

Chapter 3

Reviewing and Correcting Item List Errors

- Understanding the Differences Between the Chart of Accounts, Items, Classes, and Customer Types
- Using Item Types in QuickBooks
- Finding Item Errors in QuickBooks
- Fixing Item Errors in QuickBooks
- Creating Items as Subitems
- Item List Review Checklist

Understanding the Differences Between the Chart of Accounts, Items, Classes, and Customer Types

QuickBooks offers several methods for separating business results into meaningful segments. You have the Chart of Accounts list for organizing your transactions, the Items list for tracking the profitability of individual services and products you sell, classes for tracking different corporate profit centers, and the ability to view your profitability by user-defined customer types.

The QuickBooks accounting structure is generally easy to set up and define. What becomes problematic for some is how to efficiently use each of the available list types when you want to segment the business reporting activity in QuickBooks.



Digging Deeper

A well-defined QuickBooks data file will most likely include the use of items, classes, and customer types in addition to the chart of accounts.

Before reviewing and correcting item list errors, you need to understand the differences between items and the other lists available in QuickBooks.

Chart of Accounts

The chart of accounts list, in particular, the Profit & Loss accounts, should offer just enough detail for you to make financial decisions for your overall business, but not so much detail that you have too much information to deal with.

Keeping your Profit & Loss chart of accounts minimized allows you to easily analyze business finances. For example, a contractor might employ 30 or more different types of specialty trades when building a house, such as site work, concrete, plumbing, and so on. To create a Cost of Goods Sold account for each type of trade would be too much detail when reviewing financial reports for the overall business.

A better approach would be to create summary Cost of Goods Sold accounts that, for the contractor example, might be Cost of Goods Sold - Labor, Cost of Goods Sold - Material, Cost of Goods Sold - Equipment, and so on. Other industries that track many services or products would also benefit from including only summary accounts on the Profit & Loss statement.



Digging Deeper

Are you creating a new data file or using an existing file? Your accountant should review your chart of accounts and make sure that it meets certain accounting guidelines. Taking this extra step can save you lots of extra work at tax reporting time if you find you have not used the appropriate accounts.

Items

Items are what you sell or buy and are used on all customer forms and optionally on purchase forms. Items provide a quick means for data entry. But a much more important role for items is to handle the behind-the-scenes accounting while tracking item-specific costs and revenue detail. Using the contractor example given previously, you could create an item for Site Work Labor, Concrete Labor, and Plumbing Labor and assign each item to your single Cost of Goods Sold – Labor chart of accounts. Using items allows you to capture cost detail by labor type rather than creating a Chart of Account for each type. Then, when you view your Profit & Loss statement you can easily see what your total Cost of Goods Sold is for all labor types.

Classes

Another method for segmenting your QuickBooks financial information is by using classes. The use of classes is a preference setting and must first be enabled by logging in to the data file as the Admin user:

1. Click **Edit, Preferences**.
2. Select the **Accounting** preference on the left.
3. Click the **Company Preferences** tab.
4. Select the **Use Class Tracking** option, as shown in Figure 3.1.

Classes are typically used when a company has multiple revenue-generating business types or multiple profit centers. These class list items are then assigned to each transaction as in Figure 3.2. Examples of classes might be a construction company that offers either new construction or remodel services, or a restaurant with multiple locations. In both examples, using classes that are assigned to each transaction line allows you to report profit and loss by class.

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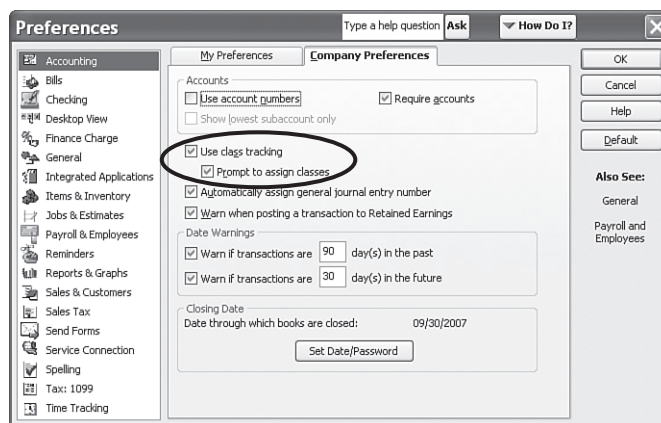


FIGURE 3.1
Enable the preference for class tracking.

