will affect the General Ledger but will have no impact on Payroll Item detail. Usually, the non-payroll transaction will be a Journal Entry (that adjusts Payroll Liabilities) or a Check (that pays Payroll Liabilities).

In the report below, the modified Payroll Liability Balances report does not agree to the Balance Sheet. Notice that the Payroll Liability Balances report shows a liability for Federal Unemployment but the Balance Sheet does not. Also, notice that there is a negative balance for "Payroll Liabilities – Other."



Note: If the Balance Sheet includes a balance for Payroll Liabilities – Other as shown above:

- Someone posted a non-payroll transaction to the Payroll Liabilities header account, rather than the appropriate sub-account. Use the steps in this section to remove the negative entry.
- A Payroll Item posts directly to Payroll Liabilities rather than the appropriate sub-account. Review the account fields of the Payroll Item setup window as described in the section above. Then, edit the Payroll Item(s) to post to the correct sub-account.

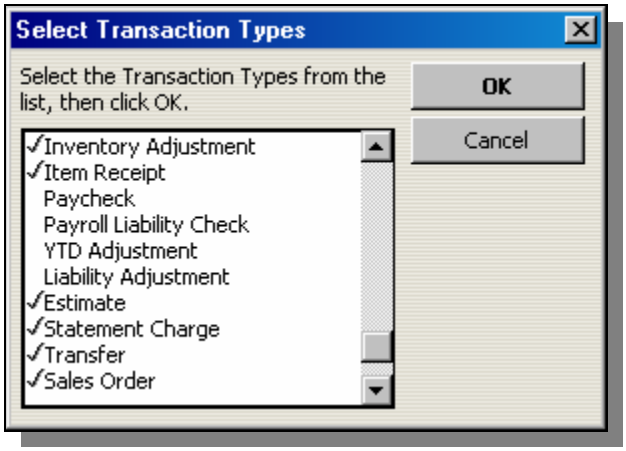
Solution

Step 1. Double-click the Total Payroll Liabilities balance on the Balance Sheet. QuickBooks will display a transaction detail report showing transactions in QuickBooks that affect Payroll Liabilities or Payroll Liabilities sub-accounts.

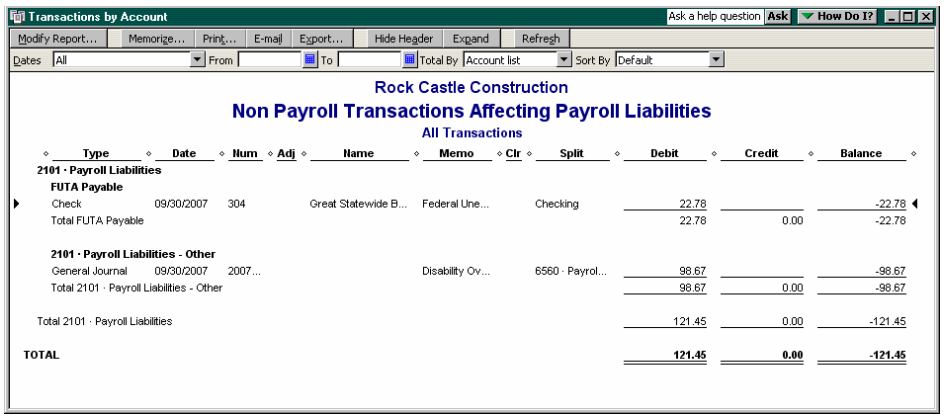
Step 2. Click Modify Report.

Step 3. On the Display tab, set the date range for the report to "All."

Step 4. On the Filters tab, filter the report by transaction type to include all transaction types except: Paycheck, Payroll Liability Check, YTD Adjustment, and Liability Adjustment as shown below.



Step 5. Click OK twice to save your modifications and to create the filtered report. QuickBooks will show all of the non-payroll transactions that post to Payroll Liabilities. If the report contains numerous transactions dated in previous calendar years, you may want to set the date range to the current year only. However, consider that Payroll Liabilities may have been incorrect for months or even years. Also consider that a user may have editing or entered a transaction entered dated in the past.

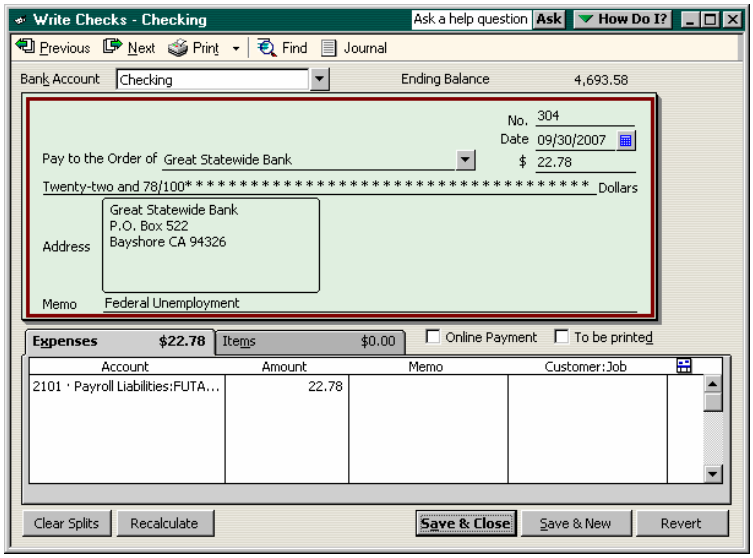


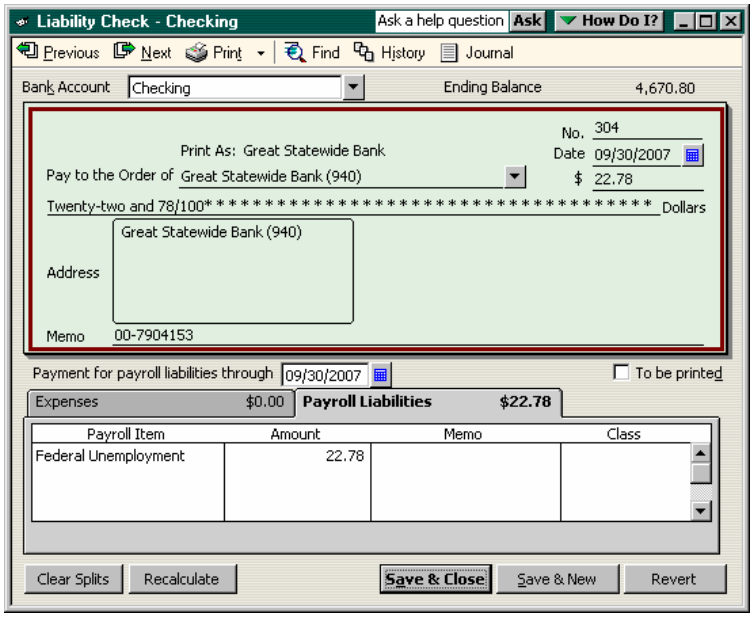
Type	Date	Num	Adj	Name	Memo	Clr	Split	Debit	Credit	Balance
2101 · Payroll Liabilities										
FUTA Payable										
Check	09/30/2007	304		Great Statewide B...	Federal Une...		Checking	22.78		-22.78
Total FUTA Payable								22.78	0.00	-22.78
2101 · Payroll Liabilities - Other										
General Journal	09/30/2007	2007...			Disability Ov...		6560 · Payrol...	98.67		-98.67
Total 2101 · Payroll Liabilities - Other								98.67	0.00	-98.67
Total 2101 · Payroll Liabilities								121.45	0.00	-121.45
TOTAL								**121.45**	**0.00**	**-121.45**

Step 6. You have two options when correcting this problem:

a. **Option 1:** You can delete the existing transaction and then replace it with a payroll transaction. In the two screenshots below, the Payroll Liability payment replaces the check.

Note: On the Payroll Liability Check below, the date and the "Payment for payroll liabilities through" dates are the same. Many times the two dates will be different. Enter the date of the transaction (i.e. the date that will impact the General Ledger) in the Date field. Use the "Payment for payroll liabilities through" field to apply the adjustment to a particular pay period (when adjusting a single payroll run) or to a specific calendar quarter (when making global adjustments to Payroll Liabilities).

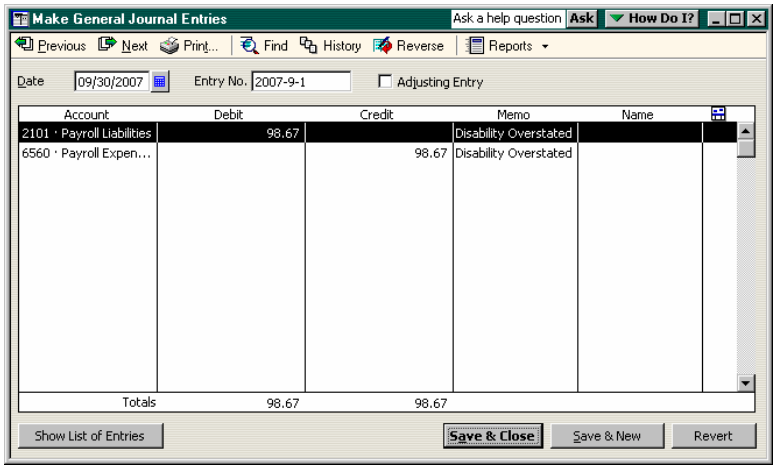


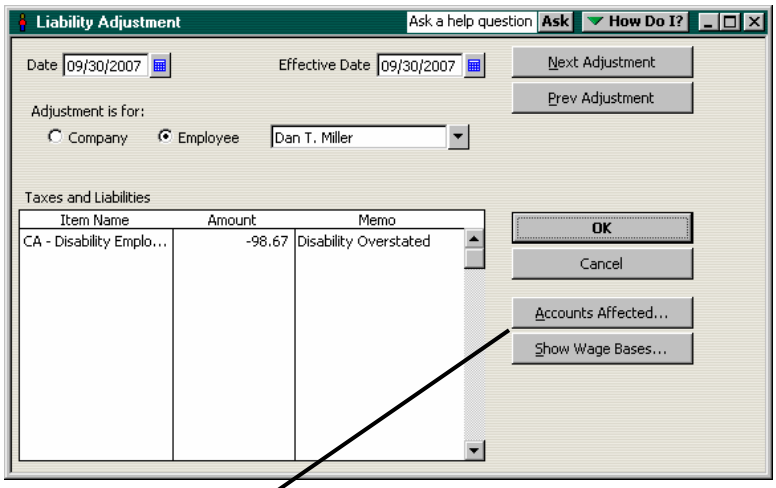


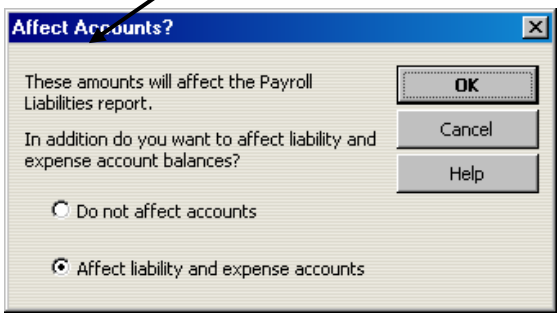
In the screenshots below, a Payroll Liability Adjustment replaces a Journal Entry. Make sure the Liability adjustment is set to "Affect Accounts." That way the

replacement transaction will update both the payroll item detail and the General Ledger.

Note: On the Payroll Liability Adjustment below, the date and the effective date are the same. Many times the two dates will be different. Enter the date of the transaction (i.e. the date that will impact the General Ledger) in the Date field. Use the effective date to apply the adjustment to a particular pay period (when adjusting a single payroll run) or to a specific calendar quarter (when making global adjustments to payroll reports).







If you choose this option, consider:

i. The impact on prior period financial statements. Make sure the replacement payroll transaction you enter has the same impact on the

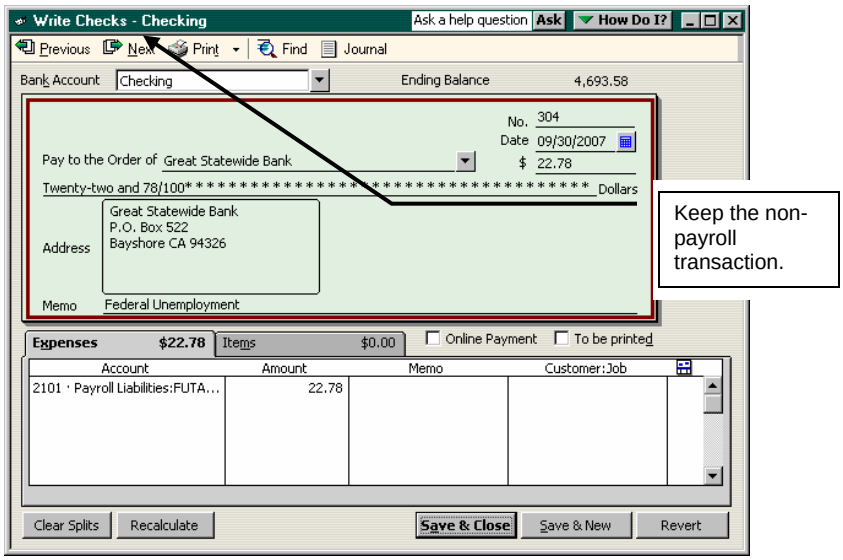
General Ledger as the existing transaction. If this is the case, there will be no change in prior period financial statements.

