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# QUICKBOOKS NOTES

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## An Overview of Quickbooks

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Quickbooks is the most popular small business accounting system used in the U.S. While the program is not specifically designed for use in agricultural operations, it can be modified to accomplish basic accounting and record requirements of a typical small to medium size farm, processing or other agriculturally related operations. Quickbooks has a unique language and format, designed to minimize accounting jargon and data entry.

It is not necessary to be an accountant to enjoy and utilize its capabilities. It is necessary to have an understanding of basic accounting principles, requirements procedures and jargon in order to avoid frustration that can arise from incorrect posting or data entry. It is also necessary to equate procedures used in Quickbooks with standard data entry and accounting processes and steps.

An accounting program should be no more sophisti-

cated than an individual needs. Very large farmers with accounting departments, may need a complex system. On the other hand, a farm utilizing family labor with limited inventory management problems may only need a program satisfying basic tax preparation, financial institution and appropriate governmental agency requirements.

### Record Keeping Essentials

Accounting programs are of two types. The first of these, single entry, operate like checkbook or ledger type systems, since they require only a single entry in a specific ledger or account. They require less skill to use, but may not accurately portray the true financial position of

the firm at a point in time. The second type, double entry, follow commonly accepted accounting rules. For every debt there must be an offsetting credit and vice versa. Firms with complex inventory management, payroll and an extensive number of enterprises are well advised to choose a double entry system, either because of the dictates of the law or practical necessity.

Quickbooks is a double entry system but most of the heavy lifting is accomplished by the program since multiple offsetting entries are accomplished by the program. Having said that, it is important to "get it right the first time" when entering data, because

*The Center for Agricultural Business is one of five  
research centers comprising the*



*California Agricultural Technology Institute*

### Quickbooks Facilitators

- Easy step interview
- Quickbooks navigator
- Integrated help
- CD-rom based tutorial
- Integration with Turbo Tax
- Data importation and exportation
- Minimal accounting jargon
- Choice of cash or accrual basis
- Inexpensive payroll updating
- Profit center (farm enterprise) analysis
- Auto close of records at year's end
- Previous year carry over for comparison
- Default chart of accounts easily modified
- Choice of business organization type
- Splitting of payments between accounts-classes
- Project, field or job tracking

backing out incorrect entries can in some cases be tedious and time consuming.

Computerized Programs: Composition

The flow chart below portrays the composition of a typical computerized accounting program. In gen-

eral, data entry is accomplished through the utilization of a variety of modules:

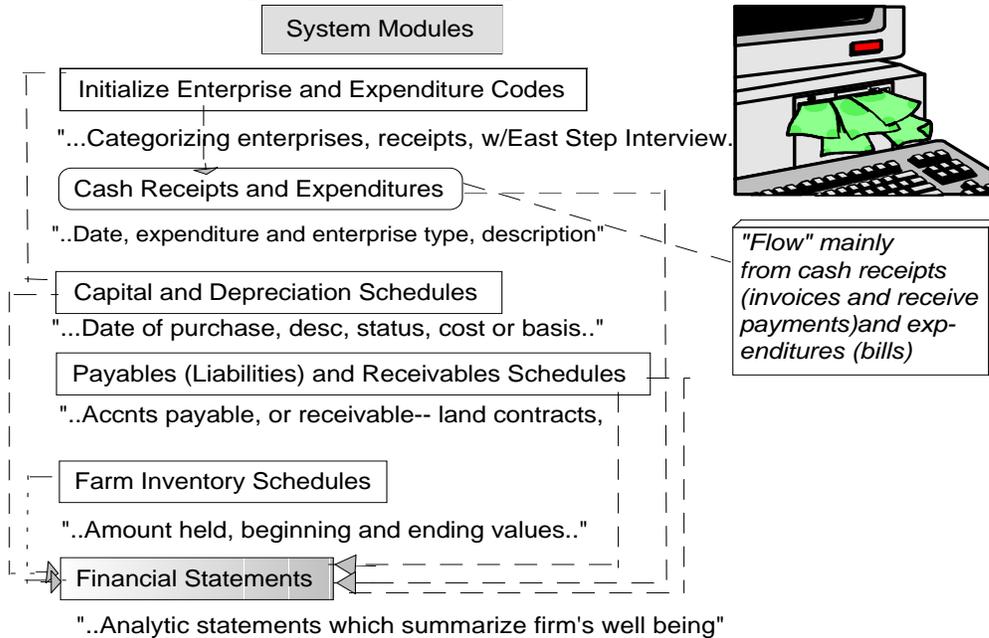
- Initialize data base using chart of accounts
- Enter receipts and expenditures

