

Lesson 1: Managing Items

Lesson Objectives

In this lesson, you will learn about the purpose of various item types, create new items, import items, and select the correct item for transactions. After completing this lesson, you will be able to:

- L-1.1 Explain the purpose of different item types.
- L-1.2 Create new items.
- L-1.3 Import items.
- L-1.4 Select correct items in transactions.

Preparing for Inventory

The accounting office where you intern wants you to assume more advanced accounting and QuickBooks file maintenance tasks. You'll continue entering transactions for Best Custom T-Shirts, and now, because the company is gearing up to create inventory and begin using orders, you will begin working with a variety of items in QuickBooks.

With these tasks comes more responsibility for guaranteeing the integrity of the accounting system. Success means the records can be trusted. Failure means loss of valuable information or facing an audit due to errors.

Understanding Items

Items describe transactions that post to a single GL account. Instead of specifying the appropriate GL account in a form when entering a transaction, you select the name of the item, and the item controls the use of the GL account. Items have a variety of helpful functions in forms. For example, they can calculate a total when you enter a quantity. They can also be used to buy and sell using different prices, apply discounts, deduct fees, and apply sales tax. When your items are set up correctly, you can be confident that the correct GL accounts are credited/debited for the correct amounts as transactions are entered.

To view the current items defined in a company file, click **Lists > Item List**. Figure 1-1 shows the Item List for Best Custom T-Shirts.

NAME	DESCRIPTION	TYPE	ACCOUNT	ASSET ACCO	COGS ACCOUNT	TOTAL	ON SALES ORD	PRICE	ATTACH
Design	Custom Design Services	Service	Design Services		Designer Fees			50.00	
Training	Training Program	Service	Training					0.00	
T-SHIRTS	HEADER	Inventory Part	PRINT PRODUCTION	Inventory Asset	Cost of Goods Sold	0	0	0.00	
Custom		Inventory Part	PRINT PRODUCTION:Custom	Inventory Asset	Cost of Goods Sold	0	0	0.00	
STANDARD	HEADER	Inventory Part	PRINT PRODUCTION:Custom	Inventory Asset	Cost of Goods Sold	0	0	0.00	
Medium		Inventory Part	PRINT PRODUCTION:Standard	Inventory Asset	Cost of Goods Sold	0		0.00	
Labels	Labels	Non-inventory Part	Assembly					0.00	
Bounce Cheque Charge		Other Charge	Returned Cheque Charges					0.00	
Freight	Freight	Other Charge	Freight and Shipping Costs					0.00	
NSF Cheque	NSF Cheque	Other Charge	Customer Suspense					0.00	
Reimb Subt	Reimbursable Expenses Subtotal								
Reimb Group	Total Reimbursable Expenses	Group							
Online Payment Fee	Fee kept by online payment proce...	Discount	Credit Card Fees					0.00	
GST	GST on sales	Sales Tax Item	GST/HST Payable					5.0%	
GST (ITC)	GST on purchases (Input Tax Cre...	Sales Tax Item	GST/HST Payable					5.0%	
HST (BC)	HST (BC) on sales	Sales Tax Item	GST/HST Payable					12.0%	
HST (BC) (ITC)	HST (BC) on purchases (Input Tax...	Sales Tax Item	GST/HST Payable					12.0%	

Figure 1-1: Item List window

Unlike the Chart of Accounts, which you can sort by the GL number or alphabetically, the Item List sorts only alphanumerically. You can manage the sorting by creating header names. Item names can start with numbers or codes to control the desired sorting. For inventory item names, you can use part numbers.

Note: Whenever you use numbers to sort names, be sure to use as many zeros as needed for the largest number of digits, such as 0001 instead of 1. Omitting zeros makes the items that begin with a number one, like 10 or 100, sort directly after the number 1 (1,10, 100, 2). Also, do not use a colon because QuickBooks uses colons to establish a hierarchy with names.

