

QuickBooks review: The Chart of Accounts

NESARE – Year 3, Week 2

Session 2: Agenda



Key Concepts Behind the Chart of Accounts

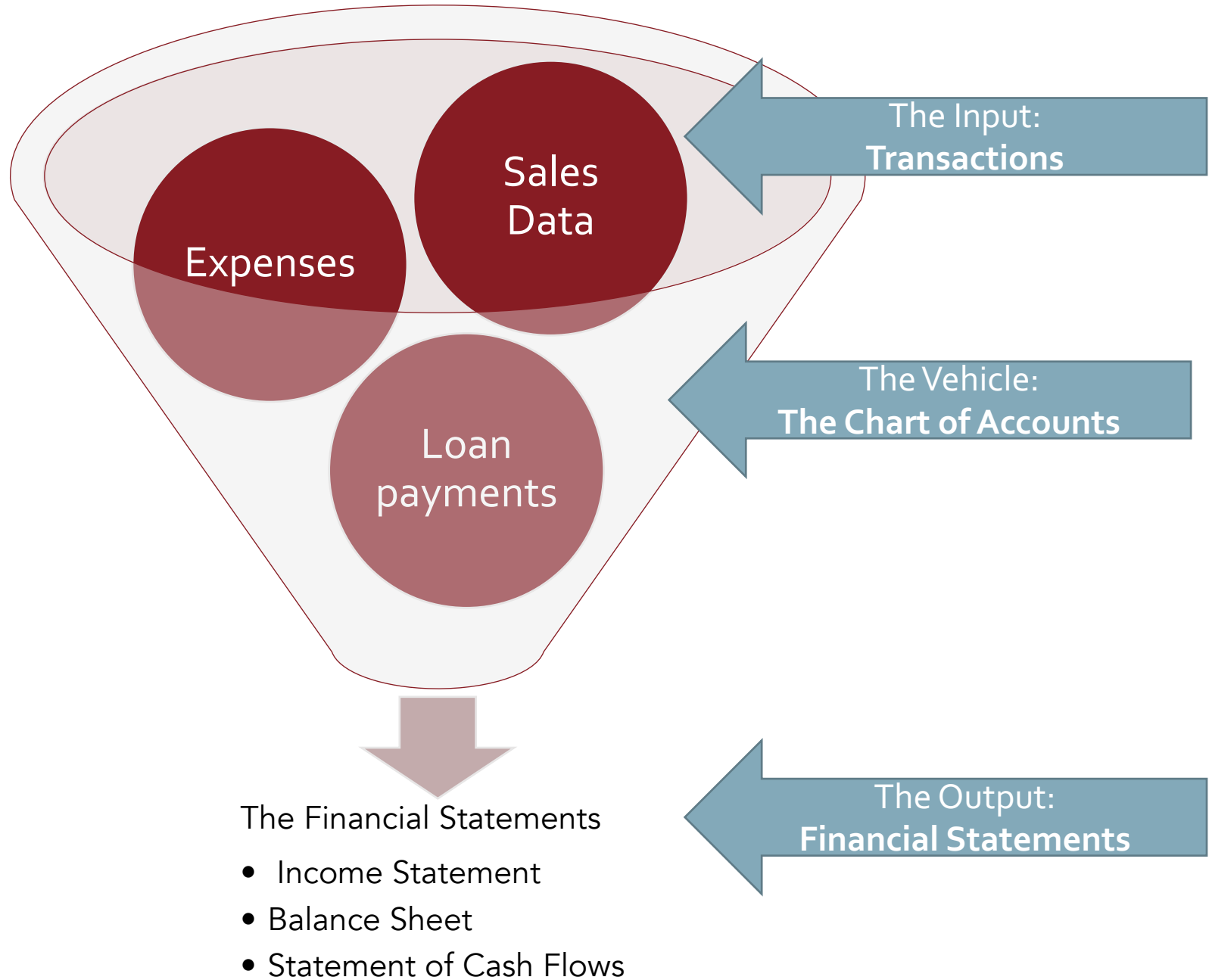


Overview of The Chart of Accounts



How to recommend updates

End Game: Financial Statements to do Analysis



How QB Impacts Reports



Last week, we talked about how transactions and data entry can impact the financial statements.



This week, we'll talk about how the Chart of Accounts impact financial statements.

What story do your numbers tell?

