Lesson 10

Set Up Inventory
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Lesson Objectives

• Get an overview of inventory in QuickBooks
• Practice filling out a purchase order for inventory items
• Track receipt of inventory items in QuickBooks
• Adjust inventory manually to enter a stock loss or increase
Turn on the Inventory Feature

If you need to track inventory for your company, you can turn the feature on while completing the EasyStep Interview. If you want to turn on the inventory feature after you've completed the EasyStep Interview, follow this procedure.

**Step-by-Step: Turn on the Inventory Feature**

1. Make sure you are signed in to the QuickBooks company as the Admin user. (If other users have been set up on other computers to access the company in multi-user mode, ensure they are not signed in and you are in single-user mode.)
2. From the Edit menu, choose Preferences.
3. Select Items & Inventory from the menu on the left-hand side.
4. Click the Company Preferences tab.
5. Click the Inventory and purchase orders are active checkbox to select it.
6. Click OK.

**NOTES**
Enter Products into Inventory

Many small businesses that stock inventory don’t know the number of units they have on hand or on order at any given time and have no way of getting that information quickly. If you use QuickBooks to manage your inventory, you’ll be able to track the number of items in stock and the value of your inventory after every purchase and sale.

As you order inventory items, receive the items, and later sell the items from inventory, QuickBooks tracks each inventory-related transaction. You will know the status of your inventory and will have a more accurate picture of your business’s assets.

Step-by-Step: Enter a Product into Inventory

1. From the Vendors drop-down, choose Item List (or from the List drop-down, choose Item List).
2. Click the Item menu button at the bottom left, then choose New.
3. In the Type field, choose Inventory Part from the drop-down list.
4. Enter the item name in the Item Name/Number field.

5. If this item is to be a subitem of a parent item, select the checkbox next to **Subitem of** and specify the parent item in the drop-down box below it.

6. In the Description on Purchase Transactions field, enter the default description you would like to appear on purchase orders, bills and checks. (You can delete or overwrite the default description on any individual form.) This description automatically copies over to the Description on Sales Transactions, which you can overwrite at that step.

7. In the Cost field, enter your per unit purchase cost for the item.

8. Enter the appropriate Cost of Goods Sold account in the COGS Account field.

9. In the Preferred Vendor field, choose a preferred vendor, if applicable.

10. In the Description on Sales Transactions field, if desired, change the default description you would like to appear on invoices, credit memos, sales orders and estimates.

11. In the Sales Price field, enter the per unit sales price you would like to appear on sales orders, sales receipts, estimates and invoices.

12. Assign a Tax Code, taxable or non-taxable.

13. In the Income Account field, assign the appropriate income account when the item is sold.
14. Enter the appropriate asset account in the Asset Account field.

15. In the Reorder Point field, enter the point at which you would like QuickBooks to remind you to reorder the item.

16. Click **OK** to close the New Item window.

17. Close the Item List.

**NOTES**
Create Purchase Orders

Once you enter your current products and vendors into the Item and Vendor lists, you’ll need to order products to keep your inventory stocked.

When you order items from a vendor, you create a purchase order. Purchase orders are non-posting transactions, which means that although they are recorded by QuickBooks, they do not affect the general ledger, balance sheet or income statement.

Step-by-Step: Order a Product Using a Purchase Order

1. From the Vendors menu, choose Create Purchase Orders.
2. In the Vendor field, choose the name of the vendor from the drop-down list.
3. If necessary, change the date and purchase order number.
4. In the Item column, select the item you wish to order from the drop-down list.
5. In the QTY field, enter the quantity you wish to order.
6. Change the Rate (the per item unit cost) if necessary.
7. You may add a Vendor Message, such as Please rush ship this order.
8. Click **Save & Close** to record the purchase order.
Get a Report of Purchase Orders

**Step-by-Step: Get a Chronologically Ordered Report of all the Purchase Orders You have Written**

1. From the Lists menu, choose **Chart of Accounts**.
2. In the Chart of Accounts, click **Purchase Orders** (it’s one of the last accounts) once to select it.
3. Click the **Reports** menu button and choose **QuickReport: Purchase Orders**.
4. Change the date range to **All** if desired.

![QuickReport for Purchase Orders](image)

5. Close the QuickReport.
6. Close the Chart of Accounts.

**NOTES**
Receive Inventory

When you receive the items you have ordered with your purchase order, you have to enter the items into inventory. You can receive items with a bill or without a bill. This exercise shows how to enter inventory items you’ve received without a bill.

**Step-by-Step: Receive Inventory without a Bill**

1. From the Vendors menu, choose **Receive Items**.

2. In the Vendor field, choose the vendor from whom you are receiving inventory.

3. If the Open POs Exist window appears, click **Yes** (or **Select PO** from the icon bar if you accidentally bypass the pop-up notification).
4. Click the purchase order(s) against which you want to receive inventory.

5. Click **OK** to move the information to the item receipt.

6. Specify the Date the items were received.

7. If applicable, add more information to the item receipt such as a Reference number and an additional Memo.

8. Click **Save & Close** to process the receipt.

9. QuickBooks processes the items and adds them to your inventory.

**NOTES**
Enter a Bill for Inventory Received

If you've entered an item receipt for inventory but the bill hasn't arrived yet, you can still record the bill amount in QuickBooks. Entering the bill as shown in this exercise changes the item receipt in your Accounts Payable account to a bill, still affecting Accounts Payable. Item receipts appear in payables reports but do not appear in the Pay Bills window. They must be turned into bills in order to appear in the Pay Bills window.

When the bill comes, you pay it just like you would any other bill in QuickBooks (from the Pay Bills window).

