Lesson 2: Inventory and Services

Lesson Objectives

In this lesson, you will learn how to set up the Inventory and Services module of QuickBooks Online. Upon successful completion of this lesson, you will be able to:

☐ work with the Products and Services list

☐ manage inventory categories

☐ create inventory accounts

☐ create inventory and service items

☐ manage inventory and service item data

☐ manage attachments

☐ run inventory reports

Inventory

Working with the Products and Services Page

QuickBooks makes it convenient to manage your inventory with the Products and Services page.

To open the Products and Services list:

- Select **Sales** and then **Products and services** from the quick menu
- Or select the gear button and then **Products and services** in lists tab

If you don't find this option, you need to turn on inventory tracking – select the gear button, then **Account and Settings**, then **Sales**, and then **Product and services** tab, and turn on **Track inventory quantity on hand**.

When you open the Products and Services list, the following screen appears:

The Products and Services page is divided into two panes:

- Display of inventory that is in stock and out of stock. This also functions as a filter for the inventory in the list below
- List of inventory that you add to your business

The Products and Services page can be used for activities such as:

- Working with inventory items
- Performing batch actions on more than one item
    - Searching for an item
    - Adding new items
    - Editing items
- Adding service and non-inventory items
    - Making an item inactive

- Creating bundles to group items that often sell together
    - Adding a picture to an item
- Adding transactions
- Using pricing rules
- Running inventory reports

In this lesson, we assume that you're in the business of self and skincare dealing in different types of cosmetics and hair products.

Managing Categories

Before going into further details about the Products and services list, you should know that products and services are added with a link to categories to keep your bookings more organized. You can add new categories whether main or sub-categories. You can also edit or delete categories.

To open the categories list, from the top of the page, select the **More** drop-down list and then select **Manage categories**. The page opened displays the Product Categories as in the image below.
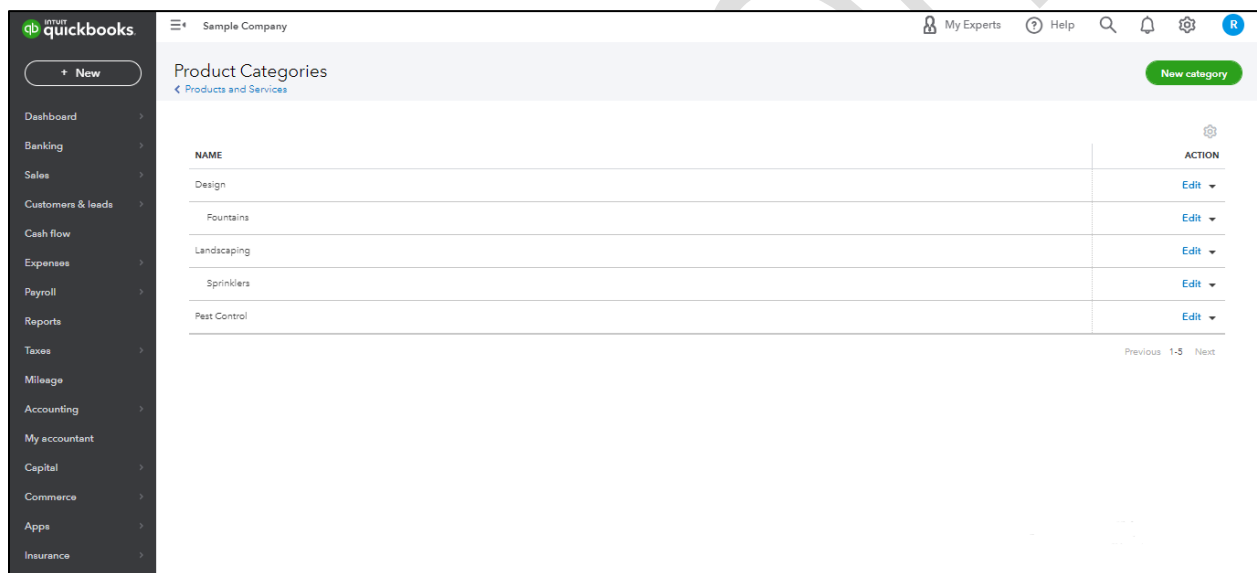
Learn the Skill

In this exercise, you will learn how to add and manage categories.

