

## 4 Chart of Accounts

The Chart of Accounts is an organizational tool for coding assets, liabilities, equity, income, and expenses. Each balance sheet account, with the exception of Retained Earnings, has its own register that can be individually reconciled. Income and expense accounts have the QuickReport feature that allows easy access to individual transactions. In QuickBooks, defining your chart of accounts ultimately defines the makeup of your financial statements.

### 4.1 Accounting Methods

The accounts defined in your chart of accounts should accommodate the method of accounting used for your business. There are basically four methods of accounting used in the construction industry. Each method recognizes revenue and expense at different times.

- ◆ **Cash:** No revenue or expense is recognized until money is actually paid or received.
- ◆ **Accrual:** Revenue is recognized when the work is completed, and expense is recognized when costs are incurred from vendors, without regard to when the money actually changes hands.
- ◆ **Completed Contract:** Revenue and expense are recognized at the completion of a project. A completed contract method of accounting can only be used under specific circumstances. Consult with your accountant or the IRS to determine whether or not you should use this method of accounting for your construction project.
- ◆ **Percentage of Completion:** Revenue and expense are recognized as a portion of the work is completed. However, if you invoice a customer in excess of the work that you have actually completed, the incomplete (unearned) part of that income must be reclassified as a liability and should be recognized as income later, after the work is completed. If you have not yet invoiced a customer for work that has already been completed, the under-billed portion of income must be recognized and classified as an asset, until the customer is ultimately invoiced for the previously under-billed portion of the work.

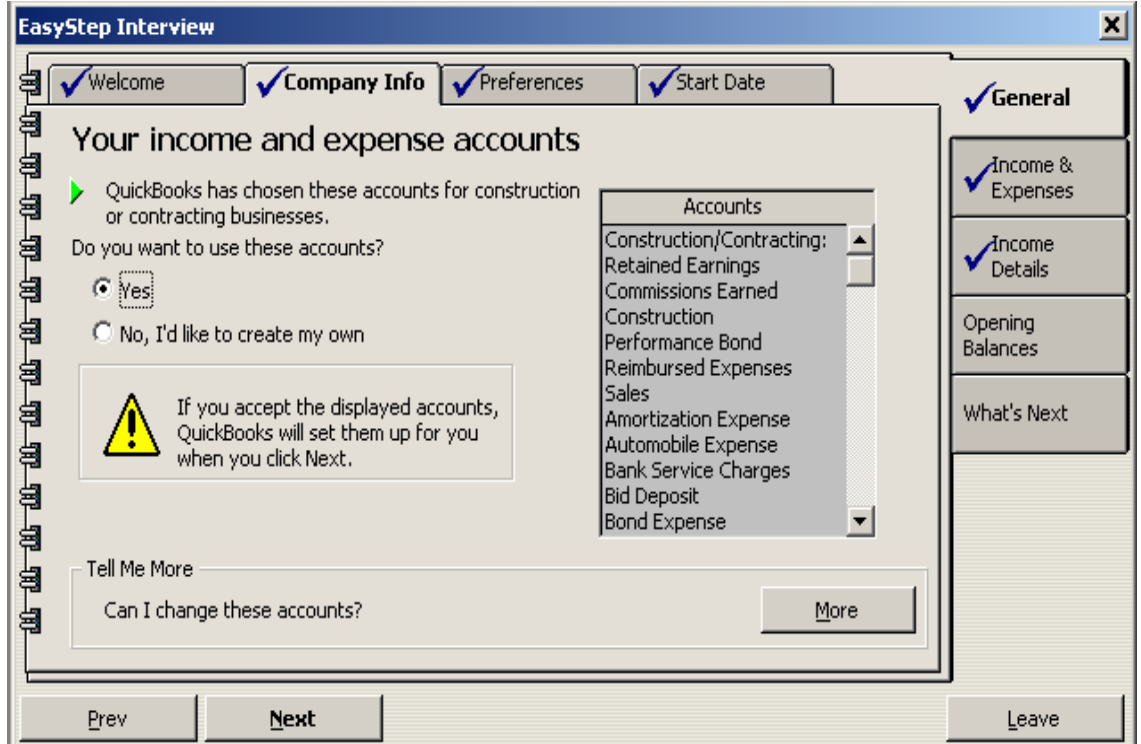


*Contractors:* Be sure to consult with your accountant and/or tax advisor to determine the most appropriate method of accounting for your construction business.