Inventory Items are Special

Inventory items do more than the other item types. An inventory item posts up to two pairs of debits and credits.

Trans #	Type	Date	Num	Adj	Name	Memo	Account	Debit	Credit
78	Bill	10/01/2018	216037		Soft Goods Supply		Accounts Payable		607.04
					Soft Goods Supply	green medium	Inventory Asset	535.00	
					Soft Goods Supply	Freight	Freight and Shipping...	44.94	
					Receiver General	GST on purchases (Input T...	GST/HST Payable	27.10	
					Ministry of Finance...	PST (BC) on purchases		0.00	
								607.04	607.04
79	Invoice	10/01/2018	10		Oak Township		Accounts Receivable	896.00	
					Oak Township	Printed with custom design	Custom		750.00
					Oak Township	Printed with custom design	Inventory Asset		535.00
					Oak Township	Printed with custom design	Cost of Goods Sold	535.00	
					Oak Township	Freight	Freight and Shipping...		50.00
					Receiver General	GST on sales	GST/HST Payable		40.00
					Ministry of Finance...	PST (BC) on sales	PST Payable (BC)		56.00
								1,431.00	1,431.00
TOTAL								2,038.04	2,038.04

Figure 1-2: Journal for purchase and sale of inventory

Precision when moving from Inventory to COGS is important. In the example in Figure 1-2, the entire quantity of t-shirts purchased is then sold, so the same cost goes in and out of inventory.

Calculating Value

QuickBooks offers average inventory costs in all but their advanced inventory package. This means that on the date of the invoice, QuickBooks makes a calculation. The total value of the inventory item on that date is divided by the total quantity. If you had a value for an item of \$1,200.00 and a quantity of 100 in stock, the cost for one item is \$12.00.

Understanding Item Types

Objective L-1.1 Explain the purpose of different item types

Just as each GL account has a type, each item has a type. The type factors into the result of using the item in a transaction. When you create a new item, the TYPE drop-down menu displays in the New Item window, as shown in Figure 1-4.

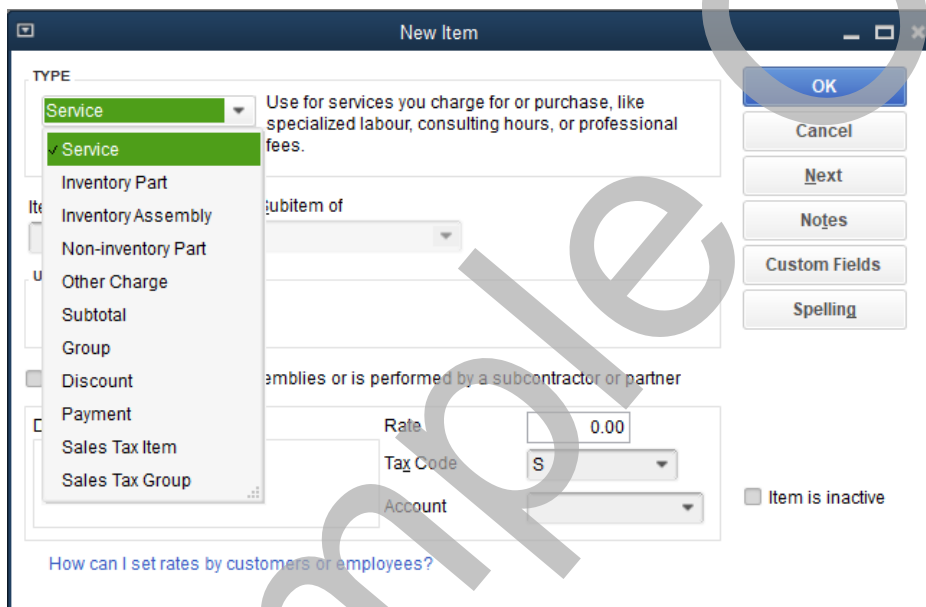


Figure 1-4: TYPE drop-down menu—New Item window

Table 1-1 provides an overview of the different item types and the purpose of each. Some items (such as the sales tax items) are available only in certain fields in forms.

