

Setting Up Inventory

Lesson 10

Lesson objectives

- 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

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

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

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

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

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

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

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

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

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

- 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

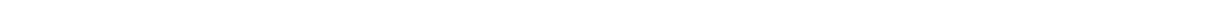
To convert units of measure on sales forms:

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**



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

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