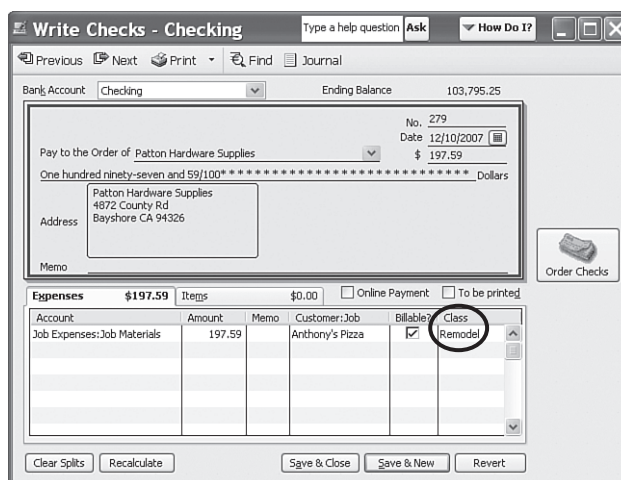


FIGURE 3.2
An example of a check with a class list item assigned on the transaction line.



Digging Deeper

When deciding to use classes, it is important that you have only one primary purpose for the class structure. If you try to track more than one “type” of class the value in the reporting is diminished. For example, your company has both an east coast and west coast division. These represent the proper use of the QuickBooks class feature.

However, using classes to also track the source of the business—for example, yellow pages, email marketing, and so on—would diminish the success of class reporting because you would be tracking two unrelated groupings. Instead you can use classes for one purpose and customer types for another.

Customer Types

You can use customer types to categorize your customers in ways that are meaningful to your business. A retailer might use classes to track store locations; a medical office might track types of services; a service company might track what marketing event brought in the customer. You can filter certain reports by these customer types, giving you critical information for making business management decisions.

To create or assign a customer type:

1. Click the **Customer Center** icon from the Home page.
2. Select a customer by double-clicking on the name.
3. Click the **Additional Info** tab and select a type from the drop-down menu in **Categorizing and Defaults**, as shown in Figure 3.3.

Many of the customer reports can be filtered for customer type, making it another useful list for segmenting your data.

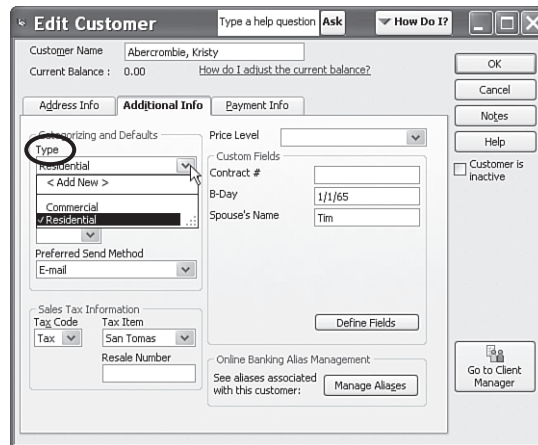


FIGURE 3.3

Assigning a customer type in the Edit Customer dialog.

Using Item Types in QuickBooks

QuickBooks has 11 item types to choose from, although some might not be listed in your data file if the related feature is not enabled. You can choose the type to assign to a list item; however, each type has certain unique characteristics. Here are some general guidelines about the proper use for item types:

- **Service**—You usually create this type for services you sell and, optionally, purchase.
- **Inventory Part**—This type appears only if Inventory and Purchase Orders are active on the Company tab of the Items and Inventory preferences (click Edit, Preferences, select Items and Inventory, and click the Company tab). Inventory is used to track products you make or buy, place in a warehouse location, and later sell to a customer. Inventory is increased with a received purchase order or bill and is decreased on a customer invoice.
- **Inventory Assembly**—This type is an assembling of multiple inventory components, as in a Bill of Materials. When an inventory assembly is built the individual items (components of the assembly) are deducted from inventory and the quantity of the finished product is increased.
- **Non-inventory Part**—This type is used for products you purchase but do not track as inventory. Correct use of this type would include products you purchase that are drop-shipped directly to the customer, or materials and supplies you purchase but do not sell to the customer.
- **Other Charge**—This is a multi-purpose item type. Freight, handling, and other miscellaneous types of charges are examples of the proper use of an other charge item type. Using this type makes it possible to see your services separate from the other charge types of revenue and expense.
- **Subtotal**—This type is used to add subtotal line items on sales and purchase forms.
- **Group**—This type is used to quickly assign a grouping of individual items on sales and purchase forms. Unlike assemblies, groups are not tracked as a separate finished unit.
- **Discount**—This type facilitates dollar or percent deductions off what your customers owe on a sales form. This item type cannot be used on purchase forms.
- **Payment**—This item type is not always necessary to set up. You create this item type if you record the payment directly on an invoice as a line item, such as is done with a Daily Sales Summary form (see the QuickBooks Help menu). On typical customer invoices you should not

record payments in this manner because there is no tracking of the customer's check or credit card number.

