

CASH ACCOUNTING WITH QuickBooks Pro

The simplest way
to get job-cost
reports from
QuickBooks Pro
is to use the
software as
an electronic
checkbook

This is the second article in a series on setting up and using QuickBooks Pro (QBP). In the first article (see "Setting Up QuickBooks Pro for Construction," 9/97), I described the step-by-step procedure for setting up the software using either Items or Classes, and offered suggestions

by Judith Miller

on how to organize job costs into phases that match your estimating categories. In this article, I'll show you how to enter expenses and deposits.

QBP can perform both cash- and accrual-based accounting. Accrual accounting requires you to record expenses when they are incurred, whether or not you've paid them yet; you must also record income when the statement is sent, whether or not you've been paid. Cash accounting works more like your checkbook: You don't record expenses or income until you pay the bills or a client sends you a check. Accrual accounting produces more up-to-date reports, but you can still get job-cost reports using the cash method.

Since cash accounting is simpler, that's where I'll start; I'll describe data entry for accrual accounting in a future article. Once you're set up to use QBP on a cash basis, it's easy to switch to an accrual basis. (Until you know how to enter payroll into QBP, which I don't have space to cover in this article, your reports won't show burdened labor costs. Entering paycheck amounts, however, will still account for the net expense.)

Keep It Simple

As all contractors know, if you use warped studs in the framing, the finish work suffers. The same principle applies to accounting software: The reports you get out of QBP will only be as good as the information you put in.

For the most reliable information, I recommend



ITEM: _____
 CUSTOMER:JOB _____
 CLASS: _____
 APPROVED: _____
 PAID: _____
 NOTES: _____

Figure 1. It's easier and more accurate to code supplier and subcontractor invoices using a custom stamp. The labels on this stamp match QBP categories required to use Items; if you use Classes, change the labels to match your setup.

	MATERIAL	SUB	OTHER LABOR	MS/D	GRAND
1 JOB NAME:					
2					
66 BUILDING PLASTICS					
67 FRAMING					
68 Lumber	434.32			434.32	434.32
69 Rough hardware	185.66			185.66	185.66
70 Labor			1,125.00		1,125.00
71			590.00		590.00
72					
73					
74					
75 SUBTOTAL: BUILDING PLAS	599.98	0	0	1675	599.98
76					
77 THERMAL INSULATION					
78 Ceiling/Exterior					
79 Insulation					
80 Roofing					
81 Siding					
82					
83 SUBTOTAL: THERMAL IN	0	0	0	0	0
84					
85 BUILDING MATERIALS					
86 Exterior Doors					
87					
88					
89					
90					
91					
92					
93					
94					
95					
96					
97					
98					
99					
100					

Figure 2. To keep QBP reports simple, condense broad estimating and job-cost categories. Here, several framing line items from an estimate have been combined into two amounts — “Lumber” and “Rough hardware.”

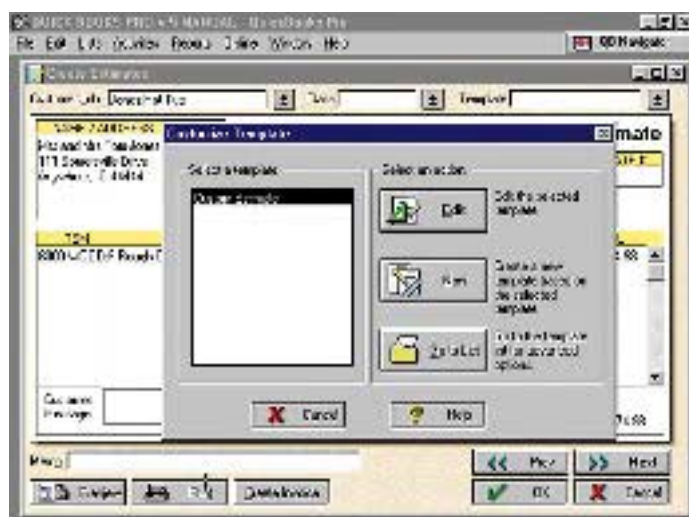


Figure 3. To make changes to an estimate summary report, click *Template / Customize*, then select the *Edit* button.

you follow Pareto's Principle. Sometimes called the “80/20 rule,” this maxim states that 80% of the results you need are obtained from 20% of the effort you put in. If your accounting system is too complex, you'll waste lots of time and energy inputting data and generating reports that are not really useful.

