



**QuickBooks
Online Intermediate
Training for
Magnifi Financial
11/14/24**

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QuickBooks Online Foundations

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About Your Trainer

Certified QuickBooks ProAdvisor, Samantha Pierce



Samantha is a certified QuickBooks expert who can guide you through the maze of efficiently running a business. Samantha received her Associate of Arts degree from MSCTC and then went on to NDSU where she graduated with her Bachelor's of Accounting degree. For over 10 years, Sam has worked in accounting departments for companies ranging in size from small to large. For the last two years, Sam has taught a QuickBooks Online class and Fundamentals of Accounting Principles class at NDSCS.

The Multi Business Solutions team will help you master QuickBooks and ensure your financial information is accurate and timely; better yet they will arm you with critical knowledge of how to use the data to improve company performance.

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QuickBooks® Online Foundations

Important Information About the Structure of this Training.

Today's course is intended as the foundation for using QuickBooks® as a bookkeeping, business management and cash flow building tool. The material provides a critical basis for establishing bookkeeping best practices and ensuring accurate financial information.

Please ask questions throughout the presentation.

Your Instructor is also available for one-on-one consultations.

In addition to what you will learn today these manuals are for use as a
post-class reference guide.

(The Craig's Landscaping test drive company resets itself when you log out. Occasionally you may encounter a screen shot that looks different than what is posted in the manual. Our materials are updated throughout the year, however with technology advances, prompting updates, you may encounter an update that is not yet reflected in this manual.)

***We are happy you are here today and look forward
to helping you master QuickBooks!***

QuickBooks® Online Foundations

The most important reason to advance our knowledge of QuickBooks® Online and basic bookkeeping principles, whether you are a business owner or employee, is to gain an understanding of how to use our data to improve business performance.

While we identify specific learning objectives at the beginning of each section, 4 Overall Objectives include:

1. Introduction to basic features in QuickBooks Online and how they apply to best practice bookkeeping and accounting principles.
2. How to effectively and efficiently use QuickBooks Online to manage daily tasks and develop an understanding of how the data is entered, processed and reviewed.
3. How to customize QuickBooks Online to meet the specific needs of a business.

The Importance of QuickBooks® Online and Managing Cash Flow:

Business owners typically identify cash flow as their number one area of concern. QuickBooks Accounting Software, when utilized correctly, allows users to run cash flow projections and develop a cash flow management strategy to prevent shortfalls. This training will help participants develop a strong knowledge base of how to use QuickBooks reports to manage a business and build cash flow.

The foundation of business success is in the daily use of accurate, real-time financial data. *What we measure, we manage; what we manage, we improve.*

The Power of QuickBooks® Online

It is important to focus on the areas of our business that contribute most to profitability. QuickBooks helps us quickly identify areas of focus if we know where to look.

The 80/20 rule, the Pareto Principle, is a powerful concept that consistently rings true.

In most cases, 20% of our customers generate 80% of our net profit. At the same time, 20% of the goods or services we sell contribute 80% of our revenue, etc. You get the idea.



The most important aspect of accurate financial data is the action plan it creates.

By generating daily reports that uncover the best customers, jobs, services, or products, you will soon see how you can refocus internal efforts on doing highly valuable work.

Accurate real-time data with one click access to reports, is an enormous benefit of using QuickBooks® Online the “right-way”.

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Online Foundations Training

SECTION 1

ACCOUNTS RECEIVABLE

Goals
Credit Memos
Apply Credits
Refund Receipts
Sales and A/R Reports
Statements
Doable Action Steps

Section 1 Goals

Upon completion of Section 1 each participant will be familiar with:

- Recurring Transactions
- Creating and applying credit memos
- How to view and save sales and accounts receivable -related reports.

Recurring Transactions

Recurring transactions are memorized transactions that recur daily, weekly, monthly, etc. Use this feature to record repetitive transactions such as bills, checks, auto-debits, invoices, and credit memos. When properly maintained, the use of recurring transactions can save considerable time and effort. Work-flow efficiencies translate into higher profit margins.

Note: It is important to understand the different types of recurring transactions and the following recurring transaction options:

Scheduled – Automatically records the transactions.

Reminder – Appears on your dashboard and when selected, will take you to the reminder list to edit or enter the transaction.

Unscheduled – Appears on the recurring transaction list to use at any time, however, does not record the transaction.

1. Click the **gear icon** -> **Recurring Transactions** under **lists**.
2. In the **Recurring Transactions** window, you can filter by **Name**, **Template Type**, or **Transaction Type**. You can also filter by location if the feature is turned on.
3. Use the **Reminder List** to create or skip memorized transactions. Use the drop-down arrow to **Run a Report**.
4. Click **edit** from the **action** column to change default information for a recurring bill.
5. Click the drop-down arrow in the **action** column to select, **duplicate**, **resume** or **delete** a recurring transaction.
6. Click the **gear icon** to change the number of **rows** displayed.

Recurring Transactions

< All Lists

Reminder List

New

Filter by Name

Filter All

TEMPLATE NAME	TYPE	TXN TYPE	INTERVAL	PREVIOUS DATE	NEXT DATE	CUSTOMER/VEN	AMOUNT	ACTION
Telephone Bill	Scheduled	Bill	Every Month		01/05/2023	Cal Telephone	74.36	Edit
Monthly Buil...	Scheduled	Bill	Every Month		01/05/2023	Hall Properties	900.00	Edit

Previous 1-2 Next

Recurring Transactions

- Click **new** and select the **Transaction Type** to create a **Recurring Transaction**. Enter all details. It is important to maintain your recurring transaction list.
- Click **Save template**.

✕

Select Transaction Type

Select the type of template to create

Transaction Type

Transfer ▾

Cancel
OK

Transfer
? Help ✕

Recurring Transfer

Template name
 Type Scheduled ▾
 Create days in advance

Interval: Monthly ▾ on day ▾ Last ▾ of every month(s)
 Start date
 End None ▾

Transfer Funds From <input style="width: 100%;" type="text" value="Checking"/> ▾	Balance \$1,201.00
Transfer Funds To <input style="width: 100%;" type="text" value="Savings"/> ▾	Balance \$800.00

Transfer Amount

Memo

Attachments Maximum size: 20MB

Cancel
Clear
Save template

Apply Credits

Applying existing credits to open invoices can be accomplished by receiving a zero payment and selecting both the invoice and credit.

Another method is:

1. Click **Account and Settings** -> **Advanced Settings** -> **Automation** -> **Automatically Apply Credits**.

This method will automatically apply credits to the oldest open invoice.

2. Click the **+New icon** -> **Receive Payment**.

3. Enter the following Information:

Customer and **date**. Check off both the invoice and credit memo and verify that the total payment received is zero.

Receive Payment ? Help

Customer: Amy's Bird Sanctuary **AMOUNT RECEIVED**
\$239.00

Payment date: 01/16/2023

Payment method: Choose payment method Reference no.: Deposit to: Undeposited Funds Amount received: 239.00

Outstanding Transactions

All ⚙️

<input checked="" type="checkbox"/>	DESCRIPTION	DUE DATE	ORIGINAL AMOUNT	OPEN BALANCE	PAYMENT
<input checked="" type="checkbox"/>	Invoice # 1021 (11/29/2022)	12/29/2022	459.00	239.00	<input type="text" value="239.00"/>

< First Previous 1-1 of 1 Next Last >

Note: Verify the customer balance is correct and review an Open Invoice report to confirm there are no errors, outstanding invoices, or credit memos.

Refund Receipts

There may be a time when you need to refund a customer. Using **Refund Receipt** is the best method to issue a refund.

1. Click the **+ New icon** -> **Refund Receipt**.

2. Enter the following information:

Customer , **date** , **payment method** , **refund from** , **product/service** , etc.

3. Once you choose the bank account you can check the **Print Later** or **Print** or **Preview** link at the bottom of the screen. Click **Save and Close** or **Save and Send**.

Refund Receipt #1020 ? Help

Customer: Pye's Cakes | Email: pyescakes@intuit.com | Co/Bcc: AMOUNT \$87.50

Billing address: Karen Pye, Pye's Cakes, 350 Mountain View Dr., South Orange, NJ 07079

Refund Receipt date: 12/19/2022

Tags: Manage tags

Payment method: Check | Refund From: Checking | Balance: \$381.01 | Check no.: Print later

#	PRODUCT/SERVICE	DESCRIPTION	QTY	RATE	AMOUNT	TAX
1	Pest Control:Pest Control	Refund - Pest control was ineffective	2.5	35	87.50	
2						

Subtotal: \$87.50

Message displayed on refund receipt: Thank you for your business and have a great day!

