

Handling Purchases and Trade-in of Motor Vehicles in QuickBooks

Aim

How do you bring things that you manufacture into QuickBooks? This paper examines how to add use a Bill of Materials to make a product using materials from Inventory as well as labour and other costs. It is particularly useful where products are manufactured in job lots.

Versions

This paper was written using QuickBooks 2009-10. The procedures can be used in all versions of QuickBooks although some features are not available in standard and plus versions.

THE SCENARIO

Harry's Hoses sells industrial hose components. Included in the inventory are the following products:

Item	Cost Ex GST	Sell Ex GST
Hose 75mm (per Metre)	\$5.00	\$10.00
Brass Nozzle	\$15.00	\$30.00
Tap Fitting	\$10.00	\$20.00

Harry makes hoses to measure. The hoses are assembled using materials from inventory, and then pressure tested using a special piece of equipment.

He wants to each job to reflect the use and cost of materials from inventory. In addition, Harry wants to reflect labour used in the manufacture of the hoses and the use of a special pressure testing equipment. Labour costs \$25 per hour. Allowing for super, work cover leave and oncosts, Harry opts for a cost recovery rate of \$50 per hour for labour. Pressure testing is calculated to cost \$40 per test.

Item	Cost Recovery
Labour per hour	\$50
Pressure Testing	\$40

SET UP IN QUICKBOOKS

Chart of Accounts

Some additional chart of accounts items need to be set up to reflect the movement of

inventory and labour etc into a Work In Progress account.

Account	Type	Purpose
Work in Progress	Other Current Asset	Reflects value of goods manufactured but not sold
Cost Recovery	Expense	Header Account
- Labour	Expense	Labour Cost recovery
- Machinery	Expense	Machinery cost recovery

Inventory Items

Next, set up inventory items. The hoses, nozzles and fittings are just a standard inventory item setup:

Next, we need to set up the items for cost recovery of labour and machinery. These are set up in such a way that the value of labour and machinery use is transferred from the Cost Recovery Account to the Work In Progress Account. NOTE IN PARTICULAR THE

ASSET ACCOUNT USED.

Type: Inventory Part Use for goods you purchase, track as inventory, and resell.

Item Name/Number: ZZ Labour Costs Subitem of: Manufacturer's Part Number:

Unit of Measure: Enable...

Purchase Information: Description on Purchase Transactions: Labour Cost Recovery. Cost: 50.00. Purch Tax Code: NCG. COGS Account: Cost of Goods Sold. Preferred Supplier:

Sales Information: Description on Sales Transactions: Labour Cost Recovery. Sales Price: 0.00. Tax Code: GST. Income Account: Sales.

Inventory Information: Asset Account: Cost Recovery:Labour ... Reorder Point: On Hand: -2 Avg. Cost: 50.00 On P.O.: 0 On Sales Order: 0

Buttons: OK, Cancel, Custom Fields, Spelling. Checkboxes: Item is inactive, Amt's Inc Tax.

I have put ZZ in front of the item name to put it at the bottom of the item list. The item is only used for Work In Progress and should never be used for sales.

An item for Pressure Testing cost recovery is set up the same way, only using ZZPressure Test as the name and Machinery Cost Recovery as the allocation account. Ensure that the cost is recorded in the cost field.

Price Levels

This is optional, and only applicable to QuickBooks Pro and above.

The Work In Progress process works by recording a Sales Receipt to record the inputs to the Job. This sales receipt has a zero total. You can set up a Price Level to discount all of the prices by 100%, then use this price level for our special Work in Progress customer to ensure the price is always zero. Set up via Lists > Price Level Lists.

New Price Level

Price Level Name: Price Level is inactive

Price Level Type: Use this type of price level to apply a fixed percentage increase or decrease to all your standard sales prices when setting up prices for different customers or jobs.

This price level will item prices by

Round up to nearest:

[How do I print a report?](#)

Set up a Work in Progress Customer

Set up a customer called ZZWork In Progress. Ensure that you select Price Level "Work In Progress" from the dropdown list.

New Customer

Customer Name: [How do I determine the opening balance?](#)

Opening Balance: as of

Address Info | **Additional Info** | Payment Info | Job Info

Price Level:

Customer is inactive

Bill of Materials Template

Lastly, customize a Sales Receipt Template to a Bill of Materials Template.