Are you spinning your wheels?



Are you building equity?



EXAMPLE:

You purchase a new greenhouse.
Is it an asset or an expense?

Expense
<ul style="list-style-type: none"> ▪ Revenue <ul style="list-style-type: none"> • \$100,000 ▪ Greenhouse <ul style="list-style-type: none"> • \$15,000 ▪ All other expenses <ul style="list-style-type: none"> • \$60,000
<ul style="list-style-type: none"> ▪ Net Profit <ul style="list-style-type: none"> • \$25,000 ▪ Total Assets <ul style="list-style-type: none"> • \$0

Asset
<ul style="list-style-type: none"> ▪ Revenue <ul style="list-style-type: none"> • \$100,000 ▪ Greenhouse <ul style="list-style-type: none"> • \$15,000 ▪ All other expenses <ul style="list-style-type: none"> • \$60,000
<ul style="list-style-type: none"> ▪ Net Profit <ul style="list-style-type: none"> • \$40,000 ▪ Total Assets <ul style="list-style-type: none"> • \$15,000

Greenhouse as Expense

	Assets		=	Liabilities	+	Owners' Equity	
Transactions	Cash	Greenhouse		Loan		Owner's Capital	Retained Earnings
						Revenue	Expense
Revenue	\$100,000					\$100,000	
Other Expenses	-60,000						-60,000
Greenhouse	-15,000						-15,000
Ending Balance	\$25,000					\$100,000	-\$75,000

Greenhouse as Asset

	Assets		=	Liabilities	+	Owners' Equity	
Transactions	Cash	Greenhouse		Loan		Owner's Capital	Retained Earnings
						Revenue	Expense
Revenue	\$100,000					\$100,000	
Other Expenses	-60,000						-60,000
Greenhouse	-15,000	+15,000					
Ending Balance	\$25,000	\$15,000				\$100,000	-\$60,000

Practicing Skills



Does this make sense?



If you're still feeling a little fuzzy here:



Using these limited numbers, create a mini-income statement and balance sheet of the two scenarios.

Greenhouse as an asset

Greenhouse as an expense

How you organize your
Chart of Accounts shapes
the story of your business

Applying Concepts

- Look at TRF's P&L for 2021
 - Option 1: Go to QB to pull the report
 - Option 2: Look at the spreadsheet in the Case Study file.
- In 2021, TRF posted \$7,302.40 for utilities expenses.
 - Does this number raise any red flags for you? If so what and why?
 - If you're in QB, zoom in to see the details of that number.
- They tell you that they paid Alliant Energy \$4,232 to bring electricity to the retail space of the greenhouse; plus, an additional \$195 in service calls to make sure everything was working properly.
 - How do these transactions impact their P&L. Would you categorize them differently? If so, how and why? If you wouldn't categorize them differently, why not?

The Chart of Accounts: The Backbone of QuickBooks



- How you organize your COA determines how your reports will look
- Organize your COA in a way that makes the most sense for your business
 - Create categories that make sense for your clients.
 - Name accounts in a way that's meaningful
 - Group accounts together so reports make the most sense.

The Chart of Accounts: Nuts and Bolts

- All transactions in QB get tagged to an account from the chart of accounts
 - Directly through all transactions, except
 - Indirectly through invoices + sales receipts
- Names the line items for the reports
- Determines if an account is on the Balance Sheet or Income Statement.
- Determines *where* on the financial statement it appears.

The Chart of Accounts: Considerations for Organizing

- Does an account belong on the Balance Sheet or the P&L
 - What “type” of account is it?
- What is your “hierarchy”?
 - What are the parent categories?
 - What are the children categories?

For the next section, we'll have a lens to focus on expenses

(even though a lot of these concepts apply to other aspects of the COA)

Parents and Children Categories

Parent Categories allow you to group like expenses together and easily see subtotals.

Children accounts get "nested" under parent categories

You can also have "grandchildren" accounts

Linguistic Note

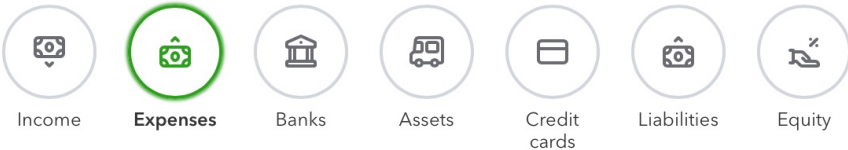
- QB – Desktop has “Accounts” and “Sub-Accounts”
- QBO recently changed its formatting/language to create accounts and sub-accounts on different versions

Just to mess with you...