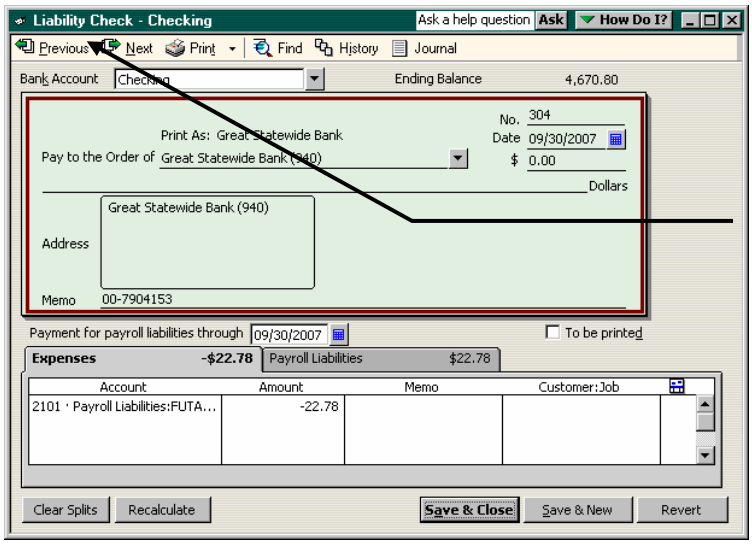
ii. The impact on the Beginning Balance field of the Bank Reconciliation window. If the transaction you delete posts to a bank account and is reconciled, you will cause a discrepancy between the Bank Reconciliation feature and the company's bank statement. If you prefer, you can always re-reconcile the transaction. Click here [link to September IPC newsletter – master tip by Douglas Sleeter] for more information about re-reconciling transactions and restoring the correct Beginning Balance.

iii. The impact on previous quarterly payroll reports. If the company used QuickBooks to prepare its quarterly 941 and accepted the QuickBooks-calculated amounts, deleting the non-payroll transaction and replacing it with a payroll transaction may cause QuickBooks payroll reports to disagree with the 941 the company submitted to the IRS.

b. **Option 2:** You can keep the existing transaction and enter a payroll transaction that impacts payroll reports but has no impact on the General Ledger. (Recommended).

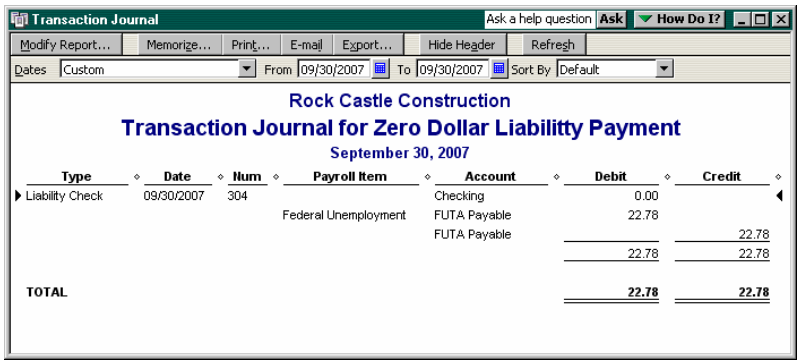
In the figures below, the Liability Check mirrors the check. The Liability check affects the Payroll Item but has no impact on the General Ledger.





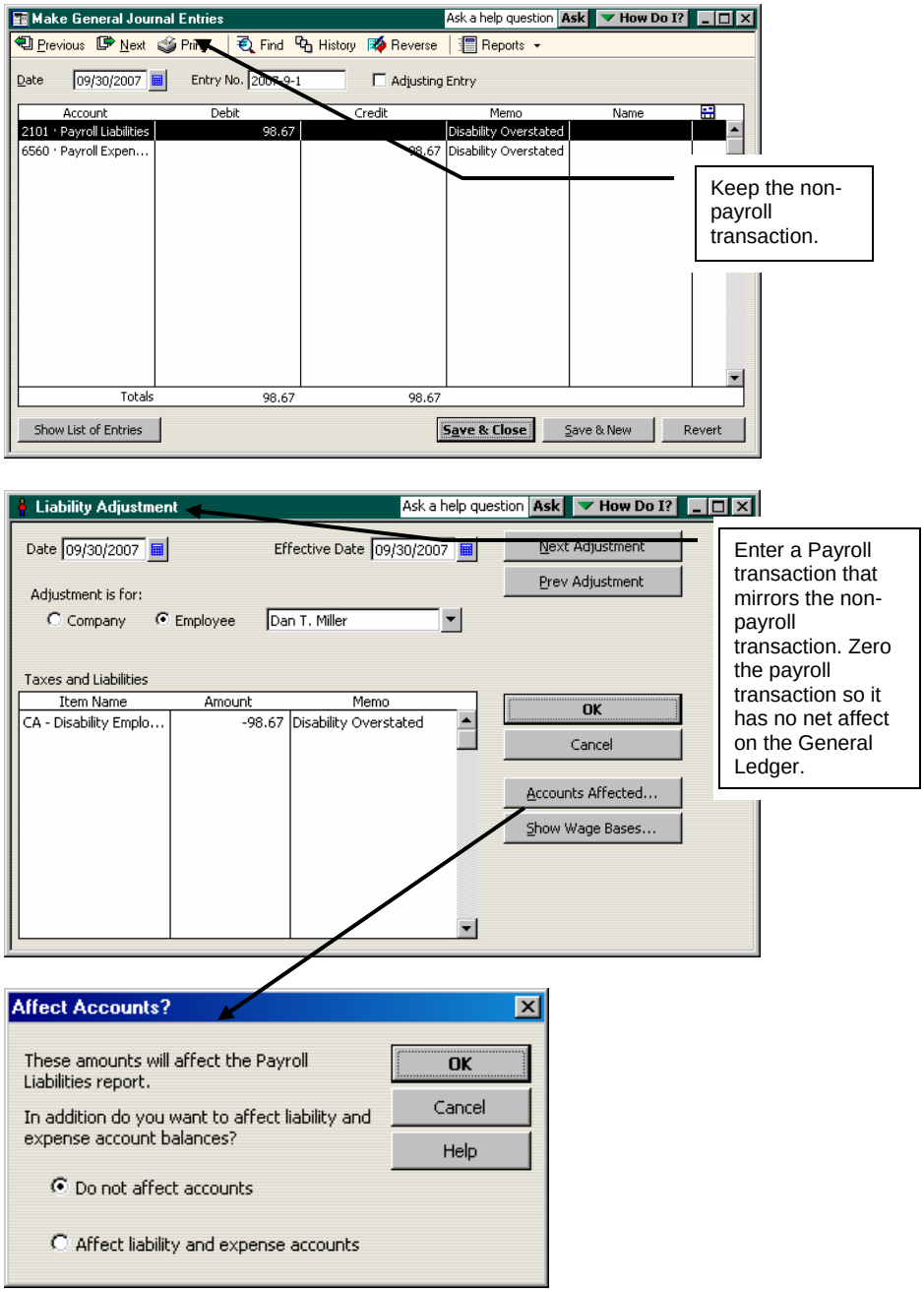
Enter a Payroll transaction that mirrors the non-payroll transaction. Zero the payroll transaction so it has no net effect on the General Ledger.

The entry above creates the following Transaction Journal. Notice that the debit to FUTA Payable affects the Payroll Item but the credit to FUTA Payable does not affect the Payroll Item. This "non-posting" entry will update the Payroll reports only.



Note: When you choose this option, your entry will have no effect on the Beginning Balance field of the Bank Reconciliation window. However, the zero check will show on the Bank Reconciliation as a deposit with a 0.00 amount. Clear the transaction during your next bank reconciliation.

In the figures below, the Payroll Liability Adjustment mirrors the journal entry. When choosing this option, make sure the Payroll Liability Adjustment is set to "Do Not Affect Accounts."



Important: Consider the impact that your entry will have on prior period payroll tax returns. If your "non-posting" payroll entry affects payroll reports for the previous the calendar quarter, consider changing the date in the "Payment for payroll liabilities through" field to the first day of the current payroll reporting period. By doing so you may be able to avoid re-filing your prior period returns.

Reason 3: Using a Wrong/Future Date When Paying Payroll

Perform the following steps to correct this problem:

Step 1. Change the transaction dates of both the Balance Sheet and the Payroll Liability Balances reports to 12/31/9999. (Make sure to change the *Date* on the Payroll Liability Balances report, not the Paid Through date.)

Step 2. Review the reports and note any changes in balances. If the balances on either report change, the user entered a future date when recording the transaction.

Step 3. Double-click on the changed balance on the Balance Sheet or Payroll Liability Balances report. QuickBooks will display a transaction detail report. Set the date range of the transaction detail report to include all future dates (i.e., tomorrow through 12/31/9999). QuickBooks will show the detail of the future dated transactions.

Step 4. Double-click the transaction(s) and enter the correct date.

Note: Changing the date of a reconciled transaction will have no impact on the Beginning Balance field of the Bank Reconciliation window.

Reason 4: Failure to Enter Year-to-Date Liability Payments

The Cause:
When setting up payroll in the middle of a calendar year, you will enter year-to-date Paychecks for each employee using the "Enter Year-to-Date amounts" section of the Payroll Setup Wizard. These year-to-date entries will increase the amounts on the Payroll Summary report (by employee) and will also increase the balances on the Payroll Liability Balances report.

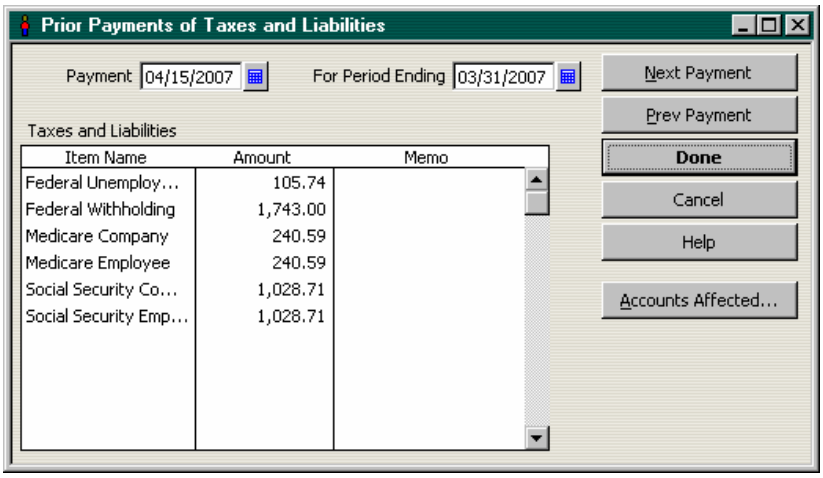
Subsequently, you will use the Payroll Setup Wizard to enter year-to-date Payroll Liability Payments. These entries will reduce the balances on the Payroll Liability Balances report.

Important: All year-to-date payroll entries should not affect the General Ledger. You will set beginning balance for the Payroll Liability *account and sub-accounts* Sheet balances using a Journal Entry dated on your QuickBooks start date.

There are four ways that users can cause a discrepancy between the Payroll Liability Balances report and the Balance Sheet as the result of year-to-date payroll entries:

1. The user entered inaccurate or incomplete year-to-date paychecks. Since the year-to-date paychecks (called YTD Adjustments in QuickBooks) increase the balances on the Payroll Liability Balances report, the report will be inaccurate. To correct, use the Find command and search by transaction type for "YTD Adjustment." QuickBooks will display each year-to-date paycheck entry. Review each to make sure the amounts are correct.
2. The user entered one or more year-to-date paychecks using an "Affect Accounts" setting that increases both the balances on the Payroll Liability Balances report *and* the Balance Sheet. Since you set the year-to-date Balance Sheet balances using a Journal Entry, the Balance Sheet balances will be overstated. To correct, use the find command to search by transaction type for "YTD Adjustment." QuickBooks will display each year-to-date paycheck entry. Review each to make sure the Affect Accounts setting is set to "Do not Affect Accounts."
3. The user failed to enter all of the year-to-date liability payments while using the Payroll Setup Wizard. Or, the user entered the wrong amounts on year-to-date liability payments. Use the Find command to search by transaction type for "Liability Adjustment." All Liability Adjustments dated on or before the payroll start date will be year-to-date Payroll Liability payments. Double-click on any year-to-date Payroll Liability payments with an incorrect amount. Then, if applicable, use the Payroll Setup Wizard to enter missing year-to-date liability payments.
4. The user entered all of the year-to-date liability payments accurately, but used an "Affect Accounts" setting that decreased both the balances on the Payroll Liability Balances report and the Balance Sheet. This data entry error will cause Payroll Liabilities on the Balance Sheet to be understated. To correct, use the Find command to search by

Transaction Type for "Liability Adjustments." QuickBooks will display all of the year-to-date liability payments. Review each entry to make sure the Affect Accounts setting is set to "Do Not Affect Accounts."



Important: The "For Period Ending" date should reflect the last day of the pay period for which you are paying liabilities. QuickBooks uses this date to update Payroll reports and forms. For example, a monthly depositor paying March liabilities would enter 04/15/2007 in the Payment field and 03/31/2007 in the For Period Ending field.

Important: Make sure you do not include the January liability payment for the previous year's accrued payroll liabilities when entering year-to-date liability payments.