• Enter general and depreciable asset data

• Record accounts owed (payable) and income due (receivable)

• Track inventory increases and reductions

### Accounting/Record Keeping System:Computerized



*A good accounting program is comprised of connected modules containing information a manager needs for financial reporting, diagnosis, control and financial planning*

### Quickbooks System Modules

- Chart of accounts
  - Cash receipts and expenditures
  - Capital and depreciation schedules
  - Asset and liability schedules
  - Receivable and payable schedules with aging
  - Inventory schedules
  - Financial statements
  - Payroll
- Reports
    - ✓ Balance Sheet
    - ✓ Profit and Loss
    - ✓ Purchases
    - ✓ Sales
    - ✓ Inventory
    - ✓ Budgets
    - ✓ Custom

- Calculate and update payroll data
- Evaluate financial statements (net worth and profit and loss)

Quickbooks to more general computerized accounting program operation. Quickbooks operates in much the same way as do other programs. The difference lies in the automated way in which Quickbooks handles multiple entries often needed with a single posting.

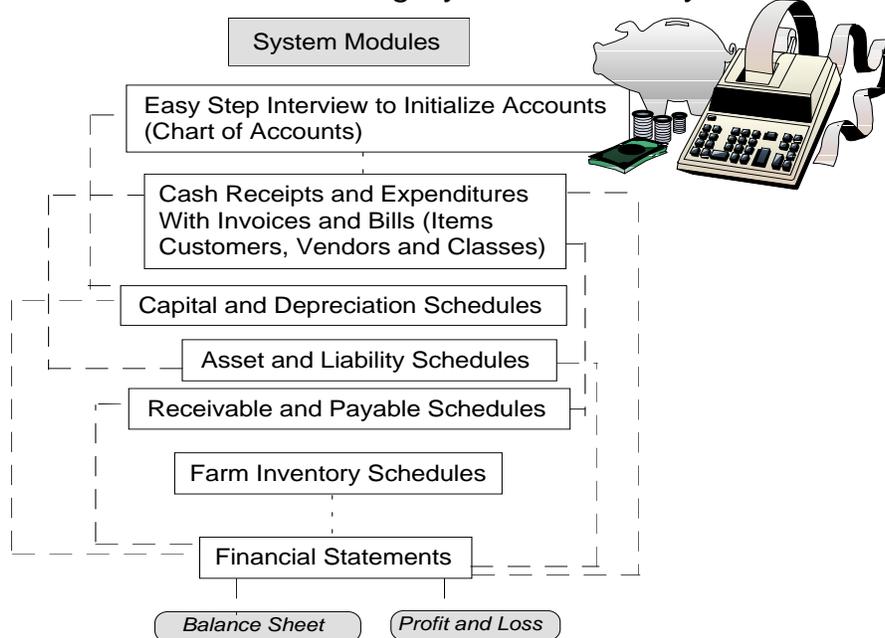
#### Easy Step Interview

Initializing the company data base is accomplished through the use of Quickbooks' unique Easy Step Interview (ESI). The routine must be used to initially set up a company account or accounts, but need not be used thereafter unless it is a matter of

Quickbooks: Composition

The flow chart below depicts the general similarity in

### Quickbooks Accounting System: Summary



*Quickbooks data ultimately flow to balance sheet and profit and loss statements, reports most frequently consulted by farm managers*

### Quickbooks Definitions and Terms

- Lists General categorization of firm's transactions and financial data, initialized through the chart of accounts
- Items books Classification used to fill out invoices and bills quickly, Quickbooks defines 10 different types, but two, inventory and non-inventory parts are the most important
- Classes Profit centers or enterprise of the firm
- Customers:Jobs Who you sell to, aids in invoicing, paying bills
- Vendors Who you buy from, aids in paying bills
- Employees Individuals working for you, used in payroll maintenance

preference. ESI coaches the individual through steps necessary to create appropriate accounts for the firm. Descriptive terms, unique to Quickbooks, are employed, as the flow chart below illustrates.

