Lesson 5

Use Other Accounts in QuickBooks
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Esther Friedberg Karp is an internationally-renowned trainer, writer, business consultant and speaker who was named one of the Top 10 QuickBooks ProAdvisors in the world, with the title Top International ProAdvisor.

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Esther counts among her clients’ companies from around the world, as well as accounting professionals who seek her out on behalf of their own clients for her expertise in various countries’ editions of QuickBooks Desktop and Online, and for her talent in customizing QuickBooks usage for different industries.

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Lesson Objectives

- Introduce other account types available in QuickBooks
- Learn how to track credit card transactions in QuickBooks
- Reconcile a credit card account
- See how to make a credit card payment
- Discuss the different types of asset and liability accounts you can create and see how to track assets and liabilities in QuickBooks
- Introduce the subject of equity and QuickBooks equity accounts
Other Account Types in QuickBooks

In this lesson you’ll learn about these types of QuickBooks accounts:

- **Credit card accounts** - Used to track transactions you pay for with a credit card

- **Asset accounts** - Used to track current assets (those assets you’re likely to convert to cash or use up within one year, such as inventory on hand) and fixed assets (such as long-term notes receivable and depreciable assets your business owns that aren’t liquid, such as equipment, furniture or a building)

- **Liability accounts** - Used to track current liabilities (those liabilities scheduled to be paid within one year, such as sales tax, payroll taxes and short-term loans) and long-term liabilities (such as loans or mortgages scheduled to be paid over terms longer than one year)

- **Equity accounts** - Used to track owner’s equity, including capital investment, draws and retained earnings

**NOTES**
**Enter Credit Card Charges**

QuickBooks lets you choose when to enter your credit card charges. You can enter credit card charges when you charge an item or when you receive the bill. Your choice depends on whether you like to enter information into QuickBooks incrementally or all at once. The advantage to entering charges when you charge them is that you can keep close track of how much you owe. In addition, if the charge is for a particular job, you can keep track of how much you’re spending on that job.

**Step-by-Step: Enter a Credit Card Charge**

1. From the Banking menu or Home page, choose *Enter Credit Card Charges*. 
2. In the Credit Card field at the top, select the appropriate credit card account. (You can use the Tab key to move from field to field rather than taking your hands off the keyboard to use the mouse to point to the next field.)

3. In the Purchased From field, enter the name of the vendor from whom you made the purchase.

4. Enter the remaining information about the charge (date, reference number, amount, memo, etc.) in the top or header section of the Enter Credit Card Charges screen.

5. In the detail section (the lower section of the Enter Credit Card Charges screen), there are two tabs: the Expenses tab and the Items tab. Make sure that you are in the Expenses tab. Click on the Expenses tab if necessary.

6. Once in the Expenses tab, make sure your mouse pointer is in the first vacant row of the Account column and assign the charge to the corresponding expense account. Enter a memo in the Memo column if desired.

7. Click Save & Close to record the transaction and close the window.

**NOTES**
Reconcile a Credit Card Statement

Step-by-Step: Reconcile a Credit Card Statement

1. From the Banking drop-down, choose Reconcile or Reconcile Credit Card.
2. In the Account drop-down, choose the appropriate credit card from the list.

![Begin Reconciliation](image)

3. In the Statement Date field, enter the closing date of the statement you wish to reconcile.
4. In the Ending Balance field, enter the ending balance of the statement you wish to reconcile.
5. Click Continue. Proceed to next exercise.

NOTES
Mark Cleared Transactions

**Step-by-Step: Mark Transactions as Cleared**

1. Place a checkmark in the box next to **Hide transactions after statement's end date** to show only transactions dated up to and including the statement end date.

2. In the Charges and Cash Advances section of the window on the left side, match the transactions with the charges on your statement. Place a checkmark next to each transaction in QuickBooks that appears on your statement. This marks the transaction as cleared in your QuickBooks register.

3. In the Payments and Credits section of the window on the right side, place a checkmark next to each transaction that matches your statement to mark the payments as cleared in the register. You can open a transaction to view it and make changes to it, if necessary, by double-clicking on the transaction in the reconciliation window.