Alternative Method – Resetting Payroll Liability Detail

If you use the Payroll feature in QuickBooks inaccurately for several months – or even several years – you may need to reset the Payroll Liability Detail for both the Payroll Liability Balances report and the Balance Sheet. Perform the following steps to reset Payroll Liability Detail:

Important: Though you can perform these steps at any time during the calendar year, it is best (by far) to reset the Payroll Liabilities as of the last day of the calendar year. The examples in this section will assume a reset date of December 31, 2007.

Step 1. Calculate the correct December 31 balances for Payroll Liabilities independently of QuickBooks. Then, if the Payroll Liability balances are inaccurate in QuickBooks, determine the other account(s) on the Chart of Accounts that also have incorrect balances (e.g. Payroll Expenses). Do not enter a journal entry during this step.

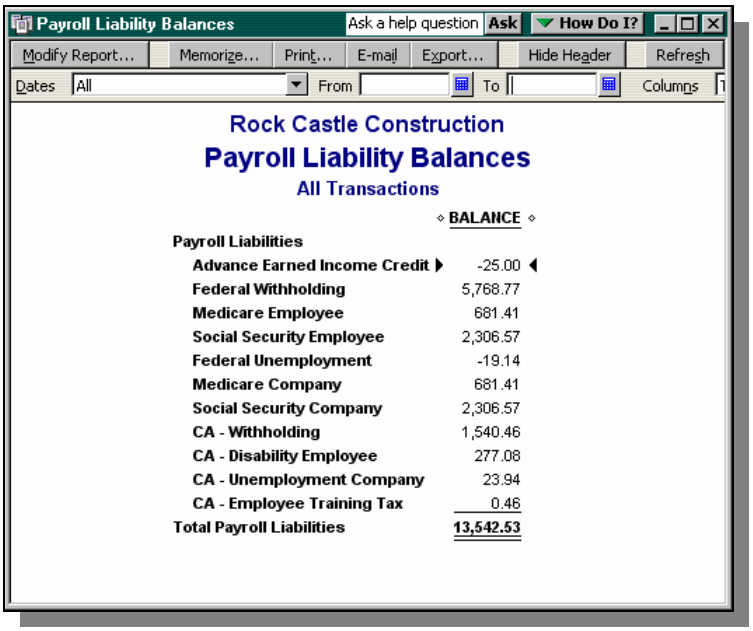
Step 2. Open the Chart of Accounts and show active and inactive accounts. If there are multiple Payroll Liability accounts and/or sub-accounts, merge the accounts together. Make sure you retain the Payroll Liability account that QuickBooks added to the Chart of Accounts when you created the file.

Step 3. Review the setup of all Payroll Items that impact Payroll Liabilities. Edit each Payroll Item as necessary to include the Payroll Liabilities account in the *Liability Account* field. As stated in previous sections above, some deduction Payroll Items may accurately post to asset or expense accounts in the *Liability Account* field (e.g. Heath insurance deductions from net pay). Do not edit these Payroll Items.

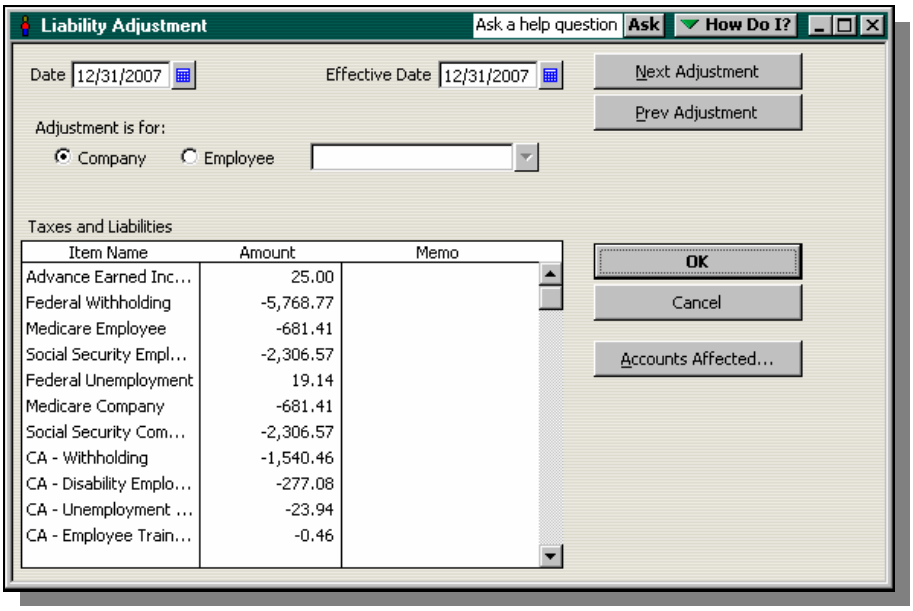
Step 4. Using a Journal Entry, clear the balance in the Payroll Liabilities account. Offset the entry to a clearing account called "Payroll Adjustment Clearing." When you create the clearing account, use a balance sheet account type so the account will have a register

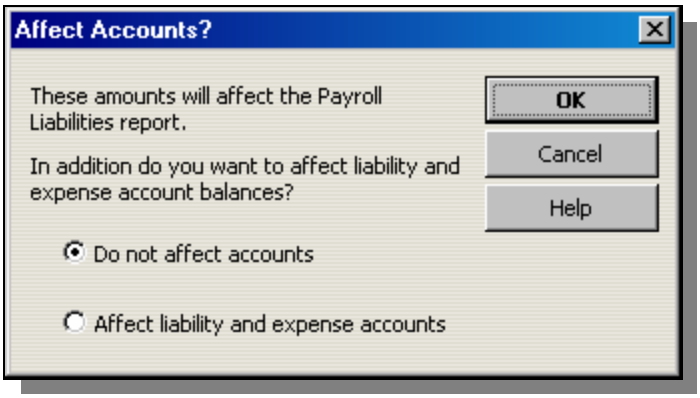
and so that the account will show a balance on the Chart of Accounts list. Both will help you to track the adjustment activity.

Step 5. Create and modify a Payroll Liability Balances report as described in Step 1 above.

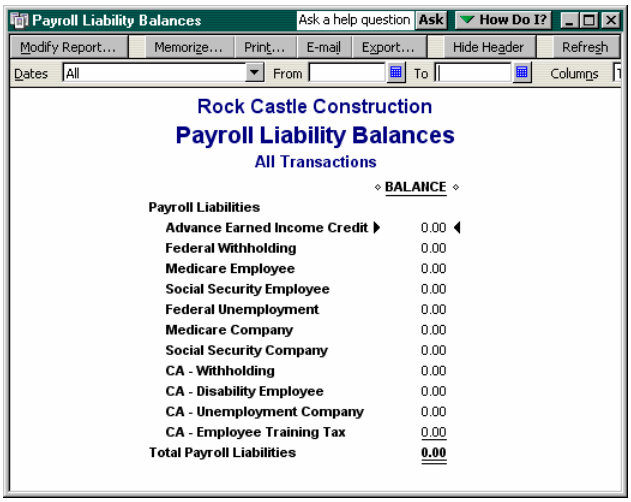


Step 6. Use a Payroll Liability Adjustment transaction to clear the balances on the Payroll Liability Balances report. Enter 12/31/2007 in both the Date and Effective Date fields. Use positive amounts to increase the balances (if the balances are negative) and use negative amounts to reduce balances. Select the Option "Do Not Affect Accounts." Do not enter an employee on the Liability Adjustment, even if QuickBooks prompts you to do so. You do not want this adjustment to impact employee W-2s.



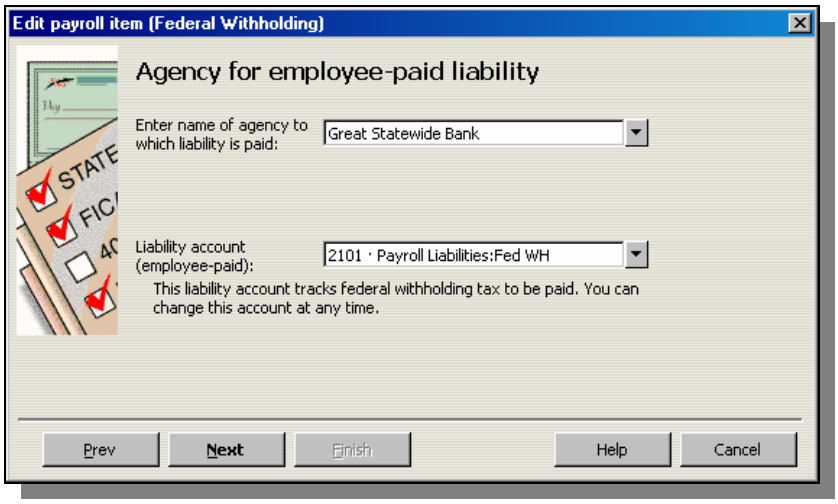


Step 7. Confirm that the Payroll Liability balances report and the Balance Sheet show zero balances for all Payroll Liabilities.

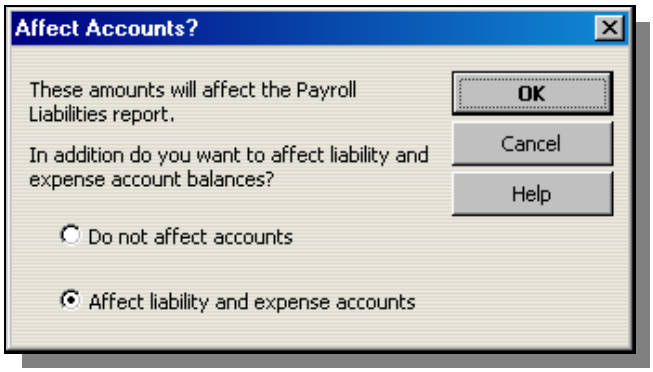


Step 8. Create new sub-accounts for the Payroll Liabilities account (optional). Though this step is optional, including sub-accounts will help you to reconcile the Balance Sheet to the Payroll Liability Balances report.

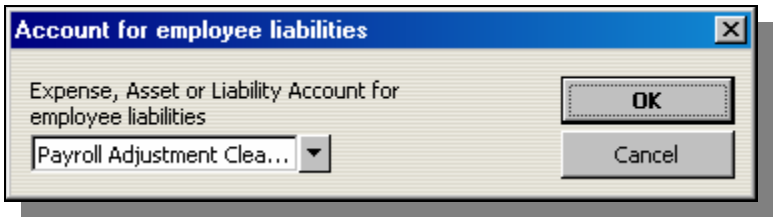
Step 9. If you create sub-accounts as described in Step 8 above, edit Payroll Items so that each item includes the correct Payroll Liabilities subaccount. At this point, the Payroll Liability Balances report and the Balance Sheet should still show zero balances for Payroll Liabilities.



Step 10. Enter a Payroll Liability Adjustment to set the correct Beginning Balances for all Payroll Items that affect Payroll Liabilities (e.g. Federal and State Withholding, Federal and State Unemployment, etc.) Make sure the Payroll Liability Adjustment is set to "Affect Liability and Expense Accounts." Do not enter an employee name even if QuickBooks prompts you to do so. You do not want this adjustment to affect W-2s.



Step 11. When prompted to enter an Expense account, enter the Payroll Adjustments Clearing account you created in Step 4 above.



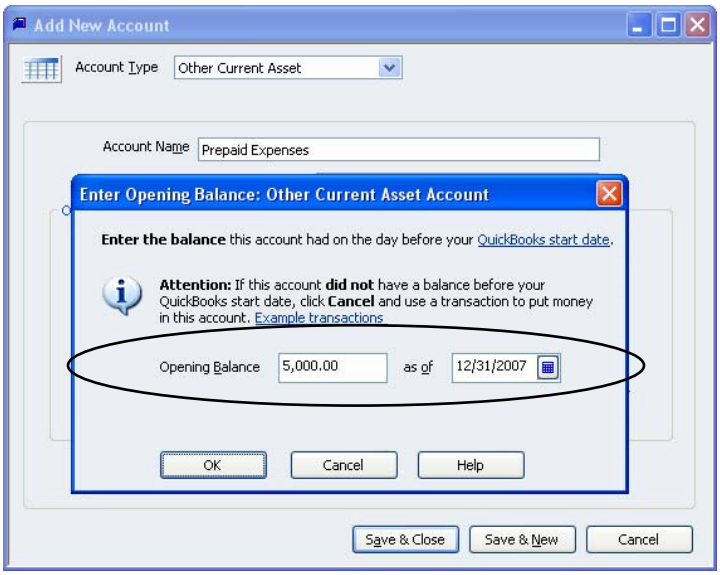
Step 12. Clear the Balance in the Payroll Adjustments Clearing account. Offset the adjustment to the account(s) you specified in Step 1 above.

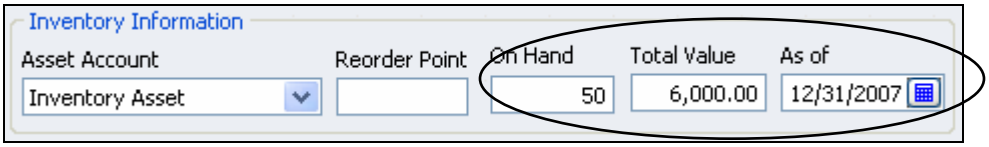
Step 13. Confirm that both the Balance Sheet and the Payroll Liability Balances report show the correct amounts.