- **Sales Tax Item**—This type is only available if you enabled sales tax by selecting Yes to charging sales tax on the Company tab of the Sales Tax preferences (click Edit, Preferences and select Sales Tax). In most cases, QuickBooks automatically assigns this item to an invoice. In some states or industries where there are multiple sales tax rates for a given sale, you can also add this item to an invoice as a separate line item.
- **Sales Tax Group**—This type is used to group multiple tax district flat-rate sales tax items that are combined and charged as one sales tax rate.



Rescue Me!

Carefully determine the correct item type to use when creating items. Once created, the following item types cannot be changed to any other item type: Service, Inventory Assembly, Subtotal, Discount, Payment, Sales Tax Item, and Sales Tax Group. If you find you have set up the wrong item type, correcting it might require making an accounting adjustment. To avoid using the incorrect item on future transactions mark the item as inactive by clicking Lists, Items. The item list dialog opens. Select the Item button, choose Edit Item, and place a checkmark in the Item Is Inactive check box. When this box is selected, as Figure 3.4 shows, the item will not be included in any drop-down lists on forms but will be included in reports if used during the period being reported.

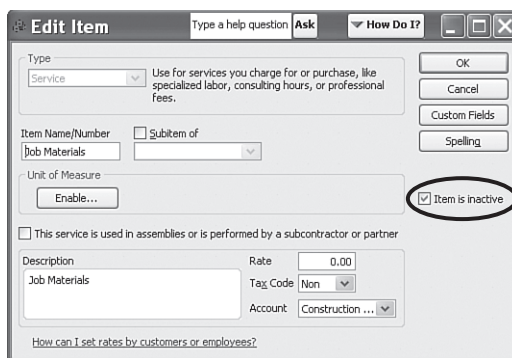


FIGURE 3.4

Marking a list item inactive only removes it from drop-down lists, not reports.

Finding Item Errors in QuickBooks

Want to quickly fix some of the most common errors in QuickBooks? Reviewing and correcting items in QuickBooks can be the best and easiest way to repair a company's data file. The most common reason for misstatement on a company's financials is often traced to incorrectly set up items. Often, it is easy to tell that the items were set up incorrectly. Some indicators of this might be understated revenue, negative costs, or just an overall lack of confidence in the financials. To help you in those instances where incorrectly set up items might not be so apparent, the following sections offer a few methods for reviewing the item list.

Reviewing Accounts Assigned to Items

Adding and removing columns you view in the Item List dialog can help you notice any setup errors that exist. To customize the Item List Lookup dialog for items, do the following:

1. Click **Lists, Items** and while highlighting any list item right-click it and click **Customize Columns**, as shown in Figure 3.5.

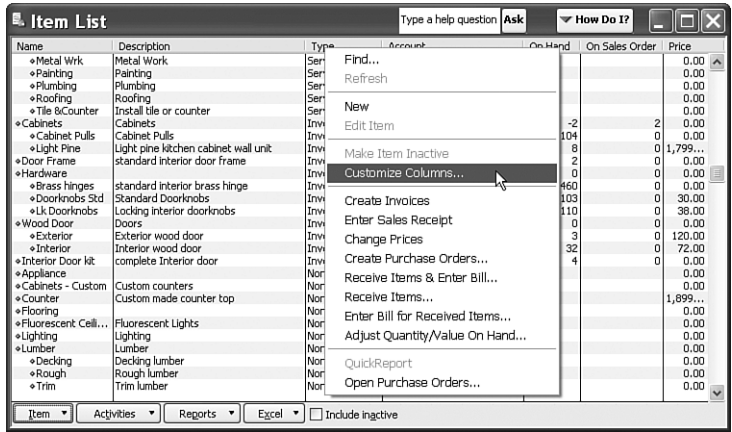
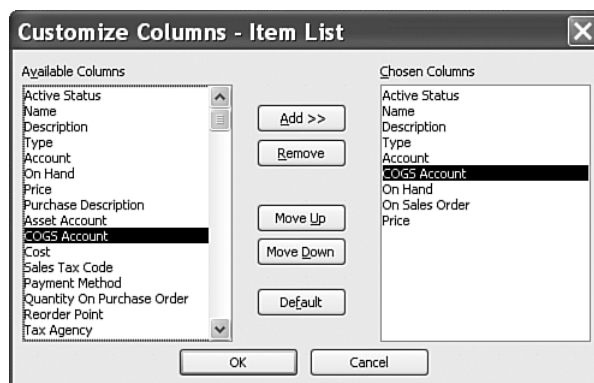


FIGURE 3.5
Customizing columns on the item list can help you see item errors easily.