Step-by-Step: Enter the Bill

1. From the Vendors menu, choose Enter Bill for Received Items.
2. In the Vendor field, select the vendor from the drop-down list and press Tab.
3. This will bring up the Select Item Receipt window. Select the item receipt you wish to turn into a bill (only one item receipt at a time can be turned into a bill).
4. To use the receipt date as the bill date, place a checkmark in the box for Use item receipt date for the bill date; this will automatically transfer to the bill.

5. Click OK.
6. Enter or change the date and reference number (bill number).

7. Click **Save & Close**.

8. Click **Yes** if another dialog box appears.

QuickBooks changes the item receipt to a bill in the Accounts Payable account and lists the bill in the Pay Bills window.

Because it is important to have inventory on hand before you enter a sale for inventory parts, it is recommended you enter your item receipts before entering sales. (If you do not have enough inventory on hand when you are entering an invoice, you will receive a warning. If you elect to ignore the warning, reports regarding costs of goods sold and profitability can be skewed.)

**NOTES**
Manually Adjust Inventory

When you have spoilage or shrinkage, or when you send out samples of your products, you can adjust your inventory manually.

Step-by-Step: Adjust the Inventory Manually

1. In the Vendors menu, click the arrow next to Inventory Activities and choose Adjust Quantity/Value on Hand.

   QuickBooks displays the Adjust Quantity/Value on Hand window.

   ![Adjust Quantity/Value on Hand window]

2. Keep the Adjustment Type at Quantity.

3. Enter the Adjustment Date.

4. In the Adjustment Account field, enter the appropriate Cost of Goods Sold account against which you would like to record the adjustment.
5. Click on **Find & Select Items** to search for items, or enter them directly into the Items column of the grid. You can adjust multiple items in this one entry screen.

6. Enter the new quantities you want to show in your inventory in the New Quantity column, or use the Qty Difference column to adjust inventory up or down.

7. Click **Save & Close**.

**NOTES**
Set a Default Markup

With QuickBooks, you can add a markup to your basic costs by entering a default markup percentage. QuickBooks uses this percentage to calculate the sales price of items that should have both a per unit purchase cost and a per unit sales price.

You'll see the effect of the default markup percentage when you create inventory part, non-inventory part, service and other charge items when you enter the item’s cost.

QuickBooks calculates the sales price and enters it in the Sales Price field. For example, entering a cost of $10.00 when the markup is 25% causes QuickBooks to fill in the sales price as $12.50. If you don't want to use the default markup for an item, you can change the sales price that QuickBooks created based on the markup.

Step-by-Step: Set the Default Markup Percentages

1. Make sure you are signed in to the QuickBooks company as the Admin user. (If other users have been set up on other computers to access the company in multi-user mode, ensure they are not signed in and you are in single-user mode.)

2. From the Edit menu, choose Preferences.

3. Click Time & Expenses in the left panel.

4. Click the Company Preferences tab.

5. In the Default Markup Percentage field, enter the default markup as a percentage and press Tab.
6. In the Default Markup Account field, choose the appropriate Income account to which markups should be mapped.

   Your screen should resemble this:

   ![Image of Preferences window showing Default Markup settings]

7. Click **OK**.
Set Up Inventory – Review Questions

1. True or false: The Purchase Orders account does not affect the balance sheet or income statement.
   a. True
   b. False

2. You placed an order with a vendor for inventory parts. The items have arrived but you have not received the bill yet. Which option should you choose from the Vendors menu?
   a. Enter bills
   b. Receive items and enter bills
   c. Receive items
   d. Enter bills for items received

3. You complete a physical inventory count and discover you have five more of a particular item than shown in QuickBooks. How do you update the inventory records in QuickBooks?
   a. Complete the physical inventory worksheet
   b. Enter an item receipt
   c. Adjust the quantity in the Adjust Quantity/Value on Hand window
   d. None of the above

4. Which of the following provide you with a list of all purchase orders created in a file?
   a. QuickReport on the Purchase Orders account
   b. Purchase Orders List report
   c. Open Purchase Orders
   d. All of the above
Review Activities

1. Enter a new inventory item using the following information.
   - **Item Name/Number**: Kitchen counter
   - **Purchase Description**: Kitchen counter
   - **Cost**: 280.00
   - **COGS Account**: Cost of Goods Sold
   - **Preferred Vendor**: Patton Hardware Supplies
   - **Sales Description**: Same as Purchase Description
   - **Sales Price**: 340.00
   - **Income Account**: Construction: Materials Income
   - **Asset Account**: Inventory Asset
   - **Reorder Point**: 5
   - **Qty on Hand**: 6

2. Create a purchase order for 20 standard doorknobs.

3. Receive the 20 standard doorknobs into inventory and record the bill for the doorknobs.

4. Process the bill and pay for the 20 standard doorknobs.
Answers to Review Questions

1. True or false: The Purchase Orders account does not affect the balance sheet or income statement.
   a. ✅ True
   b. False

2. You placed an order with a vendor for inventory parts. The items have arrived but you have not received the bill yet. Which option should you choose from the Vendors menu?
   a. Enter bills
   b. Receive items and enter bills
   c. ✅ Receive items
   d. Enter bills for items received

3. You complete a physical inventory count and discover that you have five more of a particular item than shown in QuickBooks. How do you update the inventory records in QuickBooks?
   a. Complete the physical inventory worksheet
   b. Enter an item receipt
   c. ✅ Adjust the quantity in the Adjust Quantity/Value on Hand window
   d. None of the above

4. Which of the following provide you with a list of all purchase orders created in a file?
   a. ✅ QuickReport on the Purchase Orders account
   b. Purchase Orders List report
   c. Open Purchase Orders
   d. All of the above