TROUBLESHOOTING OPENING BALANCE EQUITY
Reversing Posts to Opening Balance Equity
Troubleshooting Erroneous or Incomplete Setup Entries
When Users Enter a Balance in the New Account Window
When Users Enter a Balance in the New Item Window

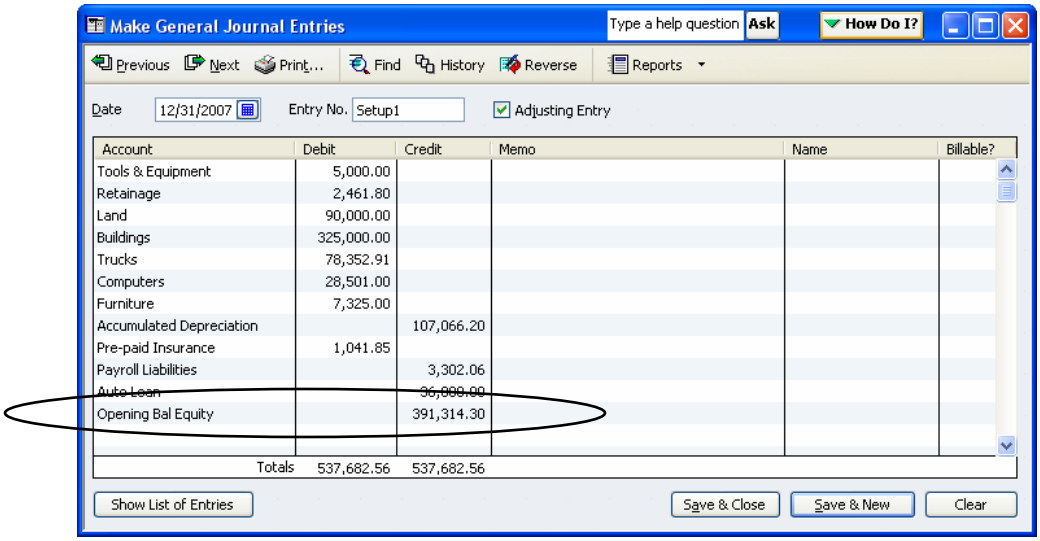
ANALYSIS 9: TROUBLESHOOTING OPENING BALANCE EQUITY

Opening Balance Equity account is a clearing account created automatically by QuickBooks for use during data file setup. As you enter each beginning balance into QuickBooks you will offset the entry to Opening Balance Equity. QuickBooks automates these offsets for you if you enter balances in the Opening Balance field of the New Account window or if you enter an amount in the Total Value field of the New Inventory Item setup window.





During the setup you enter every beginning Balance Sheet balance *except* Retained Earnings. For certain accounts you may choose to enter the beginning balances using a Journal Entry. Since you will include some Balance Sheet accounts and exclude others, you will need to plug an amount to force the Journal Entry to balance. You will code the amount to Opening Balance Equity.



Then, when the setup of all other Balance Sheet balances is complete, the balance in Opening Balance Equity will equal Retained Earnings. When you clear the balance in Opening Balance Equity and offset to Retained Earnings, the data file setup will be complete.

Note: The process is similar for the entry of Year to Date income and expense in a mid-year setup. As you enter Income, Cost of Goods Sold and Expense information for each month or quarter, you will post the net income or net loss to Opening Balance Equity. If there is net income for the period you will credit Opening Balance Equity and if there is a net loss for the period you will debit Opening Balance Equity. You can use this same method to set all year to date balances as of your start date using a single Journal Entry. However, the client will have no monthly or quarterly income statements for the period between the beginning of the fiscal year and your QuickBooks start date.

Note: The scope of this chapter is limited to troubleshooting Opening Balance Equity. For more information about setting up a data file in QuickBooks refer to the QuickBooks ProAdvisor Certification course, *The Official Guide to QuickBooks*, QuickBooks Help content or Intuit's web-based instruction for accountants. You can find information on accountant-level web-based QuickBooks training opportunities provided by Intuit at www.acccountant.intuit.com.

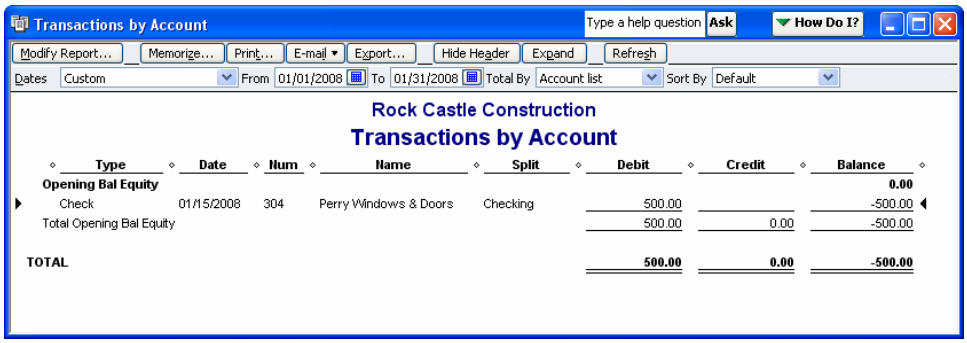
After the file setup is complete, you should make the Opening Balance Equity account inactive. If the client uses the data file properly, there should never be a balance in Opening Balance Equity after you complete the data file setup. *However*, if QuickBooks users do not perform certain bookkeeping tasks accurately, QuickBooks may automatically offset entries to Opening Balance Equity. This article highlights each of the causes for a non-zero balance in Opening Balance Equity, methods for determining those causes (errors), and the steps to correct the resulting over-statement or under-statement in equity.

Reason 1: The Client Posted a Transaction to Opening Balance Equity

Some clients may use the Opening Balance Equity account as a "suspense" account – posting transactions to Opening Balance Equity when they don't know the proper account to use. For example, the Chart of Accounts below shows a debit balance in Opening Balance Equity of $500.

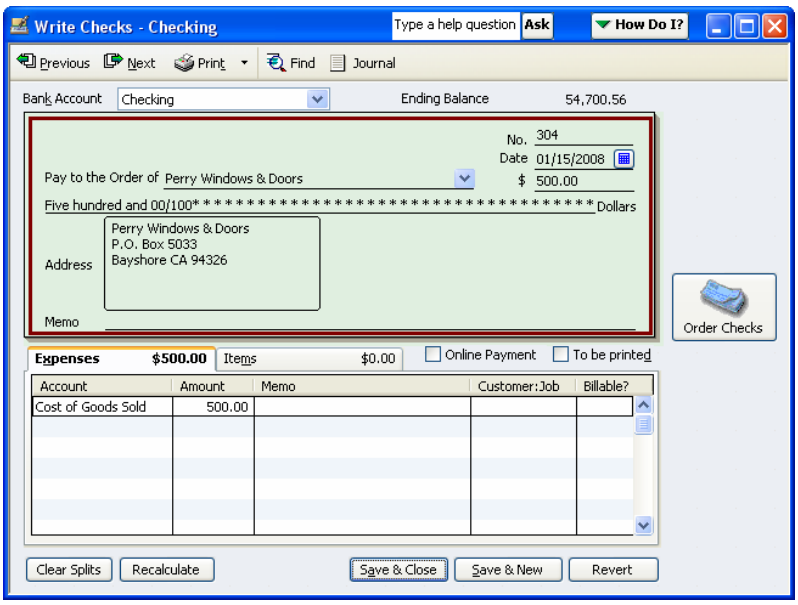
Equity	
Opening Bal Equity	-500.00
Retained Earnings	464,183.32
Net Income	44,606.25
Total Equity	508,289.57

This type of post to Open Balance Equity is the easiest to correct. Use the Opening Balance Equity register or run a QuickReport on the Opening Balance Equity account to locate the transaction. Expand the date range as necessary.



Type	Date	Num	Name	Split	Debit	Credit	Balance
Opening Bal Equity							**0.00**
Check	01/15/2008	304	Perry Windows & Doors	Checking	500.00		-500.00
Total Opening Bal Equity					500.00	0.00	-500.00
TOTAL					**500.00**	**0.00**	**-500.00**

Open the transaction the client posted to Open Bal Equity and then edit the transaction so that it offsets to the proper account(s) instead.



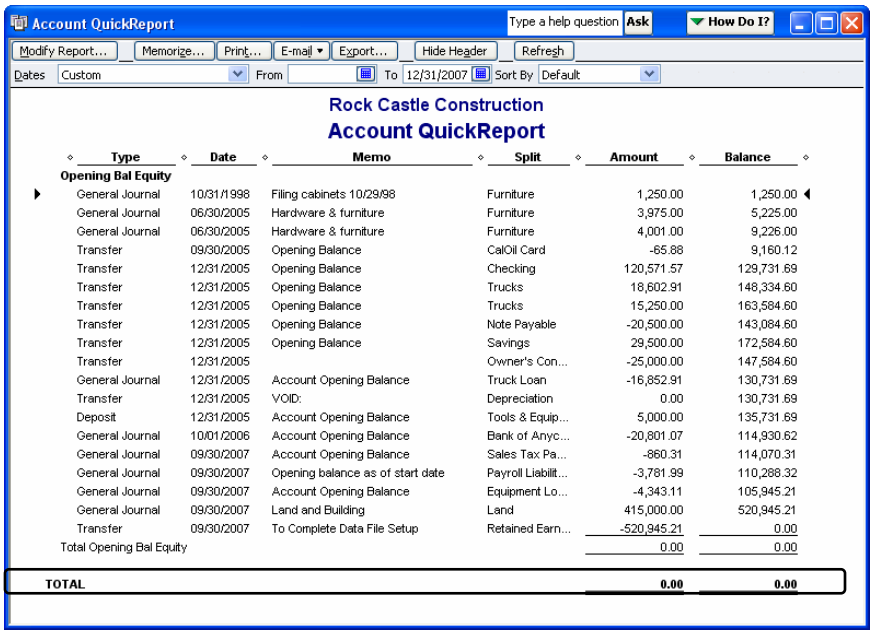
Then, make Opening Balance Equity inactive and setup a new account called “Suspense” or “Ask Accountant.”

Reason 2: The Data File Setup is Incomplete or Inaccurate

Note: The section below assumes you have a basic understanding of the QuickBooks setup process. If you need more information on how to set up QuickBooks data files see the note on page 78 for more information.

Create a QuickReport for Opening Balance Equity (or open the account register) to determine if the account has ever carried a zero balance. The account balance should be zero the day before the client began using the data file if the user or accountant correctly set up the data file. The

balance could also zero on a subsequent fiscal year end if the user or accountant corrected the setup as of a subsequent fiscal year-end.



Account QuickReport

Type a help question | Ask | How Do I?

Modify Report... | Memorize... | Print... | E-mail | Export... | Hide Header | Refresh

Dates Custom | From | To 12/31/2007 | Sort By Default

Rock Castle Construction

Account QuickReport

Type	Date	Memo	Split	Amount	Balance
Opening Bal Equity					
General Journal	10/31/1998	Filing cabinets 10/29/98	Furniture	1,250.00	1,250.00
General Journal	06/30/2005	Hardware & furniture	Furniture	3,975.00	5,225.00
General Journal	06/30/2005	Hardware & furniture	Furniture	4,001.00	9,226.00
Transfer	09/30/2005	Opening Balance	CalOil Card	-65.88	9,160.12
Transfer	12/31/2005	Opening Balance	Checking	120,571.57	129,731.69
Transfer	12/31/2005	Opening Balance	Trucks	18,602.91	148,334.60
Transfer	12/31/2005	Opening Balance	Trucks	15,250.00	163,584.60
Transfer	12/31/2005	Opening Balance	Note Payable	-20,500.00	143,084.60
Transfer	12/31/2005	Opening Balance	Savings	29,500.00	172,584.60
Transfer	12/31/2005		Owner's Con...	-25,000.00	147,584.60
General Journal	12/31/2005	Account Opening Balance	Truck Loan	-16,852.91	130,731.69
Transfer	12/31/2005	VOID:	Depreciation	0.00	130,731.69
Deposit	12/31/2005	Account Opening Balance	Tools & Equip...	5,000.00	135,731.69
General Journal	10/01/2006	Account Opening Balance	Bank of Anyc...	-20,801.07	114,930.62
General Journal	09/30/2007	Account Opening Balance	Sales Tax Pa...	-860.31	114,070.31
General Journal	09/30/2007	Opening balance as of start date	Payroll Liabilit...	-3,781.99	110,288.32
General Journal	09/30/2007	Account Opening Balance	Equipment Lo...	-4,343.11	105,945.21
General Journal	09/30/2007	Land and Building	Land	415,000.00	520,945.21
Transfer	09/30/2007	To Complete Data File Setup	Retained Earn...	-520,945.21	0.00
Total Opening Bal Equity				0.00	0.00
TOTAL				**0.00**	**0.00**

If the balance does not zero on the client's start date – or on a fiscal year-end after the client's start date – the data file setup is incomplete. To force the Opening Balance Equity account to clear, you must enter the missing Balance Sheet balances and adjust any incorrect opening balances. Use source documents provided by the client to complete the data file setup (e.g. presented financial statements or a tax return). When completing the data file setup for the client you have four options:

- **Option 1:** Enter the missing beginning balances *as of the client's QuickBooks start date* using the client's tax return or presented financial statements.

