Lesson 5 Comments
This chapter deals with purchases and inventory. If you are a merchandising business, the purpose of your business is to purchase goods that are re-sold to customers with the goal of making a **profit**. The goods that are purchased are known as **inventory**.

**Why Proper Accounting for Inventory is Important**
- Inventory is one of largest assets belonging to merchandising companies
- Merchandising companies need to determine if they are making a profit by deducting the cost of goods sold from sales
- If merchandise is purchased on account, the company must maintain accurate accounts payable and pay bills in a timely manner
- Merchandising companies must maintain adequate inventories of items – too much of an item is tying up cash that could be better invested; too little of an item and the company may not be able to meet customer demand

**Merchandise Purchases**
Merchandise is purchased from a **vendor** (also known as a supplier). A business may pay for inventory with cash but it is more common that credit arrangements are made with the vendor. When goods are purchased with credit (or **on account**) an **Account Payable** is created. While traditional accounting terminology often refers to a vendor as a business who supplies a product, QuickBooks considers a vendor to be any individual or business that provides a product OR service. Note, however, that different documents in QB may be used to record purchases of services and purchases of inventory.

The **Vendor List** contains information entered by the user of QuickBooks that will be transferred to appropriate forms and reports. The more complete the information in the Vendor List, the more efficiently QB will work for you.
Recording Transactions
In this chapter you will use the on-screen forms in QuickBooks to order merchandise, receive merchandise, maintain inventory, and pay bills. Review the following accounts that are affected “behind the scenes” in QuickBooks.

Review of Accounts

<table>
<thead>
<tr>
<th>Account Name</th>
<th>Account Type</th>
<th>Normal Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Liability</td>
<td>Credit</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>Asset</td>
<td>Debit</td>
</tr>
<tr>
<td>Supplies</td>
<td>Asset</td>
<td>Debit</td>
</tr>
<tr>
<td>Rent Expense (for example)</td>
<td>Expense</td>
<td>Debit</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>Expense</td>
<td>Debit</td>
</tr>
<tr>
<td>Sales Tax Payable</td>
<td>Liability</td>
<td>Credit</td>
</tr>
</tbody>
</table>

Purchase Order-a form documenting an order to purchase goods. The Purchase Order (PO) does not create an accounting entry in the journal but does document the order of goods which are expected to be received and must be paid for.

Non-inventory Items-physical items such as supplies that a company purchases with the intent for use in running the company as opposed to selling (i.e. merchandise). QuickBooks does not track the amount of non-inventory items on hand.

Recall from Chapter 4 that QuickBooks automatically calculates sales tax on customer sales. The State Tax Agency is also considered a “vendor” in QB and the sales tax is an “item” that must be accounted for.

Possibly, a better organization of the text would have been to place chapter 5 before chapter 4. Recall that Chapter 4 examined Customers and Sales. It is only logical that merchandise must be purchased before it can be sold!
Lesson 5 Processing Notes

Tutorial

• **Page 5.9, Step 2** – Enter the address in the Billed From Address box at the bottom left of the screen. Notice that the vendor name has already been transferred to this field.

• **Page 5.10, Step 3** – To mark a vendor as eligible for a 1099 simply click the check box next to Vendor eligible for 1099 on the Additional Info tab.

• **Page 5.14-5.16** – Watch for the following as you enter the new item
  o Be sure to click the check box for Subitem of. Otherwise, you will not be able to enter an account in this box.
  o Note that QB will autofill some information. You can make changes to the QB selections if necessary.
  o Be sure to select the Materials Income subaccount for the Income Account. This is a subaccount of Construction Income. It may appear that QB is entering just account number 40100 for the Income Account. If you click inside the Income Account text box and scroll across, you will see that the entire account title appears as follows:
    40100 Construction Income:40140 ·Materials Income.
  o Ignore all Spellcheck recommendations for bifold doors.

• **Page 5.19** – HINT: When entering customer and vendor names on forms, you can begin typing the name, and QB will autofill the textbox.

• **Page 5.19, Step 5** – Be sure to select the subitem (Bifold Doors). You can make sure you have this item selected by checking to see that $45 appears in the Rate column.

• **Page 5.21, Step 6** – Be sure to change the quantity of bifold doors received from 6 to 5. This is part of Internal Controls that can be applied when POs and Item Receipts are used together.

• **Page 5.25** – You may see two Items listed on 12/22/2014 for Patton Hardware Supplies. The second item should be the Bifold door hardware.

• **Page 5.26** – Bills are listed in alphabetical order by vendor.

• **Page 5.32, Step 3** – No sales tax items will display until you check To be printed.

Exercises

• **Exercise 5.1, Task 2** – The information for Joseph’s Closets is found at the beginning of Exercise 5.1 on page 5.40.

• **Exercise 5.3, Task 2** – Be sure the Expenses tab is selected in the bottom half of the Enter Bills window. When you select the account type for each expense, you may find it easier to type in the account number rather than scrolling to find it in the Account List. If you do type in the account number, be sure to type the complete entry—QuickBooks will autofill the entry and you may end up with an incorrect account.
ACCOUNTING SYSTEM APPLICATIONS
QUICKBOOKS
CHAPTER 5 Review Questions

The following questions are for your benefit only. They are not submitted for a grade but will be helpful in preparing for exams.

1. Define the following:
   a. vendor- (5.4)
   b. service items- (5.12)
   c. inventory items- (5.12)
   d. non-inventory items- (5.13)
   e. purchase order- (5.18)
   f. physical inventory worksheet- (5.38)

2. List some examples of vendors. (5.4)

3. What type of information is found in the Item List? (5.13-5.14)
4. Discuss the three ways bills can be entered into the accounting system with QuickBooks. (5.23)

5. What type of expenses should be recorded using the Enter Bills window? (5.29)

6. How does QuickBooks work with Sales Tax? (5.31-5.33)

7. Vendor reports answer three questions. List those questions. (5.33)

8. Details about how much you owe a vendor are found in __________________________ reports. (5.35)