Table 1-1: Item Types and Purposes

Item Type	Purpose
Service	Fee-based services, not goods
Inventory Part	Stand-alone inventory items or items used to build assemblies
Inventory Assembly	Inventory item made from other parts or assemblies
Non-inventory Part	Items not held in inventory such as manufacturing supplies
Other Charge	Miscellaneous items such as freight
Subtotal	An amount that provides a summary figure for associated groups of items

Creating New Items

Objective L-1.2 Create new items

Features of the Item List resemble the other name lists. As with the other lists, after an entry is used in a transaction, the entry cannot be deleted, only deactivated. The Item Name/Number field is the internal name for the item and does not appear on any printed forms. Only the Description appears on printed forms and in the Memo field in the Journal.

You do not need to enter the item description when you are creating a new item. Even if a description is entered, you can still edit the item description text on a bill or invoice.

Note: You might receive a message when you edit information on a form that has been automatically populated by an item. The reason for this is that QuickBooks allows you to update items in the Item List automatically from changes you make in a form. You can click the Yes button to change the item in the Item List, or you can click the No button to leave the information in the Item List unchanged.

Various types of items include many fields in common, but some fields and features are unique to inventory items. In the next two sections, we will examine and contrast the available fields and features for service items and inventory items.

Examining a Service Item

You have already used a Service item in Best Custom T-Shirts. Figure 1-5 shows the original Design Service item in the Edit Item form.

Figure 1-5: Edit Item form—original Design Service item

Notice that the item type is grayed out. Unlike a GL account in the Chart of Accounts, you cannot change an item's type after it is saved. Below the item type are the Item Name/Number field and the *Subitem of* check box. The subitem of option works like the sub-account of option in a GL account; it groups items under a header (parent) item and creates hierarchy in the Item List.

Notice that the *This service is used in assemblies or is performed by a subcontractor or partner* check box is not selected. When this option is not selected, QuickBooks assumes the item will be used only on an invoice. The lower half of the form contains the Description field, the Rate field, the Tax Code drop-down menu, and the GL Account (which is currently set to Sales).

Figure 1-6: Edit Item form—edited Design item

A purchase on a bill goes to one GL account and a sale on an invoice goes to another GL account. This means that Best Custom T-Shirts can use the same item to enter the designer's invoices on bills and to sell the service on invoices. The dual use of an item is very helpful when a business uses subcontractors. For example, if Best Custom T-Shirts hires a designer at one rate and bills the customer for the services provided by the designer at another rate, QuickBooks retains the separate rates. The purchase amount appears when the item is used on a bill and the sales amount appears when the item is used on an invoice. In our scenario, we will edit the item by specifying the Designer Fees expense account for purchases, and the Design Services income account for sales.

Exercise 1.1: Creating a New Item

In this exercise, you will add and duplicate items of different types.

1. Launch **QuickBooks** if necessary, and restore **Best Custom T-Shirts C2_L1_A (Portable).QBM** from the *1768-Student-Files\Lesson 1\StarterFiles* folder. Save the restored company file as **Best Custom T-Shirts C2_L1_<your name>.QBW** in the *1768-Student-Files\Lesson 1\MyProjects* folder.
2. Change the Company Name to **Best Custom T-Shirts C2_L1_<your name>**.

Create a new service item.

3. Click **Lists > Item List**. The Item List window opens.
4. Press **CTRL+N**. The New Item window opens. Notice that the TYPE drop-down menu is also open.
5. In the *TYPE* drop-down menu, select **Service**, if necessary.

Importing Item Lists

Objective L-1.3 Import items

While you can enter items into QuickBooks one-by-one, you might also need to create many items at once. You can do this by creating the items in Excel and importing them into the QuickBooks Item List. (Other lists can be imported using the same method.)