  Since Opening Balance Equity doesn't show on the client's tax return or presented financial statements, you will zero the balance in Opening Balance Equity when you correct beginning balances and enter any missing Balance Sheet information. If you use a cash basis tax return as your source document and the client's QuickBooks reports show balances in Accounts Receivable and/or Accounts Payable as of the QuickBooks start date, you will need to modify the QuickBooks reports to use the cash basis. (Click Modify Report and select Cash on the Display tab). When you convert a report to the cash basis, QuickBooks recalculates the report so that it excludes Accounts Receivable and Accounts Payable – and the offsetting accrued income and expense, respectively. (If the cash basis Balance Sheet shows AR or AP balances, see page 42 for steps to correct this problem.) When you enter and/or correct beginning balances as of the client's QuickBooks start date, consider the impact that the retroactive entries and adjustments will have on future reporting periods. Review the QuickBooks financial statements for each subsequent fiscal year end and adjust year end balances as necessary to agree to the corresponding tax return or presented Financial Statements if necessary.

- **Option 2:** Correct the missing beginning balances as of the client's *most recent* fiscal year-end – using the client's tax return or presented financial statements.

  As with Option 1 above you may need to edit QuickBooks reports to use the cash basis when you use a cash basis tax return as your source document. However, unlike Option 1 you don't have to worry about the impact of your adjustments on prior period

financial statements since you will adjust the *most recent* fiscal year-end to the client's tax return or presented financial statements. Consider, though, that historical year end financial statements for unadjusted periods will remain incorrect. You should advise your client not to make management decisions based on Balance Sheet balances dated before the date of your adjustments.

- **Option 3:** Ignore the issue (temporarily) and make Balance Sheet corrections in QuickBooks at the end of the *current* fiscal year – using the tax return or presented financial statements.

  As with Option 2 above, historical information in QuickBooks will be incorrect. You should advise your client not to make management decisions based on Balance Sheet reports dated before the date of your adjustments.

- **Option 4:** Start over with a new data file.

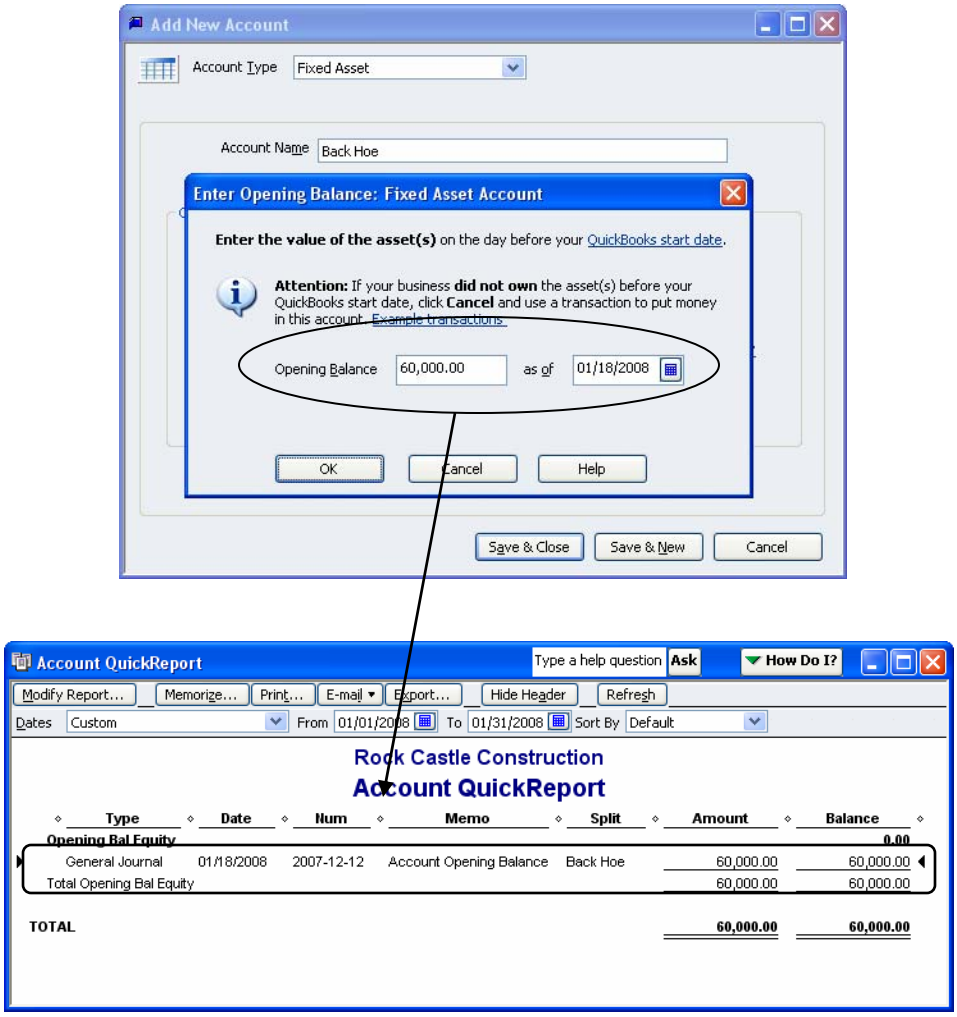
  Use the client's tax return or presented financial statements to set beginning balances in the new file. When you set up QuickBooks correctly you will clear the balance in Opening Balance Equity before the client begins using the new file. It may be best to use this option if the client's data file contains numerous setup and/or data entry errors or if the data file is large and is performing poorly.

Warning: This option may be labor intensive. Consider the number of year-to-date entries and the number of Open transactions (e.g., Estimates, Sales Orders, Purchase Orders, Invoices and Bills) that will be involved in the setup process. It is usually best to set up a new data file at the end of the calendar year (if the client uses QuickBooks to process payroll) or the end of the client's fiscal year.

Important: The options above relate to one reason for a balance in Opening Balance Equity. You may need to correct Opening Balance Equity as described in other sections of this chapter *before* you adjust Opening Balance Equity to the client's tax return or presented financial statements.

Reason 3: A User Entered an Opening Balance in the New Account or Edit Account Window

If the Opening Balance Equity account has a balance, open the account register or run a QuickReport for the account. Then, refer to the Memo field on transactions dated *after* the client's start date. If the memo reads "Account Opening Balance," the client used the Opening Balance field on a New Account setup window.



The Opening Balance field on the New Account setup window is designed for use during data file setup only. Clients should never use this field for daily entries. When you enter an amount in this field, QuickBooks debits or credits the account to set the opening balance and then offsets the entry to Opening Balance Equity.

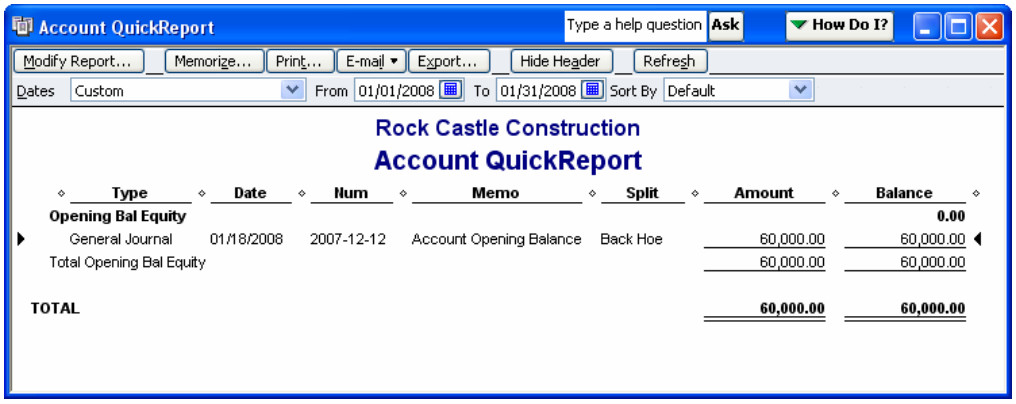
These post-setup entries to Opening Balance Equity are usually duplicated elsewhere on the General Ledger – since each new Balance Sheet account is related to a transaction the user needs to enter as part of the regular bookkeeping process. For example:

- **Bank Accounts** – If the company opens a new bank account and then enters the opening balance in the opening balance field, they will also record the check or funds transfer they used to open the account. If the owner opened the account using personal funds, the bookkeeper will record a deposit to the bank account (debit) that includes a credit to Owner Investment or Due to Owner.
- **Fixed Assets** - If your client used the Opening Balance field on a new Fixed Asset account to record the purchase of a computer, he would duplicate the entry later when he records the check or credit card charge used to purchase the computer.
- **Liabilities** – If the client uses the Opening Balance field when setting up a new Other Current Liability account, he will also record cash deposited into the bank account as a result of the loan – or other offset.

Regardless of the type of Balance Sheet account, the duplicate transaction (if recorded correctly or if corrected by you) will create an overstatement in the new Balance Sheet account – with an

offsetting overstatement in Opening Balance Equity. Perform the following steps to correct the problem:

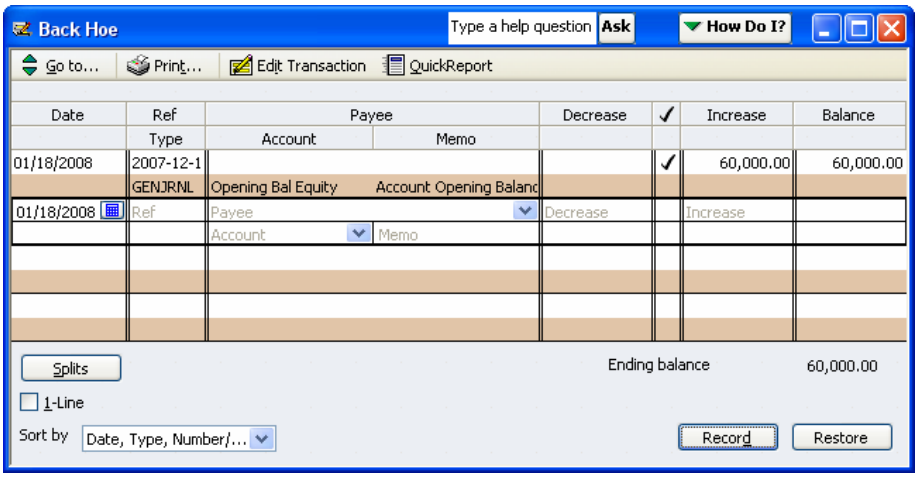
1. Open the Opening Balance Equity account register or create a QuickReport on the Opening Balance Equity account and locate the entry with a memo that reads, “Account Opening Balance.” Note the offset account in the Split column. The user entered an amount in the Opening Balance field of whatever account shows in this column.



2. Locate the duplicate transaction.

   Open the account register for the new Balance Sheet account. If the user recorded the duplicate transaction correctly, at least two entries will show the account. One will be the erroneous entry offset to Opening Balance Equity. The other will be the duplicate entry discussed above. If both the opening balance transaction and the duplicate transaction show in the account register, proceed to Step 4 below.

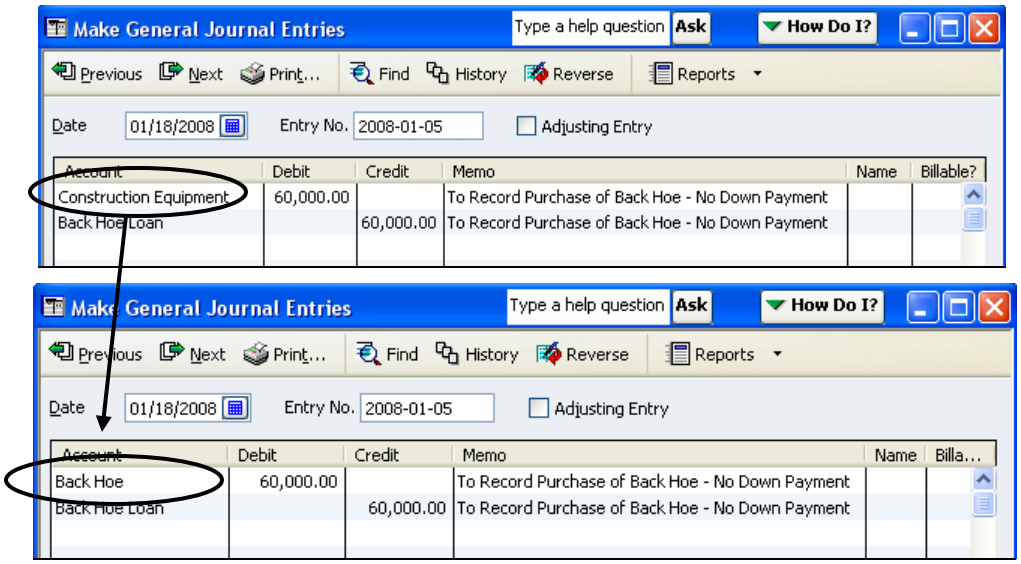
   If the client did not enter the duplicate transaction correctly, the entry may not show in the account register for the new Balance Sheet account – as shown below. When this happens, proceed to Step 3 below.