Remember, the two main goals of all the effort you're putting in to setting up QBP are to keep track of important tax information and to generate job-cost reports that can help you estimate more accurately and run your jobs more efficiently. Keep those goals in mind as you set up the program and enter data. Determine what information is most important to you — the 80% of Pareto's Principle — and forget about the rest for now. For example, you probably don't need to generate a job-cost report that tells you how many nails you used on your last job. What you would rather know is how close the overall framing costs were to your estimate. Of course, it may be useful for you to track roof framing separately from floor framing, but in general, the fewer categories of work you track, the easier it will be to enter the information and read the reports.

Job-Cost Coding

Whether you're operating a cash or accrual accounting system, accurate job-cost reports depend on a consistent method for classifying direct costs — materials, subcontractors, and labor. All of the expense data floating around the typical contractor's office — material delivery tags, supplier invoices, statements from subs, employee timecards, and receipts for cash or credit card purchases — must be correctly coded according to the job on which the expense was incurred, and the phase of work involved.

Before you sit down to enter data into QBP, establish a system for routing all of this information to a central place in the office. (For ideas on how to organize paperwork, see “The Cadillac of Filing Systems,” 12/92.) Then, make sure every expense is properly coded.

Timesheets. This coding is usually built in to timesheets, because they already specify the various jobs at which your employees worked, and include a numbering system that identifies the type of work the employees performed.

Delivery tickets. Designate a person on each of your sites to code delivery tickets as materials arrive, and give him or her a list of the job-cost code numbers you want to use. It's a lot easier if you ask your suppliers to write up a separate ticket for each job. If a single ticket lists materials for more than one job, however, be sure the employee doing the coding uses the correct job names.

Statements and invoices. Back in the office, the person most familiar with the information should check statements against delivery tickets and do the final coding prior to entering the data into QBP. In a smaller company, this person is typically the owner; in a larger company, project managers code material and subcontractor bills, while the office manager or bookkeeper codes overhead bills.

Print a copy of your Items, Customer:Job, and Class lists from QBP, and post them next to the computer where you can easily refer to them while coding. Then, for office use, order a custom stamp from your local office supply store or mail-order house (see Figure 1), and use it to code every statement and invoice from suppliers and subs. The stamp should be customized for the way you have set up QBP, listing the data you need to fill the QBP fields for either Items or Classes.

Condensed Estimate

To benefit from QBP's ability to generate job-cost reports, you'll need to enter an estimate summary. While QBP has an estimating component, it isn't versatile enough to be useful. Instead, prepare your estimate by some other means — by hand, on a spreadsheet, or with a dedicated estimating program — then enter a condensed version of the estimate into QBP.

When preparing the estimate, it's important to name and number the divisions or phases of work so that they correspond to the names and numbers of your QBP Items or Classes. To keep from getting bogged down with overly-detailed reports, condense individual line items into a few broad job-cost categories. For example, instead of entering a long list of line items under the heading "Framing," combine them into fewer subtotal amounts in the estimate summary (Figure 2). Print this condensed version of your estimate so it's ready when you start entering data into QBP.

Estimate Summary for Items

The ability to enter an estimate summary is new to QBP version 5, and it produces nicely detailed job-cost reports. (If you set up QBP to use Items, you can also generate simple percent-complete invoices; if you chose Classes, however, this type of invoicing will be unavailable.)

The estimate summary for Items must be entered by hand. Click on the *Estimate* icon. Enter the job name and number, leave the "Class" field blank, and enter an estimate number. This last step is optional, but I have found sequentially numbered estimates make it easy to analyze what percentage of your bids actually go to contract each year.

Choose the correct *Item* from the drop-down list (to see the list, click on the down-pointing triangle at the right side of the box). You can also enter a more complete description of the Item — if you intend to deliver a copy to the client, for instance, or use the estimate for invoicing. The original description, which you entered under "Description on Sales Transactions" while setting up the Item, will not be changed if you customize the description here.

Enter a quantity of "1," then enter the subtotal amount from the condensed estimate; QBP will calculate the total amount. In effect, you are using the condensed estimate to enter each major job-cost category as a single lump-sum.

