

# Setting Up Inventory

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## Lesson 10

# Lesson objectives

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- To get an overview of inventory in QuickBooks
- To practice filling out a purchase order for inventory items
- To track the receipt of the inventory items in QuickBooks
- To adjust inventory manually to enter a stock loss or increase
- To create, build, and edit inventory assemblies (finished goods) (QuickBooks: Premier or higher)
- To set up and use units of measure

# Turning on the inventory feature

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To turn on the inventory feature:

1. From the Edit menu, choose **Preferences**.
2. Select **Items & Inventory** from the left panel.
3. Click the Company Preferences tab.
4. Click the **Inventory and purchase orders are active** checkbox to select it.
5. Click OK.

# Entering products into inventory

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To enter a product into inventory:

1. From the Vendors menu, choose **Item List**.
2. Click the Item menu button, and then choose **New**.
3. In the Type field, choose **Inventory Part** from the drop-down list.
4. In the Item Name/Number field, type **Cab 2015** (2015 is the style number).
5. Select the "Subitem of" checkbox, and then choose **Cabinets** from the drop-down list.

# Entering products into inventory

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To enter a product into inventory:

6. In the "Description on Purchase Transactions" field, type **Kitchen Cabinet #2015**, and then press Tab to move to the Cost field.
7. In the Cost field, type **169**.
8. In the Preferred Vendor field, choose **Thomas Kitchen and Bath** from the drop-down list.

# Entering products into inventory

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To enter a product into inventory:

9. In the Sales Price field, type **225**.
10. Leave the Tax Code setting as is.
11. In the Income Account field, choose **Construction: Materials**.
12. Press Tab to move to the Asset Account field.
13. In the Reorder Point field, type **15**.
14. In the On Hand field, type **20**, and then press Tab to move to the Total Value field.
15. Click OK to close the New Item window.
16. Close the Item list.

# Creating purchase orders

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To order a product using a purchase order:

1. From the Vendors menu, choose **Create Purchase Orders**.
2. In the Vendor field, choose **Perry Windows & Doors** from the drop-down list.
3. In the Item column, select **Frames: Exterior Frame** from the drop-down list.
4. In the QTY field, type **10**.
5. In the Vendor Message field of the purchase order, type **Please rush ship this order**.
6. Click **Save & Close** to record the purchase order.

# Getting a report of purchase orders

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To 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](#) once to select it.
3. Click the Reports menu button and choose [QuickReport: Purchase Orders](#).
4. Close the QuickReport.
5. Close the chart of accounts.

# Receiving inventory

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To receive inventory without a bill attached:

1. From the Vendors menu, choose **Receive Items**.
2. In the Vendor field, choose **Perry Windows & Doors** from the drop-down list and press Tab.
3. Click **Yes**.
4. Click the third purchase order (#40, dated 12/15/2015) to select it.
5. Click OK to move the information to the item receipt.
6. Click **Save & Close** to process the receipt.

# Entering a bill for inventory

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To enter the bill:

1. From the Vendors menu, choose **Enter Bill for Received Items**.
2. In the Vendor field, select **Perry Windows & Doors** in the drop-down list and press Tab.
3. Select **Received items (bill to follow)**, dated 12/15/2015.
4. Click OK.
5. Click **Save & Close**.
6. Click **Yes** if another dialog box appears.

# Manually adjusting inventory

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To adjust the inventory manually:

1. On the Home page, click [Adjust Quantity on Hand](#).
2. In the Adjustment Account field, type [Inventory Adjustment](#) and press Tab.
3. Click [Set Up](#) in the window telling you that Inventory Adjustment is not in the account list.
4. In the Account Type field, choose [Expense](#) from the drop-down list, if it is not selected already.
5. Click [Save & Close](#) to close the Add New Account window.
6. In the Qty Difference column for Wood Door: Interior wood door, type [-2](#) (the number of damaged doors), and then press Tab.
7. Click [Save & Close](#).

# Tracking finished goods

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- You must be using QuickBooks: Premier or higher to follow the exercises in this section.
- Inventory assembly items allow you to create an item that contains assembled material units (finished goods) you buy or produce, track as inventory, and resell.
- Note that inventory assembly items in QuickBooks are appropriate for indicating “light” assembled items on sales forms and in reports. QuickBooks does not track inventory throughout a manufacturing process.

# Setting a default markup

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To set the default markup percentage:

1. From the Edit menu, choose **Preferences**.
2. Click **Time & Expenses** in the left panel.
3. Click the Company Preferences tab.
4. In the Default Markup Percentage field, type **20** and press Tab.
5. In the Default Markup Account field, choose **Construction**.
6. Click OK.

# Adding a labor item to use in assemblies

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To create a labor item to use in assemblies:

1. From the Lists menu, choose **Item List**.
2. Click the Item menu button and select **New**.
3. In the Type field, select **Service**.
4. In the Item Name/Number field, type **Assembly labor**.
5. Click the checkbox for **This service is used in assemblies or is performed by a subcontractor or partner**.
6. In the Description on Purchase Transactions field, type **Direct Labor**, and then press Tab.
7. In the Cost field, type **20**, and then press Tab.

# Adding a labor item to use in assemblies

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To create a labor item to use in assemblies:

8. From the Expense Account drop-down list, choose **Payroll Expenses**.
9. From the Tax Code drop-down list, choose **Non-taxable Labor**.
10. From the Income Account drop-down list, choose **Construction:Labor**.
11. Click OK.