2. In the dialog box that appears, add the COGS Account by highlighting it in the Available Columns pane as you see in Figure 3.6, and clicking **Add** to include the account in the Chosen Columns pane on the right. Add or remove from the Chosen Columns pane those fields that you want or don't want to see when viewing the Item List Lookup dialog.

3. Click the **Move Up** or **Move Down** buttons in the center of the dialog box to customize the order in which you want to view the columns (see Figure 3.6), and then click **OK**.

**FIGURE 3.6**

Choose the available columns you want to view in the Item List Lookup dialog.

Now you can conveniently review the list for those items that do not have a Cost of Goods Sold or expense account assigned. Not having an expense account assigned becomes problematic when the item is both purchased and sold; both types of transactions will report only to the single account selected. See the “Fixing Item Errors in QuickBooks” section of this chapter for a more detailed discussion of how to properly fix one-sided items.

Item Listing Report

Another method to review the item list setup is the Item Listing report (click Reports, Lists and select the Item Listing report). Click Modify on the report, and in the dialog box that appears click the Display tab to select the columns to view. Useful columns include Item, Description, Type, Account, Asset Account (for inventory items only), COGS Account, and Sales Tax Code, as shown in Figure 3.7. These columns define where your purchase or income transactions are reported to on your financials.

What exactly are you to look for on the list item report as shown in Figure 3.8? One thing you are looking for are items that you use on both purchase and sales forms but that have only the Account column details. If you collect sales tax, be sure the correct sales tax code is selected. For a more detailed discussion of sales tax in QuickBooks see Chapter 12, “Reviewing and Correcting Sales Tax Errors.”

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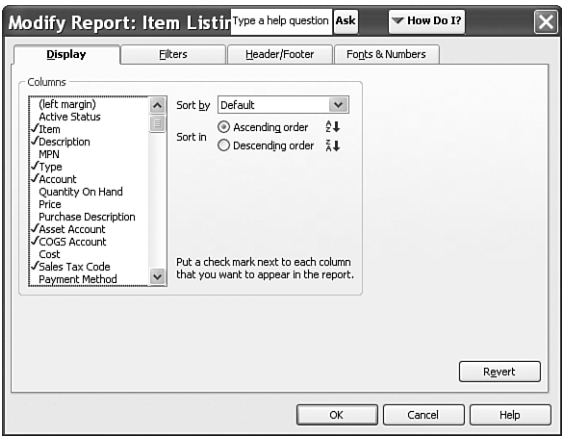


FIGURE 3.7
Modifying a report to display specific detail.

Item	Description	Type	Asset Account	COGS Account	Account	Sales Tax Code
Mileage	Mileage	Service			Mileage Income	Non
Removal	Removal labor	Service			Construction: Labor	Non
Subs	Subcontracted serv...	Service			Construction: Subcontractors	Non
Subs: Carpet	Install carpeting	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Drywall	Install drywall	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Duct W...	Heating & Air Cond...	Service		Job Expenses: Subcon...	Construction: Subcontractors	Tax
Subs: Electrical	Electrical work	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Insulating	Install insulation	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Metal W...	Metal Work	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Painting	Painting	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Plumbing	Plumbing	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Roofing	Roofing	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Subs: Tile & C...	Install tile or counter	Service		Job Expenses: Subcon...	Construction: Subcontractors	Non
Cabinets	Cabinets	Inventory...	Inventory Asset	Cost of Goods Sold	Construction: Materials	Tax
Cabinets: Cab...	Cabinet Pulls	Inventory...	Inventory Asset	Cost of Goods Sold	Construction: Materials	Tax
Cabinets: Ligh...	Light pine kitchen c...	Inventory...	Inventory Asset	Cost of Goods Sold	Construction: Materials	Tax
Door Frame	standard interior do...	Inventory...	Inventory Asset	Cost of Goods Sold	Construction: Materials	Tax
Hardware		Inventory...	Inventory Asset	Cost of Goods Sold	Construction: Materials	Tax