Next, enter the appropriate markup to calculate the total contract price for each line item. You can enter markup in one

Checking for Errors

QBP produces useful financial and job-cost reports, but only if all of the data is entered correctly. The cash-basis reporting covered in this article requires only a simple monthly reconciliation of your bank statement to prove the accuracy of the information. The process is straightforward if you entered your beginning balance correctly upon start-up of QBP, if all transactions have been entered, and if all dollar amounts are correct.

To begin, click *Activities | Reconcile* on the menu, then enter the number for the bank account you want to balance. For the "Opening Balance," enter the ending balance from *last month's* bank statement; for the "Ending Balance," enter the ending balance from the *current month's* bank statement. Enter any service charges in the "Bank Charges" account, and enter any checking account interest in the "Interest Earned" account.

Deposits. Click the check-mark box next to every deposit amount in QBP that corresponds to a deposit amount shown on the bank statement. When all matching deposits amounts have been selected, the total shown at the bottom left-hand portion of the screen, called "Items you have Marked Cleared — Deposits and Other Credits," should match the total deposits line on the bank statement.

If the amounts don't match, you either failed to mark a box or you forgot to enter a deposit. If you forgot to enter a deposit, minimize the reconciliation window (you can't close it until the amounts match), enter the missing deposit, then resume reconciliation.

Checks. To reconcile checks, click the check-mark box next to every check amount in QBP that corresponds to a check amount shown on the bank statement. Proof the total from the bottom of the screen, called "Items you have Marked Cleared — Checks and Payments," to the checks total on the bank statement. As with deposits, they should match. If the amounts are different, retrace your steps and enter any check amounts you may have missed before proceeding.

When everything matches, the difference between the "Ending Balance" and the "Cleared Balance" at the bottom right hand portion of the screen should be zero. Your bank statement is now reconciled, and you can click *Done* to save the record; you can also print a copy for your files. Proof the report for each job to verify the accuracy of the job-cost information.

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of two ways, either as a percentage (a number followed by “%” sign), or a dollar amount (a number only). If you use a percentage, remember that QBP uses a simple multiplier to add markup. Depending on how you calculate your markup, you may have to enter a higher percentage here. For instance, if your markup is 25%, you’ll have to enter “33%” if you want QBP to calculate the correct price. (See “Visualizing Gross Profit,” *Strictly Business*, 7/98).

Alternatively, you can create an additional Item called “Overhead & Profit” or “Gross Profit,” and add this as the last line of the estimate. Enter the quantity “1” and the dollar amount of the markup in the amount column.

Before printing the estimate summary, review the output. You can make changes from within QBP by clicking on

Template | Customize at the top right portion of the estimate form (Figure 3).

Estimate Summary for Classes

You can enter the estimate summary for Classes in two ways: by importing a file or by entering each line separately. It’s much more difficult and time-consuming initially to import a file, but automating the process saves time in the long run. You’ll need to do your original estimate in a spreadsheet or in a dedicated estimating program that can export your data in a format QBP understands. For a complete discussion of how to do it, read the online help screens (click *Import | Files | Defined | Creating an Import File*). Test the imported budget using sample data. (See “Transferring Data With Spreadsheets,” *Computer Solutions*, 7/98).

For now, I recommend you enter the estimate by hand by clicking *Activities | Setup Budgets* from the menu. Select the proper “Customer:Job” and “Class,” but leave the “Account” field blank. Enter all estimated costs in the same month for each line item (don’t attempt to spread the costs over several months), and click *Save* to keep the screen open for more entry. After the last entry, click *OK*.

Entering Checks

The simplest way to use QBP is as a checkbook. For many smaller contractors, this makes for the easiest transition from manual to computer accounting. Because a checkbook is cash based, the job-cost reports you generate will be as current as the last check you entered. For contractors who pay their bills once a month, this means the job-cost reports will be useful as a way to evaluate small jobs that have been recently completed, or large jobs that will be in progress for six months or more. The job-cost reports will not, however, take into account any materials ordered or subcontractor work completed that has not yet been paid for. (To do that, you need to use the accrual accounting method.)