With QuickBooks, it is possible to run your business on a daily basis using one method of accounting, and then switch to another basis for tax purposes.

## 4.2 Importing a Chart of Accounts

QuickBooks provides a chart of accounts for most industries. In the EasyStep Interview, there are over twenty preset Chart-of-Accounts lists that can be automatically imported into your company file.

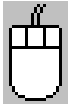


The screenshot shows the 'EasyStep Interview' window with the 'Company Info' tab selected. The main area is titled 'Your income and expense accounts' and contains the following text: 'QuickBooks has chosen these accounts for construction or contracting businesses. Do you want to use these accounts?'. There are two radio buttons: 'Yes' (selected) and 'No, I'd like to create my own'. A warning box with a yellow triangle icon states: 'If you accept the displayed accounts, QuickBooks will set them up for you when you click Next.' Below this is a 'Tell Me More' section with the question 'Can I change these accounts?' and a 'More' button. A list of accounts is shown in a scrollable box: Construction/Contracting; Retained Earnings; Commissions Earned; Construction; Performance Bond; Reimbursed Expenses; Sales; Amortization Expense; Automobile Expense; Bank Service Charges; Bid Deposit; Bond Expense. The right sidebar has 'General' selected, with 'Income & Expenses' and 'Income Details' checked. At the bottom are 'Prev', 'Next', and 'Leave' buttons.



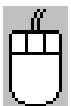
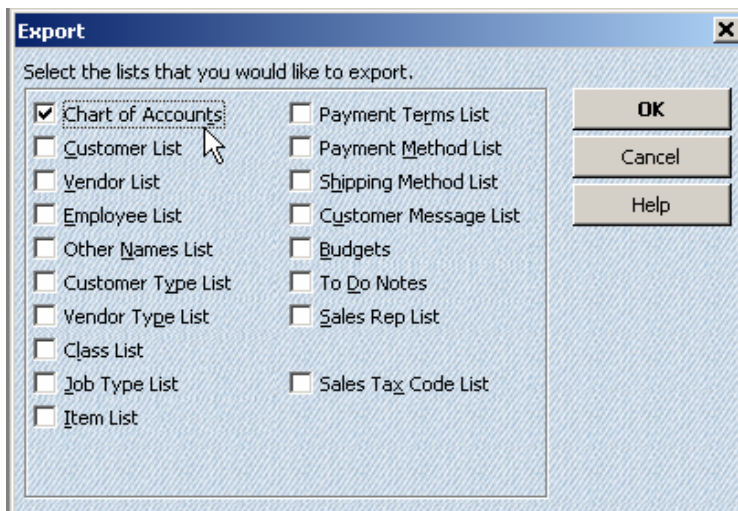
Of course, setting up an entire chart of accounts from scratch is always an option. If the desired accounts will substantially differ from a preset list, it is often more efficient to simply create a new list.

Alternatively, if your accountant has a preferred chart-of-accounts list and he/she uses QuickBooks, this list can be imported into your company file. Follow these steps to export and import a chart-of-accounts list:



### To Export:

1. Open the company that contains the desired Chart of Accounts list.
2. From the File menu, choose Export.
3. Choose Lists to IIF Files.
4. In the Export window, select the lists that are to be included in the export file.
5. Click OK.
6. Enter a filename for the export file. Make sure to enter a *unique* name, so as not to overwrite another file, and note the path for the new file.
7. Click Save.



### To Import:

1. Open your company file.
2. From the File menu, choose Import.
3. Choose IIF Files.
4. Select the export file just created.
5. Click Open.



### Contractors:

Import a Chart of Accounts specifically designed for contractors from the predefined *Contractor business* company file template.