The usefulness of ESI is evident once the process of data entry begins. ESI reminds the

individual of the types of data necessary as well as timing and relevance.

#### Organize The Start-up

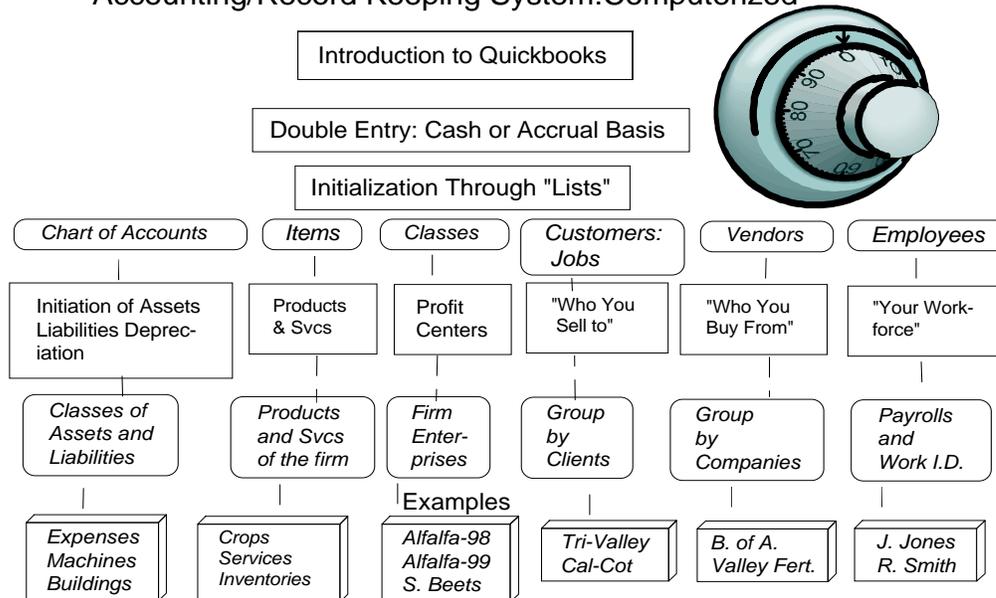
From an efficiency view point one of the first items of practical importance is the necessity of commencing the process as near the start of the fiscal year as possible. This

minimizes problems associated with back dating invoices and bills.

Obtain and organize all relevant firm financial data. At a minimum, You will need the following business and personal records.

- Fixed assets, e.g. equipment and all

### Accounting/Record Keeping System:Computerized



The authors of Quickbooks chose to use non-accounting terms to facilitate data entry, but a basic understanding of accounting principles is still necessary to avoid data entry mistakes

## Quickbooks Operating Basics

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|--|--|
| <ul style="list-style-type: none"> <li>• Initiate data base</li> <li>• Record sales</li> <li>• Pay bills</li> <li>• Pay employees</li> <li>• Check writing</li> <li>• Make deposits</li> <li>• Scheduling</li> <li>• Financial statements</li> <li>• Budget</li> </ul> | <ul style="list-style-type: none"> <li>Use Easy Step Interview to create company data base</li> <li>Use invoicing feature of Navigator</li> <li>Use bill paying feature of Navigator</li> <li>Use payroll feature of Navigator</li> <li>Use optional checking feature of Navigator</li> <li>Use optional checking feature of Navigator</li> <li>Use Reminder feature of Navigator</li> <li>Analyze financial status with custom reports</li> <li>Compare current with previous year, customize with spreadsheet</li> </ul> |
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firm assets with depreciable lives. This includes the claimed life of asset, acquisition value and depreciation claimed