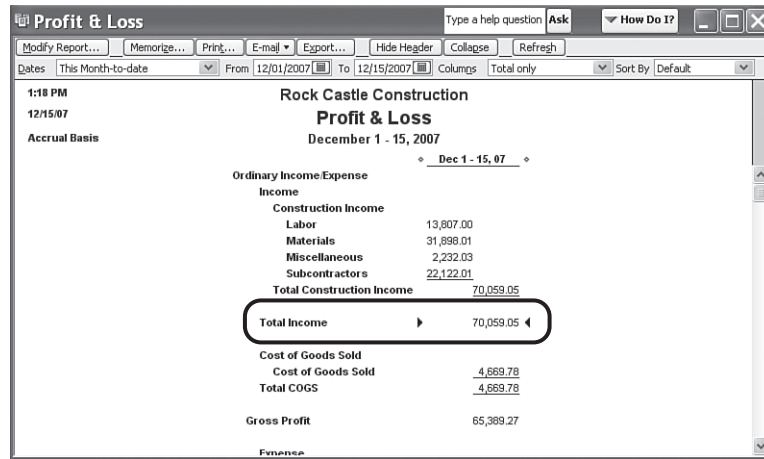
FIGURE 3.8
Modify the Item Listing report to review your item setup.

Profit & Loss Summary Report

If you suspect errors with your financials, drilling down on the Total Income, Cost of Goods Sold, or Expense detail from a Profit & Loss Standard Report might provide clues to the mistakes. To generate this report, follow these steps:

1. Click **Reports, Company & Financial**, and select the **Profit & Loss Standard** report.

2. On the Profit & Loss Standard report double-click the **Total Income** column total, as shown in Figure 3.9. A Transaction Detail by Account report appears, showing each line of detail that makes up the amount you viewed on the original Profit & Loss Standard report.

**FIGURE 3.9**

Review your Profit & Loss Standard Total Income.

3. On the Transaction Detail by Account report click **Modify Report**. In the dialog box that appears, click the **Filters** tab. In the Choose Filter pane select **Transaction Type**.
4. In the Transaction Type drop-down menu, select **Multiple Transaction Types**, as shown in Figure 3.10. The Select Transaction Type dialog appears. Click to place a check mark next to each transaction type that normally would *not* be reported to an income account, and click **OK**.

The resulting report now shows all purchase type transactions (or whatever transaction types you selected) that were recorded to income accounts. In the example shown in Figure 3.11, a vendor check transaction type appears in the totals for income. This is because on the vendor check an item was used that only had an income account assigned. After you determine that you have these types of errors in posting, you should review your item list for any one-sided items. This topic is discussed in this chapter, in the section titled, "Fixing Item Errors in QuickBooks."

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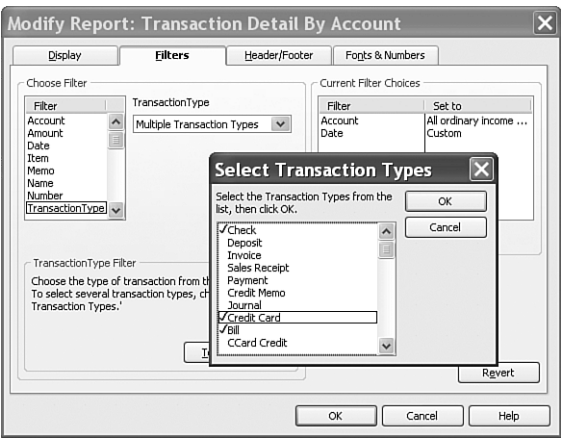


FIGURE 3.10
Modifying the detail of Total Income from the Profit & Loss statement helps review whether items were set up correctly.

Type	Date	Num	Name	Memo	Class	Split	Amount
Construction Income							
Labor							
Check	12/15/2007	302	Abercrombie, Kristy:Family Room	Framing labor	Remodel	Checking	-1,259.00
Total Labor							-1,259.00
Total Construction Income							-1,259.00
TOTAL							-1,259.00

FIGURE 3.11
The Modified Transaction Detail report shows an expense type transaction reporting to revenue.

Fixing Item Errors in QuickBooks

This chapter has shown some effective ways of determining whether your items were incorrectly set up. In this section you learn the methods of fixing these item setup errors in QuickBooks.

As with any data correction in QuickBooks, you should make a backup of the data before attempting these methods. The preferred backup method is a QuickBooks backup, or a file with the extension of .QBB. You can create a

data backup by choosing File, Save Copy or Backup. If the result after fixing items is not what you expected you can easily restore the backup file.

Also, these methods might affect your financials for prior accounting periods. You should take care when selecting a method that does not impact financial periods that have already been used to prepare your tax documents. Discuss these choices with your accountant before making the changes.