Message displayed on statement:

Discount percent: | Taxable subtotal: \$0.00

Need help with sales tax? [Learn more](#)

Select a sales tax rate: | Total: \$87.50

Total Amount Refunded: \$87.50

Product and Services

Products and services are required on sales forms, bills, checks, and expenses to track sales and costs per item.

- **Inventory items** –Products we purchase, store on a shelf, and sell later. This type of item is tracked as an inventory asset on your Balance Sheet. When we sell an inventory item, the asset is reduced, and the sale and cost of the item is recorded on the profit and loss as income and cost of goods sold.
- **Non -inventory items** –Products we do not stock but buy and sell to customers. We can track how many we have sold without tracking quantity on hand. The sale is recorded as Income and the purchase is recorded as cost of goods sold on the profit & loss.
- **Service items** –Services you provide customers such as installation fees (fountains, etc.) and landscape design. This type of item also allows us to see how much we have sold per item.
- **Bundle Items** –A group of multiple existing items. A bundle will populate on sales forms when we use them. This works great when you have recurring invoices with multiple items that are the same each month.

Note: If you are using a shopping cart or other third -party platform to track sales, you will need to map the application to QBO if you want to sync the information.

Products and Services List

Products and Services

It is time to set up a list of products and services if you are using invoices and sales receipts to charge customers, generate sales reports and track top selling items.

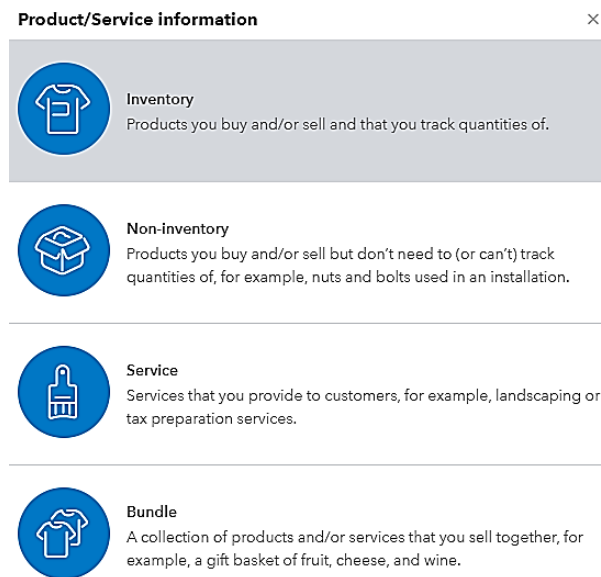
1. Click the **gear icon** -> **products and services**.

If the following window appears, click **add an item**.

If not, continue forward to the next slides.

2. Select a type to add or click the **X** to return to the products and services list

window. We will utilize **Inventory**, **Non -inventory**, **Service** , and **Bundle items** .



Note: You are not required to use the products and services list. However, if you intend to invoice customers, track sales and populate sales reports you will need to create and maintain a products and services list. Products and services allow you to use standardized descriptions across all customer sales forms.

Products and Services List

Products and Services

It is time to set up a list of products and services you currently offer customers. As you add items to your list, you can use the following features to manage your products and services. This will help ensure accuracy between the list and the chart of accounts.

1. Click the **gear** icon.
2. Click **Products and Services** .

Products and Services
[All Lists](#)

More ▾ New ▾

Manage categories
Run report

LOW STOCK OUT OF STOCK

Find products and services

Previous 1-18 Next

<input type="checkbox"/>	NAME ▲	SKU	TYPE	SALES DES	SALES PRIC	COST	TAXABLE	QTY ON H/	REORDER	ACTION
<input type="checkbox"/>	Design		Service	Custo...	75					Edit ▾

Columns

- Income account
- Expense account
- Inventory account
- Purchase description
- Qty on PO
- SKU
- Type

[Show More](#)

Rows

150 ▾

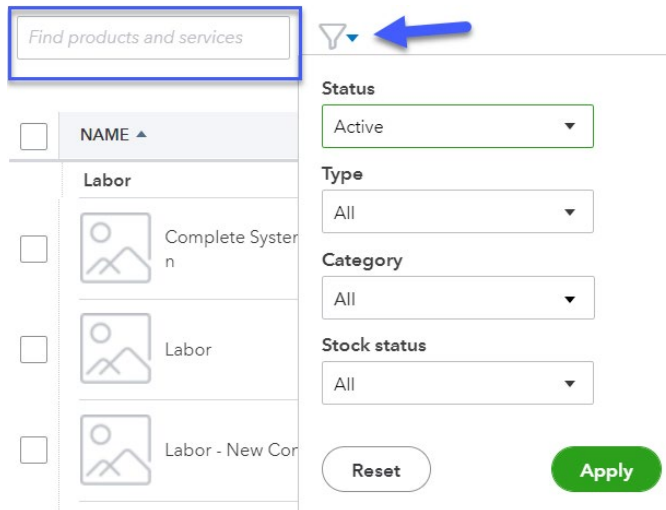
- Compact
- Group by category

3. Click the **small gear** to add or remove columns you wish to display in your products and services list. This will provide information at the time of need.
4. You can **print** or **export** your list.

Products and Services List

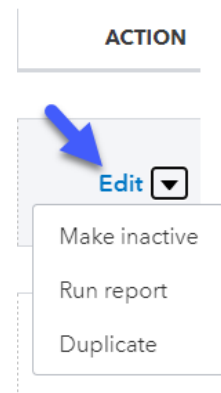
Search Products and Services

Use the search and filter features to find specific items. You can filter by **Status** (Active , Inactive , or All), as well as by **Type** and **Category** .



Edit Products and Services

1. Click **Edit** to change information for a product or service.
2. Click the down arrow to duplicate, inactivate, or run a report for a service item.

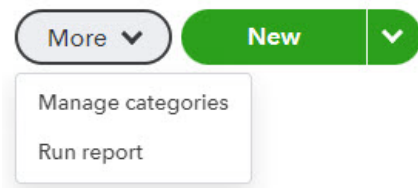


Run Reports

Group products/services by **Category** .

The **product and services** list displays information for each product or service.

1. Click the **gear** icon to add and remove columns from the list.



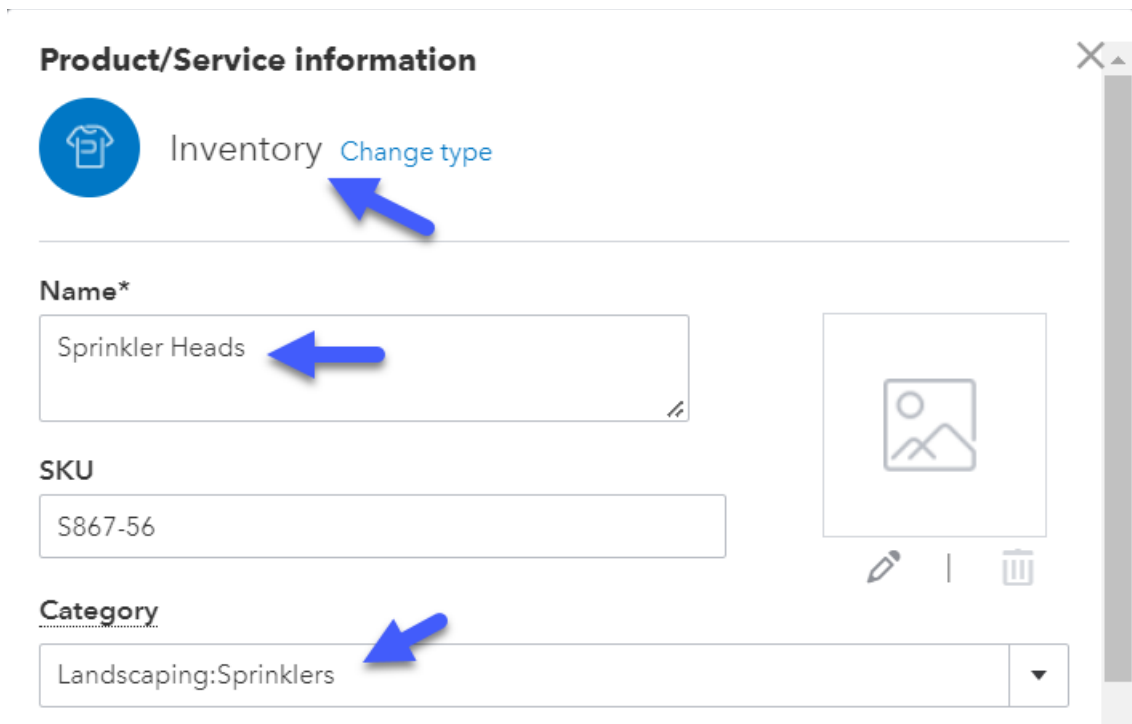
Products and Services Types

Inventory Item

Inventory items are products we purchase, store on a shelf, and sell later. Enter the **Name** of the **Inventory** item, **SKU** number if applicable, **upload a photo** of the product, and organize products by **Category**.

