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The Life of an Inventory Item

2009 is drawing to a close. Do you know how much physical inventory items you have on hand? Whether you keep them in a closet, in an unused office, or a warehouse, you need to keep a close watch on how many products you have, how many have been ordered, and when it's time to reorder. Fortunately, QuickBooks has tools that help you track all of those numbers. If you're conscientious about making use of them, you should have a good sense of the state of your inventory, wherever you store it.

(Note: These tools are not available in Simple Start or QuickBooks Online.)

Inventory 101

Let's take a look at the life of an inventory item. First, you have to tell QuickBooks that you will be selling products. It asks for this information during the EasyStep interview, but if for some reason you didn't set this up, you can still do it. Click "Edit/Preferences" then "Items & Inventory" and then "Company Preferences." Make sure the first line is checked, as well as any others you want active, as seen in **Figure 1**.

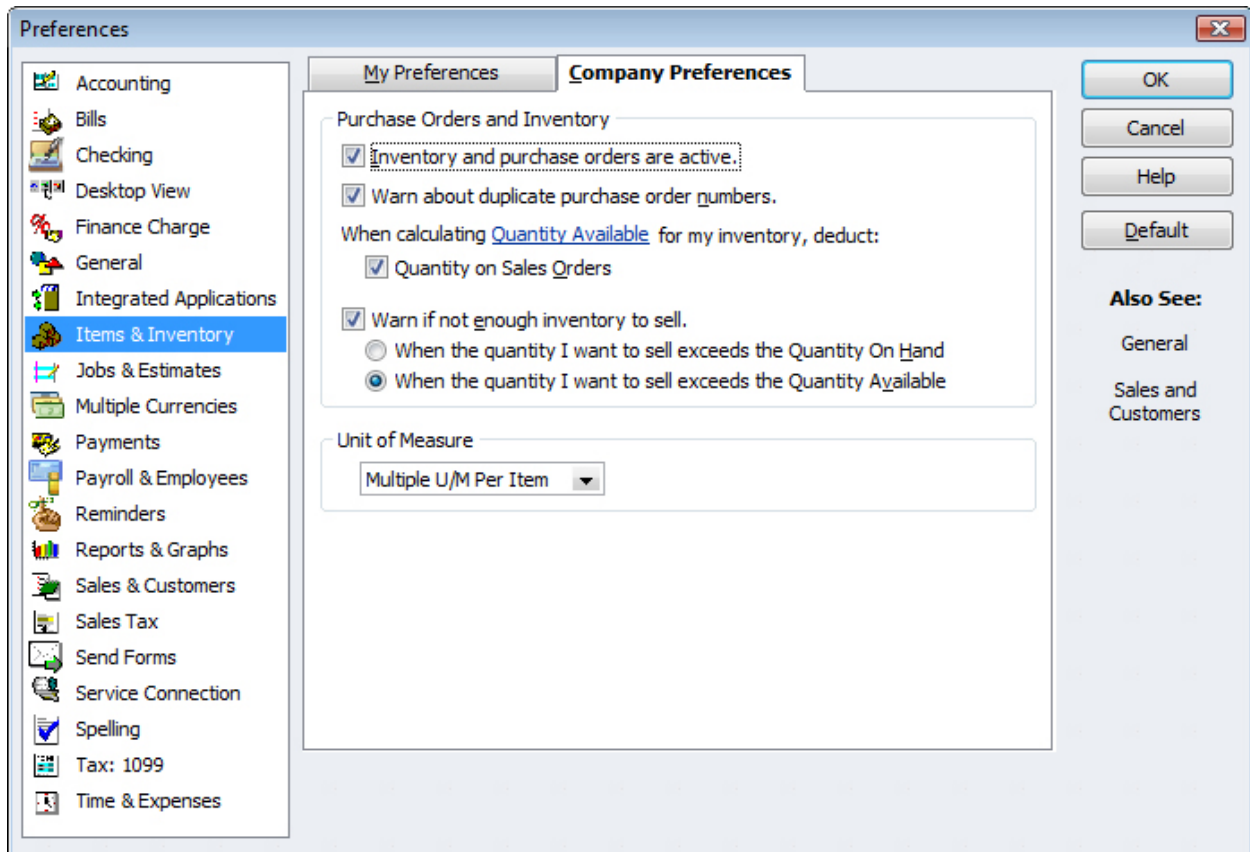


Figure 1: You can have QuickBooks track your inventory by selecting this option in the Preferences window.