To begin, click on the “check” icon (or hit Ctrl W or select *Activities | Write Checks* from the menu). This displays a blank check, the top portion of which is called the “check face”; the bottom portion is called the “detail area” (Figure 4). In the first field on the check face, select the correct bank account, then enter the check number. If the check is to be printed on computer check forms, click on the *To be printed* box in the upper right hand corner. The check number field changes to “To Print.”

If you have not yet purchased pre-printed computer checks, I recommend you do so now. Part of the advantage of computerizing your accounting system is to save time and eliminate drudgery, and preprinted checks help you accomplish both. And if you order matching window envelopes, you’ll also save yourself the trouble of having to write or type addresses. If you don’t have computer checks, however, and you still want to get started, you’ll need to enter the individual check number in the top right-hand portion of the check face.

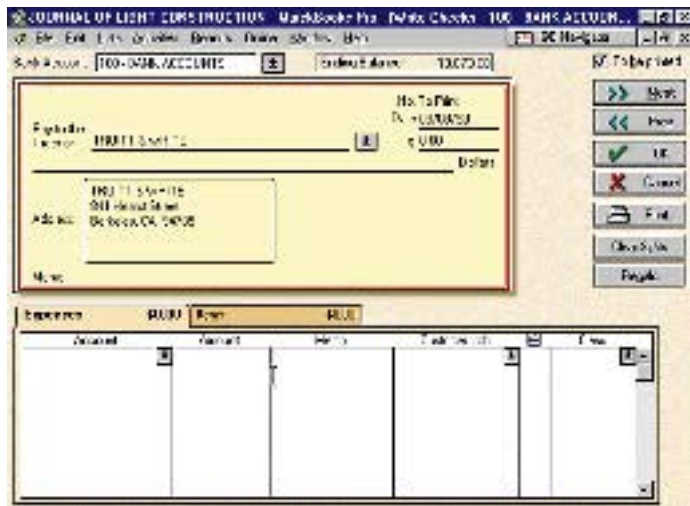


Figure 4. The data entry screen in QBP resembles a blank check. The date, amount, and payee name are entered on the top portion; more detailed information can be entered on either the *Expenses* or *Items* tabs at the bottom of the screen.

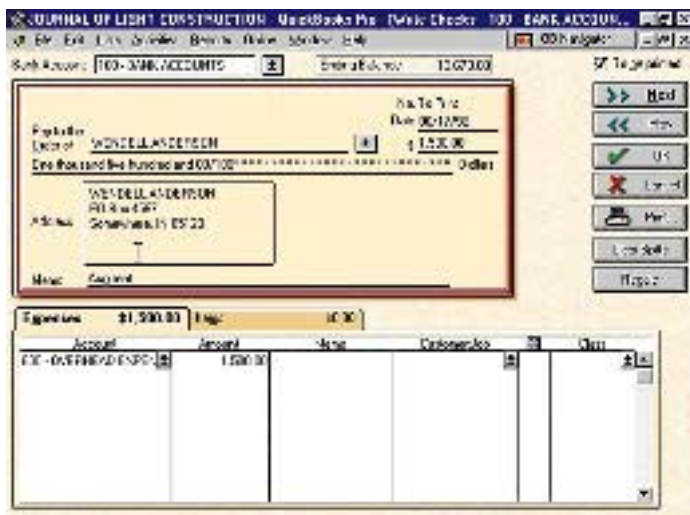


Figure 5. For simple expenses, such as an office rent payment, that you do not need to track in a job-cost report, use the “Memo” field on the check face to record a reminder of what the check was for. You can also leave this field blank.

Next, check the date to see that it's correct. In the "Pay to the Order of" field, type in the first few words of the payee's name — QBP will automatically fill in the rest if you've used this payee before — or choose the correct vendor from the drop-down menu (use the down arrow while pressing the Alt key). Enter the dollar amount of the check and complete the name and address of the payee.

Check-face memo. QBP provides several ways to enter supporting information for each check: the "Memo" field on the check face and the detail area on each of two tabs labeled *Items* and *Expenses*. Which method you use depends on the information you want to record and the reports you want to see it on. The simplest method is to use the "Memo" field on the check face (Figure 5). This field has room for just one line, and any memo entered here will appear only in the check register. A check-face memo is adequate for most non-job-cost transactions when all you need to see is a simple reminder of what the check was for — "August rent" or "March phone charges," for example. You can also leave the check-face "Memo" field blank.