1. Click the **gear icon** -> **select Inventory** .

Note: The name and category fields are filled in. Categories help us group products and services. If you are using classes, you can add a default class to an item.



Note: Non-Inventory items and services and bundles can be reclassified as an inventory item if you decide to stock it in inventory at some point. Once you change the type to an Inventory item, you cannot change it again.

Products and Services Types

When you create an inventory item, the quantity and starting value will be zero. It is important to set the starting value date prior to the date you will use when entering transactions related to this item. The re-order point alerts us when we are getting low as we sell those items. The inventory asset default account tracks current inventory value on our Balance Sheet. The description will auto populate on sales receipts and invoices. It is important to set a default sales price and income account. This helps us track a value for income on the profit & loss. This information is also tracked with inventory and sales reports.

Initial quantity on hand*	25
As of date* What's the as of date?	01/11/2023
Reorder point What's the reorder point?	10

Inventory asset account

Inventory Asset

Description

Sprinkler Heads

Sales price/rate

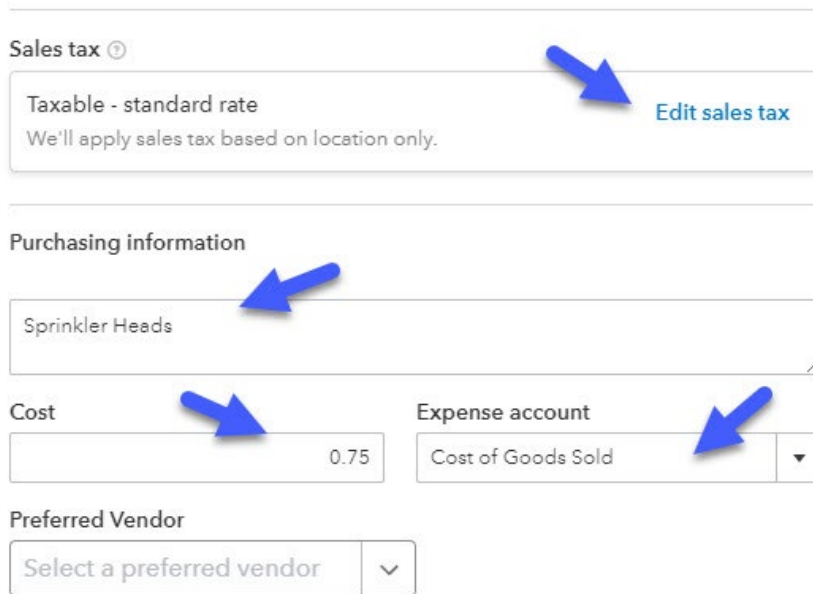
Income account

Sales of Product Income

Note: For each product and service, you need to enter an income account in order to record the sale properly. Products allow you to set reorder points to track low quantities.

Products and Services Types

The last section of an inventory item setup is to enter purchase information. Products we sell are often considered taxable and we are required to collect the tax on behalf of the state. It is important to select the taxable option to track this information. The purchase information will auto-populate on purchase orders, bills, checks and expenses. The cost and expense accounts will track and post information to the profit and loss. We will discuss sales tax, purchasing and inventory later in this training.



The screenshot shows the 'Sales tax' section with a dropdown menu set to 'Taxable - standard rate' and an 'Edit sales tax' link. Below is the 'Purchasing information' section with a text field containing 'Sprinkler Heads', a 'Cost' field with the value '0.75', an 'Expense account' dropdown menu set to 'Cost of Goods Sold', and a 'Preferred Vendor' dropdown menu set to 'Select a preferred vendor'. Blue arrows point to the 'Edit sales tax' link, the 'Sprinkler Heads' text field, the 'Cost' field, the 'Expense account' dropdown, and the 'Preferred Vendor' dropdown.

Note: What you need to know about inventory items: inventory is anything you buy, sell, and track quantity on hand. Inventory is available with QuickBooks Plus and Advanced. When you setup an inventory item, you must specify the quantity on hand as the starting point (even if it is zero). You can adjust the quantity on hand. Use the Open Purchase Order Detail Report to see the inventory items that have been ordered and are waiting to be received.

Sub-Customers

Sub-Customers

Sub-customers are used to track information for multiple jobs for a specific customer. An example includes multiple jobs for multiple locations for the same customer.

Add a new customer and check the box, **is a sub-customer** -> select the **parent customer**.

(Sub-customers can be used for different billing addresses but avoid using sub - customers as projects. Projects do not show in the customer list.)

Sub-customers works best for multiple jobs under one customer.

Customer >

Freeman Sporting Goods	0969 Ocean View Road v
Email Sporting_goods@intuit.com	Phone number (415) 555-9933
Mobile number (973) 555-8849	Fax (520) 555-7894
Other	Website http://sportinggoods.intuit.com
Name to print on checks Freeman Sporting Goods	
<input checked="" type="checkbox"/> Is a sub-customer ←	
Parent customer Freeman Sporting Goods v ←	
<input type="checkbox"/> Bill parent customer ? ←	

Select **Bill parent customer** to invoice the **parent customer** and receive payments across multiple sub -customer invoices.

Sub-Customers

Here is an example of a customer with sub-customers. It is important to select the sub-customer when creating transactions.

<input type="checkbox"/>	Freeman Sporting Goods  Freeman Sporting Goods	(650) 555-0987	\$562.50	Receive payment ▼
<input type="checkbox"/>	0969 Ocean View Road  Freeman Sporting Goods	(415) 555-9933	\$477.50	Receive payment ▼
<input type="checkbox"/>	55 Twin Lane  Freeman Sporting Goods	(650) 555-0987	\$85.00	Receive payment ▼

Sub-Customer Reports:

Estimates by Customer –Displays estimates and status per customer and sub -customer.

Income by Customer Summary –Horizontal view of income, expenses, and net income per customer and sub -customer.

Profit and Loss by Customer –Identifies income and expenses by customer and sub-customer.

Customer Balance Summary –Totals view of open balances by customer and sub-customer.

Projects

Set up and use projects when tracking income, material costs, and labor expenses. (Assigning income and costs to a project is a more efficient way to determine profitability.)

Adding labor costs with or without QuickBooks Online Payroll will help identify non-productive time that impacts our bottom line.)

1. First! Turn on **projects** in **accounts and settings**.
2. Click **Projects** -> **See how it works (to watch the video)** -> **Start a project**.

Note: There are several links to tips & resources that become available when you start a project.

Run your projects with confidence

Make better decisions by knowing how your jobs are doing

[See how it works](#)

- Profitability in one place**
Organize your project finances with a clear view of profits
- Keep track of your labor costs**
See where your team is spending time and how it affects your profit margins
- Eliminate the guesswork**
Understand which projects make money and where you should focus your efforts

[Start a project](#)

TIPS & RESOURCES

[Get your project labor costs in real time](#)
[Track income cost and profitability by project](#)
[What are pay rates, cost rates & billable rates](#)
[See more](#)

3. Create a New **project** name (different than the customer's name), select the appropriate customer from the customer list, add any notes regarding the project.