1. In the **Product and services** page, from the top right side of the page, select the **More** drop-down list and select **Manage categories.**

2. From the top right select **New category.**
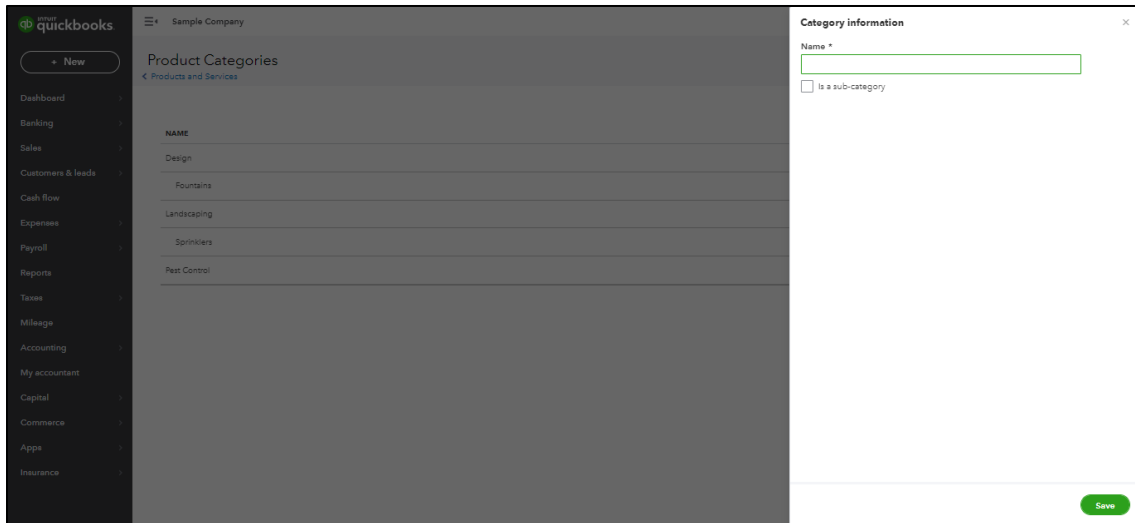
Insert the following categories

Name	Is a sub-category	Select a category
Cosmetics	No	
Moisturizers	Yes	Cosmetics
Face masks	Yes	Cosmetics
Hair products	No	
Shampoos	Yes	Hair products
Conditioners	Yes	Hair products
Treatments	No	
Facials	Yes	Treatments

3.   Enter the categories above one by one.

4.   After entering each category's information, select **Save**.

The categories and sub-categories are now added to the list, and you can perform the following from the **ACTION** column.
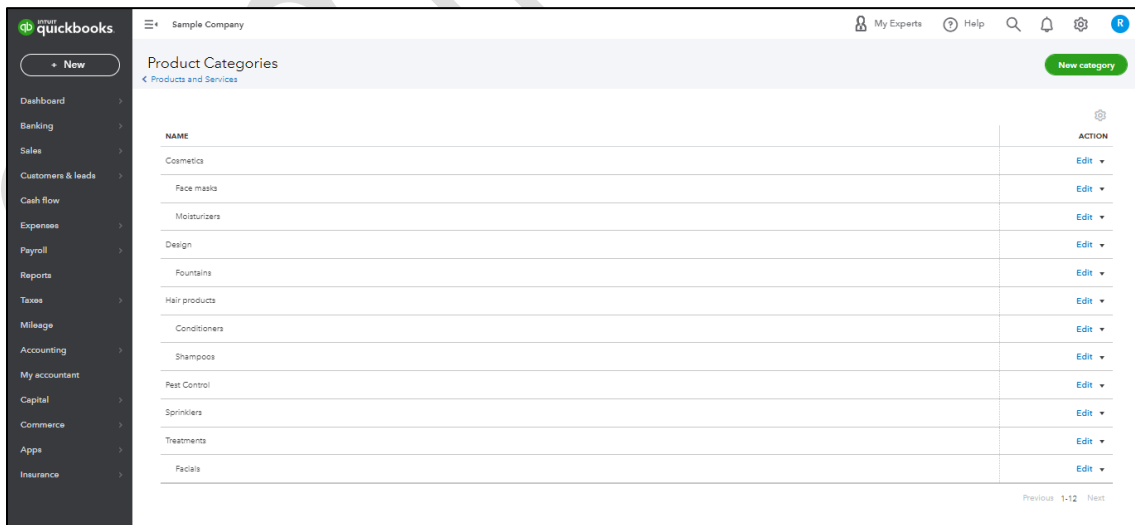
– **Edit**: Select this to modify the category

– **Remove**: Select this to delete the category completely

Creating Inventory Accounts

In QuickBooks Online, every inventory and service item type is uniquely recorded and tracked in your inventory. This capability allows you to:

- Manage your inventory to an optimum level so that stock outs are prevented while preventing you from having too much of your capital tied up in inventory

- Manage the price you charge for each item by monitoring the gross profit earned on these items. You will then have more information when deciding on prices to be charged

- Run financial reports at any time to monitor your overall business profitability

- Calculate any inventory shrinkage whenever a physical inventory count is done

- Restock your inventory and use reports to check the status of your inventory

- Be warned when the current level of stock of an inventory item falls below a specified minimum and re-ordering is required

QuickBooks Online uses only the First In First Out (FIFO) in valuing inventory. Other inventory valuation methods (such as weighted average Cost, Last In First Out (LIFO), and standard cost) are not supported. The First In First Out Method means that the items in the inventory that are received first by your business are the ones to be sold first.