QBO - \$30/Month

QBO - \$80/month

Edit account



Save account under *

Expenses

Tax form section * ⓘ

Advertising/Promotional

Account name *

Advertising & Marketing

Description

Ads, business cards, and other marketing costs

Cancel

Save

Account

Account Type

Expenses

*Detail Type

Insurance

*Name

Insurance - Liability

Description

Use **Insurance** to track insurance payments.

You may want different accounts of this type for different types of insurance (auto, general liability, and so on).

Is sub-account

Enter parent account

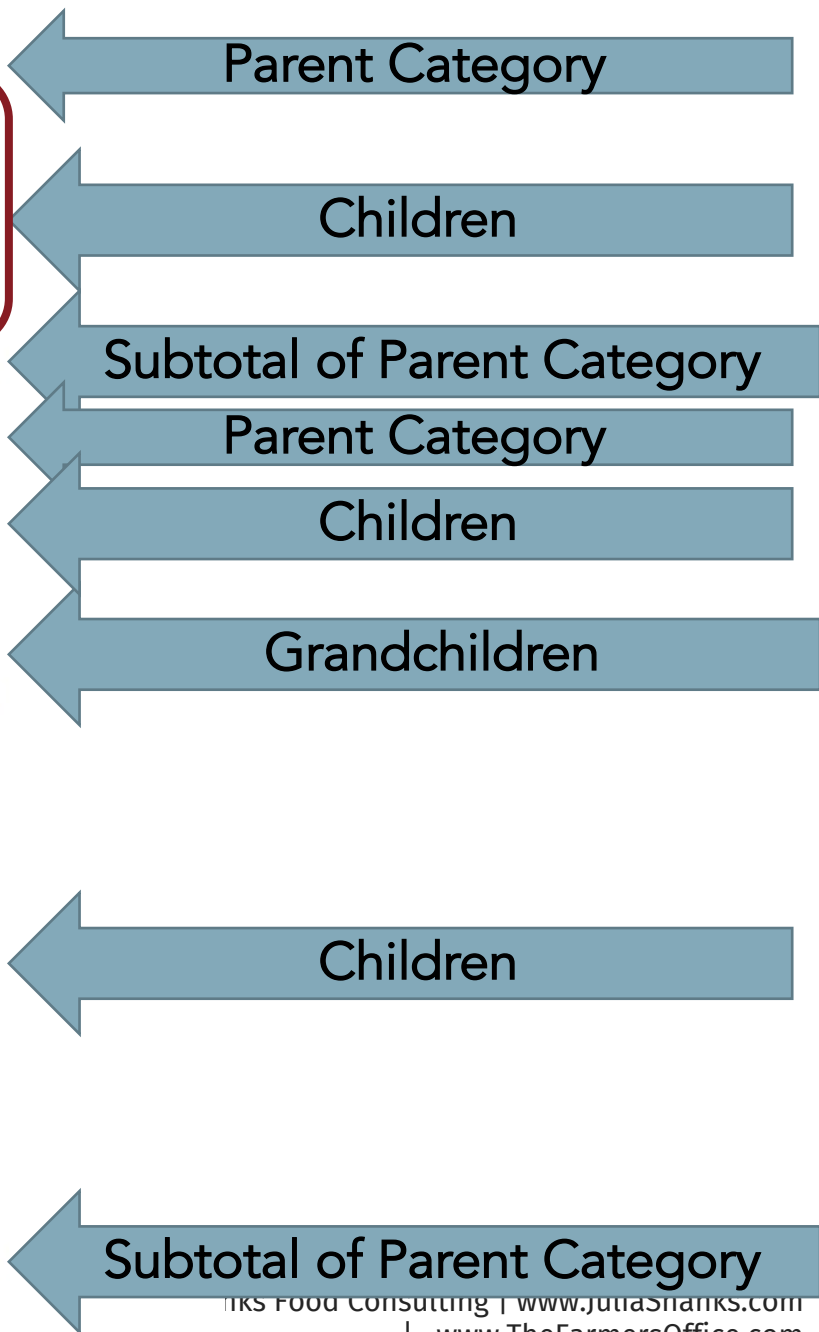
Cancel

Save and Close

How do we see "Parents" and "Children" on reports?