Correcting One-Sided Items

A one-sided item is an item that has only one account assigned. See Figure 3.12, which shows the Framing item setup. Notice the only account assigned to this item is Income:Labor. When this item is used on a customer invoice it increases the Income:Labor amount. However, if the same item is used on a vendor check or bill, the amount of the expense will record directly to the Construction Labor income account as a negative number. This would cause your income to be understated and your cost of goods sold to be understated. You should never have one-sided items if you plan to use the item on both purchase documents and sales documents.

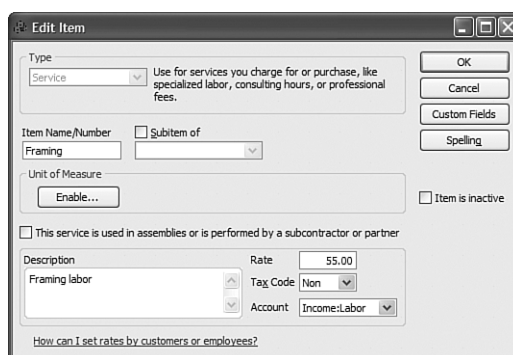


FIGURE 3.12

An example of a one-sided item in QuickBooks.

You might have several items on your list that can qualify to be one-sided because they are used only on sales forms and never on purchase forms, or always on purchase forms and never on sales forms. What can become problematic is that at some time, a user will mistakenly use the item on the other form.

I recommend to all of my clients to make all items two-sided (see Figure 3.13). You do so by selecting the check box labeled This Service Is Used in Assemblies

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Or... (the rest of the label depends on what item type is selected) in the New or Edit Item dialog box. The results are new Purchase Information and Sales Information panes. Now the “Account” has become an “Income Account” and you have a new Expense Account field to assign your proper expense account. This way, if you use the item on both a purchase and sales form, your financials will show the transaction in the proper account.

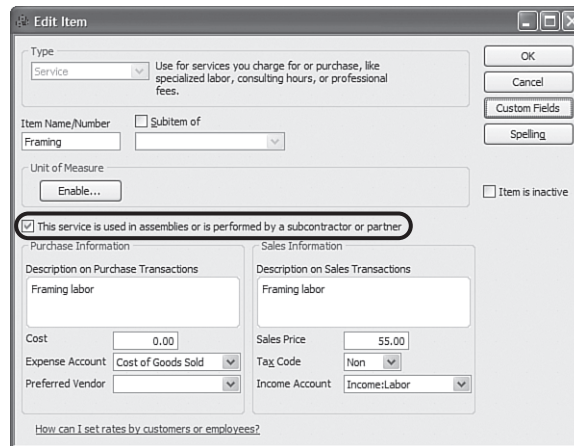


FIGURE 3.13

The one-sided item is now two-sided for accounting.

If you are editing an existing item making it two-sided QuickBooks now provides an Account Change warning, as shown in Figure 3.14. The decision made at this time is critical to your financials. Saying Yes to updating existing transactions causes all previous transactions to now report to the new account assigned. If you are attempting to fix historical transactions, this can be a timesaving feature because you do not have to change each individual transaction manually.

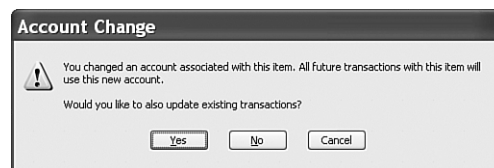


FIGURE 3.14

The QuickBooks warning that appears when you change the accounts in the Edit Item dialog.

Click No if you do *not* want to update prior period transactions. This option may be recommended if you have already prepared your tax data with

QuickBooks financial information. The change will then take effect only for future transactions.

Carefully selecting the appropriate choice here determines whether the correction provides the result you were looking for. Beginning with QuickBooks version 2007, users are given a second chance to say No to affect prior-period financials (see Figure 3.15). Reference is given in this warning to setting a closing date password. Although setting a closing date password is recommended, doing so will not prevent changes to prior-period financials when you are modifying the accounts assigned to an item that has previously been used.

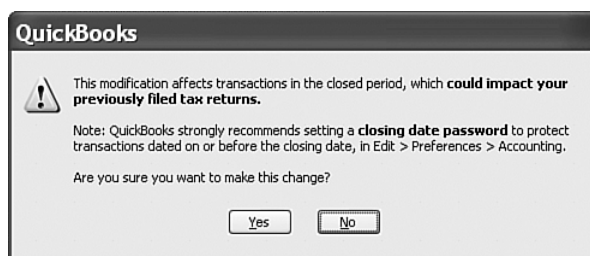


FIGURE 3.15

QuickBooks provides another warning when you change accounts on existing items.