New project ✕

Project name *

San Pablo Express

Customer *

Bill's Windsurf Shop ▼

Start date End date

MM/DD/YYYY 📅 border: 1px solid #ccc; padding: 2px;">MM/DD/YYYY 📅

Project Status

In progress ▼

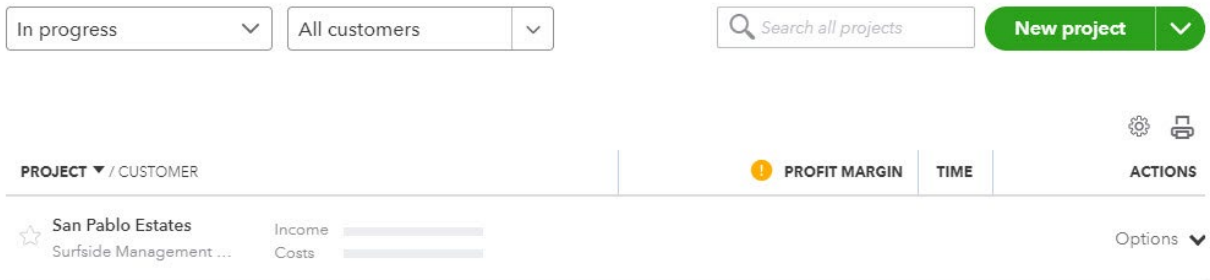
Notes

Add details you want to remember

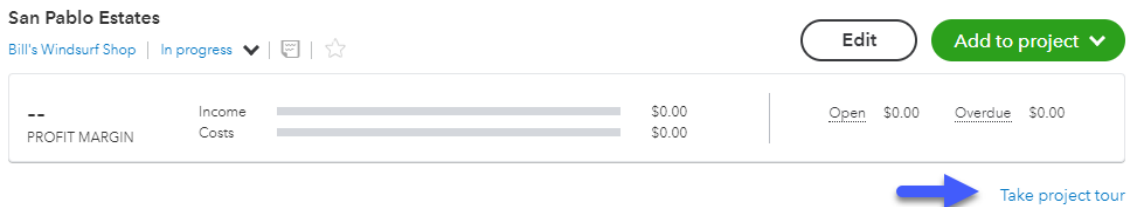
Projects

From the **projects** window you can filter progress per customer or for all customers, search or add a new project, or change the status of a current project. You can edit or delete projects as needed.

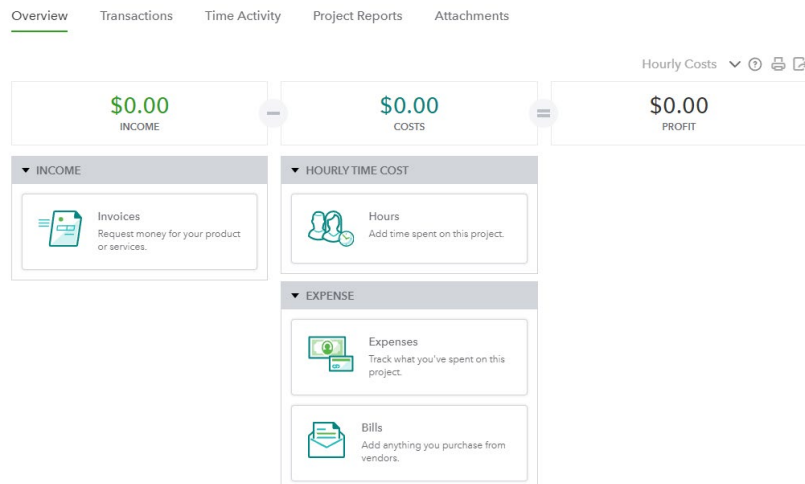
1. Click the **small gear** icon to manage how columns are displayed.



2. Click **Take a project tour.**
3. Click on the **New project.**




Overview –View your project’s performance from start to finish. Track income and costs, including labor.



Projects


Transactions – Follow the money to see your project organized by income and costs to make sure you stay profitable. Use the **Filter** feature to view information by transaction type or date. You can print, export or add/remove display columns.

Overview Transactions Time Activity Project Reports Attachments


Filter ▾ Last 365 Days 

DATE ▾	TYPE	NO.	DUE DATE	BALANCE	TOTAL	STATUS	ACTION
--------	------	-----	----------	---------	-------	--------	--------

See where you're making money




Estimates
Send a proposal and get customer's approval.




Invoices
Request money for your product or services.

See where you're spending money



Expenses
Track what you've spent on this project.



Bills
Add anything you purchase from vendors.

Time Activity – You can add your team's time, know what they worked on and how it affected the project costs. This pulls from timesheets, not actual payroll. You can track billable time and convert the time activity into customer invoices.

View by: ▾ then Group by: ▾

DATE	EMPLOYEE/VENDOR	SERVICE	TOTAL TIME	TOTAL COST	BILLABLE TIME
------	-----------------	---------	------------	------------	---------------



Your time is valuable

Understand how you spend your time and what it cost on a project.

[Track time](#)

↖

Projects

Project Reports - Provides multiple views of your project. Drill down to access details on what has been spent, how much has been invoiced, etc.

Project profitability - Provides information on all costs except time tracked.

Time cost by employee or vendor - Provides information on time tracked per project based on the hourly cost rate entered for each employee or vendor.

Unbilled time and expenses - Tracks costs you will bill customers later.

Overview Transactions Time Activity Project Reports Attachments



Project profitability

How much you're making or losing on this project.

[View](#)



Time cost by employee or vendor

See employee or vendor time costs on this project.

[View](#)



Unbilled time and expenses

Find expenses and time you haven't added to an invoice.

[View](#)

Attachments – Upload or drag & drop supporting documents specifically for your project.

Overview Transactions Time Activity Project Reports Attachments

Drop documents here or select files from computer to upload



Upload

Projects

1. Click **projects** from the left navigation bar.
2. Enter your hourly cost rate.

Hourly cost rate – Pay rate + overhead + employer taxes + any additional expenses

Billable rate – Amount you charge customers for products and services. The billable rate represents potential income. $\text{Sales (income)} - \text{cost rates (expenses)} = \text{profit from a sale or project.}$


You can add a percentage to an employee's current hourly rate. First determine all categories you will include in your cost rate.



Hourly cost rates ×

We'll get your employee rates from your payroll. You can add overhead, and workers' compensation to the total hourly internal cost. This total won't affect your payroll.

To view the total cost of each employee per project, view the Time Cost Report under Project Reports.

EMPLOYEE	COST RATE	
Amy Kerman	<input type="text"/>	 Cancel Save
Boris Fedorov	Add	
Emily Platt	Add	
John Johnson	Add	
Jon Fasoli	Add	
Jordan Small	Add	
Kristina Gibson	Add	
Sarah Varki	Add	

Sales and (A/R) Reports

Accounts Receivable Reports

Let's look at reports related to accounts receivable.

1. Click **reports** in the **left navigation bar menu** -> **standard**.
2. Scroll to **Who owes you** -> select **Accounts receivable aging detail**.

Recommended Reports are as follows:

- **Accounts Receivable Aging Summary** informs us of the outstanding total balances for our customers.
- **Accounts Receivable Aging Detail** provides us with a more in -depth view of the outstanding balances for our customers and whether they are current or past due. Remember, the number of days it takes to collect a payment has a direct effect on cash flow. The older the invoices become, the more costly the collection process becomes.
- The **Open Invoice** report provides open invoice detail for each customer. This is a great tool to help clean up your accounts receivable.

Sales and (A/R) Reports

Next, we will locate and save a few sales reports as favorites. The Sales by Customer Summary Report helps us identify our top customers.

Sales Reports

Let's look at reports related to sales.

1. Click **reports** in the **left navigation bar** -> **standard** .
2. Scroll to **sales and customers section** -> **sales by customer summary** .
 - **Sales by Customer Summary:** Identifies the top 20% of our customers that bring in 80% of our revenue.
 - **Sales by Product/Service Summary** provides a historical glimpse of the best-selling products and services for a specific date range. This report includes quantity, amount, % of sales and avg. price, cost of goods sold (COGS), and gross margin.

Note: Customize these reports by changing the sort option to **Total in descending order** .

Statements

Statements are typically sent to customers with outstanding invoices. This process should be part of your accounts receivable and collections policy. There are two ways to populate statements. The first option is as follows:

1. Click the **+New icon** .
2. Click **statement** from the “Other” list.

This is a basic statement that will populate for all customers.

- A **Balance Forward Statement** shows all activity between your start and end dates, plus the balance from the prior period.
- An **Open Item Statement** shows only items for the last 365 days that have not yet been paid.
- A **Transaction Statement** shows each transaction and the total amount billed and received for the period, instead of a running balance. This option is especially useful for Year -End Contribution Statements that nonprofits send out.

Use the **Statement Management** section to select customers, edit the delivery method, and preview statements before they are sent.

Statements

In the following screens:

1. Select **Statement Type** and **Statement Date**.
2. Select **Customer Balance Status**.
3. Set **Start** and **End Dates**.
4. Next, select the **Recipients** you would like to send statements to. You can change email addresses on the fly.

Create Statements ?

Statement Type: Balance Forward

Statement Date: 01/12/2023

Customer Balance Status: Open

Start Date: 12/12/2022 End Date: 01/12/2023

TOTAL BALANCE FOR 17 CUSTOMERS: **\$5,281.52**

Look here to see the total balance and number of statements that meet the criteria you selected.