Entering Detail

For more complicated entries, use either the *Expenses* or *Items* tab in the detail area of the check. Unlike the check-face memo field, these detail areas enable you to enter much more information, all of which will appear in both job-cost and general ledger account reports. For job-cost expenses, like materials, use the detail "Memo" field that appears on the *Expenses* tab if you are set up to use Classes; if you're set up for Items, use the field called "Description" on the *Items* tab.

Expenses tab. If you use Classes to separate job costs, click on the *Expenses* tab and choose the appropriate direct expense account (Figure 6). Fill out the rest of the fields, remembering to enter "Customer:Job" information and the correct "Class."

You can also enter non-job-cost transactions on the *Expenses* tab, but remember to leave the "Customer:Job" and "Class" fields blank — these are reserved for expenses you want to track for job cost.

Items tab. If during initial setup you chose "Automatically recall last transaction for this name" (click *File | Preferences | General*), then the entire detail area is set up exactly as it was the last time you made an entry for a particular payee (except for the "Memo" field). You may need to change only the Item name and number and enter a more complete description.

If, however, you're entering a payee for the first time, or if the information is different, click on the *Items* tab and choose the correct Item from the drop-down menu. Accept the default Description or enter a new one. (The default description will still appear on your Item list, but the new description will appear the next time you write a check to this payee.)

If the check is for one job and one Item, enter a quantity of "1" and the total check amount. To split the costs between different jobs and different Items, choose each Item separately and enter the corresponding amount (Figure 7); the total of all Items should equal the total amount on the check. Clicking the *Recalc* button at the bottom of the check screen recalculates the totals.

QBP will not save the information until the total of the detail amounts equals the check amount.

Invoicing Icon

Whether you're using Items or Classes to job cost, you must enter a "Customer:Job" name, which brings up an "invoice" icon. QBP assumes the cost will be billed unless you indicate otherwise, so if you want to bill this cost to a client, leave the icon blank. But if you don't want to bill this cost to the client, check the "invoice" icon. A large red "X" appears over the icon to prevent this cost from being billed to your client. At a later date, you can remove the "X" by clicking on the box again.

Either way, enter the appropriate "Class" to separate labor,



Figure 6. If you use Classes, QBP sorts job-cost data based on information entered into the "Customer:Job" and "Class" fields on the *Expenses* tab. If you enter non-job-cost data, such as a rent payment or an invoice for office supplies, leave these fields blank.

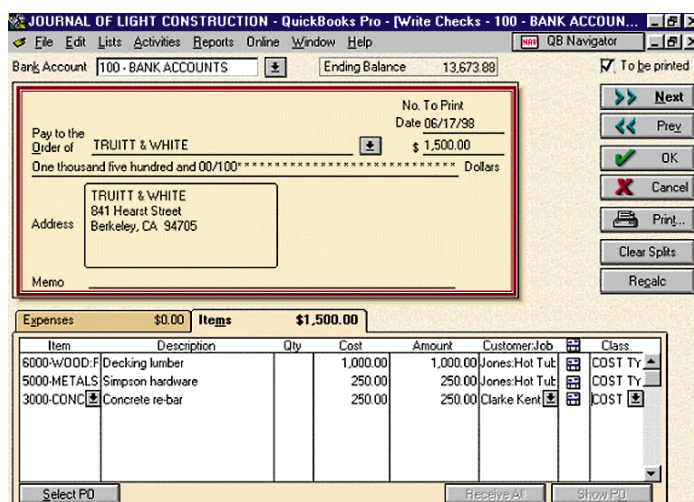


Figure 7. If you are set up for Items, use the *Items* tab to enter check amounts. You can assign the total amount to one Item and one job, or split the amount among several jobs and Items, as shown here. If you split the amount, you can't save the data until the amounts on the check and *Items* tab match.

Received From	Amount	From Account	Memo	Chk No.	Pmt Meth	Class
Jones:Hot Tub	2,500.00	400 - CONSTRUCT	Draw #1	1234		CONSTR
Clarke Kent:#97C	250.00	400 - CONSTRUCT	Change Order #2	22467		CONSTR
100.00 440 - OTHER IN	100.00	440 - OTHER IN	WC Refund	6579		

Deposit Total: 2,850.00

Figure 8. To enter payments from clients, click *Activities | Make Deposits*. Use the “Construction Income” account for job-related expenses; use the “Other Income” account for other payments, such as a workers comp refund.