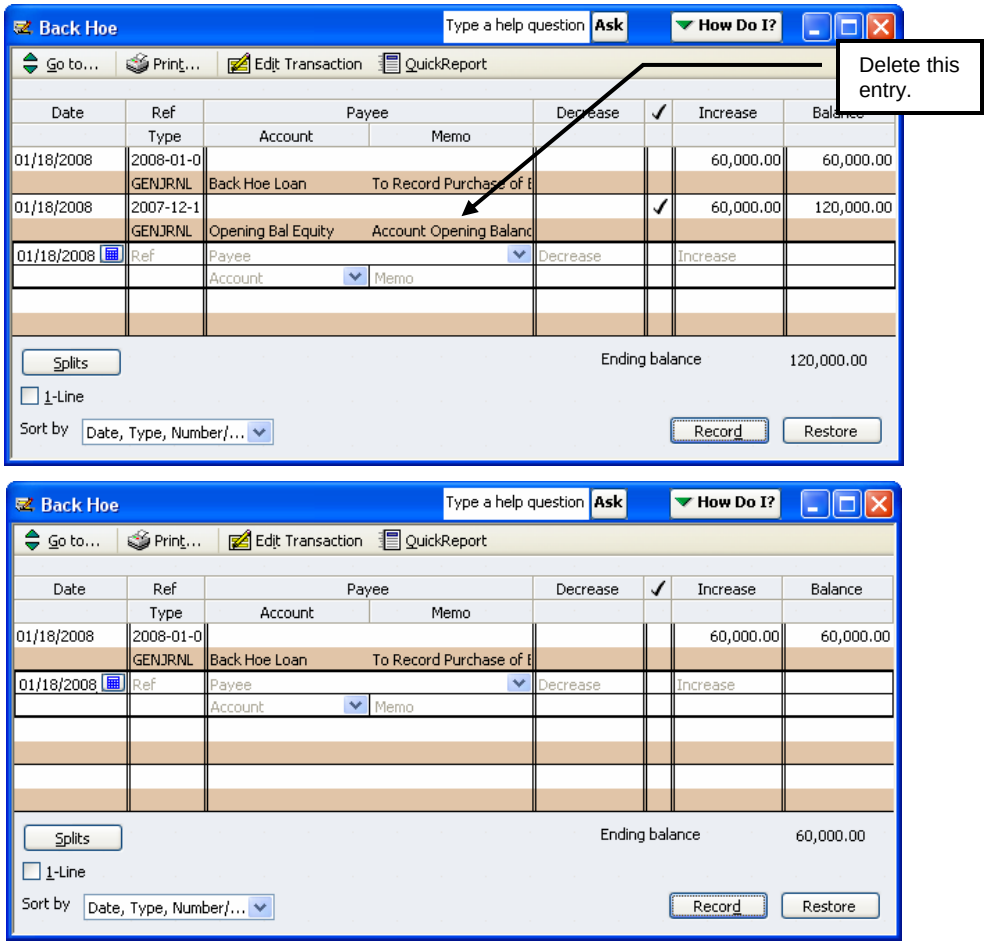
3. Make corrections to the duplicate transaction.

   For example, if the user entered a Journal Entry for the Back Hoe to record the loan, he might have offset the credit to the loan account with a debit to Construction Equipment – a Cost of Goods Sold type account. In this case, search for other transactions that have an amount equal to the amount entered in the Opening Balance field of the New Account window. If this search doesn’t work, create a QuickReport for the vendor from whom the

client purchased the back hoe. Edit the transaction so it posts to the correct account (e.g. Back Hoe) and then proceed to Step 4.



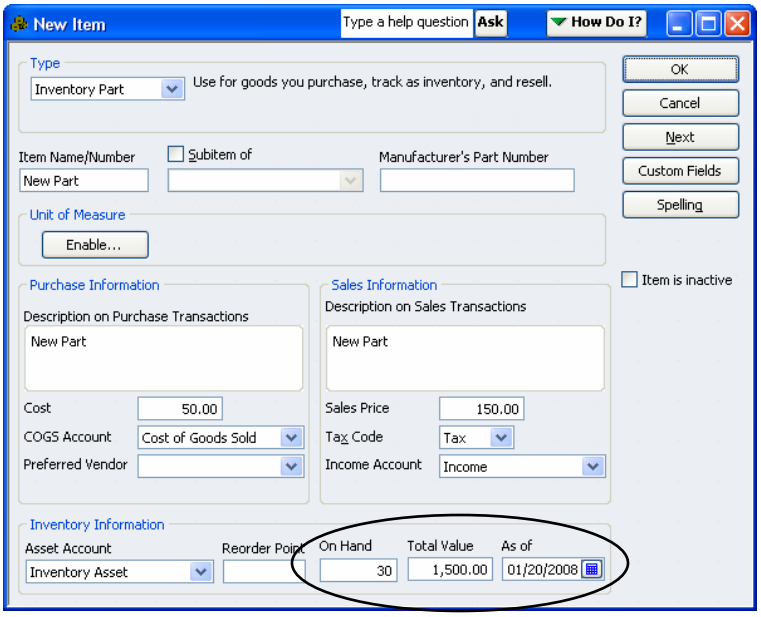
4. Delete the Opening Balance transaction in the account register. Doing so will remove the erroneous post to Opening Balance Equity and the overstated balance in the new Balance Sheet account.



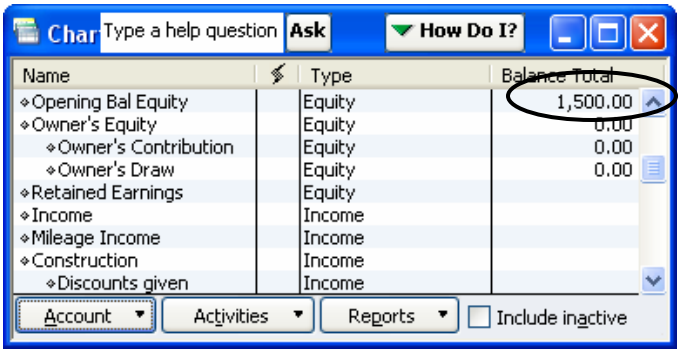
5. Confirm that the Opening Balance Equity account no longer shows a balance for the new fixed asset.
6. Repeat Steps 1 through 5 above for each entry in the Opening Balance Equity register with "Account Opening Balance" in the Memo field.

Reason 4: A User Entered a Total Value in the New Inventory Item Setup Window

If Opening Balance Equity has a balance, open the account register or run a QuickReport. Refer to the Memo field on transactions dated *after* the client's start date. If the memo includes the name of an inventory item followed by "Opening Balance," the client entered an amount in the Total Value field of a New Inventory Item setup window.



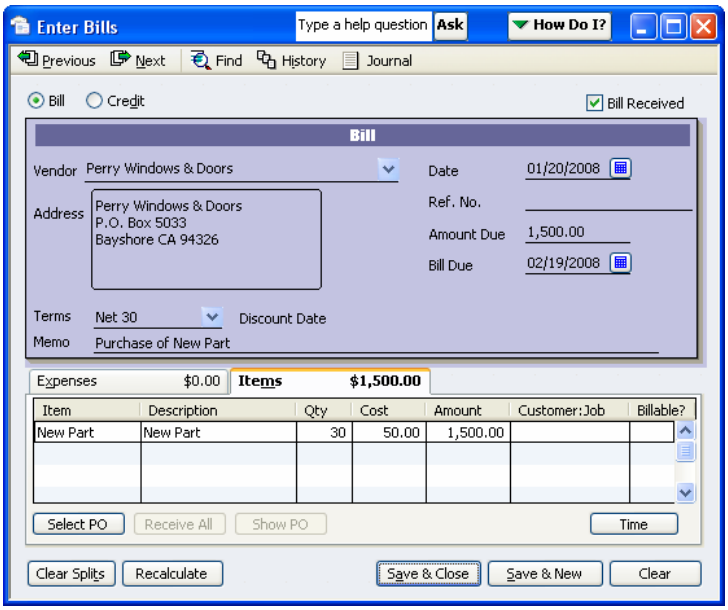
The Total Value field on the New Inventory Item setup window is designed for use during data file setup only. Clients should never use this field for daily entry. When you enter an amount in this field, QuickBooks debits Inventory Asset and credits Opening Balance Equity.



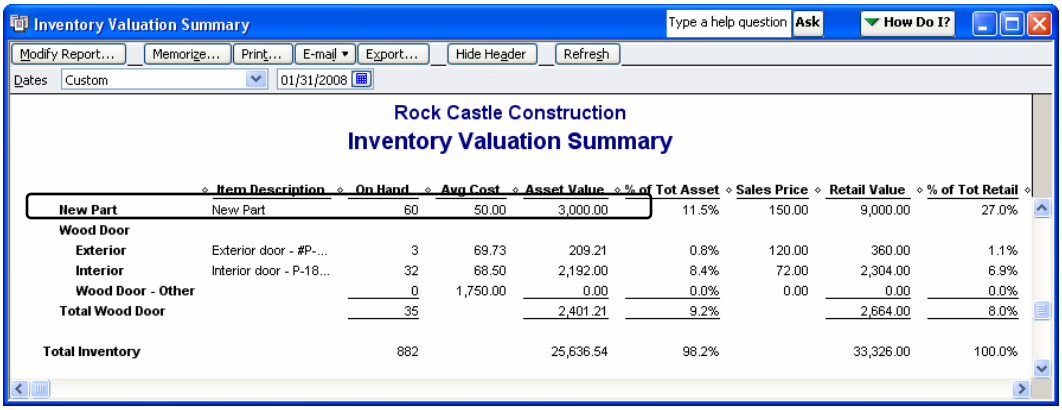
These post-setup entries to Opening Balance Equity are usually duplicated during the process of receiving the inventory into stock. Consider the following example:

Entry 1: A user creates a new inventory item called "New Part." On the Item Setup window the user enters "30" in the Quantity on hand field and $1,500.00 in the Total Value field (Debit Inventory Asset/Credit Opening Balance Equity). See the Inventory Item Setup window above.

Entry 2: The Company enters a bill from the supplier. On the bill they enter “10” in the Qty column and New Part in the Inventory Item field (Debit Inventory Asset/Credit Accounts Payable).



Result: There is a $1,500 overstatement in Inventory Asset value and 30 extra New Parts on the Inventory Stock Status by Item report.



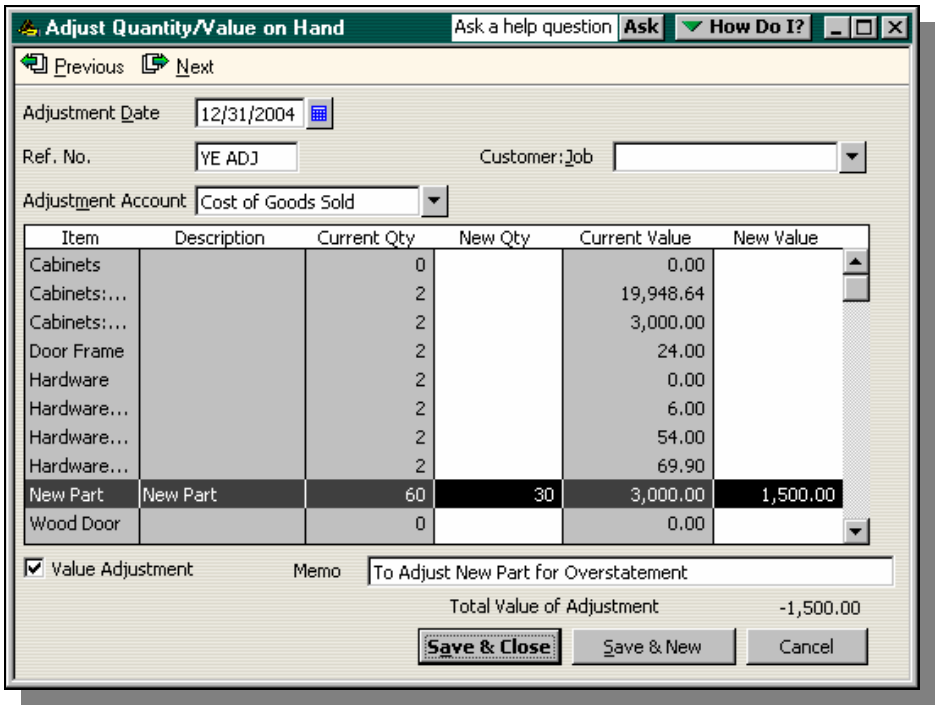
	Item Description	On Hand	Avg Cost	Asset Value	% of Tot Asset	Sales Price	Retail Value	% of Tot Retail
New Part	New Part	60	50.00	3,000.00	11.5%	150.00	9,000.00	27.0%
Wood Door								
Exterior	Exterior door - #P-...	3	69.73	209.21	0.8%	120.00	360.00	1.1%
Interior	Interior door - P-18...	32	68.50	2,192.00	8.4%	72.00	2,304.00	6.9%
Wood Door - Other		0	1,750.00	0.00	0.0%	0.00	0.00	0.0%
Total Wood Door		35		2,401.21	9.2%		2,664.00	8.0%
Total Inventory		882		25,636.54	98.2%		33,326.00	100.0%

To correct this issue you have to options:

- **Option 1:** When the client has already adjusted inventory per a physical inventory count.