### 4.3 Account Types

In QuickBooks, accounts in the Chart of Accounts are organized by type. The various types of accounts are as follows:

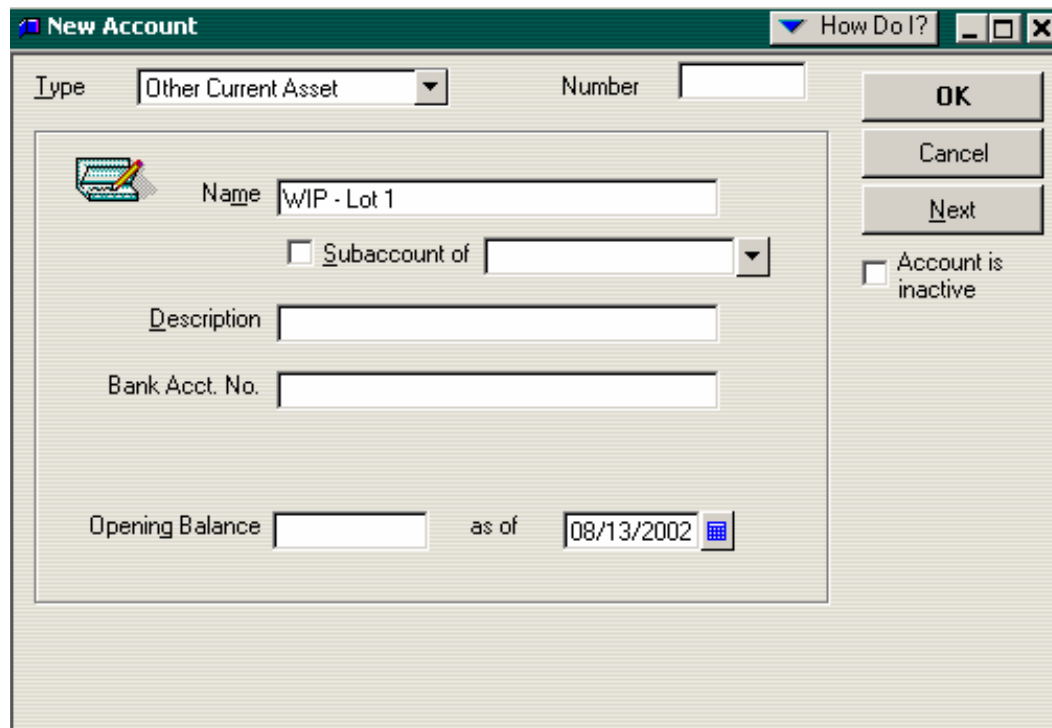
- ◆ **Bank:** Checking, Savings, and Money Market accounts. Add one bank account for every account your company has at a bank or other financial institution.
- ◆ **Accounts Receivable:** Transactions related to the customers that owe you money. These transactions include Invoices, payments, refunds, credit memos, and statements.
- ◆ **Other Current Asset:** Assets that are likely to be converted to cash or used up within one year, such as petty cash, prepaid expenses, customer retainage, and work in process.
- ◆ **Fixed Asset:** Depreciable assets your company owns, such as buildings, equipment, furniture, vehicles, and fixtures.
- ◆ **Other Asset:** Security deposits, long term notes receivable, and Intangible assets, such as customer lists, trademarks, etc.
- ◆ **Accounts Payable:** Transactions related to money you owe your vendors. These transactions include bills, bill payments, and vendor credits.
- ◆ **Credit Card:** Credit card purchases, returns, and payments.
- ◆ **Other Current Liability:** Liabilities that are scheduled to be paid within one year such as sales tax, payroll taxes, accrued or deferred expenses, and short-term loans (line of credit).
- ◆ **Long-term Liability:** Liabilities such as construction loans or mortgages, scheduled to be paid over periods longer than one year.
- ◆ **Equity:** Owner's capital investments, drawings, capital stock, distributions, and retained earnings.
- ◆ **Income:** The main source of money coming into your company from sales activities.
- ◆ **Cost of Goods Sold:** Costs directly associated with the products or services you sell.
- ◆ **Expense:** Money that is leaving your company for business operations.
- ◆ **Other Income:** Money received for something other than normal business operations, such as interest income or sale of a fixed asset.
- ◆ **Other Expenses:** Money spent on something other than normal business operations, such as corporate taxes.



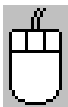
Accounts Receivable and Accounts Payable type accounts are special accounts in QuickBooks. Generally, it is easier to work with transactions if you limit your company file to a single A/R and A/P account.

## 4.4 Customizing

QuickBooks makes customizing the Chart of Accounts a simple process. New accounts can easily be created, and unwanted accounts can be deleted (assuming the account is not linked to a transaction, item, or payroll item). Also, using subaccounts, a company can produce reports that provide subtotals for related accounts.