Jan - Dec '19

Expense	
Direct Operating Expenses	
Equipment Rental	96.35
Fertilizer/Amendments	1,881.40
Gasoline, Fuel and Oil	188.98
Packaging	415.24
Production Supplies	10,589.31
Seeds / Seedlings	5,692.76
Small Tools and Equipment	5,755.38
Total Direct Operating Expenses	24,619.42
General & Admin. Expenses	
Accounting fees	175.00
Auto Insurance	1,244.00
Bad Debt	10.80
Credit Card fees (square)	
Merchant deposit fees	9.75
Credit Card fees (square) - Other	148.61
Total Credit Card fees (square)	158.36
Farm Business Insurance	1,644.23
Farmer's Market Fees	1,185.00
Marketing	319.22
Meals	71.29
Office Supplies	37.22
Organizational Costs	34.00
Postage / shipping	40.99
Profess. Education/Conferences	1,347.23
Professional Fees	115.00
Sales Tax	50.00
Vehicle Registration	162.75
Website Development	126.73
Work Clothing	356.41
Total General & Admin. Expenses	7,078.23



COA – Rethinking Parent Categories

Old Thinking

- Insurance
 - Liability
 - Workers Comp
 - Vehicle
- Supplies
 - Office
 - Seeds
 - Packaging
 - Farmers Market

New Thinking

- Production Costs
 - Seeds
 - Packaging
- Payroll
 - Salaries and Wages
 - Workers Comp
- General and Admin
 - Office supplies
 - Liability Insurance

A photograph of a tree branch with several ripe, orange-colored fruits and green leaves, positioned at the top of the slide.

Time to Practice

- Take a look at TRF's P&L and their "insurance" expenses
 - Are they categorized according to "old thinking" or "new thinking"? Why do you think that?
 - Would you organize them differently? If so, how?
- Likewise, look at their "supplies" expenses.
 - Are they categorized according to "old thinking" or "new thinking"? Why do you think that?
 - Would you organize them differently? If so, how?

Let's Dig a Little Deeper

Income Statement: Organize to Extract Meaning

- Revenue

- Gross Sales

- COGS

- Produce & Products for Resale
- (Cost of Production)

- Gross Profit = Revenue - COGS

- Operating Expenses

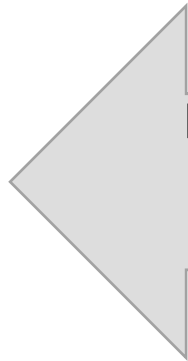
- Direct Operating
- Labor
- Occupancy
- General and Administrative (G&A)
- Repairs and Maintenance
- One-time Expenses

- Operating Income = Gross Profit – Expenses


- Other Income & Expense

- Grants
- Depreciation
- Interest Expenses

- Net Income = Operating Income \pm Other Income & Expenses



Is your core
operation
profitable?



Can you afford
debt & capital
improvements?

The Account Types Dictate The Organization

- Revenue

- Gross Sales

- COGS

- Produce & Products for Resale
- (Cost of Production)

- Gross Profit = Revenue - COGS

- Operating Expenses

- Direct Operating
- Labor
- Occupancy
- General and Administrative (G&A)
- Repairs and Maintenance
- One-time expenses

- Operating Income

- Other Income & Expense

- Grants
- Depreciation
- Interest Expenses

- Net Income

Account Type: Income

Account Type: COGS

Account Type: Expenses

Account Type: Other Income

Account Type: Other Expenses

Time to Practice



Look at TRF's Profit and Loss

- Make note of where the "section" breaks are.. Where is the beginning and end of
 - Revenue
 - COGS
 - Operating Expenses
 - Other Income
 - Other Expense
- Would you put any "income" in "other income" or vice versa?
- Would you put any "expenses" in "other expenses" or vice versa?
- Would you put any "expenses" in the COGS section or vice versa?