Additional Warnings for One-Sided Items

You aren't completely on your own when it comes to locating one-sided item errors in item assignments. QuickBooks helps you recognize the potential error by displaying a warning message when you are using an item on a purchase form that is assigned in the New or Edit Item dialog to a revenue account only. Figure 3.16 shows the warning message you see when a check is being written to a vendor but the item used is assigned only to an income account. Be aware that this warning appears only if you have not checked the Do Not Display This Warning in the Future check box.

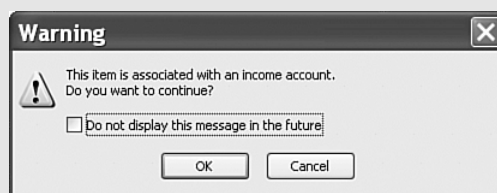


FIGURE 3.16

The warning message displayed when you use an item on a purchase form that is mapped to an Income Account only.

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If you disregard the message, QuickBooks posts the expense to the revenue account selected in the Edit Item dialog. The effect of this is to understate revenue (an expense is a negative amount in the revenue account) and to understate your costs (because no cost was recorded to an expense account). Both of these negatively impact your financial detail, so be sure you don't disregard this important message.



Digging Deeper

Users often disregard these one-time messages and select the Do Not Display This Message in the Future check box (refer to Figure 3.16). To enable these messages click Edit, Preferences, General, and select the Bring Back All One Time Messages check box (see Figure 3.17).

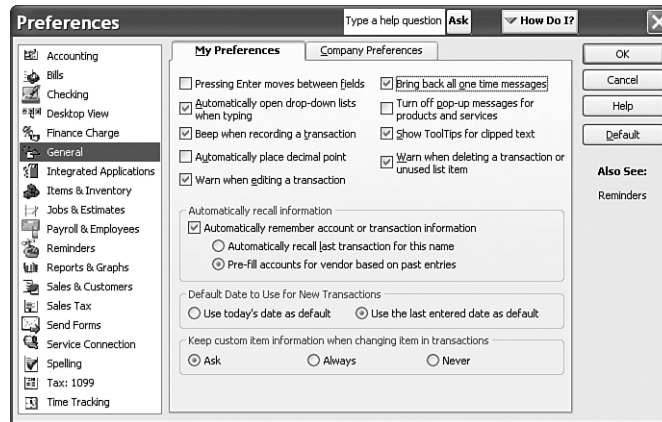


FIGURE 3.17

To be notified of transaction errors previously disregarded, select Bring Back All One Time Messages.

Making an Item Inactive

If you have found errors in your item list, a safe method of fixing them is to make the incorrect items inactive. An inactive item will still appear in reports but will not be included in any drop-down menus on sales and purchase forms.

To mark an item as inactive:

1. Click **Lists, Item List**.
2. Select the item you want to make inactive by clicking it once.
3. Click on the **Items** button and select **Edit Item**.
4. Place a check mark in the **Item is inactive** box.

Making an item inactive does not correct any errors on the company's financials. If you want to correct your financials you will need to choose one of two options:

- Edit the account assignment on each item. This will give you the option to retroactively fix all previous transactions that used this item. (Use this cautiously because it will change prior period financials.) The effect of changing an account assignment on an item is the same as was discussed in detail in the section of this chapter titled "Correcting One-Sided Items."
- Create a General Journal Entry transaction to reassign the numbers from one account to another. This method is typically done by your accountant.

Discuss the method you choose with your accountant before making the changes.

Need to Make Several Items Inactive?

Open the Item List by choosing Lists, Item List. Click to put a check mark in the Include Inactive box (in the lower center of the dialog). Click once to the left of any list item to make the item inactive as shown in Figure 3.18.

If the check box is grayed out you have not yet made any item inactive. After making the first item inactive you will be able to put a check mark in the box.

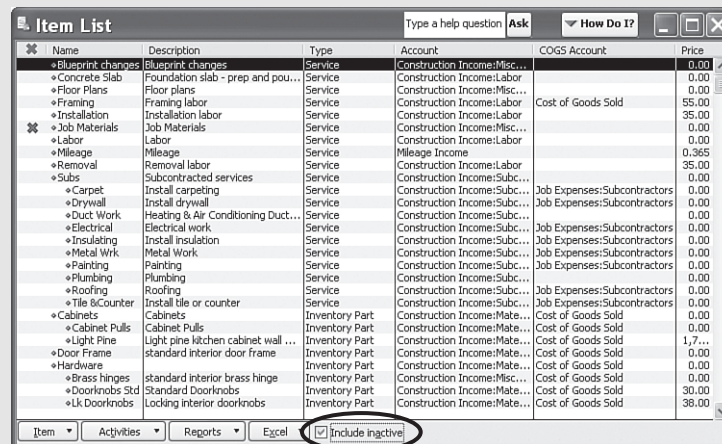


FIGURE 3.18

Marking Item List elements inactive causes the item not to show on drop-down lists.