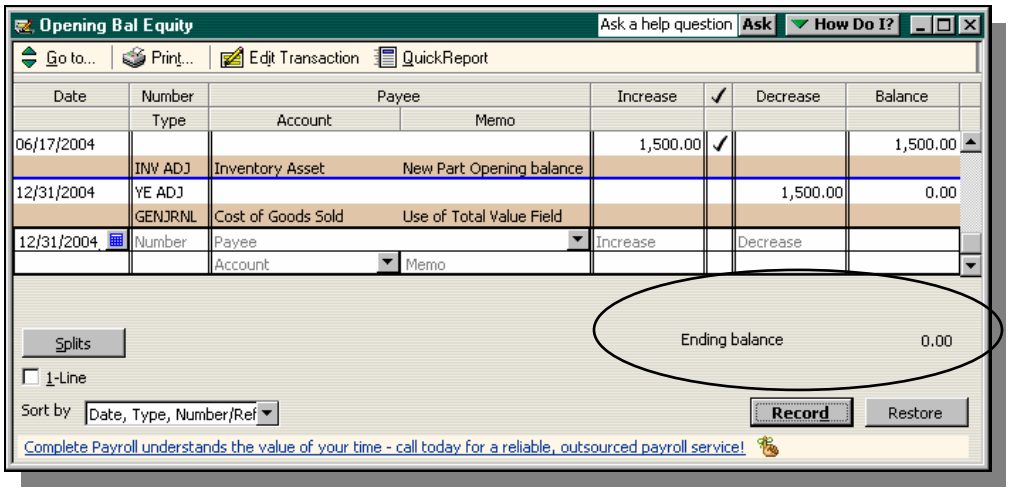
  Assuming that transactions including the “New Part” are entered correctly, the next physical inventory count will show an excess of 30 “New Parts” on hand. The Company will then enter an Inventory Adjustment to reduce the “New Part” quantity on hand by 30 units. The Inventory Adjustment will credit Inventory Asset and debit whatever adjustment account the user enters. For the purpose of this example we will assume the adjustment account is Cost of Goods Sold.

  Due to the nature of *this* overstatement, the client should post the offset for the New Part adjustment to Opening Balance Equity. However, instead of complicating the Inventory Adjustment (which may contain adjustments for items other than the New Part), instruct the user to adjust inventory as usual.



When the user enters the inventory adjustment as usual, he creates an overstatement in Cost of Good Sold of $1,500.00 – the average cost of the 30 “New Part” items. (Credit Inventory/Debit Cost of Goods Sold).

To compensate, enter an adjusting entry to zero Opening Balance Equity (debit $1,500.00) for the New Part opening balance entry. Offset the entry to Cost of Goods Sold (credit $1,500.00) to correct the overstatement created by the client’s inventory adjustment.



Repeat this process for all other Inventory-related opening balances in the Opening Balance Equity account register, or if you prefer you can enter a single adjustment to Opening Balance Equity for the total of all *inventory* opening balance entries.

*Normally, when inventory is overstated Cost of Goods Sold is understated. Under normal conditions the Inventory Adjustment corrects the overstatement in Inventory (with a credit) and the understatement in Cost of Goods Sold (with a debit). If the user uses an expense account (e.g. for theft, inventory damage, etc.) use the method above but offset the adjustment to Opening Balance Equity to the expense account(s) your client used.

- **Option 2:** When the client has not conducted a physical inventory count since creating the Opening Balance Equity entry.

  Confirm that the Opening Balance Equity entry is overstated (e.g., due to the use of the "New Part" Item on a purchase form as described above). Then, delete the Opening Balance Entry.

  When you delete the Opening Balance Equity entry, you will decrease the balance in Opening Balance Equity and you will decrease the balance in Inventory Asset. You will also decrease the quantity on hand that the client entered when s/he set up the inventory item. Since all of these accounts and quantities are overstated, reducing the balances and quantities will correct inventory and clear Opening Balance Equity.

Important: Use should use this option only if the client duplicated the entry (e.g. on a purchase form) *and* if the user has not already entered an inventory adjustment to adjust quantity on hand (e.g. as part of a physical inventory). If the client did not enter a duplicate transaction, edit the Inventory Adjustment so it posts to the appropriate offset account (e.g. cash, Accounts Payable, etc.)

TROUBLESHOOTING THE INCOME STATEMENT

Income – The "Realism" Test
Cost of Goods Sold
Reconciliation Discrepancies
Uncategorized Income/Expense
Tips for Analyzing all Income, Cost and Expense Accounts

ANALYSIS 10: TROUBLESHOOTING THE INCOME STATEMENT

In most cases, the income statement is unique to the client. Sure there are some common accounts like Office Supplies and Professional Fees, but Income, Cost of Goods Sold and industry-specific expenses cause each client's Income Statement to be different from the rest. This section focuses on generic issues that can potentially occur in any client's QuickBooks file. This segment also provides steps you can use to analyze your client's Income Statement regardless of the industry or business-specific practices.

Income – The "Realism" Test

QuickBooks tracks income in two different areas of the data file: Items and Accounts. As you might expect, the account activity affects the Profit & Loss. QuickBooks refers to Item-based income as "Sales." QuickBooks uses Items to populate reports like Sales by Item Summary and Sales by Customer.

Ideally, all revenue should affect both an Item and an Income account. When revenue does not affect both an account and an item reference, it is important for you to quickly locate the offending transactions and make any necessary adjustments. Perform the following steps to analyze your client's Income balances.

Step 1. Create a Sales by Item Summary report. Then, filter the report to include only "All Ordinary Income Accounts."

Step 2. Create a Profit & Loss for the same reporting period as the Sales by Item Summary report.

Step 3. Compare Total Income on the Profit & Loss to Total Sales on the Sales by Item Summary report. The only possible cause for a discrepancy is Debiting or Crediting Income Accounts on transactions other than Sales Forms (Invoices, Credit Memos and Sales Receipts).

Step 4. To locate non-sales transactions that post to Income, QuickZoom on Total Income on the Profit & Loss report. Then, filter by Transaction Type for all types except Invoices, Sales Receipts and Credit Memos. The most common non-sales transactions that affect Income are:

a. Deposits (to record payments from customers)

b. Journal Entries (adjustments usually entered by the Company's CPA

c. The Receive Payments window (to record discounts given – contra income).

Note: When you locate the reasons for the discrepancy, you may or may not make changes. The intent here is to reconcile the two reports and make *necessary* changes to income or sales. If the non-sales form accurately posts to Income, you need only to note the amount so you can reconcile Sales (Items) to Income (Accounts) for the client. In the examples above, the Customer Payment that posts to Discounts Given and the Journal Entry to adjust income are probably accurate.

However, with Deposit transactions, the client may have entered Income on the Invoice and then applied the customer payment to the Invoice. Then, instead of using the customer payment on the Deposit (through Undeposited Funds), the client entered a Deposit that posts directly to Income. This causes an overstatement in Income for both the cash and accrual basis offset to an overstatement in Undeposited Funds. See the section on troubleshooting Undeposited Funds above for more information. If there is no overstatement in Undeposited Funds, the overstatement will probably be in cash. Either way, enter an adjusting entry to adjust Income and Undeposited Funds/Cash.

Tip: If filtering the Profit & Loss as described above doesn't fully reconcile the two reports, filter the Sales by Item Summary report for all accounts except Income accounts. (This is not a generic filter. You will have to select "Multiple Accounts" and then select every account in the Chart of Accounts with a non-income type.)

Usually you will find several sales Items that do not affect income. Some of these may be accurate. For example, the client may use an Item on Invoices or Sales Receipts to receive prepayments from customers. If the Company uses the Accrual Basis, the offset should go to Unearned Income – an Other Current Liability account. For another example, contractors need an Item to show Retainage on Invoices – retainage owed to them by their customer. The Retainage Item should post to Retainage Receivable – an Other Current Asset account.

Warning: If you edit the Account field on Sales Items, your change could affect the previous reporting year.

Cost of Goods Sold

QuickBooks users may post to Cost of Goods Sold in two different ways:

Inventory Transactions

When you use an inventory item on a sales form, QuickBooks debits Cost of Goods Sold (Invoices/Sales Receipts) or Credits Cost of Goods Sold (Credit Memos). See the section entitled "Troubleshooting Inventory" on page 45 for more information.

Non-Inventory Transactions

If the client does not use Inventory Items on Purchase Forms, she may record the receipt of resale materials directly to Cost of Goods Sold. If so, you troubleshoot Cost of Goods Sold just as if it were a regular Operating Expense account. See the section entitled "Tips for Quickly Analyzing Expense Accounts" on page 97 for more information.

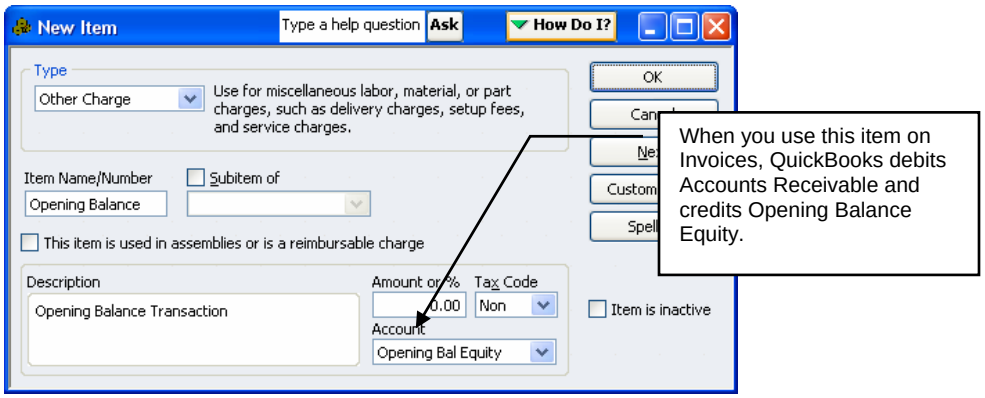
Reconciliation Discrepancies

QuickBooks automatically creates this account and posts to the account when users force a Bank Reconciliation to reconcile. See the Bank Reconciliation Analyses beginning on page 26 for more information.

Uncategorized Income

QuickBooks creates the Uncategorized Income account when you enter an Opening Balance for a Customer in the New Customer setup window. To avoid the use of this account you have three options when setting opening balances for customers:

1. Use one invoice per customer to set each Customer's Opening Balance. When entering the Invoice, use a Sales Item with an Other Charge called Opening Balance that offsets to Opening Balance Equity. You can use this method only if the client does not intend to use cash basis reports in QuickBooks or to file tax returns on the cash basis.



2. Enter each open invoice individually, using the Opening Balance item shown above. Entering each invoice separately will provide you with the most detailed Accounts Receivable reports and will allow QuickBooks to age the opening balances accurately. This level of detail is essential if your client sends statements to customers. You can use this method only if the client does not intend to use cash basis reports in QuickBooks.

3. Enter each open invoice individually using actual sales items and sales tax items. Entering the information with this level of detail will allow you to produce cash basis reports in QuickBooks. This method is essential if the company files its tax return or its sales tax returns on the cash basis.

If there is already a balance in Uncategorized Income as the result of opening balances, delete the opening balance entry (Invoice or Credit Memo) to remove the opening balance entry. Then, enter the information using one of the three options above.

If the client posted transactions to Uncategorized Income (e.g. a Check or Deposit), use a Journal Entry to clear the balance in the account or edit each transaction so that it posts to the correct account.

After you zero the balance in Uncategorized Income, make the account inactive.

Uncategorized Expense

QuickBooks creates the Uncategorized Expense account when you enter an Opening Balance for a Vendor in either in the New Vendor setup window. To avoid the use of this account you have three options when setting opening balances for vendors:

1. Use one Bill per vendor to set each Vendor's Opening Balance. Post the Bill to the Opening Balance Equity account.

2. Enter each unpaid Bill individually, posting each Bill to the Opening Balance Equity account. Entering each Bill separately will provide you with the most detailed Accounts Payable reports and will allow QuickBooks to age the opening balances accurately. You can use this method only if the client does not intend to use cash basis reports in QuickBooks.

3. Enter each unpaid bill individually, using actual accounts, inventory items and/or non-inventory parts. Entering the information with this level of detail will allow you to produce cash basis reports in QuickBooks. This method is essential if the company files its tax return or its sales tax returns on the cash basis.

If there is already a balance in Uncategorized Expense as the result of opening balances, delete the opening balance entry Bill or Bill Credit to remove the opening balance entry. Then, enter the information using one of the three options above.

If the client posted transactions to Uncategorized Expense, use a Journal Entry to clear the balance in the account or edit each transaction so that it posts to another, more appropriate account.

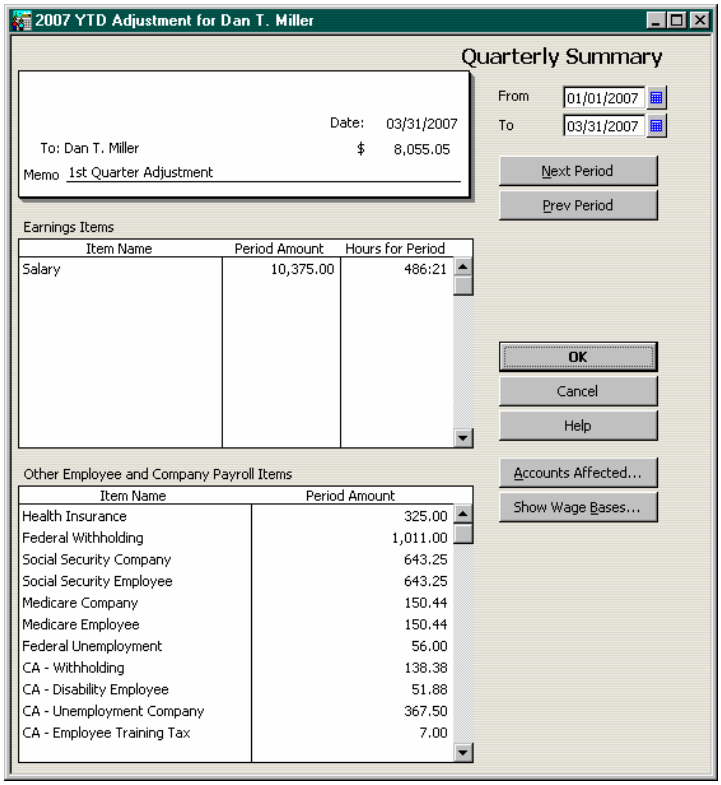
After you zero the balance in Uncategorized Expense, make the account inactive.