Balance Sheet - COA

Assets

- Current Assets
 - Bank Accounts
 - Accounts Receivable
 - Inventory
- Breeding Stock
- Equipment
- Vehicles
- Buildings and Infrastructure

Account Type: Bank

Account Type: Other Current Assets

Account Type: Other Assets

Account Type: Fixed Asset

Liabilities

- Current Liabilities
 - Accounts Payable
 - Credit Cards
 - Line of Credit
- Loans & Notes
 - Long-Term Liabilities

Account Type: Auto-created

**Account Type: Auto-created
Type: Other Current Liability**

Type: Long-Term Liability

Equity

- Owners Investment
- Retained Earnings
- Net Income

Account Type: Equity

Account Type: Auto-created

Account Type: Auto-created

Account Types

Income Statement

- Income
- Expenses

- COGS
- Other Income
- Other Expense

Balance Sheet

- Fixed Assets (Asset)
- Bank (Asset)
- Loan (Liability)
- Credit Card (Liability)
- Equity

- Accounts Receivable (Asset)
- Other Current Assets (Asset)
- Other Current Liability (Liability)
- Long Term Liability (Liability)
- Accounts Payable

Chart of Accounts

Name	Type
▼ Direct Operating	Expense
Car and Truck Expenses	Expense
Farm Stand Expense	Expense
Farmers' Market Fees	Expense
Field Work	Expense
Greenhouse Supplies	Expense
Post Harvest Supplies	Expense
R Garden	Expense
▶ Seed and Plants	Expense
Shipping - Farm Supplies	Expense
Soil Ammendments	Expense
Storage	Expense
Supplies	Expense
▶ Field	Expense
▶ General and Admin	Expense
Greenhouse Structure	Expense
▶ Occupancy	Expense
▶ Repairs and Maintenance	Expense
Seed Saving Supplies	Expense
Buildings and Improvements	Fixed Asset
Furniture and Equipment	Fixed Asset
Agricultural Program Payments	Income
▶ Crop Sales	Income
▶ Education/Tours	Income

What it is

Where it is

QBO – Chart of Accounts

The screenshot shows the QuickBooks Online interface for 'Craig's Design and Landscaping Services'. The 'Chart of Accounts' page is active, displaying a table of accounts. A green box highlights the 'Filter by name' search bar and the first row of the table. Two blue boxes with arrows point to the 'NAME' and 'TYPE' columns. A large pink question mark is overlaid on the table, with two blue boxes containing the text 'What it is' and 'Where it is' pointing to the 'NAME' and 'TYPE' columns respectively.

NAME	TYPE	DETAIL TYPE	QUICKBOOKS BALANCE	BANK BALANCE	ACTION
Checking	Bank	Checking	1,201.00	-3,621.93	View register
...	...	...	800.00	200.00	View register
...	...	...	5,281.52		View register
...	...	...	596.25		View register
Prepaid Expenses	Other Current Assets	Prepaid Expenses	0.00		View register
Uncategorized Asset	Other Current Assets	Other Current Assets	0.00		View register
Undeposited Funds	Other Current Assets	Undeposited Funds	2,062.52		View register
Truck	Fixed Assets	Vehicles	13,495.00		View register
Depreciation	Fixed Assets	Accumulated Depreciation	0.00		View register
Original Cost	Fixed Assets	Vehicles	13,495.00		View register

Time to Practice

- For the account type “Expenses”, what parent categories would you suggest?
- Go through TRF’s P&L and make note on each line item (in the margins)– under which parent category does it belong.
- Advanced users: optional activities
 1. Reorganize the P&L in excel according to your new hierarchy
 2. Update the chart of accounts in QB
 - Edit account type as appropriate
 - Update parent and children categories as appropriate.

Digging Deeper into Sales/Revenue

Creating Your Chart of Accounts

REVENUES

- Sales Channels
 - Farmers Markets
 - Farm Stand
 - Co-Op
 - CSA
 - Wholesale

OR

- Products
 - Beef
 - Dairy
 - Vegetables

EXPENSES

- Parent Category Examples
 - Direct Operating
 - Payroll
 - General + Admin
 - Repairs + Maintenance
 - One-time Expenses
- Children (Sub-Accounts) Examples
 - Seeds/Seedling
 - Fertilizers/Amendments
 - Salaries and Wages
 - Insurance

A photograph of a tree branch with several ripe oranges and green leaves, positioned at the top of the slide.