Account	Income	Cost of Goods Sold	Profit
Hot Tub	1,100.00	1,100.00	0.00
Hot Tub - Direct Job Costs	1,100.00	1,100.00	0.00
Hot Tub - Direct Job Costs - Other	0.00	0.00	0.00
Total Hot Tub - Direct Job Costs	1,100.00	1,100.00	0.00

Service	Est. Cost	Act. Cost	Est. Diff.	Act. Diff.
1600-GEN CONCR	3,225.00	342.37	-2,882.63	-90.4%
2000-PAINTING	1,074.00	107.42	-966.58	-90%
3000-CONCRETE	2,071.00	170.00	-1,901.00	-92.1%
4000-ROOFING	20,947.00	3,007.00	-17,940.00	-86.1%
5000-TILEWORK	3,225.00	0.00	-3,225.00	-100.0%
6000-DOORS/W	3,175.00	0.00	-3,175.00	-100.0%
7000-FINISHES	5,075.00	1,000.00	-4,075.00	-80.3%
8000-APPL.	0.00	0.00	0.00	0.0%
9000-ARCHIT.	0.00	4,500.00	4,500.00	100.0%
10000-ENG.	4,100.00	1,100.00	-3,000.00	-73.2%
11000-CONCRETE	2,100.00	1.00	-2,099.00	-99.9%
Total Services	41,120.00	11,124.79	-30,000.00	-73.0%
Net Profit	0.00	0.00	0.00	0.0%
TOTAL	41,120.00	11,124.79	-30,000.00	-73.0%

Figure 9. The “Profit/Loss by Job” report (top) summarizes job expenses. The “Job Estimates vs. Actuals Detail” report (above) compares estimated costs to actual job expenses. In either report, double-clicking on any dollar total will show more detail about the expenses that make up that total.

materials, subcontract, equipment, and other types of job-cost expenses.

Printing Checks

To print the checks, select *File | Print Forms | Print Checks* from the menu. From the “Select Check to Print” menu, put a check mark in the box next to any payee names for which you want to print a check. Review the bank account number, and confirm that the number of the first check is correct. QBP automatically assigns the next number in the check sequence, so if any checks have been voided or written by hand, this number might be incorrect. To correct it, enter the number from the first pre-printed check form.

Click *OK* when you’re ready to print. The *Print Checks* dialogue box appears. Review the settings, paying special attention to the *Check Style* and *Sample Page* to make sure they match the layout of the preprinted checks you’re using.

Recording Deposits

When a customer pays you and you deposit the check into your bank account, you need to update QBP. Click *Activities | Make Deposits* (don’t use *Receive Payments*; this applies exclusively to accounts receivable invoices, which are part of the data-entry process for accrual accounting, not cash accounting). Check that the correct bank account is displayed, then enter the date of the deposit. Next, enter the “Customer:Job” information in the “Received From” field to link the income to the correct job. Enter the amount received and the account number for your “Construction Income” account. Avoid attaching non-job income to a job: Payments that don’t apply to a specific job — workers comp refunds, for example — should be posted to the “Other Income” account (Figure 8).

Producing Job Reports

Now that you’ve entered the checks into QBP, you can generate two types of job-cost reports and produce a simple invoice for your customer. (To proof the data, see “Checking for Errors”). To generate the first report, called “Profit/Loss by Job,” click *Reports | Profit/Loss | Job* on the menu and choose the date range “All” (Figure 9). Click *Filter | Name* and select the “Customer:Job” you want. Double-click on the dollar amount of any subtotal to see the detail.

To generate the second report, click *Reports | Project Reports | Job Estimates vs. Actuals Detail | Job*, and choose the correct job name or number. Click the *Expand* or *Collapse* button on the toolbar to toggle between summary and detail views. Double-clicking on any dollar total will show the detail that makes up that total.

Using information from these reports, you can hand-write or use a word processor to create a simple invoice to give to your customer for work performed. (In a future article, I’ll discuss ways to generate customer invoices automatically through QBP.)



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