▶ Recipients List

Missing email address (0) Statements available (17)

<input checked="" type="checkbox"/>	RECIPIENTS	EMAIL ADDRESS	BALANCE
<input checked="" type="checkbox"/>	Amy's Bird Sanctuary	Birds@Intuit.com	\$239.00
<input checked="" type="checkbox"/>	Bill's Windsurf Shop	Surf@Intuit.com	\$85.00
<input checked="" type="checkbox"/>	Freeman Sporting Goods:0969 Ocean View Road	Sporting_goods@intuit.com	\$477.50

The second option for populating statements is more specific to customers with outstanding balances.

1. Click **Invoicing** -> **Customers**.
2. Select the **Customers** you want to receive a statement.
3. Click **Batch actions** -> **Create Statements**.

Section 1 Action Steps

If you do not need to use the accounts receivable features, skip this section.

Otherwise follow the steps.

1. Review video links:

[How to Send Estimates, Quotes, & Proposals \(2:16\)](#)

[How to Convert an Estimate Into an Invoice \(2:06\)](#)

[How to Track What Customers Owe You: Accounts Receivables & More \(2:37\)](#)

[How to Record Customer Credit: Credit Memos & Balances \(2:45\)](#)

[How to Refund Customers: Refund Receipts \(3:22\)](#)

[Track What You've Sold: Products & Services \(1:47\)](#)

2. Review and save the following reports:

- Accounts Receivable Aging Summary
- Accounts Receivable Aging Detail
- Open Invoices
- Sales by Customer Summary
- Sales by Product/Service Summary



Online Foundations Training

SECTION 2

ACCOUNTS PAYABLE

Goals
Vendor Credits
Apply Vendor Credits
A/P Reports
Doable Action Steps

Section 2 Goals

Upon completion of Section 2 each participant will be familiar with:

- Create and apply vendor credits.
- How to view and save accounts payable -related reports.

Vendor Credits

On occasion, you will receive a credit from a vendor for returned merchandise or due to an error in billing.

1. Click the **+New icon** -> **Vendor Credit**.

2. Enter the following information:

Select a **vendor** , **payment date** , **ref no.** , **account** , **amount** , **billable** , **tax** , and **customer or job** .

3. Enter the expense in the **Account** field or click the **Item Details** if you are tracking inventory products.

4. Click **Save and Close**.

Vendor Credit ⚙️ ? Help

Vendor: CREDIT AMOUNT
\$23.76

Mailing address: Payment date: Ref no.:

Tags: Manage tags

▼ **Category details**

#	CATEGORY	DESCRIPTION	AMOUNT	BILLABLE	TAX	CUSTOMER
1	Utilities		23.76			
2						

► **Item details** Total **\$23.76**

Apply Vendor Credits

Tracking and applying vendor credits has a positive impact on cash flow.

1. Click the **+ New icon** -> Click **Pay Bills** -> Select the **Payment account** and **Payment date**.
2. Select the **vendor** you wish to pay, and the credit will appear in the **credit applied** column.
You can pay the balance or adjust the amount in the Payment column.

Vendor Credits are automatically applied to the oldest bill when the setting is turned on.

We have turned off the automatically apply credits feature for this training.

Pay Bills ? Help

Payment account: Mastercard Balance \$157.72 Payment date: 01/16/2023 TOTAL PAYMENT AMOUNT **\$62.68**

Filter > Last 365 Days 5 open bills, 4 overdue

<input type="checkbox"/>	PAYEE	REF NO.	DUE DATE ▲	OPEN BALANCE	CREDIT APPLIED	PAYMENT	TOTAL AMOUNT
<input checked="" type="checkbox"/>	PG&E		12/06/2022 !	\$86.44	23.76	62.68	\$86.44
<input type="checkbox"/>	Norton Lumber and ...		12/21/2022 !	\$205.00	Not available		\$0.00
<input type="checkbox"/>	Robertson & Associates		12/21/2022 !	\$315.00	Not available		\$0.00
<input type="checkbox"/>	Brosnahan Insurance ...		12/24/2022 !	\$241.23	Not available		\$0.00
<input type="checkbox"/>	Diego's Road Warri...		01/18/2023	\$755.00	Not available		\$0.00
				\$86.44	\$23.76	\$62.68	\$86.44

1 bill selected Total payment (USD) 62.68 < First Previous 1-5 of 5 Next Last >

Current account balance \$157.72
Total payment \$62.68

Receipt Management

Receipts

Receipt Capture in QuickBooks Online allows users to directly upload receipts to the QuickBooks Online Banking Center where QuickBooks will read the receipt and either match it to an existing transaction or allow users to add a new transaction.

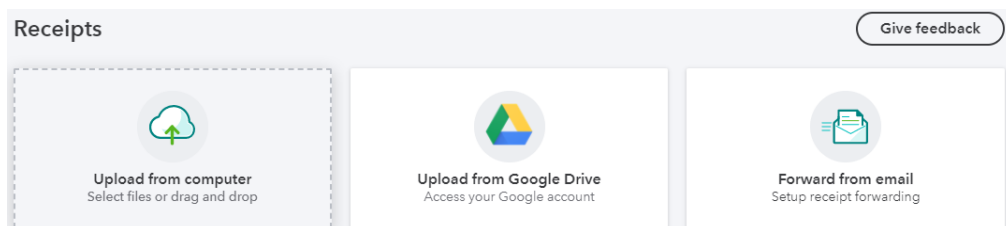
Click the **Receipts** tab.



Drag and drop receipts directly into QuickBooks Online, or select **Browse** to upload them. Ensure that each image or file contains only a single receipt.

Upload from Google Drive or Forward from email

Click **Set up receive forwarding** or **Customize email** button to create an Intuit custom email to forward receipts and bills.



Receipt Management

Mobile App

To scan a receipt, install the "QuickBooks Accounting: Invoicing and Expenses" app on your phone. Then, open the app and tap the menu button. Select the Receipt Camera and snap a photo of your receipt. Once you do, it will automatically appear in the Receipts tab with any other receipts you have added.

SNAP ON MOBILE



Take a picture of your receipt with the QuickBooks mobile app and review it here.

Click the "For review" tab to manage receipts or bills. Use the **Batch actions** menu to select multiple documents to **Confirm**, **Review** or **Delete** attachments.

For review
Reviewed

Batch actions

- Confirm selected
- Review selected
- Delete selected

TRANSACTION DATE	DESCRIPTION / VENDOR	PAYMENT ACCOUNT	TOTAL AMOUNT / TAX	CATEGORY OR MATCH	ACTION
Add a new receipt to get started We'll pull out the info so you can review it and add it to your books.					

Note: You can send multiple receipts in one email, however if you send too many, the file size may exceed your email provider's limits.

Accounts Payable (A/P) Reports

There are several reports to support accounts payable. Let's explore the options and then determine which reports are best for your company.

1. Click **reports** in the **left navigation bar** .
2. Click **standard** .
3. Scroll to **What you owe** .

Accounts Payable Aging Summary –provides a summary view of balances we owe vendors or suppliers.

Accounts Payable Aging Detail –provides a detailed view of outstanding bills we owe vendors or suppliers.

Unpaid Bills –used to verify outstanding bills by vendor and helps bookkeepers clean up incorrect transactions.

Expenses by Vendor Summary –provides a total per vendor for a date range.

Section 2 Action Steps

If you do not need this feature skip this section. Otherwise follow the steps.

1. Review video links:

[How to Manage Your Vendor List: Adding, Editing & Removing \(:39\)](#)

[How to Record Spending: Transactions, Bills & Payments \(1:46\)](#)

[How to manage bills with QuickBooks Online \(3:38\)](#)

[How to Setup a Contractor \(2:23\)](#)

2. Provide service vendors a W -9 and enter 1099 tracking information.

a. Navigate to the Vendor Center and edit the vendor.

b. Add Business ID -> Select Track payments for 1099 .

3. Determine if you will use the bill pay app or manually enter and pay bills.



Online Foundations Training

SECTION 3

PAYROLL

Goals
Payroll Setup
Run Payroll
Payroll Taxes
Payroll Tax Forms
Payroll Reports
Workers' Compensation
Wage Garnishments
QuickBooks Payroll
Time Tracking
Doable Action Steps

Section 3 Goals

Upon completion of Section 3 each participant will be familiar with:

- Overview of payroll.
- How to setup payroll.
- How to run payroll.
- How to manage payroll taxes.
- How to process payroll forms.
- How to create and review payroll reports.

More on Payroll

It is important to run the numbers on the **true cost** of your employees. Once you have taken into consideration basic salary, taxes and benefits, the cost is typically 1.25 to 1.4 (or higher depending on benefits) times base salary range. In other words, an employee earning \$30,000 will cost you somewhere between \$37,500 and \$42,000.