# Creating inventory assembly items

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To create an inventory assembly item:

1. In the Item List, click the Item menu button and select **New**.
2. In the Type field, select **Inventory Assembly**.
3. In the Item Name/Number field, type **Exterior Door Kit**.
4. Type **199** in the Cost field, and then press Tab twice.
5. In the Description field, type **Complete exterior door kit** and press Tab.
6. In the Income Account field, select **Construction:Materials** from the drop-down list.

# Creating inventory assembly items

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To create an inventory assembly item:

7. In the Bill of Materials section, click in the Item column.
8. In the Item drop-down list, select **Frames: Exterior Frame**, and then press Tab.
9. In the Qty field, type **1**, and then press Tab.
10. In the Item drop-down list, select **Hardware: Doorknobs Locking Exterior**, and then press Tab.
11. In the Qty field, type **1**, and then press Tab.
12. In the Item drop-down list, select **Hardware: Brass Hinges**, and then press Tab.

# Creating inventory assembly items

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To create an inventory assembly item:

13. In the Qty field, type **3**, and then press Tab.

14. In the Item drop-down list, select **Wood Door: Exterior**, and then press Tab.

15. In the Qty field, type **1**.

16. In the Item drop-down list, select **Assembly labor**, and then press Tab.

17. In the Qty field, type **1**, and then press Tab.

# Creating inventory assembly items

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To enter the build point:

1. In the Build Point field, type 5.
2. Leave the On Hand and Total Value fields as they are.
3. Click OK.
4. Close the Item List.

# Building finished goods

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To build an inventory assembly:

1. From the Vendors menu, choose **Inventory Activities**, and then choose **Build Assemblies** from the submenu.
2. In the Assembly Item field, select **Exterior Door Kit** from the drop-down list.
3. In the Quantity to Build field, type **2**.
4. Click **Build & Close**.

# Using units of measure

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To set up single units of measure:

1. On the Home Page, click **Items & Services**.
2. Select the non-inventory part item called Lumber: Decking.
3. Click the Item menu button and select **Edit Item**.
4. Under Unit of Measure, click **Enable**.

# Using units of measure

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To set up single units of measure:

5. In the wizard, select **Single U/M Per Item**.
6. Make sure "Begin defining units of measure" is selected and click **Next**.
7. Select **Length**.
8. Click **Next**.
9. Select **Foot** as the base unit.
10. Click **Finish**.
11. Click **OK** in the Edit Item window and close the Item List.

# Using units of measure

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To switch from single to multiple units of measure:

1. From the Edit menu, choose **Preferences**.
2. Click **Items & Inventory**, then the **Company Preferences** tab.
3. Choose **Multiple U/M Per Item**.
4. Click **OK**.
5. Click **OK** again in the message that appears.

# Using units of measure

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To turn on multiple units of measure the first time:

1. From the Edit menu, choose **Preferences**.
2. Click **Items & Inventory**, then click the Company Preferences tab.
3. In the U/M section, click **Enable**.
4. Select **Multiple U/M Per Item**.
5. Click **Finish**.
6. Click **OK** in the Preferences window.
7. Click **OK** if a message appears.

# Using units of measure

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To assign multiple units of measure:

1. Click [Home](#).
2. Click [Items & Services](#).
3. Select the non-inventory part item [Counter](#).
4. Click the Item button and select [Edit Item](#).
5. In the Unit of Measure section, click [Enable](#).
6. Make sure [Begin defining units of measure](#) is selected and click [Next](#).
7. Select [Area](#) as the unit of measure type.
8. Click Next.
9. Select [Square foot \(sqft\)](#).
10. Click Next.

# Using units of measure

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To assign multiple units of measure:

10. Click in the **Add** column for Square Yard and Square Meter.
11. Click **Next**.
12. From the Purchase menu, select **square meter**.
13. Leave the Sales default as square foot and leave the Shipping default blank.
14. Click **Next**.
15. Click **Finish** to accept the name of this unit of measure set.
16. Click **OK** in the Edit Item window.

# Using units of measure

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To assign a unit of measure set to an item:

1. In the Item List, select the non-inventory part called **Flooring**.
2. Click the Item button and select **Edit Item**.
3. From the U/M Set menu, select **Area by the square foot**.
4. Click **OK**.
5. Close the Item List.

# Using units of measure

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To convert units of measure on sales forms:

1. Click [Purchase Orders](#) on the Home page.
2. Select [Custom Kitchens of Bayshore](#).
3. Click in the Item column and select [Counter](#).
4. In the Quantity column, type **10**.
5. Click the down arrow in the U/M column.
6. Click [Save & Close](#).



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**LESSON 10    Review questions  
and activities**



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## **Lesson 10: Setting 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 bill
  - c** Receive items
  - d** Enter bills for items received
- 3** True or false: You must have inventory items on hand before you can enter a sale for them.
  - a** True
  - b** False
- 4** You complete a physical inventory and discover that you have five more of a particular item than show 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 using the Adjust Quantity/Value on Hand window
  - d** None of the above
- 5** 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
  - 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.

## Review questions and activities

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## Lesson 10: Setting 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 bill
  - c** *Receive items*
  - d** Enter bills for items received
- 3** True or false: You must have inventory items on hand before you can enter a sale for them.
  - a** *True*
  - b** False
- 4** You complete a physical inventory and discover that you have five more of a particular item than show 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 using the Adjust Quantity/Value on Hand window*
  - d** None of the above
- 5** 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