The screenshot shows the 'New Account' dialog box. At the top, the title bar reads 'New Account' and there is a 'How Do I?' help button. The 'Type' dropdown menu is set to 'Other Current Asset'. The 'Number' field is empty. The 'Name' field contains 'WIP - Lot 1'. Below the name field is a checkbox for 'Subaccount of' followed by an empty dropdown menu. The 'Description' field is empty. The 'Bank Acct. No.' field is empty. At the bottom, the 'Opening Balance' field is empty, followed by 'as of' and a date field containing '08/13/2002'. On the right side, there are three buttons: 'OK', 'Cancel', and 'Next'. Below the buttons is a checkbox labeled 'Account is inactive' which is unchecked.



### Adding Accounts:

1. Lists.
2. Chart of Accounts.
3. Account button.
4. New.
5. Choose the account type from the drop-down list.
6. Enter a name for the new account (the remaining fields are optional).



**Contractors:**

Consider adding the following accounts to your chart of accounts list:

| Account Name  | Account Type  | Method of Accounting     | Usage  |
|---|---|--------------------------|--|
| WIP (Work in Process)   | Other Current Asset   | Completed Contract       | If you plan to use the Estimating and/or Purchase Order features in QuickBooks, the use of <i>Items</i> is required. Items will maintain the job cost details rather than the chart of accounts.   |
| WIP – “Job Name”  | Other Current Asset   | Completed Contract       | If you use another software for estimating or you do not require the use of purchase orders, consider a simplified approach to job costing. Set up a unique WIP account for each job and use <i>Classes</i> to track the job cost details. |
| Retainage Receivable  | Other Current Asset ( <i>not</i> Accounts Receivable)                             | Any                      | If a customer holds back amounts due until certain tasks have been completed, track outstanding retainages in a separate account so as not to overstate current Accounts Receivable.   |
| Development Costs   | Other Current Asset   | Completed Contract       | If your company acts as the developer, accumulate initial project and land costs in a separate account. Then allocate these costs as each job is completed.  |
| Advance Billings or Customer Deposits   | Other Current Liability   | Any                      | Use a liability account to track periodic customer payments or billings on work not yet completed.   |
| Vendor Retainage  | Other Current Liability   | Any                      | If you hold back amounts due to vendors until certain tasks have been completed, track these retainages in a separate account so as not to overstate current Accounts Payable.   |
| Costs & Estimated Earnings in Excess of Billings (Asset) or Billings in Excess of Cost & Estimated Earnings (Liability) | Other Current Asset or Other Current Liability (depending on the account balance) | Percentage of Completion | The asset account represents revenues recognized in excess of amounts billed. The liability account represents billings in excess of revenues recognized.  |

## Editing

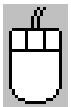
You can edit any account to change field information. With the exception of Accounts Payable, Accounts Receivable, and certain accounts created automatically by QuickBooks, you can also change the account type.

## Deleting

Only accounts that have not been used in transactions can be deleted. Also, any account that has an item or payroll item directed to it cannot be deleted.

## Inactivating

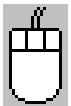
You can inactivate an account and hide it from the list. Any items or payroll items that are directed to inactivated accounts will continue to use these accounts. To discontinue the use of an account, change the account affiliation *before* making the account inactive. Activity for accounts marked as inactive will still appear in reports. To display hidden accounts, check the Show All box in the Chart of Accounts list.



To edit, delete, or inactivate an account, simply highlight the account in the Chart of Accounts list, and make the desired selection under the Account button.

## Merging

Merging accounts is helpful if you've been using two similar accounts and want to see those accounts represented by a single line in your reports. However, *merging accounts is irreversible!*



### To merge two accounts of the same type:

1. From the Lists menu, choose Chart of Accounts.
2. Select the account which you no longer want to use.
3. Choose Edit from the Account menu button.
4. Change the account name or number so that it is the same as the account you're merging with.
5. Click OK and Yes to confirm that you want to merge the two accounts.

## Subaccounts

Subaccounts create subtotals on financial statements, providing additional information to the user. In the account setup window, create a subaccount by checking the *Subaccount of* box and choosing the desired parent account (both accounts must be the same account type).