For example, if your business receives a Batch 1 of inventory in January which consists of 80 boxes with a cost of $3. Then in March, you buy 150 more boxes, but this time for the cost of $4 each.

If you sell 100 boxes, this is how you calculate the total cost of goods sold:

Cost = (All boxes from January x their value) + (part of boxes that were purchased in March (100 (All boxes sell) – 80 (boxes from January) x their value)

Cost = (80x3) + (20 x 4) = $320

Each item is calculated by the cost at the time it was received. This means that the remaining 130 boxes in the inventory have the following cost:

Cost = Remaining boxes x their value

Cost = 130x4 = $520

Creating Inventory and Service Items saves time. When buying or selling merchandise, and selling services, QuickBooks Online enters the items from a list, in addition to typing each item in.

When you add an inventory item, QuickBooks Online automatically creates the following accounts:

Account Name	Account Type	Detail Type	Description
Inventory Asset	Current assets	Inventory	This account type tracks the value of all the inventory you have on hand
Cost of Goods Sold	Cost of Goods Sold	Supplies and materials – COS	This account tracks the cost of the products whenever you make a sale

You can use these default accounts or add others using the same account and detail types.

There are other necessary accounts that depend on the type of your business such as *Asset*, *Revenue,* and *Expense*. To be certain of the type of accounts to be added, we advise you to consult with your accountant.

You may also need a Transfer Costs account, a Variance account, an Inventory Adjustment account and a Purchases Discount account. If Inventory items are used to assemble finished components, then an Item Assembly Costs account may be required. Note that accounting treatment of purchase-related costs varies from company to company in how these are recorded and allocated in the financial statements.

Learn the Skill

In this exercise, you will create the accounts required for inventory management.

1. Open the **Chart of Accounts**.

   A series of new accounts must be added to the Chart of Accounts for inventory accounting. The necessary accounts are:

Name	Account Type	Save Account under
Merchandise Sales	Income	Sales of Product Income
Service Sales	Income	Service/Fee Income
Purchase Discounts	Expense	Cost of Goods Sold
Item Assembly Costs	Expense	Cost of Goods Sold

   Now add the new inventory accounts.

2. In the **Chart of Accounts** window, select **New**. Enter the following data for one of the above accounts:

Account Name	Account Type	Save Account under
Purchase Discounts	Expense	Cost of Goods Sold

3. Select **Save and New** to save this new account.

4. Repeat steps 2 and 3 to add these new accounts: select **Save & Close** after the last account.

Service Items

Service items in QuickBooks can be used to track services that you sell and purchase. For example, this company sells repair services to clients, but purchases services such as cleaning services. You must create a service item for each type of service your company sells. In order to provide more details, you can also create sub-items of particular services. The primary difference is that services generally cannot be kept on the shelf or in storage until they are sold, nor can they be verified by physical count.

Non-Inventory Items

In QuickBooks Online, a non-inventory part is one of the types of line items you can use when you are filling out a sales form or purchase form. Use non-inventory part items to track merchandise that:

- You purchase but do not resell

- You sell but do not purchase

- You purchase and resell but do not stock in inventory or track as inventory

You can use purchase orders to obtain non-inventory items if you wish to track items that you use in the business, but do not sell to customers. Purchase orders will be covered later in this course.

Inventory Items

In QuickBooks Online, an inventory part is one of the types of line items you can use when you are filling out a sales form or purchase form. Use inventory part items to track merchandise that:

- You purchase but do not resell

- You sell but do not purchase

- You purchase and resell and stock in inventory or track as inventory

You can use purchase orders to obtain inventory items if you wish to track items that you use in the business. Purchase orders will be covered later in this course.

Bundle Items

These items represent tangible products or services that your business sells together in a bundle. This helps when you create a purchase form. Instead of entering each product separately, you can use the bundle that has all the products you need. The items in bundles depend on your business type, but examples of these items are gift baskets, discounted value packs, toolkits containing different tools such as hammer, saw, and bolts, and first aid kits containing aspirin, gauze, and bandages. This item will be discussed in future lessons.