How business owners determine the status of an individual (employee vs. contractor) depends on the nature of the services they provide.

There are three tests that can be used to determine status of employment.

- **Control Test** –The employer has the right to tell the employee what to do.
- **Integration Test** –The work done is an integral part of the business.
- **Multiple Test** –The individual must wear the company’s uniform and be available for work when needed.

Visit [irs.gov](https://www.irs.gov) for more information and requirements for employing individuals.

Once a business owner hires employees, it is important to create an employee handbook, complete the employee/payroll setup process and follow best practice procedures. Many owners struggle with this process as it is one of the highest expenses in a business.

Cash flow is critical in order to avoid late payroll tax payments, unnecessary penalties and interest. Outsourcing this process to QuickBooks full -service payroll is highly recommended. This helps prevent unnecessary costs or fees.

Payroll Setup

Payroll setup in QuickBooks Online requires turning on the feature and selecting a subscription. We will not turn on payroll during this training. However, we will discuss the process and required information needed.

First, you will need a Federal Identification Number, typically setup when you open a business. (It is also used to open bank accounts.)

Second, you will need an EFTPS.gov account and login. This requires you to enter owner and bank info and allows you to process tax payments online.

Third, you will need to contact your state agency to address all filing requirements (varies per state).

Next, gather the following information from employees. (Visit www.irs.gov for additional information and to download forms.)

I-9 Employment Eligibility Verification –Verifies the identity and employment authorization of individuals hired for employment in the United States. This requires two specific forms of identification. Business owners must maintain this information for all employees and provide it if requested by the U.S. Citizenship and Immigration Services.

W-4 - Used by employers to determine how much federal income tax to withhold from an employee's pay. <https://www.irs.gov/pub/irs-pdf/fw4.pdf>

Publication 15 (Circular E) –If you have questions about IRS payroll requirements, refer to <https://www.irs.gov/forms-pubs/about-publication-15>. It is a great resource.

California Employers Guide

https://edd.ca.gov/pdf_pub_ctr/de44.pdf

Run Payroll

In order to run payroll, select one of the following pay period options:

Semi-Monthly – This option requires 2 pay periods a month, 24 per year. Semi - monthly is typically selected by higher -level professional businesses. For example, a pay period would be from the 1st to the 15th (paid on the 20th) and 16th-30/31st (paid on the 5th). There are 88 hours in a pay period.

Bi-Weekly – This option means payroll is paid every two weeks. 2 months a year employees receive three paychecks for a total of 26 per year. This method is more common with hourly employees and equates to an 80 hour pay period.

Weekly – This option means payroll is paid per week, for a total of 52 per year. This method is commonly used amongst contractors, roofers, plumbers, etc.

There are 2080 hours in a year for full -time employees, regardless of which option you choose. Research the options prior to running your first payroll. Yes! It is possible to change a payroll processing period.

Something to consider - A business has costs associated with processing payroll. It is important to establish an efficient routine or outsource the payroll function.

Payroll Taxes

When each payroll is processed, the individual W-4 information is used to calculate federal taxes for each employee. The employer withholds Federal and State taxes, then calculates the employer's portion and processes payments online.

Employee calculations (provided access to pay stubs each payroll)

Number of hours x pay rate = gross payroll

Subtract Federal Employee Taxes

- Federal Income Tax – IRS Table and W4
- Social Security 6.2%
- Medicare 1.45%

Subtract State Employee Taxes (depends on the state)

- State Income Tax
- State Disability Tax

Equals net payroll, the amount paid to the employee.

The employer then adds the following to calculate the Federal and State Liability (amounts owed by the employer). Due dates are determined by the agencies.

Total Federal Tax Liability (due date determined by the IRS):

- Federal Income Tax - Employee
- Social Security –Employee
- Social Security –Employer
- Medicare Employee
- Medicare Employer
- Federal Unemployment

Total State Tax Liability (due quarterly):

- State Income Tax
- State Disability
- State Unemployment
- State Employer Training Tax

Payroll Tax Forms

Quarterly

941 (Internal Revenue Service)

Reports gross wages, federal income tax, social security wages and taxes, Medicare wages and taxes, tip wages, employer liabilities and payments paid.

Craig's, Inc. is located in California, thus we have included key forms relevant to California state reporting requirements, but they are available for every state:

DE-88 (California Employment Development Department)

DE-9 (California Employment Development Department)

DE-9C (California Employment Development Department)

Reports Wages, State Taxes withheld, and State Taxes paid.

Yearly (in additional to quarterly reports)

W-2 (Social Security Division) –Reports all employee wage information used to file individual tax returns.

W-3 (Social Security Division) - Report's summary of W2's reported.

940 (Internal Revenue Service) –Report's Employer Federal Unemployment for all employees.

Payroll Reports

Many business owners use third party time tracking apps to track individual employee time. These apps sync with payroll processing in QBO, making the process quick and efficient.

There are many payroll reports used to manage payroll. Payroll reports commonly used in QuickBooks Online are as follows:

Time tracking reports –Tracks time per employee per time period.

Payroll Summary –Provides summary view of information per employee and pay period.

Payroll Details –Provides details per employee per pay date and totals per pay period.

Tax and Wage Summary –Tracks total wages, taxable wages and tax amount by category.

Best practices: Keep good records of time tracking and payroll reports per pay period. Business owners often fall behind in making timely payroll tax payments and the penalties add up quickly. One more reason to invest time in understanding cash flow and establishing best practice procedures.

Worker's Compensation

Workers' compensation is a benefit for your employees that pays for certain injury-related expenses that occur during or arise out of the employee's course of work. Workers' compensation employee benefits and employer responsibilities are determined by state laws. However, common elements of workers' compensation rules exist across the various state laws.

Most states require employers with one or more employees to carry workers' comp coverage. A few states don't require coverage until the employer hires a certain number of employees.

All your employees are likely covered by your workers' compensation coverage. Some exceptions for farming, at-home care and a limited number of part-time employees exist. However, as a rule of thumb, expect that all your full-time and part-time employees are covered. Independent contractors and volunteers are not generally covered by workers' compensation. There are exceptions to this general rule.

Visit this site to learn more:

<https://quickbooks.intuit.com/payroll/workers-compensation/#what-is-ell>

Wage Garnishments

A wage garnishment is a court order for an employer to withhold a certain amount of an employee's wages as repayment for debt. This is different from other after-tax payroll deductions.

If an employee's wages are being garnished, you will receive a notice of instruction and information. Be sure to inform your payroll processing agent prior to running the next payroll.

Some states, such as California, issue three types of garnishments:

1. Earnings withholding order for taxes (EWOT)
for collection of:
 - Past due income tax obligations
 - Taxpayer liability penalties
2. Earnings withholding order (EWO) for non-tax bills like:
 - Vehicle registration fees
 - Court-ordered debt
3. If you received an order for your employee, as an employer, you must send the requested amount on the order to the state agency.
They may hold you responsible for the debt if you do not comply.

Visit this site to learn how to account for wage garnishments in QBO:

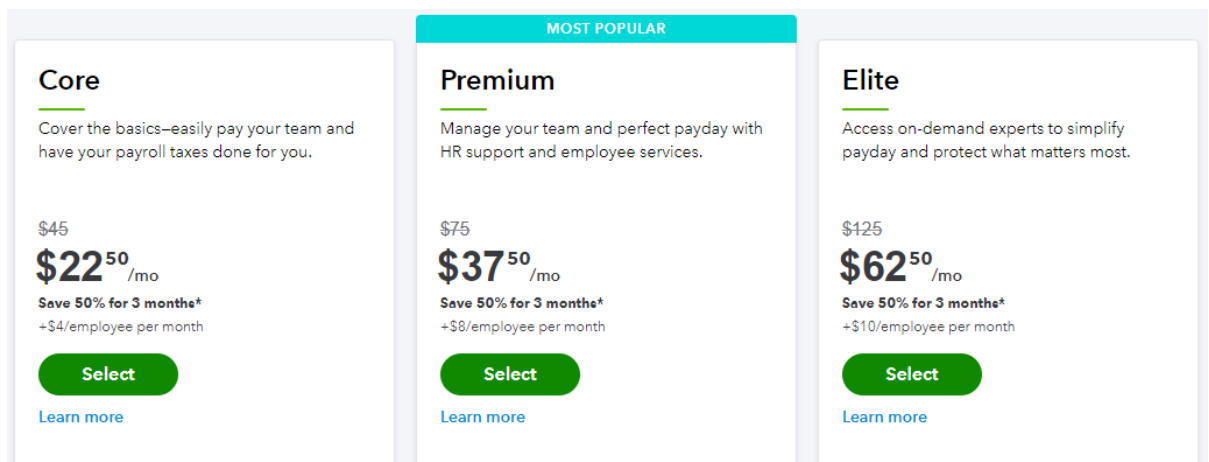
[Wage Garnishment Article](#)

QuickBooks Payroll

It is important to research the best payroll option for your business. We encourage you to outsource this service. Even though it adds an expense to your budget, it can save you money over doing it in-house, a lot of frustration, time, and costly errors not to mention peace of mind. Your taxes are always paid timely.