Payroll Expenses - Compare the Payroll Summary Report to the Profit & Loss

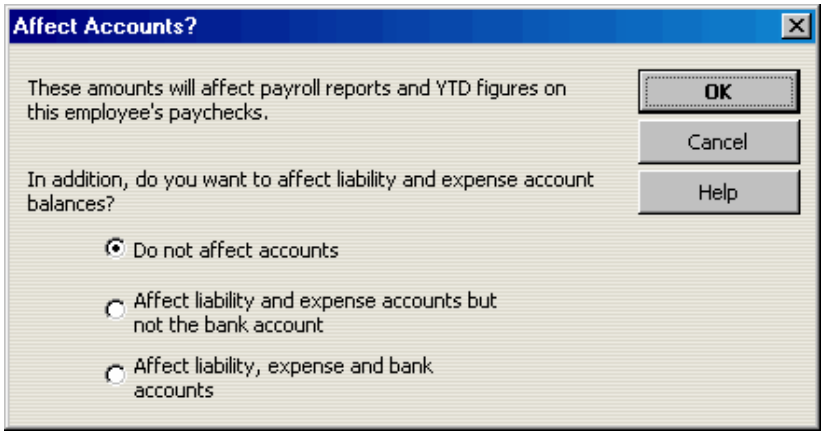
If there are discrepancies between the two reports, reasons include:

1. Payroll Items do not post to the correct General Ledger accounts.
2. The client used Checks or Bill Payments to pay employees instead of Paychecks. If this is the case, you have two options:

    a. **Option 1: Mirror the Checks/Bill Payments with a Year-to-Date Adjustment** Create a QuickReport for each employee and sort the report by the Type column. Review each Check and/or Bill Payment to make sure each is recorded to the proper accounts. Make any corrections to the accounts as necessary. Then, use the Year-to-Date Payroll Setup Wizard to enter amounts for each employee that mirror the Checks and/or Bill Payments. Though the Wizard is designed for use when setting up payroll, you can repurpose the Year-to-Date wizard to adjust payroll expenses (e.g., Wage type Payroll Items) by employee.



Make sure to select “Do not affect accounts” when you select this option. The Checks/Bill Payments already post to the General Ledger



Note: It may be best to use this option if the client has numerous incorrectly recorded payroll transactions, since you can enter a single year-to-date entry to summarize all paychecks for each employee on a monthly or quarterly basis. This is also the preferred method if the client has reconciled the Checks/Bill Payments because the adjustment has no impact on the Beginning Balance field of the Bank Reconciliation window.

b. **Option 2: Replace each Check/Bill Payment with a Paycheck**
When you select this option you may need to force the net amount of the Paycheck to agree to the original Check/Bill Payment. (For example, the client may have calculated the Check/Bill Payment incorrectly.) Increase or decrease federal withholding amounts to compensate for any discrepancies.

Employee Summary

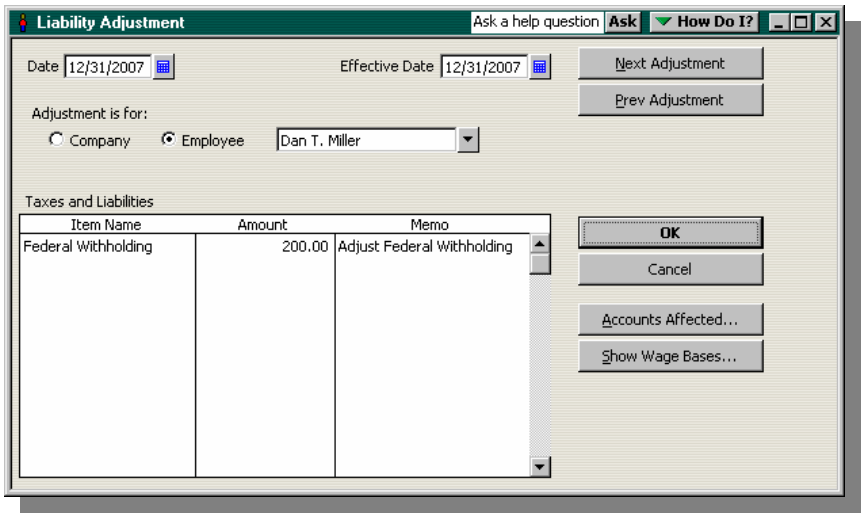
Item Name	Amount	YTD
Salary	159.60	33,519.18
Salary	478.85	33,519.18
Salary	319.23	33,519.18
Salary	478.85	33,519.18
Salary	159.62	33,519.18
Health Insurance	0.00	-800.00
Federal Withholding	-155.00	-3,417.00
Social Security Employee	-98.97	-2,177.15
Medicare Employee	-23.15	-509.17
CA - Withholding	-21.29	-468.37
CA - Disability Employee	0.00	-158.84
Check Amount:	1,297.74	

Important: When you use this method, you may replace *reconciled* Checks/Bill Payments with *non-reconciled* Paychecks. You will need to re-reconcile the bank account for all months during which you deleted Checks/Bill Payments and recorded Paychecks to replace them. Reconcile the Paychecks for each month only. Make sure to use the Ending Balance and date of the original reconciliation. (Refer to *printed* bank reconciliation reports or to the Adobe Acrobat copies of the bank reconciliation reports (available in QuickBooks 2004 only). Only printed or Acrobat reports will show the condition of the bank reconciliation *before* you removed the reconciled Checks/Bill Payments. After you reconcile the Paychecks for each month, QuickBooks will restore the correct Beginning Balance amount and will update the existing bank reconciliation reports to include the Paychecks you added.

3. The client coded Checks for vendors (1099 subcontractors) to payroll expense accounts. Edit each Check so that it posts to the correct account. When you edit Checks for 1099 vendors, make sure to select an account included in the Tax:1099 Company Preferences.

4. The client adjusted payroll expense accounts using a Journal Entry. If you adjust payroll expense or liability accounts using a Journal Entry, the adjustment will not impact Payroll Items. QuickBooks uses Payroll Items to build payroll reports (and to calculate payroll tax returns and W-2s). To correct this type of error you have to options:

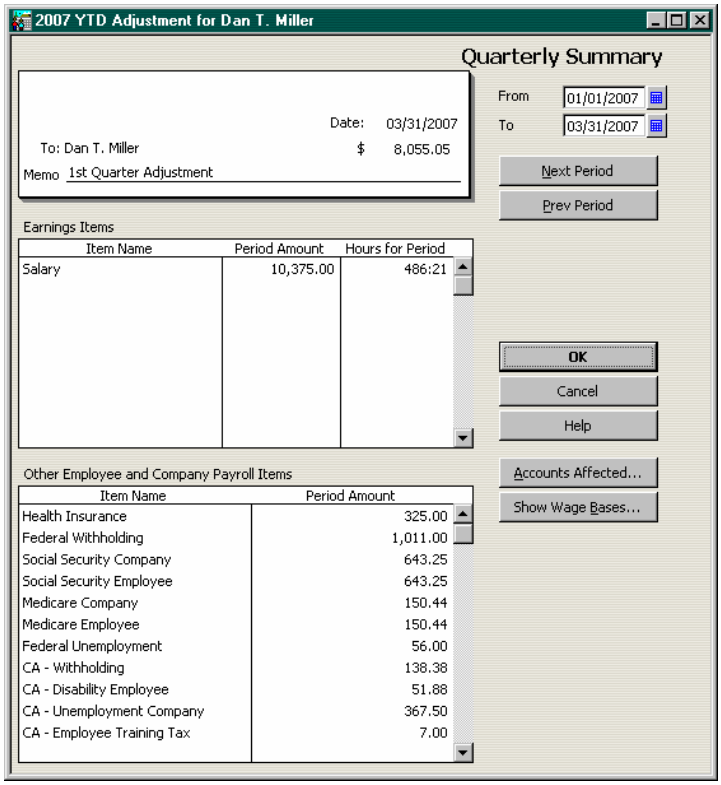
    a. **Option 1: Mirror the Adjustment with a Payroll Liability Adjustment or Year-to-Date Payroll Entry.**
    If the Journal Entry is correct and is not superseded by any corrections you may have made to payroll, use a Payroll Liability Adjustment or Year-to-Date payroll entry to mirror the Journal Entry. Make sure to record one payroll adjustment per employee if the adjustment relates to W2 activity. If you do not enter the employee's name, the adjustment you make will not impact the employee's W-2. Also, make sure to select "Do Not Affect Accounts" since the Journal Entry has already updated the General Ledger.



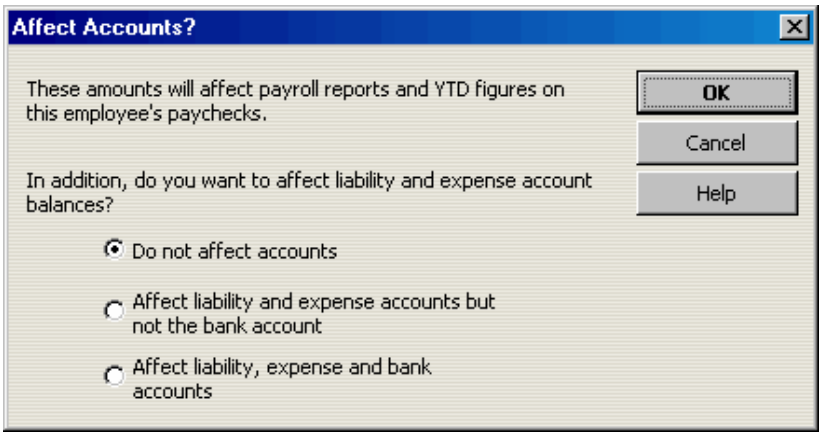
b. **Option 2: Edit or Delete the Journal Entry.**
If the Journal Entry should not affect payroll expense or payroll liabilities (or is superseded by any corrections to payroll you may have made) edit the Journal Entry so that it posts to correct accounts or delete the Journal Entry – whichever is appropriate.

Important: If the Journal Entry to adjust Payroll Expenses is offset to bank accounts (or any account that you reconcile to a statement), editing or deleting the Journal Entry may affect the Beginning Balance field of the Bank Reconciliation feature. Make sure to re-reconcile the bank account transaction(s) if necessary. See the chapter on reconciling bank accounts for more information.

5. The client began using QuickBooks Payroll in the middle of the calendar year and did not enter year-to-date payroll information. For example, if you prepared payroll for the client earlier in the year, the client would have either entered each Check into QuickBooks – using the information on the pay stub – or the client would have created a Journal Entry to summarize all payroll transactions for the pay period. In this case, the year-to-date General Ledger amounts will be correct. The Payroll Summary report, however, will show payroll expenses from the date the client began using QuickBooks to process payroll. If this is the case, use the Payroll Setup Wizard and enter Year-to-Date amounts for each employee. You can enter the Year-to-Date amounts by pay period, by month, by quarter or as of the payroll start date. The screenshot below shows an adjustment that summarizes the first quarter of the year for Dan Miller.



Important: If the year-to-date General Ledger information is correct, you will need to select "Do Not Affect Accounts" when entering year-to-date payroll information into QuickBooks. If you do not, Payroll Expenses and Payroll Liabilities will be overstated.



6. The client entered Year-to-Date paycheck information by employee and the Year-to-Date entries updated the General Ledger. Assuming the General Ledger was correct before the client entered year-to-date amounts, Expenses and Liabilities will be overstated as a result of the entries. To correct, open the Find feature and filter by Transaction Type for YTD Adjustments. Select "Do Not Affect Accounts" on each YTD Adjustment.

Note: If the client also entered Year-to-Date Liability payments and set those entries to affect accounts, the liability accounts may not be overstated. However, after you edit Year-to-Date paycheck transaction so that they do not affect accounts, the Year-to-Date Liability Payment entries will cause the Liability accounts to be understated. If this happens, you will need to edit Year to Date Liability Payments so they also do not affect accounts.

Tips for Quickly Analyzing Operating Expense Accounts

Double-click each expense account on the Profit & Loss and review the transaction detail report:

1. Sort the report by vendor (payee) and look for any transactions without a vendor name or for irregular vendors. For example, a utility vendor appears in the transaction detail for Office Supplies.
2. Sort the report by transaction type and note any transactions that are not Checks, Bills or Credit Card Charges. Though these non-purchase transactions may be accurate, you should review each one to make sure. For example, there may be a Journal Entry to adjust the Expense account entered by the client or by someone at your firm in an earlier engagement.
3. Double-click any very large amounts and determine if you should capitalize or amortize the expense transaction.