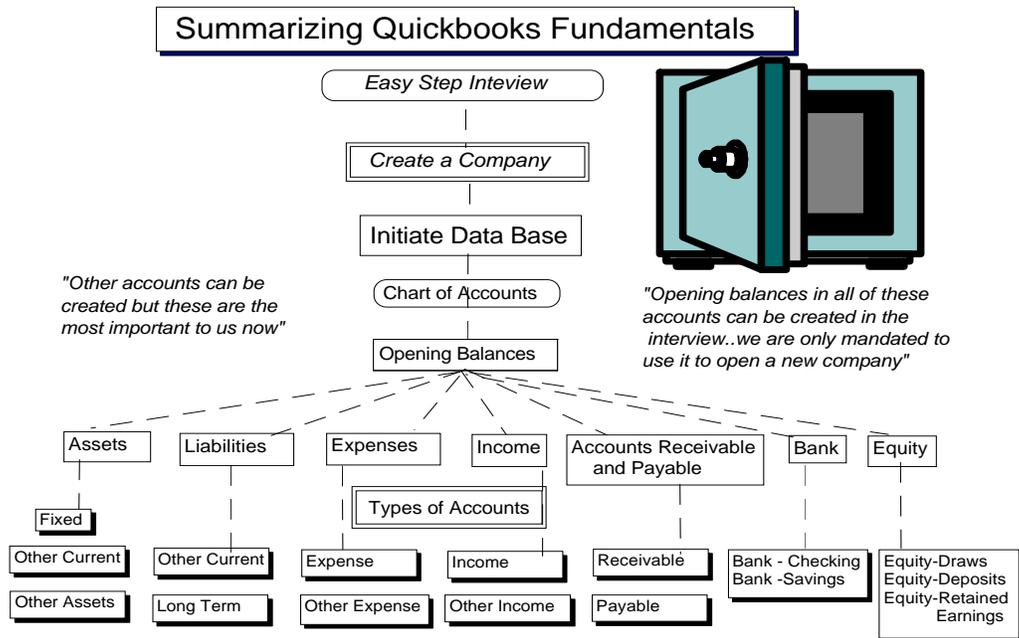
- All bank, savings and checking account balances as of the fiscal year starting date

- Accounts and balances of money owed you (receivable) and money you owe (payable)
- Employee data, including all data necessary to complete W-2 forms

- All bank and credit card loans
- Miscellaneous income sources and data

Fiscal or Calendar Year

Quickbooks automatically closes accounts at the end of the year. It requires that you



*Quickbooks has fifteen general types of accounts, classified according to standard accounting rules and grouped according to numbered or unnumbered categories*

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### *Quickbooks: Missing or Incomplete Elements*

- Two period asset-liability reports
- Comprehensive Cal ag chart of accounts
- Inventory module designed for non agriculture
- Importing data from other programs

make the choice of being on a calendar year or fiscal year basis at the outset. Most farmers tend to be on a calendar year basis, so if you are considering another starting date that choice must be made at the outset. The program always retains the previous year's data, so comparisons can be made for budgeting or control purposes

#### Business Organization

The program provides appropriate tax reporting parameters depending on the type of business organization within which the operation is organized, sole proprietor, Sub Chapter S or regular corporation. If changes in farm organization are considered, it is appropriate to have this accomplished when you start using the program

#### Cash or Accrual?

Chances are you have already made that choice, since most farmers elect to be on a cash basis; moreover, you can still make accrual adjustments so that your annual accounting statement more accurately reflects the economic circum-

stances of the firm. The arguments surrounding cash versus accrual accounting are complex and should be explored in depth.

#### Employee Information

Farm record-keepers are frequently interested in accounting programs having a payroll capability and Quickbooks provides for this capability in some detail, including assigning time and wages to different, crops and expense types. It will also provide a complete W-2, so this means you will need to input all pertinent information regarding marital status, exemptions, retirement programs and the like. Appropriate with holding tax rates are also included. A very nice feature is the ability to obtain annual tax rate updates which can be downloaded from the Intuit web site for a nominal cost.

#### Profit Centers

Most farmers think of differing crops or livestock programs as "enterprises" or profit centers. The program affords the manager extraordinary flexibility in allocating

income and expenses to crops and livestock enterprises without getting in the way of ordinary income and expense coding. This allows the manager to analyze the respective profitability of various farm activities. When the planning period is extended to a sufficient length to consider changes in cropping patterns or livestock enterprises, this becomes one of the most important capabilities of the program.

#### Qualifications

Quickbooks is a general accounting program. It is very inexpensive and updates are reasonable. Work arounds are necessary in order to expedite data entry, to deal with inventory and to allocate assets and liabilities in a manner acceptable to the ag lender and/or the manager. Some of these will be discussed in a subsequent **Notes**.