### Contractors:

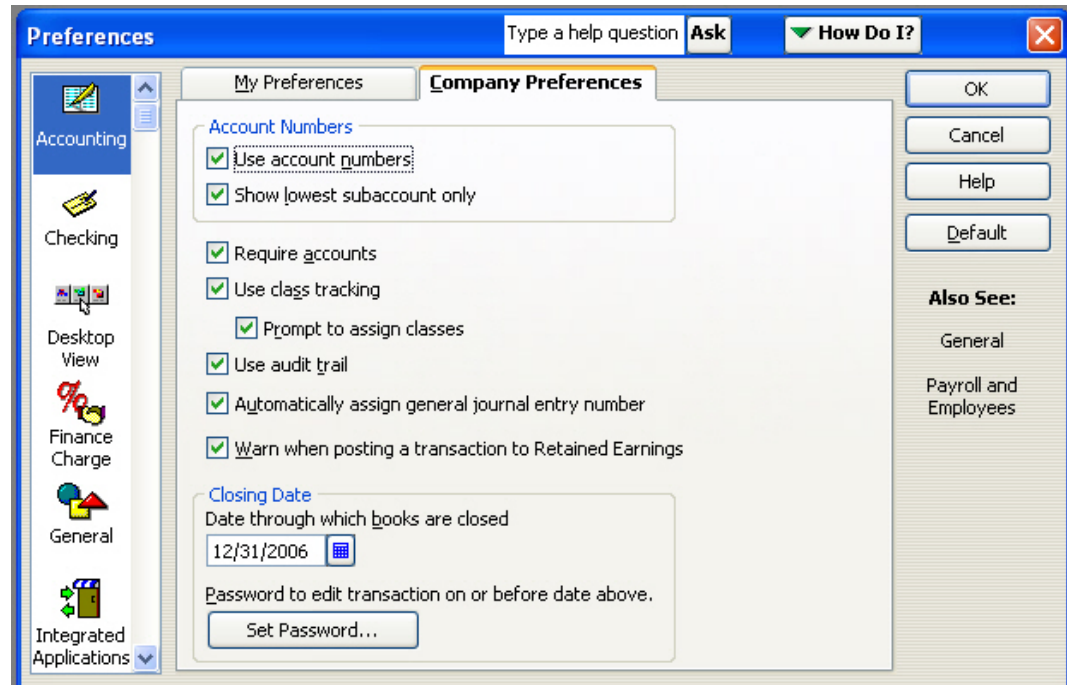
Inactivate closed Work-in-Process accounts.



Be sure to make a backup of your company file before you make any major changes.

## 4.5 Accounting Preferences

There are several QuickBooks preferences that directly relate to the Chart of Accounts and the financial statements.



### Account Numbers

QuickBooks gives you the ability to assign numbers to your accounts. QuickBooks includes your account numbers in the Chart of Accounts list, in all Account fields, and on reports and graphs.

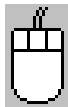
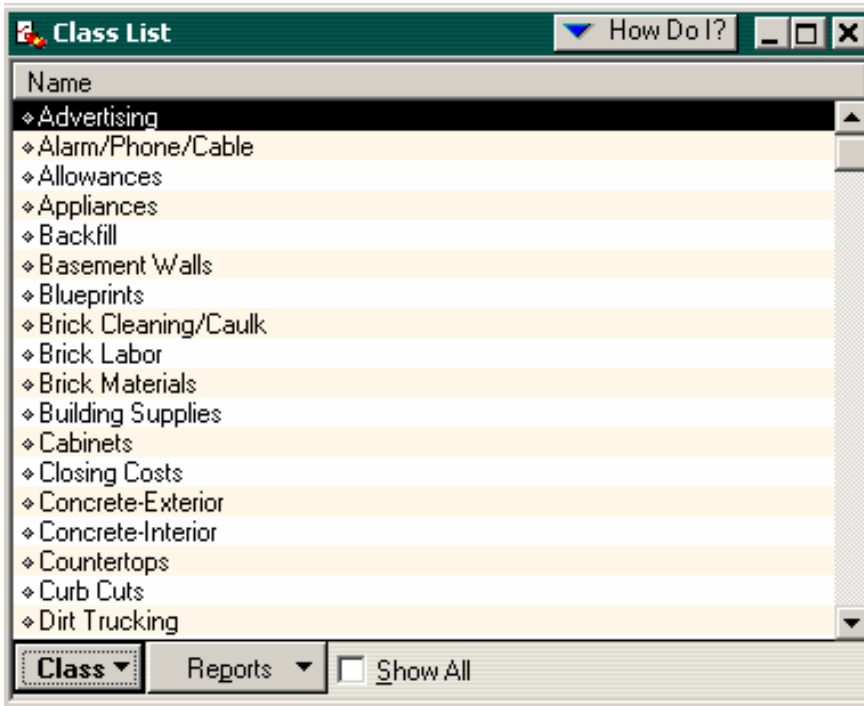


Coordinate your account numbers with your accountant. Adjusting journal entries, import functions to tax preparation software, and overall communication between you and your accountant will be optimized.