USAGE IN QUICKBOOKS

Example

Harry gets in an order from Freds Rural Supplies for 5 hoses of varying sizes. A Jobcard J1234 lists the inputs to the job as:

- Hose 75mm - 65 Metres
- Brass Nozzles - 5
- Tap Fittings - 5
- Pressure Tests - 5
- Labour - 2 Hours

The information is entered into QuickBooks as follows:

Step 1 - Select "Create Sales Receipts"; change the template to Bill of Materials template you created earlier; select ZZWork in Progress from the Customer Dropdown; enter Date and Job No. Job for Customer (Other Field in the template header)

Enter Sales Receipts

Type a help question Ask How Do I?

Previous Next Print Email Find Spelling History Journal

Customer: Job [Work In Pr...] Class Template Print Preview

ZZWork In Progress Bill of Materials

Date Job No.
15/12/2009 J1234

Bill of Materials

Sold To
ZZWork In Progress

Job for Customer
Fred's Rural Su...

Step 2 - Enter materials used in the body of the form. Ensure that the rate is always 0.

Item	Description	Qty	Rate	Tax	Amount
Hose 75mm	Hose 75mm	65	0.00	GST	0.00
Brass Nozzle	Brass Nozzle	5	0.00	GST	0.00
Tap Fitting	Tap Fitting	5	0.00	GST	0.00
ZZ Pressure Testing	Pressure Testing Cost Recovery	5	0.00	GST	0.00
ZZ Labour Costs	Labour Cost Recovery	2	0.00	GST	0.00

Step 3 - Ensure that the total of the form is zero, then record the invoice. (Note that it is important to record the transaction at this stage to allow QuickBooks to calculate the costing of the transaction).

Step 4 - Go back to the Bill of Materials (Sales Receipt) via the Customer Centre or with the Find function. Open the form, then press the Journal button at the top of the form.

Journal ; this will open the following report (some columns hidden to improve readability). Check that the costing looks correct for each item.

Stadium Construction & Hardware Pty Ltd
Transaction Journal

All Transactions

Trans #	Type	Date	Num	Item	Account	Debit	Credit
538	Sales Receipt	15/12/2009	J1234		Undeposited Funds	0.00	
				Hose 75mm	Sales	0.00	
				Hose 75mm	Inventory Asset		325.00
				Hose 75mm	Cost of Goods Sold	325.00	
				Brass Nozzle	Sales	0.00	
				Brass Nozzle	Inventory Asset		75.00
				Brass Nozzle	Cost of Goods Sold	75.00	
				Tap Fitting	Sales	0.00	
				Tap Fitting	Inventory Asset		50.00
				Tap Fitting	Cost of Goods Sold	50.00	
				ZZ Pressure Testing	Sales	0.00	
				ZZ Pressure Testing	Machinery Cost Re...		200.00
				ZZ Pressure Testing	Cost of Goods Sold	200.00	
				ZZ Labour Costs	Sales	0.00	
				ZZ Labour Costs	Labour Cost Reco...		100.00
				ZZ Labour Costs	Cost of Goods Sold	100.00	
				GST	Tax Payable	0.00	
						<u>750.00</u>	<u>750.00</u>
TOTAL						<u><u>750.00</u></u>	<u><u>750.00</u></u>

What this report shows is:

- Stock value gets transferred to Cost of Goods Sold
- Cost recovery items get transferred from their relevant accounts to Cost of Goods Sold
- The total of Cost of Goods Sold (total debits) now reflects the manufactured cost of the item.

Step 5 - Create a new Inventory Item J1234 (the job number). Ensure the cost is recorded as the total of debits noted above (\$750), and the Asset Account selected is Work In Progress. The sell price can be entered at the normal margins (I'll use 100%) or the quoted price of the job.

Type: Use for goods you purchase, track as inventory, and resell.

Item Name/Number: Subitem of: Manufacturer's Part Number:

Unit of Measure:

Purchase Information: Description on Purchase Transactions: Cost: Purgh Tax Code: COGS Account: Preferred Supplier:

Sales Information: Description on Sales Transactions: Sales Price: Tax Code: Income Account:

Inventory Information: Asset Account: Reorder Point: On Hand: 0 Avg. Cost: 750.00 On P.O.: 0 On Sales Order: 0

Barcode:

Item is inactive Amt's Inc Tax

Step 6 - Reopen the Bill of Materials (Sales Receipt) and add an extra line, using the new item J1234. Ensure the Qty field is MINUS 1. (this will put 1 x J1234 back into inventory). Record the transaction.