You can use the automated import feature or create your own Excel file and use the Advanced Import option. You can also use the copy-and-paste feature. Whichever method you choose, you need to be sure to set up everything correctly.

Consider the sample item list in an Excel workbook, shown in Figure 1-9.

	A	B	C	D	E	F	G	H
1	Item Name	Cost	Sales Price	Description	Account	COGS	Asset Account	Item Type
2	Design Project	0.00	0.00	Design Project	Design Services			Service
3	Training	0.00	0.00	Training Program	Training			Service
4	T-SHIRTS	0.00	0.00	HEADER	PRINT PRODUCTION	Cost of Goods Sold	Inventory Asset	Inventory Part
5	T-SHIRTS:Custom	10.00	0.00		PRINT PRODUCTION:Custom	Cost of Goods Sold	Inventory Asset	Inventory Part
6	T-SHIRTS:STANDARD	10.00	0.00	HEADER	PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
7	T-SHIRTS:STANDARD:Medium	10.00	0.00		PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
8	T-SHIRTS:STANDARD:Medium:Blue	10.00	16.50	Blue Medium T-shirt (Lakeside)	PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
9	T-SHIRTS:STANDARD:Medium:Green	10.00	16.50	Green Medium T-shirt (Forest)	PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
10	T-SHIRTS:STANDARD:Medium:Red	10.00	16.50	Red Medium T-Shirt (Beach)	PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
11	T-SHIRTS:STANDARD:Medium:Yellow	10.00	16.50	Yellow Medium T-shirt (Sunrise)	PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
12	T-SHIRTS:STANDARD:Medium V-necked	10.00	0.00	V-necked	PRINT PRODUCTION:Standard	Cost of Goods Sold	Inventory Asset	Inventory Part
13	Labels	0.00	0.00	Labels	Assembly			Non-inventory Part
14	Bounce Cheque Charge	0.00	0.00		Returned Cheque Charges			Other Charge
15	Freight	0.00	0.00	Freight	Freight and Shipping Costs			Other Charge
16	NSF Cheque	0.00	0.00	NSF Cheque	Customer Suspense			Other Charge

Figure 1-9: Sample items to import from Excel

The key to any list import is to carefully map the column headers in Excel to the appropriate field names in QuickBooks. You accomplish this by creating an import mapping template.

Exercise 1.2: Importing New Items

In this exercise, you will import three new T-shirt items. The Item mapping template has already been created for you in the company file. You will simply use the template to import items.

1. Ensure that the company file you worked on in the previous exercise is still open.
2. Click **File > Utilities > Import > Excel Files**. The Add/Edit Multiple List Entries dialog box opens.
3. Click **No**. The Add Your Excel Data to QuickBooks dialog box opens.
4. Click the **Advanced Import** button. The Import a file dialog box opens.

Choosing Items

Objective L-1.4 Select correct items in transactions

Matching an item to its intended purpose helps you make effective choices. Because Invoice and Sales Receipt forms accept only items and not GL accounts, you may need items for many things besides sales. Before reviewing how to correctly select items for sales transactions, we will explore the role of items in processing NSF cheques. This includes a useful QuickBooks feature that allows you to invoice customer purchases.

Entering NSF Cheques with Items and Billing Purchases to Customers

When you learned about processing NSF cheques, you found that you can access QuickBooks' bounced cheque system only through the Invoice form. When a cheque received on a Sales Receipt or Make Deposits form returns from the bank marked NSF, you need to use a different method (described below) for handling the bounced check. This method also works for payments received on invoices.

Selecting the Correct Item

The key to selecting the correct item is to remember the purpose of each type. For example, if you create an Inventory type item for a service performed for a fee, the item would be incorrect. It could even cause a problem with the Inventory GL account. If you use a discount item incorrectly, you might reduce the amount a customer owes.

Editing an item on a form also requires care. After selecting the correct type of item, you should know which parts can (and should) be edited. Some inventory items are created without a sales price. This can be due to customers having different sales prices determined by individual contracts. If this is the case, the sales department usually completes the invoicing. You can also expect the price to remain blank if the business offers different pricing for customers based on contract agreements.