Learn the Skill

In this exercise, you will learn how to create new inventory items.

1.   From the **Products and Services** page, select **New** to display the Item List panel.
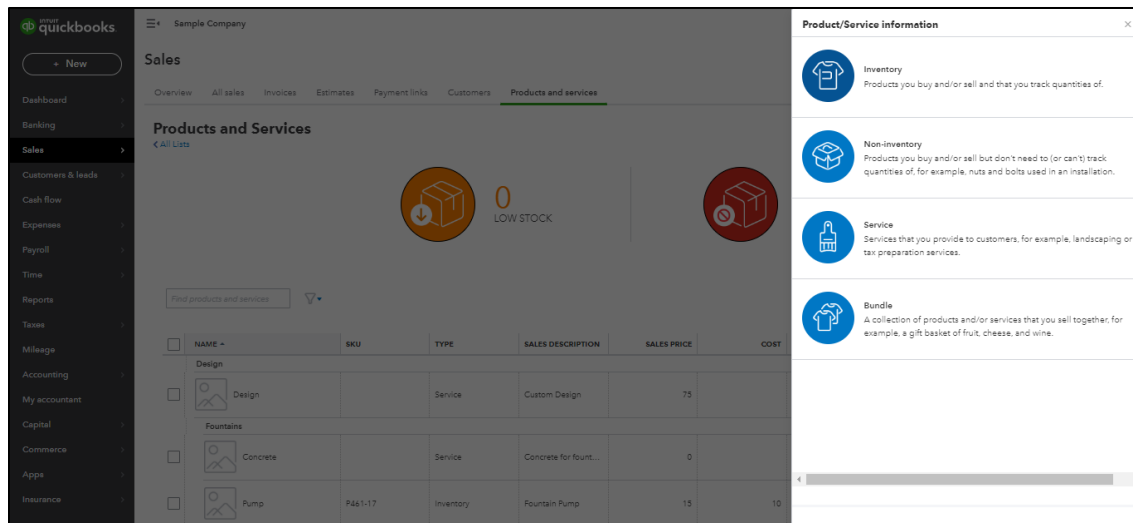
The **Product and Service information** window opens. The contents of this window will change, depending on the type of item that you select.

This course will deal with two of the item types: **Inventory** and **Service**. A way of differentiating between these is to remember that a service is not stocked on the shelf, and cannot be verified by a physical count.

2. Select **Inventory**.
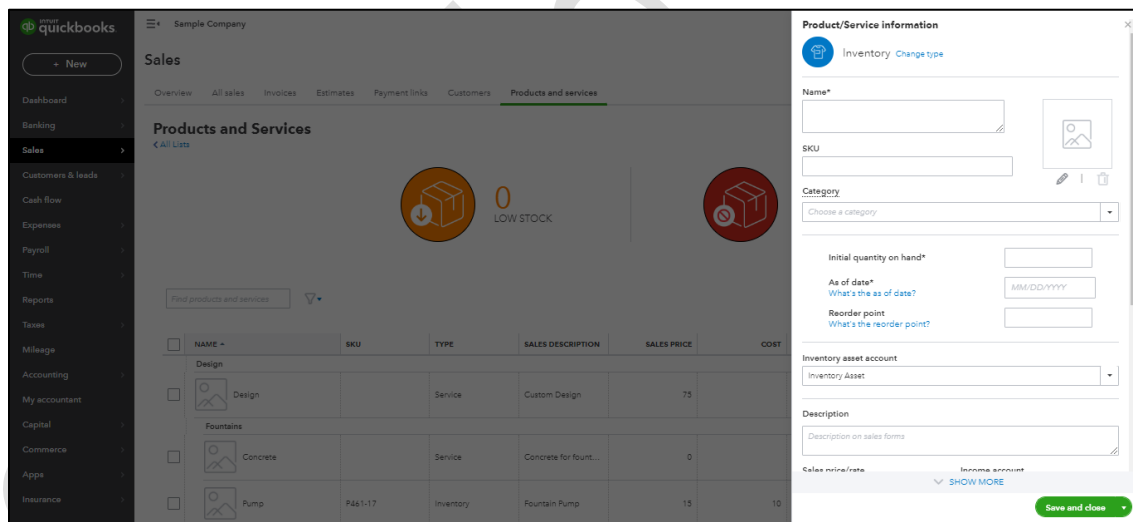
3. In the **Name** text box, enter: `Aloe moisturizer` (Each inventory item should have either a specific name or number) and use the **TAB** key or select the next field.