Item	Description	Qty	Rate	Tax	Amount
Hose 75mm	Hose 75mm	65	0.00	GST	0.00
Brass Nozzle	Brass Nozzle	5	0.00	GST	0.00
Tap Fitting	Tap Fitting	5	0.00	GST	0.00
ZZ Pressure Testing	Pressure Testing Cost Recovery	5	0.00	GST	0.00
ZZ Labour Costs	Labour Cost Recovery	2	0.00	GST	0.00
Jobs:J1234	Special Order. 10 Hoses fitted and pressure tested.	-1	0.00	GST	0.00

Now, go back into the transaction and generate the Journal Report.

Stadium Construction & Hardware Pty Ltd Transaction Journal

All Transactions

Trans #	Type	Date	Num	Item	Account	Debit	Credit
538	Sales Receipt	15/12/2009	J1234		Undeposited Funds	0.00	
				Hose 75mm	Sales	0.00	
				Hose 75mm	Inventory Asset		325.00
				Hose 75mm	Cost of Goods Sold	325.00	
				Brass Nozzle	Sales	0.00	
				Brass Nozzle	Inventory Asset		75.00
				Brass Nozzle	Cost of Goods Sold	75.00	
				Tap Fitting	Sales	0.00	
				Tap Fitting	Inventory Asset		50.00
				Tap Fitting	Cost of Goods Sold	50.00	
				ZZ Pressure Testing	Sales	0.00	
				ZZ Pressure Testing	Machinery Cost Re...		200.00
				ZZ Pressure Testing	Cost of Goods Sold	200.00	
				ZZ Labour Costs	Sales	0.00	
				ZZ Labour Costs	Labour Cost Reco...		100.00
				ZZ Labour Costs	Cost of Goods Sold	100.00	
				Jobs:J1234	Sales	0.00	
				Jobs:J1234	Work in Progress	750.00	
				Jobs:J1234	Cost of Goods Sold		750.00
				GST	Tax Payable	0.00	
						<u>1,500.00</u>	<u>1,500.00</u>
TOTAL						<u>1,500.00</u>	<u>1,500.00</u>

The \$750 cost of the manufactured good has now been transferred from *Cost of Goods Sold* (now \$0 for the transaction) and into *Work in Progress*.

Stadium Construction & Hardware Pty Ltd

Balance Sheet

As of December 15, 2009

	◇ Dec 15, 09 ◇	◇ Dec 14, 09 ◇	◇ \$ Change ◇
ASSETS			
Current Assets			
Other Current Assets			
Inventory Asset ▶	36,239.27 ◀	36,689.27	-450.00
Work in Progress	<u>750.00</u>	<u>0.00</u>	<u>750.00</u>
Total Other Current Assets	<u>36,989.27</u>	<u>36,689.27</u>	<u>300.00</u>
Total Current Assets	<u>36,989.27</u>	<u>36,689.27</u>	<u>300.00</u>
TOTAL ASSETS	<u>36,989.27</u>	<u>36,689.27</u>	<u>300.00</u>
LIABILITIES	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
NET ASSETS	<u>36,989.27</u>	<u>36,689.27</u>	<u>300.00</u>
EQUITY	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>