Service Item Specifics

Figure 1-28 shows the *Design* Service type item, which has set amounts for Cost and Sales Price.

Figure 1-28: Service Item, fixed amounts

The amount paid to the designers is \$35.00 and the amount charged to the customers is \$50.00. You can use this item on both a bill and an invoice using these set amounts because they follow the business fee schedule. You can enter the number of hours on the forms to compute the total.

The *Training* Service type item in Figure 1-29 does not have a set amount. The business expects to charge the city and the individual enrollees at different rates.

Figure 1-29: Service item, no rate

Exercise 1.3: Selecting Items

In this exercise, you will create two bills to purchase T-shirts and design services, bill back the design services, and then invoice the customer.

Create a bill to purchase T-shirts.

1. Ensure that the company file you worked on in the previous exercise is still open.
2. Click **Vendors > Enter Bills**. The Enter Bills form opens.
3. In the *VENDOR* drop-down menu, select **Soft Goods Supply**.
4. Set the *DATE* to **10/05/2018**.
5. In the *REF. NO.* field, type: **216051**.
6. In the *TERMS* drop-down menu, select **Net 30**.
7. Click the **Items** tab, and then in the *ITEM* drop-down menu, select **T-SHIRTS: STANDARD: Medium: Blue**.

Lesson Summary

Now that you have completed this lesson, you should be able to:

- ☑ L-1.1 Explain the purpose of different item types.
- ☑ L-1.2 Create new items.
- ☑ L-1.3 Import items.
- ☑ L-1.4 Select correct items in transactions.

Key Terms

Term	Definition
Build	QuickBooks inventory term for an item made from other items.

Inventory Reconciliation	The comparison of physical inventory to the amount of inventory in the accounting records.
Physical Inventory	The actual quantity of inventory items in a storage facility or warehouse.
Shrinkage	Accounting term that describes the situation in which a company has fewer inventory items on hand than the amount of inventory shown in the accounting records.

Activity 1: Selecting Item Types

Select the correct item type for each description.

	Item Type
	Service
	Inventory Part
	Non-inventory Part
	Other Charge
	Discount

Practice the Skill

This Practice the Skill exercise is designed to reinforce the skills you have learned. In this exercise, you will enter a new item, purchase inventory, and sell inventory.

1. If necessary, launch **QuickBooks** and open **Best Custom T-Shirts C2_L1_B (Portable).QBM** from the *1768-Student-Files\Lesson 1\PTS* folder.
2. Enter a new subitem for standard medium T-shirts. The new subitem should be the same as the Green medium T-shirt item, except the color is Yellow, and the design is Sunrise, not Forest.

Course Project Exercise

The Blue Heron Spa plans to sell new Body Care Kits at the spa. They will stock the kits in inventory. They plan to purchase the kits from a preferred new vendor, Herbal Body Products. The vendor offers Net 15 payments terms at a cost of \$20.00 each, tax-exempt. The kits will be sold for \$35.00 at the standard tax rate. The Spa wants the income in a new account called Spa Products. They purchased 15 kits on 05/01/2018 and the vendor invoice number is 56892. The first kit was sold on 05/05/2018 and the customer, Sarah J. Morley, paid cash.

Perform the following tasks:

1. Restore the portable file and change the company name as indicated in the table.
2. Create the new vendor, Herbal Body Products, and specify Net 15 payment terms.
3. Add the Spa Products account to the account list.

Quiz Questions

For each question, select the best answer.

1. When you use the Inventory type item on an invoice, what is the correct effect in the accounting records?
 - a. Expenses increase, Inventory decreases, COGS increases, A/R increases.
 - b. COGS decreases, Income increases, Inventory decreases, A/R increases.
 - c. Income increases, A/R increases, COGS increases, Inventory decreases.
 - d. Income increases, Inventory decreases, Expenses decrease, A/P increases.