## Classes

QuickBooks Classes are used to track income and expenses for the separate segments of a business. These segments might be departments, business locations, profit centers, funds, phases of construction, or some other area of particular interest.



To access the list of classes, choose Class List from the Lists menu.

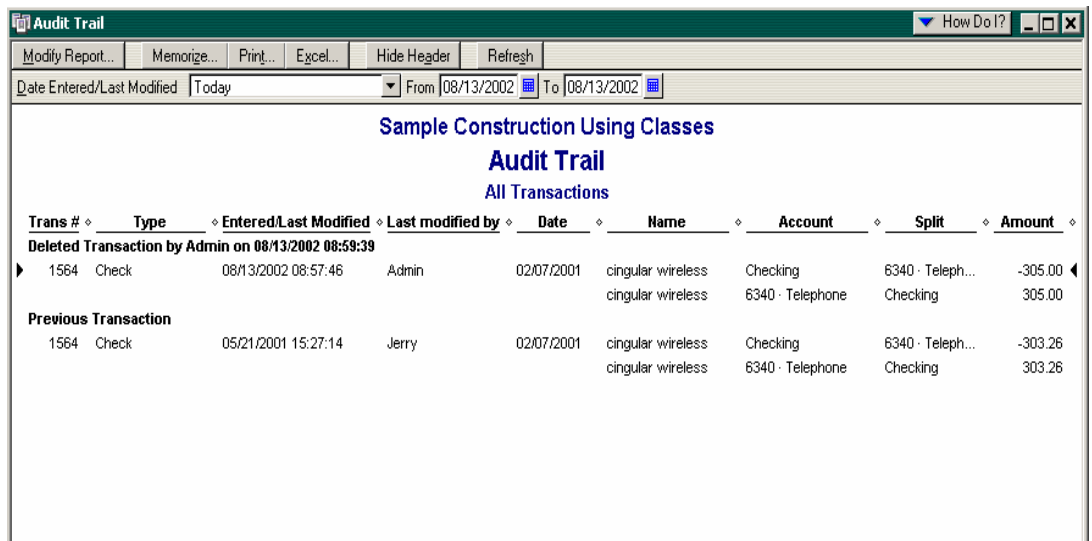


### Contractors:

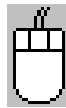
For a simplified approach to job costing, use classes (rather than items) to differentiate the phases of construction. Then choose to "Prompt to assign classes" in the Accounting Preferences.

## Audit Trail

The Audit Trail feature is designed to maintain a record of all changes made to transactions. Each time a transaction is created, modified, or deleted, QuickBooks keeps a record of the change, as well as the date, time, and the user who made the change. All of this information is accessible by running the Audit Trail Report. However, the Audit Trail report shows only transactions that were modified or deleted *while the audit trail preference was on*.



| Trans #  | Type  | Entered/Last Modified | Last modified by | Date       | Name              | Account          | Split            | Amount  |
|--|-------|-----------------------|------------------|------------|-------------------|------------------|------------------|---------|
| <b>Deleted Transaction by Admin on 08/13/2002 08:59:39</b> |       |                       |                  |            |                   |                  |                  |         |
| 1564   | Check | 08/13/2002 08:57:46   | Admin            | 02/07/2001 | cingular wireless | Checking         | 6340 - Teleph... | -305.00 |
|  |       |                       |                  |            | cingular wireless | 6340 - Telephone | Checking         | 305.00  |
| <b>Previous Transaction</b>                                |       |                       |                  |            |                   |                  |                  |         |
| 1564   | Check | 05/21/2001 15:27:14   | Jerry            | 02/07/2001 | cingular wireless | Checking         | 6340 - Teleph... | -303.26 |
|  |       |                       |                  |            | cingular wireless | 6340 - Telephone | Checking         | 303.26  |



To create the Audit Trail report, choose Accountant & Taxes from the Reports menu; then choose Audit Trail.