Determine the best payroll subscription for your business:

[QuickBooks Payroll Subscriptions](#)

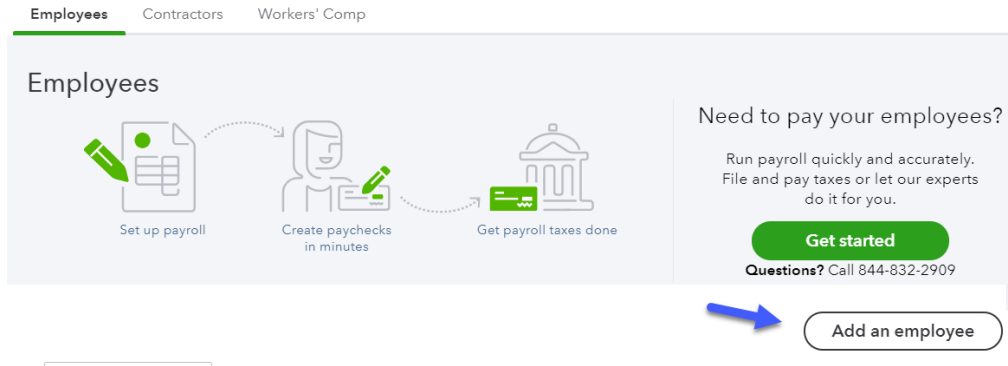


Core	Most Popular	Elite
Cover the basics—easily pay your team and have your payroll taxes done for you.	Manage your team and perfect payday with HR support and employee services.	Access on-demand experts to simplify payday and protect what matters most.
\$45 \$22⁵⁰ /mo	\$75 \$37⁵⁰ /mo	\$125 \$62⁵⁰ /mo
Save 50% for 3 months* +\$4/employee per month	Save 50% for 3 months* +\$8/employee per month	Save 50% for 3 months* +\$10/employee per month
Select	Select	Select
Learn more	Learn more	Learn more

Note: Subscription price changes frequently. Visit the link to view current pricing and subscription options.

QuickBooks Payroll

1. Click **payroll** in the left navigation bar. Select the **Employee tab** -> **Add an employee** or call the number provided for assistance.



2. Click **Not right now** or **Turn payroll on** to get started. We recommend you discuss your payroll options with an advisor or your accountant. Follow the setup wizard and complete all the necessary steps.

Need to pay employees?

You can easily pay employees from within QuickBooks. Before entering any employee information, save time by enabling QuickBooks Payroll. QuickBooks Payroll will then allow you to set up and pay employees in just a few simple steps.

Not right now

Turn payroll on

Note: Once you turn on payroll, follow the payroll setup process. You can add, change or edit payroll settings by clicking on the **gear -> payroll settings** once you turn on the feature.

Important to enter your company information exactly the way you set it up with the IRS.

It is important to obtain W -4 and I-9 information from each employee in order to complete the setup process for each employee.

Time Tracking

Paper timesheets and manual time entry are a thing of the past. We now have automated solutions to make it easier for both the employer and the employee. Managing the team and scheduling employees is more efficient than ever. If you will be hiring or currently have employees visit this link to learn more.

<https://quickbooks.intuit.com/time-tracking/>

Time tracking software that simplifies your business



Time Tracking

Employees can clock in or out with just one click. Take a break, change job codes, or add timesheet details instantly.



Mobile App

Download our time clock app for [Android](#) or [iOS](#) app to track, submit, and approve employee time from virtually anywhere.**



Scheduling

Build employee schedules by jobs or shifts. Quickly and easily edit, publish, and share the schedule with your crew.



Integrations

Connect to your favorite accounting or payroll software to automatically sync accurate employee time tracking data for payroll and invoicing.**



Team Management

Keep your teams in the know with robust project management and geofencing technology. See the status of all your projects at a glance. Set geofence boundaries to automatically remind employees to clock in and out.**



Reports

Gain valuable business insight with real-time, interactive reports. Predict time needs for job costs, plan for payroll, and increase profitability.**

Note: QuickBooks time works with QuickBooks Online. It will sync time into the timesheets and populate hours into your payroll process.

Module 3 Doable Action Steps

If you do not need this feature skip this section. Otherwise follow the steps.

1. Review video links:

[How to add employees to payroll in QuickBooks Online \(3:47\)](#)

[How to Track hours in QuickBooks Time \(2:08\)](#)

[How to Enter Billable Time: Employees & Contractors \(3:03\)](#)

[Get started with the QuickBooks Time Mobile App \(2:11\)](#)

2. Research the following sites:

[Pay an employee different hourly rates](#)

[Determine the hourly rate of salaried employees](#)



Online Foundations Training

SECTION 4

SALES TAX

Goals
Sales Tax Set Up
Sales Tax Center
Sales Tax Reports
Sales Tax Filing
Doable Action Steps

Section 4 Goals

Upon completion of Section 4, each participant will be familiar with:

- How to setup sales tax.
- How to manage the Sales Tax Center.
- How to review sales tax reports.
- How to file sales tax returns.

More on Sales Tax

Sales tax is calculated on the sale or lease of goods and services in the United States. Sales tax rates are state regulated, and percentages vary across the United States. Sales tax is calculated by multiplying the purchase price by the applicable tax rate. The seller collects the tax at the time of sale and tracks the amounts collected. Each month, quarter or year the information is reported, and amounts collected are paid to the Department of Taxation for the state in which the taxable good or services were provided. It is the business owner's responsibility to collect, report and pay all sales tax collected.

Another form of sales tax is referred to as **Use Tax**. This tax is reported and paid when a business owner does not pay tax on products purchased. For example, online vendors or suppliers do not always charge sales tax, therefore the business owner is responsible for keeping track of use tax. (Refer to Department of Taxation for your state.)

When you purchase or lease goods and pay the sales tax at the time of purchase, you are not required to collect sales tax from your customers. If you do not pay the sales tax at time of purchase, you are required to charge your customers' sales tax.

WOW! In California, a 10 percent penalty is assessed if you do not file your sales tax return by its due date. Ongoing Interest is based on the interest rate shown at the bottom of your return, for each month or partial month that the tax remains unpaid.

Sales Tax Setup


1. Click **taxes** in the **left navigation bar** -> **taxes** -> **sales tax** -> **get started**.
2. Verify your business address. This is important as it triggers tax rates in sales forms.
3. Click **Next**.

Set up your sales tax center

Double-check your address to make sure it's right.

Here's the address we have for you

We use your physical business address to calculate your sales tax rate.

Business address 

123 Sierra Way
San Pablo CA 87999

Next

When using multiple sales tax rates, you will need to match your tax rate name to the official agency for the department of tax.

4. Use the search feature to locate the appropriate agency. Click **Next**.

Bulk matching

To apply multiple rates to an agency, select your rates, then select your agency.

Official agency

▼
Apply (0 selected)
Clear selection

	TAX RATE NAME	TAX RATE	YOUR AGENCY NAME	OFFICIAL AGENCY NAME
<input type="checkbox"/>	California	8%	Board of Equalization	California Department of Tax ▼
<input type="checkbox"/>	Tucson (combined rate)	9.10%		
<input type="checkbox"/>	AZ State tax	7.1%	Arizona Dept. of Revenue	Arizona Department of Rever ▼
<input type="checkbox"/>	Tucson City	2%	Arizona Dept. of Revenue	Arizona Department of Rever ▼

Previous
Next

Sales Tax Setup

5. Next, review your rates and change the default information as needed. Click **Save**.

Review your rates

Here's what we'll bring over to your new sales tax center.

Active Rates

California California Department of Tax and Fee Administration	8%	Change
AZ State tax Arizona Department of Revenue	7.1%	Change
Tucson City Arizona Department of Revenue	2%	Change

[Previous](#)

[Save](#)

6. You're all set! Click **continue**. A demonstration video will appear.

7. Click **continue**.

8. Click **View sales tax center**.

Sales Tax Setup

9. **Complete the filing frequency -> Next agency.** Add the filing frequency to all additional agencies then click **Save**.

How often do you file sales tax?