Stadium Construction & Hardware Pty Ltd

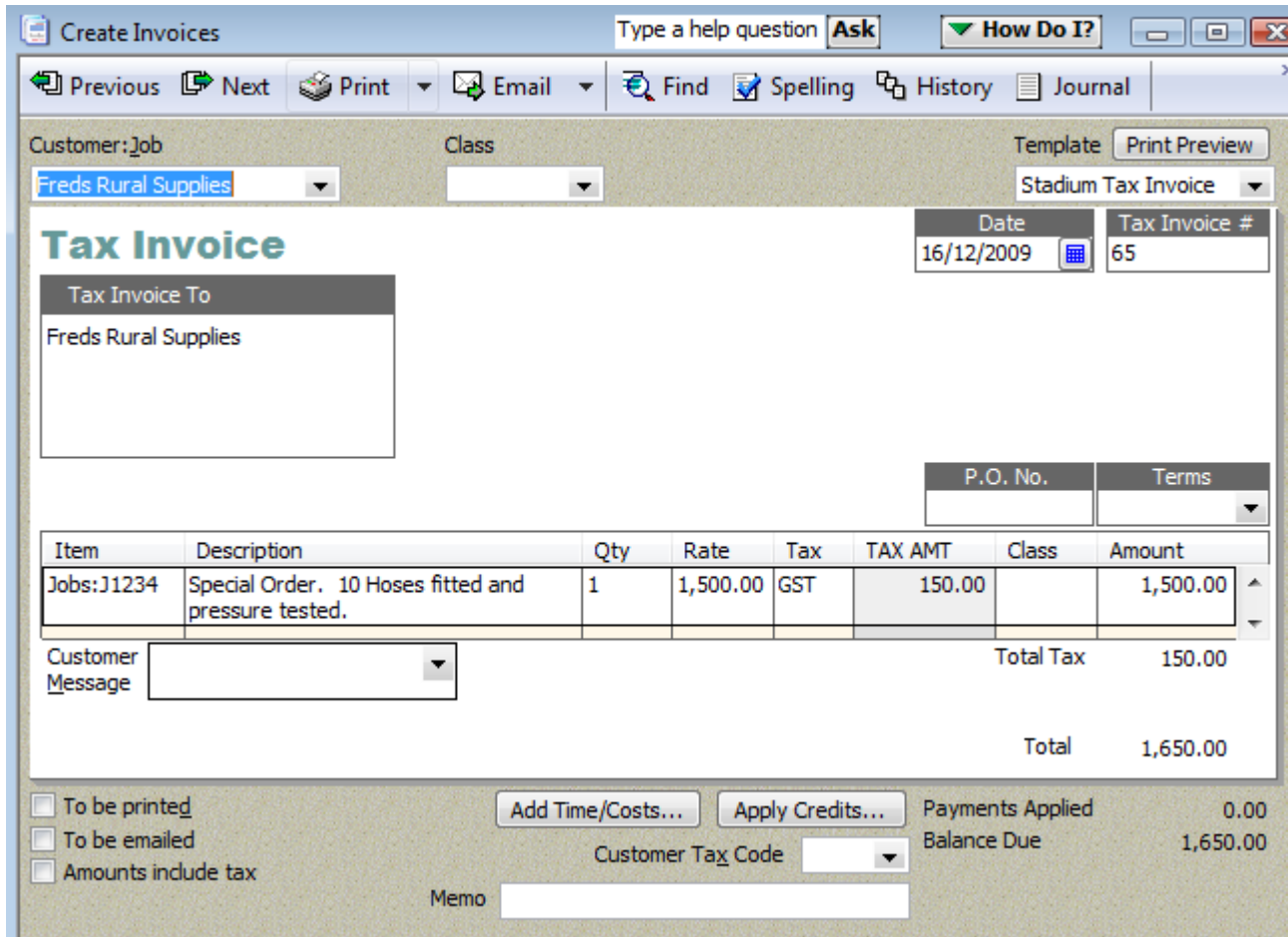
Profit & Loss

December 15, 2009

	◇ Dec 15, 09 ◇
Ordinary Income/Expense	
Income	
Sales ▶	◀ 0.00 ▶
Total Income	0.00
Cost of Goods Sold	
Cost of Goods Sold	<u>0.00</u>
Total COGS	<u>0.00</u>
Gross Profit	0.00
Expense	
Cost Recovery	
Labour Cost Recovery	-100.00
Machinery Cost Recovery	<u>-200.00</u>
Total Cost Recovery	<u>-300.00</u>
Total Expense	<u>-300.00</u>
Net Ordinary Income	<u>300.00</u>
Net Income	<u>300.00</u>

The above reports show the reduction in value of the inventory used in manufacture, then the movement of that value plus the cost recovery value increasing the Work in Progress account.

The item can then be sold like any other item



The journal for this transaction is as follows:

Stadium Construction & Hardware Pty Ltd Transaction Journal

All Transactions

Trans #	Type	Date	Num	Item	Item Description	Account	Debit	Credit
539	Tax Invoice	16/12/2009	65			Accounts Receivable	1,650.00	
				Jobs:J1234	Special Order. 10...	Sales		1,500.00
				Jobs:J1234	Special Order. 10...	Work in Progress		750.00
				Jobs:J1234	Special Order. 10...	Cost of Goods Sold	750.00	
				GST	10% GST	Tax Payable		150.00
							<u>2,400.00</u>	<u>2,400.00</u>
TOTAL							<u>2,400.00</u>	<u>2,400.00</u>

Note that the journal shows the value of the manufactured item being transferred from Work in Progress to Cost of Goods Sold.

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