4. When you are done with this process, the Difference in the bottom right corner should be zero. When this difference is zero, and only when this difference is zero, click **Reconcile Now**.
5. QuickBooks will ask if you would like to enter a bill or write a check for the remaining balance on your credit card. You can choose one of these options, or click Cancel if you would rather not do either one at this time.

![Make Payment Window]

6. In the Select Reconciliation Report window, you can choose to display or print your reconciliation reports. It is important to print both the Summary and Detail reports, and a best practice is to save them as PDFs for future reference.

![Select Reconciliation Report Window]

**NOTES**
Pay a Credit Card Bill

Step-by-Step: Write a Check for the Bill Now (continued from the reconciliation above)

1. After reconciling, if you select Write a check for payment now, the Write Checks window will open. Make sure Checking is listed as the bank account.

2. Make sure you have the correct payment date on the check, as well as the check number, or if the check is to be printed, ensure that Print Later is checked.

3. Click in the Pay to the Order of field and select the name of the credit card company.

4. Notice in the Expenses tab that the account is prefilled with the CaOil Credit Card account (a credit card account).

![Write Checks - Checking window]

5. Click Save & Close to record the transaction.

NOTES
Work with Asset Accounts

**IMPORTANT:** The remaining sections are somewhat advanced. It may be advisable to consult with your accountant or tax professional for assistance in dealing with these topics.

An Other Current Asset account tracks assets that are likely to be converted to cash or used up within one year. If you buy and sell inventory, the value of your entire inventory on hand usually appears in an Other Current Asset account called something like Inventory Asset. Other current assets might include treasury bills, certificates of deposit, prepaid expenses, prepaid deposits, reimbursable expenses and notes receivable (if due within one year).

A Fixed Asset account tracks assets your business owns that are not likely to be converted into cash within a year. A fixed asset is usually something necessary for the operation of your business, like a truck, cash register, computer or large printer. It is generally depreciated over time.

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**Step-by-Step: Set up an Other Current Asset Account**

1. On the Home page, click **Chart of Accounts** (or use CTRL+a or any other method of opening the Chart of Accounts).
2. Click the **Account** menu button in the bottom left corner of the Chart of Accounts, and then choose **New**.
3. Click **Other Account Types** and choose **Other Current Asset** from the drop-down list.
4. Click **Continue**.

5. Enter the Account Name and Number you would like to use (you will see the Number field if Account Numbers have been enabled in the Accounting Preferences). You may also enter a Description.

6. Do not enter an opening balance.

7. Click **Save & Close**.

**NOTES**
Set Up Asset Accounts to Track Depreciation

Fixed assets are equipment or property your business owns that is not for sale. Since they last a long time, you don’t completely charge their cost to the year in which you buy them. Instead, you spread their cost over several years. But because fixed assets wear out or become obsolete, their value declines constantly from the day you purchase them. The amount of this decline in value is called depreciation. Over time, the amount of depreciation accumulates and you can see the total decline in value at any point in time by looking at the accumulated depreciation as of that date. The Accumulated Depreciation account is generally set up as a fixed asset account, and is very often set up as a subaccount of a fixed asset parent account.

Step-by-Step: Set up Asset Accounts to Track a New Trailer Purchased by Rock Castle Construction

1. In the Chart of Accounts window, click the Account menu button in the bottom left corner, and then choose New.
2. In the Add New Account window, select Fixed Asset (major purchase), and then click Continue.
3. Enter the Account Name and Number you would like to use, as well as a Description.
4. Do not enter an opening balance.
5. Click Save & Close.
### Chart of Accounts