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Marking most items inactive is okay. The exception is inventory items. Only inventory items with a zero quantity on hand should be made inactive. See Chapter 10, “Reviewing and Correcting Inventory Errors,” for more details on handling inventory errors.

Merging Items

If you have duplicated items, one easy method for fixing the problem is to merge like items. When merging two items, you first need to decide which item is going to be merged into the other item. The item merged will no longer exist on your item list.

To merge two items:

1. Click **Lists, Item List**.
2. Review the list for duplicate items; note the name of the item you want to remain.
3. Double-click the item you want to merge into another item. The Edit Item dialog appears.
4. Type in the **Item Name/Number** field the name exactly as you noted it in step 2.
5. Click **OK** to save your change. QuickBooks provides the warning message in Figure 3.19 that you are merging items.

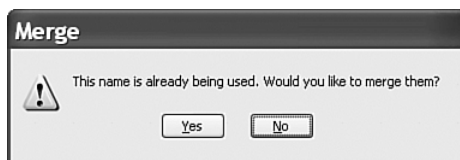


FIGURE 3.19

A warning appears when you merge two items.



Rescue Me!

You can only merge items of the same type together. Duplicate service item types can be merged together but a service type item cannot be merged with a non-inventory item type. It is not recommended to merge inventory items together; see Chapter 10 for more detail.

Carefully consider the consequences of merging before you do it (and be sure you have a backup of your QuickBooks file). All the historical transactions

will merge into the remaining list item. QuickBooks keeps no record of what the item was originally.

Creating Items as Subitems

Creating an item as a subitem of another item is one way to easily filter reports for a group of similar items. Your accounting data is not affected by having or not having items as subitems.

To make an item a subitem of another item:

1. Click **Lists, Item List**.
2. Double-click the item you want to assign as a subitem. The Edit Item dialog opens.
3. Place a check mark in the **Subitem of** box, as shown in Figure 3.20.
4. From the drop-down menu select the item you want to relate this subitem to.

You can create a subitem only within the same item type; for example, service items cannot be subitems of inventory items.

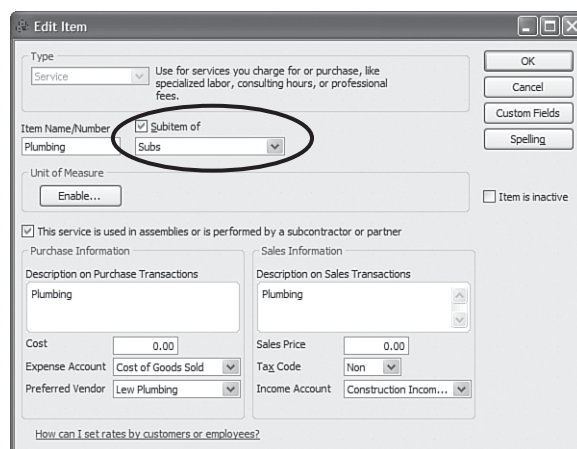


FIGURE 3.20

Marking an item as a subitem of another list item.

You can also rearrange the list by assigning a subitem to another item by using your mouse pointer on the Item List to move the item up or down and to the right or left. This functionality is the same as was discussed in the “Removing Duplicated Accounts by Marking an Account Inactive” in Chapter 2.



Item List Review Checklist

Creating a new item list?

- Make sure you are selecting the correct item type. (Page 68)
- For service, non-inventory, and other charge types select the box This Item Is Used in Assemblies or Is... so that you can assign both an expense and an income account. (Page 75)
- Ask for help from your accountant if you are not sure what accounts to assign to the items. (Page 70)

What to look for:

- What to look for when you are concerned your financials might not be correct. (Page 70)
- If your chart of accounts is too detailed, consider using items to track the detail. (Page 64)
- Make sure your items have the right accounts assigned. (Page 70)
- If you sell the items you buy, make sure they are set up properly. (Page 75)
- Marking items no longer used as inactive. (Page 78)
- Merging duplicated items. (Page 80)
- Would rearranging items into groups make getting the reports you want easier? (Page 81)