Next, check your Chart of Accounts to see if you need to add any accounts to meet your inventory needs. Go to “Lists/Chart of Accounts” or click the icon on the home page. The Chart of Accounts is simply a list of the accounts your company uses. QuickBooks sets up a chart for you based on the type of company you have, but as your business grows, you may need to add more accounts. **Figure 2** shows an example of the Chart of Accounts window.

Name	Type	Balance Total	Attach
10100 - Checking	Bank	46,969.10	
10300 - Savings	Bank	17,910.19	
10400 - Petty Cash	Bank	500.00	
11000 - Accounts Receivable	Accounts Receivable	93,007.93	
12000 - Undeposited Funds	Other Current Asset	2,440.00	
12100 - Inventory Asset	Other Current Asset	30,121.33	
12800 - Employee Advances	Other Current Asset	832.00	
13100 - Pre-paid Insurance	Other Current Asset	4,050.00	
13400 - Retainage Receivable	Other Current Asset	3,703.02	

Figure 2: The Chart of Accounts window.

To add a new account, click on the arrow next to “Account” and click “New.” Select the correct type of account, and answer the questions in the Add New Account window.

See your Inventory in High Definition

Next you’ll have to define your company’s products. Click “Items & Services” on the home page. The Item list opens. Click “Item/New.” You’ll see a screen similar to the one pictured in **Figure 3**, but its fields will be blank. Item records in QuickBooks contain details about each item that can be used in forms (like invoices) and documents (like reports). You can always come back here when you need to edit an item’s details.

The screenshot shows the 'Edit Item' window with the following details:

- Type:** Inventory Part (Use for goods you purchase, track as inventory, and resell.)
- Item Name/Number:** Cabinet Pulls
- Subitem of:** Cabinets (checked)
- Manufacturer's Part Number:** CP-94732-01
- Unit of Measure:** U/M Set: Each to Case/Doz:ea
- Purchase Information:**
 - Description on Purchase Transactions: Cabinet Pulls
 - Cost: 3.00 per ea
 - COGS Account: 50100 · Cost of Goo...
 - Preferred Vendor: Patton Hardware Su...
- Sales Information:**
 - Description on Sales Transactions: Cabinet Pulls
 - Sales Price: 0.00 per ea
 - Tax Code: Tax
 - Income Account: 40100 · Constructio...
- Inventory Information (Quantities in ea):**

Asset Account	Reorder Point	On Hand	Avg. Cost	On P.O.	On Sales Order
12100 · Inventory Asset	15	423	2.55933	0	0

Figure 3: An item record allows you to define your company’s product.

Fill out the information in each item record for each item you sell. You won’t be able to alter the numbers in the lower right corner; these come from other parts of the program. As for the other values, the need to make changes depends on the field. When you defined the item, you entered an “On Hand” amount. This, of course, will change as you sell the item, but you can change the reorder point. Conversely, the “Avg. Cost” (value of your inventory) is calculated by the program; it’s the total cost of items in stock divided by the number of items in stock. “On

P.O.” (purchase order) and “On Sales Order” simply indicate how much of your inventory is promised on purchase orders and sales orders.

(Note: QuickBooks currently only offers Average Cost inventory).

Get Better Organized

QuickBooks lets you create assemblies, groups of items that are sold together as a kit. If you want to create one, click “Lists/Item List” then click the arrow next to “Item” and click “New.” Click the arrow under “Type” and select “Inventory Assembly.” Fill in the blanks on the window as you would for a single item, and select the individual inventory items in the box at the bottom. This box is pictured in **Figure 4**.

Bill of Materials						
Item	Description	Type	Cost	Qty	U/M	Total
Hardware...	Standard ...	Inv Part	15.00	1		15.00
Wood Do...	Interior w...	Inv Part	35.00	1		35.00
Hardware...	standard ...	Inv Part	3.00	3		9.00
Door Frame	standard ...	Inv Part	12.00	1		12.00
Total Bill of Materials Cost:						71.00

Figure 4 An item assembly.

Once you’ve defined your items and assemblies, you can use them in two places primarily: transactions forms and records. Let’s say you’re creating an invoice. As you’re filling out the form, you’ll be able to click the arrow under “ITEM” and view a list of the items you’ve created. Click on one, and the details you’ve entered (like price) will appear. Click “Reports/Inventory” to customize and run the available reports.

Maintaining an adequate inventory is critical to your company’s financial balance. QuickBooks’ tracking tools can help you meet that ongoing goal.

For more information on QuickBooks products, software implementation, and training, please email Certified QuickBooks ProAdvisor Marti Den Uyl at martid@ehtc.com or call 616-575-3482.

You can also find Marti on various social networks:

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