4. In the **SKU** text box, enter: `KS850IME`

Stock Keeping Unit (SKU) is a unique code, formed of eight numeric characters, assigned to products to keep track of them. It can be generated by the retailer either by hand or using online systems or resources.

5. Select the thumbnail to use an image from your computer that represents the product. You can replace the image or delete it.

6. From the **Category** drop-down list, select the `Moisturizers` sub-category.

Managing Inventory and Service Item Data

You can change almost any information about an inventory or service item at any time, except for any quantity on hand data. These are automatically maintained by QuickBooks Online. You can, therefore, change the description or the price of an item whenever necessary. You can add or delete items. However, there are some parameters around deleting an item. For instance, you cannot delete an item if it has been used in a transaction or if there is inventory on hand. If you have a QuickBooks Online Plus or Advanced account, you can manually adjust the product's quantity on hand to match the stock you have now by creating an Inventory quantity adjustment.

Learn the Skill

In this exercise, you will learn how to adjust inventory quantity.

1. In the **Products and services** list, from the ACTION column of **Aloe moisturizer** select **Edit.** The **Product/Service information** window opens.

> You can also double-click the item name to open the Product/Service information window for this inventory item in edit mode.

Notice that there are two display-only fields; Quantity on hand and Quantity on PO. This data is useful for helping you to manage your inventory of this item.

2. Under the **Quantity on hand** field, select **Quantity**.

> You can also select **new** from the quick menu and then select **Inventory qty adjustment** under the **OTHER** section. You will have to enter the inventory's information manually as opposed to it being filled automatically from the **Product/Service information** window in edit mode. Another way is to select **Adjust quantity** from the product's **ACTION** column.

> You can enter Starting value to create an Inventory Starting Value adjustment but it affects the initial value of the inventory.

3. In the NEW QTY column, enter `300`

Notice how the Inventory adjustment account is automatically selected to Inventory Shrinkage, to which this transaction is now added.

4.   Select **Save and close**.

The quantity on hand is now adjusted and is reflected in the list.

You can reverse this adjustment by searching for it, opening it, and select **Delete** at the bottom of the page.

Managing QuickBooks Online Attachments

QuickBooks Online provides you with the Attachments list. This list collects all the media attached to your QuickBooks items such as products, services, and transactions. You can add, edit, download, and export your attachments. QuickBooks Online supports the following attachment formats PDF, JPEG, PNG, DOC, XLSX, CSV, TIFF, GIF, and XML.

To open the Attachments list, select the gear button > **LISTS** > **Attachments**.

Practice the Skill

The following additional exercise covers many of the items discussed in this Lesson. The Practice the Skill exercises are included as extra practice and may be completed by the learners in class or on their own. Your instructor has access to the Answer Key for these exercises.

Create and/or modify these items as of **March 7, 2023**.

1. Create the following inventory item:

Type	Inventory
Item Name	Coal mask
SKU	JUH859KI
Category	Face masks
Quantity on hand	30
As of date	20/10/2023
Inventory asset account	Inventory asset
Description	Cleansing mask made of coal
Sales price/rate	10.00
Income account	Merchandise Sales
COGS Account	Cost of Goods Sold
Cost	5.75
Expense Account	Cost of Goods Sold
Reorder Point	7

2. Create the following service item:

Type	Service
Item Name	Firming or sculpting facial
SKU	NC145MNC
Category	Facials
Description	Facial workout using tools that tighten and sculpt face muscles
Sales price/rate	45.00
Income Account	Service Sales

3. Modify the following inventory items:

Coal mask	Change the quantity on hand to 50
Firming or sculpting facial	Change the Sales price/rate to 7.00

Lesson Summary

In this lesson, you learned how to set up the Inventory and Service Items in QuickBooks Online. In particular, you learned how to:

☑ work with the Products and service list

☑ manage inventory categories

☑ create inventory accounts

☑ create inventory and service items

☑ manage inventory and service item data

☑ manage attachments

☑ run inventory reports

Practice Questions

1. How do you open the Products and services List?

    a. Select Get paid & pay from the quick menu and the Products and services.

    b. Select gear button and then Products and services under LISTS.

    c. All of the above.

2. What four options are available when adding new products or services?

3. What is the difference between an inventory and a service item?

4. A Non-Inventory item is used for merchandise you buy but do not sell to customers.

    a. True

    b. False

5. Which report will show the quantity on hand and cost of each item in inventory?

6. Attachments list only displays images from products.

    a. True

    b. False

7. A product's quantity on hand can be adjusted manually from the Product/Service information menu in edit mode.

    a. True

    b. False