<table>
<thead>
<tr>
<th>NAME</th>
<th>TYPE</th>
<th>BALANCE TOTAL</th>
<th>ATTACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>10100 Checking</td>
<td>Bank</td>
<td>41,055.48</td>
<td></td>
</tr>
<tr>
<td>10200 Savings</td>
<td>Bank</td>
<td>17,916.19</td>
<td></td>
</tr>
<tr>
<td>10400 Petty Cash</td>
<td>Bank</td>
<td>500.00</td>
<td></td>
</tr>
<tr>
<td>11000 Accounts Receivable</td>
<td>Accounts Receivable</td>
<td>93,007.60</td>
<td></td>
</tr>
<tr>
<td>12200 Prepaid Rent</td>
<td>Other Current Asset</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>12300 Underposted Funds</td>
<td>Other Current Asset</td>
<td>2,440.00</td>
<td></td>
</tr>
<tr>
<td>12100 Inventory Asset</td>
<td>Other Current Asset</td>
<td>39,683.58</td>
<td></td>
</tr>
<tr>
<td>12800 Employee Advances</td>
<td>Other Current Asset</td>
<td>832.00</td>
<td></td>
</tr>
<tr>
<td>13100 Pre-paid Insurance</td>
<td>Other Current Asset</td>
<td>4,050.00</td>
<td></td>
</tr>
<tr>
<td>13400 Retainage Receivable</td>
<td>Other Current Asset</td>
<td>3,703.02</td>
<td></td>
</tr>
<tr>
<td>15150 Trailer</td>
<td>Fixed Asset</td>
<td>34,325.00</td>
<td></td>
</tr>
<tr>
<td>15300 Furniture and Equipment</td>
<td>Fixed Asset</td>
<td>79,836.91</td>
<td></td>
</tr>
<tr>
<td>15500 Vehicles</td>
<td>Fixed Asset</td>
<td>142,000.00</td>
<td></td>
</tr>
<tr>
<td>15200 Buildings and Improvements</td>
<td>Fixed Asset</td>
<td>525,000.00</td>
<td></td>
</tr>
<tr>
<td>15300 Construction Equipment</td>
<td>Fixed Asset</td>
<td>15,300.00</td>
<td></td>
</tr>
<tr>
<td>16800 Land</td>
<td>Fixed Asset</td>
<td>93,000.00</td>
<td></td>
</tr>
<tr>
<td>17000 Accumulated Depreciation</td>
<td>Fixed Asset</td>
<td>-113,344.60</td>
<td></td>
</tr>
<tr>
<td>18700 Security Deposits</td>
<td>Other Asset</td>
<td>1,720.00</td>
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<tr>
<td>20000 Accounts Payable</td>
<td>Accounts Payable</td>
<td>29,636.82</td>
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</tr>
<tr>
<td>20500 QuickBooks Credit Card</td>
<td>Credit Card</td>
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</tr>
<tr>
<td>20600 Cash on Credit Card</td>
<td>Credit Card</td>
<td>0.00</td>
<td></td>
</tr>
</tbody>
</table>
Track a Loan with a Long Term Liability Account

The Long Term Liability account tracks debts which your business is not likely to pay off within a year. The most common long-term liabilities are loans you expect to pay off in more than one year.

Step-by-Step: Track a Loan with a Long Term Liability Account

1. In the Chart of Accounts, click the Account menu button in the bottom left corner, and then choose New.

2. In the Add New Account window, select Other Account Types then choose Long Term Liability from the drop-down list.

3. Click Continue.

4. Enter the Account Name and Number you would like to use, as well as a Description.
5. Do not enter an opening balance.
6. Click **Save & Close**.

![Chart of Accounts]

Because this is a new loan, you are either receiving money to deposit in your bank account, or receiving a new asset worth the amount of the loan. In this example, you received an asset (the new trailer), so you need to show an increase in the asset's Cost account.

**Step-by-Step: Record an Increase in the Asset’s Cost Account**

1. In the Chart of Accounts, double-click the asset account that describes the asset you purchased (in this example, it would be the Trailer asset account). This will open the register for that asset account.

2. In the Date field, specify the date of the purchase using the loan funds. You can also enter a reference number in the Ref field if desired. If you wish, you can also enter the name of the person or company that sold the trailer to you in the Payee field.

3. In the Increase field, enter the dollar amount for which the asset was purchased.
4. In the Account field, select the corresponding liability account that was used to purchase the asset (in this example the Trailer Loan liability account).

5. Click Record.

6. Close the register window.

7. Close the Chart of Accounts.

You can also, if you wish, enter the trailer on the Fixed Asset Item list. Tracking fixed assets using the Fixed Asset Item list enables you to record detailed information about an asset such as the purchase date and price, whether the asset was new or used when purchased, and the asset’s sale price if you decide to sell it. You can also generate customizable reports listing all your fixed assets.

Entering information on the Fixed Asset Item list does not in any way affect your general ledger, and therefore does not double-count the entry in which you purchased the asset and incurred the loan.