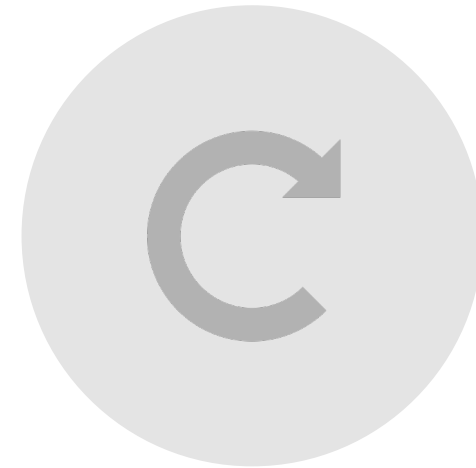
Apply Concepts

- Do you think TRF should categorize their income by sales channel or by product? Why?
- What categories for Sale Revenue do you recommend for TRF? Or do you think the current account names are good?

Two Ways to Adjust how Sales Revenue Appears



UPDATE CHART OF
ACCOUNT



UPDATE ITEMS
(PRODUCTS/SERVICES)

Items (Products and Services)



ITEMS

(AKA IN QBO: PRODUCTS AND SERVICES)



Items are things that your business buys, sells or resells through the course of business, such as eggs, poultry, or bok choy.



Items show up as the data entry point on an invoice or sales receipt.



Items are associated with an income or expense account (or even a balance sheet account too!)

Another level of detail to track revenue and expenses

Items

Diversified Veggie Farm - QuickBooks Pro 2014 [Item List]

Company Customers Vendors Employees Banking Reports Window Help

Look for in All fields Search Reset Search within results

NAME	DESCRIPTION	TYPE	ACCOUNT	PRICE	ATTACH
♦ Beans, Yellow Wax	pound	Service	Wholesale:Restaurant Sales	3.00	
♦ Beets, Chiogga	pound	Service	Wholesale:Restaurant Sales	2.00	
♦ Beets, Golden	pound	Service	Wholesale:Restaurant Sales	2.00	
♦ Beets, Red	pound	Service	Wholesale:Restaurant Sales	2.00	
♦ Bok Choy	pound	Service	Wholesale:Restaurant Sales	2.50	
♦ Broccoli Rabe	pound	Service	Wholesale:Restaurant Sales	3.00	
♦ Brussel Sprouts	pound	Service	Wholesale:Restaurant Sales	7.00	
♦ Butternut Squash	pound	Service	Wholesale:Restaurant Sales	1.50	
♦ Cabbage, Green	pound	Service	Wholesale:Restaurant Sales	1.50	
♦ Cabbage, Napa	pound	Service	Wholesale:Restaurant Sales	1.50	
♦ Cabbage, Red	pound	Service	Wholesale:Restaurant Sales	1.50	
♦ Carrots	pound	Service	Wholesale:Restaurant Sales	2.00	
♦ Celeriac	pound	Service	Wholesale:Restaurant Sales	2.00	
♦ Chard	pound	Service	Wholesale:Restaurant Sales	2.50	
♦ Cilantro	pound	Service	Wholesale:Restaurant Sales	7.50	
♦ CSA Summer Subscri...		Non-inventory Part	CSA:Summer CSA	0.00	
♦ Cucumbers	pound	Service	Wholesale:Restaurant Sales	2.00	
♦ Dill	pound	Service	Wholesale:Restaurant Sales	7.50	
♦ Eggplant	pound	Service	Wholesale:Restaurant Sales	3.00	
♦ Fennel	pound	Service	Wholesale:Restaurant Sales	3.00	
♦ Flowers, Dried	bunch	Service	Wholesale:Restaurant Sales	7.00	
♦ Flowers, Mixed Bouquet		Service	Wholesale:Restaurant Sales	0.00	
♦ Flowers, Mixed Large ...		Service	Wholesale:Restaurant Sales	0.00	
♦ Flowers, Single Variety		Service	Wholesale:Restaurant Sales	0.00	
♦ Garlic		Service	Wholesale:Restaurant Sales	0.00	

Item Activities Reports Excel Attach Include inactive

A photograph of a tree branch with several ripe, orange-colored fruits and green leaves, set against a light blue sky. The image is positioned at the top of the slide, partially overlapping the title.

Time to Practice

- Go to TRF QuickBooks file and open the item list.
- Review the Items and their associated income accounts.
 - Optional: Export the list into excel.
- Make suggestions on how they might better utilize items.
 - Should they “reassign” items to different income categories?
 - Should they rethink how they use items? Use more items or use less?

Questions??

Bring them to the live class.

Next Session

Channel/Enterprise Analysis