**Step-by-Step: Create a Fixed Asset Item**

1. From the Lists menu, choose **Fixed Asset Item List**
2. Click the **Item** menu button then select **New**.

3. In the Asset Name/Number field, enter the name of the asset.

4. Enter the remaining information to complete the Purchase Information section.

5. Enter the remaining information to complete the Asset Information section.

6. Choose the corresponding asset account from the **Asset Account** drop-down list.

7. Click **OK**.

8. Close the Fixed Asset Item list.

**NOTES**
Record a Payment on a Loan

When it’s time to make a payment on a loan, use the Write Checks window to record a check to your lender. Assign part of the payment to loan interest expense and the remainder to loan principal.

**Step-by-Step: Record a Payment on a Loan**

1. From the Banking menu, choose **Write Checks**.
2. In the Pay to the Order of field, enter the name of the lender.
3. Enter the dollar amount of the payment in the Amount field.
4. Click in the **Account** column on the Expenses tab and enter the liability account against which you are applying the principal portion of this payment. You can use multiple accounts/lines here to account for principal payment vs. interest expense.

5. Click **Save & Close** to record the payment and close the Write Checks window.
6. The split between principal and interest, as they comprise the total payment, will change from payment to payment in accordance with the loan amortization schedule.
When you record the transaction, QuickBooks automatically updates the accounts affected by this transaction:

- In your Checking bank account, QuickBooks subtracts the total amount of the check from your balance.
- In the Interest expense account, QuickBooks enters the interest amount as an increase to your company's interest expense.
- In the Trailer Loan liability account, QuickBooks subtracts the principal amount from the current value of the liability (reducing the amount of your debt).

**NOTES**
Introduction to Equity Accounts

Equity on your company’s balance sheet is defined as the company’s net worth. The total assets minus total liabilities equals the equity.

Equity is comprised of the company’s retained earnings (or owner’s equity if it is not an incorporated company) since the company’s inception (incremented each year by that year’s net income if it is positive, or reduced by that year’s net income if it is negative or a loss), adjusted for, if they exist:

- Dividends paid out or owner’s draw (these reduce equity)
- Common or preferred shares (these increase equity)
- Contributed or paid-in capital
Use Other Accounts in QuickBooks – Review Questions

1. Accumulated depreciation is typically set up as what type of account in QuickBooks?
   a. A subaccount of a fixed asset account
   b. A subaccount of a current asset account
   c. A subaccount of a liability account
   d. An expense account

2. Equity type accounts would be used to track which of the following?
   a. Contributed or paid-in capital
   b. Draws
   c. Retained earnings
   d. All of the above

3. Which of the following would likely be considered a long-term liability?
   a. Vehicle loan
   b. Accounts payable
   c. Rent
   d. Credit card account

4. Retained earnings is defined as which of the following?
   a. The amount of money that a business retains for paying its employees
   b. The earnings from non-essential business services
   c. The amount of interest saved from paying off a loan early
   d. The accumulation of a company’s net income or loss from its start date
5. Which of the following would not decrease the value of a company’s equity?
   
a. The company paying corporate dividends
b. The company incurring a net loss for the fiscal year
c. An owner drawing money out of the company
d. The company taking a loan out to purchase a new asset
Review Activities

Assume that the owner of Rock Castle Construction has taken out a loan and purchased a computer system for $15,000. He wants to track the accumulated depreciation and cost of the system in two separate fixed asset accounts.

1. Create a fixed asset account called *Computer System*.

2. Create a long-term liability account to track the loan.

3. Enter the amount of the loan as an increase in the asset’s account. Assign the transaction to the loan liability account.
Answers to Review Questions

1. Accumulated depreciation is typically set up as what type of account in QuickBooks?
   a. ✓ A subaccount of a fixed asset account
   b. A subaccount of a current asset account
   c. A subaccount of a liability account
   d. An expense account

2. Equity type accounts would be used to track which of the following?
   a. Contributed or paid-in capital
   b. Draws
   c. Retained Earnings
   d. ✓ All of the above

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   a. ✓ Vehicle loan
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a. The company paying corporate dividends
   
b. The company incurring a net loss for the fiscal year
   
c. An owner drawing money out of the company
   
d. ✓ The company taking a loan out to purchase a new asset