You can find this info on your sales tax business registration. If you can't find it or it changed, check out the table to see where your business fits.

Agency

Arizona Department of Revenue

1 of 2

Filing frequency

Monthly



Starting in

January

Arizona filing frequency requirements

Average monthly liability	Filing frequency
\$0 to \$1,999.99	Annual
not permitted	Semi-Annual
\$2,000 to \$8,000	Quarterly
\$8,000.01 and up	Monthly

Source:

<https://www.azdor.gov/About/FAQs/TPT.aspx> (February 20, 2018)

Next agency

Sales Tax Center

Once the **Sales Tax Center** is activated you can manage **Sales Tax Settings**, filter by **status** or **tax period**, run **reports** and **view returns**.

Sample Company

My Experts Help

Taxes

Sales tax 1099 filings

Sales Tax

Select an agency
Arizona Department ...

ARIZONA DEPARTMENT OF REVENUE

\$0.00

January 01 - January 31, 2023

Accrual basis

[More details](#)

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

\$0.00

January 01 - January 31, 2023

Accrual basis

[More details](#)

< • >

Status: All

Tax Period Date: This Year

Reports

- Tax liability Report
- Taxable customer report
- Nontaxable Transaction Review

[View Tax Return](#)

AGENCY	PERIOD	DUE DATE	AMOUNT	STATUS
Arizona Department of Revenue	Jan 01 - Jan 31 2023	02/20/2023	0.00	Open

Sales Tax Center

1. Click **sales tax settings** to add **tax agencies**, select the **state, city, or county** to match your agency.
2. Next select the **filing frequency** you are required to file, select the **start date and reporting method**. A sales tax liability will auto-populate in your chart of accounts.
3. Click **Save**.



Important! You need to know your state's reporting method. Accrual means you are responsible for collecting and paying tax in the same period or date range a sales form is created. Cash means you are required to pay the tax for the period you collect the sales tax from your customers.

Tax agencies

Add agency

AGENCY	FILING FREQUENCY	START OF TAX PERIOD	START DATE	ACTION
Arizona Department of Revenue	Monthly	January	01/01/2012	Edit ▼
California Department of Tax and F...	Monthly	January	01/01/2012	Edit ▼



4. Edit the tax agency or click the down-arrow under the action menu to make it inactive.

Custom rates

Add rate

NAME	AGENCY	RATE	ACTION
California	California Department of Tax and Fee Administration	8%	Edit ▼
Tucson (combined)		9.10%	Edit ▼
AZ State tax	Arizona Department of Revenue	7.1%	Edit
Tucson City	Arizona Department of Revenue	2%	Edit

5. Add the custom tax rates for California.

Sales Tax Center

Although the sales tax agency populated using the address and zip code in accounts and settings, you can add custom tax rates. It is important to change each invoice and/or sales receipt default sales tax when using custom sales tax rates. This will be addressed in the accounts receivable module of this training. Choose **Combined, San Diego, County Tax (Rate 1 6.25%)** and **District Tax (Rate 2 1.5%), California Department of Taxation** for both. Total combined tax rate is **7.75%**.

Add a custom sales tax rate ✕

Single
 Combined

[Show example](#)

Name

Rate 1

Nickname

Agency Rate
 %

Rate 2

Nickname

Agency Rate
 %

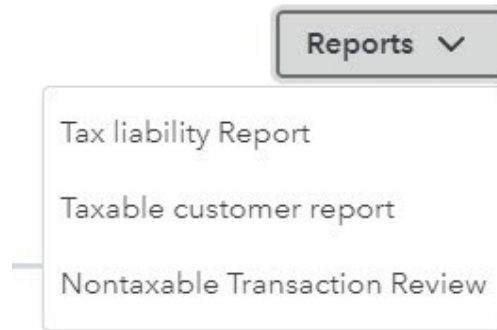
+ Add another rate

Custom rate total 7.75%

Cancel
Save

Sales Tax Reports

1. Click **Reports** from within the Sales Tax Center to view **Tax liability**, **Taxable customer**, and **Nontaxable Transaction Review** reports.



Tax Liability Report provides the information required to complete tax forms per state. Select the date range you are required to report, tax agency and accounting method.

The accounting method is based on your state's requirements.

Reference the **Taxable customer report** to manage tax status and rate defaults for each customer.

Use the **Nontaxable Transaction Review** report to verify taxable transactions were not missed by mistake.

2. Click **Reports from the left navigation bar -> standard -> search ->tax** to view list of available reports: Locate and save the following reports as favorites by clicking the **star** to the right of each report:

- **Sales Tax Liability Report**
- **Taxable Sales Summary**
- **Taxable Sales Detail**


Sales Tax Filing


1. From the Sales Tax Center, click **View tax return**.
2. Click the **+ Add an adjustment link**, if you need to adjust the balance due.
3. Click **Record payment** to create a transaction and post to your bank register. It is important to record all sales tax payments using the record payment option in the **Sales Tax Center**.
4. Complete the following instructions. Most state tax agencies have an online system for completing filing requirements and making payments.


California Department of Tax and Fee Administration
 Tax Period: March 2022
 Due date: Was due April 20


Craig's Design and Landscaping Services
 123 Sierra Way
 San Pablo, CA 94999

File your sales tax now

1. Print the tax form from your [state's website](#) and fill it out.
2. Write a check to your agency or print one. 
3. Mail the form and check to your agency.
4. When you're done, come back to record the payment in QuickBooks.

LEVEL	GROSS SALES	NONTAXABLE SALES	TAXABLE SALES	TAX AMOUNT
Custom 	4586.75	30.00	4556.75	364.54
Total tax				\$364.54
+ Add an adjustment				
Total after adjustments				\$364.54

[View tax liability report](#) 

[Cancel](#)
[Record payment](#) 

Section 4 Action Steps

If your company does not need to collect sales tax, you do not need to set up this feature. Simply skip this section. Otherwise follow the steps in this training.

1. Review video links:

[How to Set up Sales Tax \(2:55\)](#)

[How to Track and Pay Sales Tax: Tracking, Recording, & Reports \(2:49\)](#)

- 2. Research sales tax rates for the counties in which you sell taxable items.**
(Go to your state's Department of Taxation website for additional information.)
- 3. Set up the Sales Tax Center** – and determine if you will use the default rate per zip code or custom rates.
- 4. Explore the Sales Tax Center.**
- 5. Explore the Sales Tax Center shortcuts.**
- 6. Locate the following sales tax reports and save them as favorites:**

Remember! Some reports are in the Report Center, and some are available in the Sales Tax Center.

- **Tax Liability Report**
- **Taxable Customer Report**
- **Taxable Sales Detail**
- **Taxable Sales Summary**
- **Nontaxable Transaction Review**



Online Foundations

SECTION 5

UNDERSTANDING YOUR

NUMBERS

Goals
Statement of Cash Flows
Key Performance Indicators
Closing Date
Doable Action Steps

Section 5 Goals

Upon completion of Section 5 each participant will be familiar with:

- How to setup and review a Cash Flow Statement.
- How to use Financial Statements to track key performance indicators.
- How to set a closing date and password.

Statement of Cash Flows

Cash flows are used to project the future cash needs of a business. Best practice accounts receivable and accounts payable policies can greatly improve cash flows. Cash flow is the money that flows in and out of your bank account regardless of whether it is income, expense, receivables, payables, loan or credit card payments. This means that both the Balance Sheet and Profit & Loss are directly related to the cash flowing in and out of the business. By contrast, net profit is directly related to income and expense activity.

In most small businesses, revenue typically doesn't match up with spending, so understanding your cash flow is critical to avoid a cash flow crisis. The Statement of Cash Flows helps you evaluate whether there is enough money coming in, as well as enough cash on hand, to pay bills.

A Statement of Cash Flows is a tool used to attract new investments, inform your fundraising efforts, and get more access to financing options. This statement provides banks and creditors some reassurance that your small business can pay back loans or fund its own operating expenses.

Let's break it down.

Statement of Cash Flows

The first line item on your Statement of Cash Flows is net income from the Profit & Loss. Since accounts receivable reflects income that has not been collected from customers, we subtract it out. It is cash we have not yet received. Inventory has not been sold and sits as an asset on your Balance Sheet, therefore we subtract the amount. Accounts payable represents bills that have not been paid (we have not spent the cash), thus we add it back. Credit card, loan balances and taxes owed have not been paid, so we add them back. These categories reside on the Balance Sheet. This provides a cash picture and demonstrates how cash flow is reflected on both the Balance Sheet and Profit & Loss. All three statements work together to help determine the cash position of a business. This section of the Statement of Cash Flows is referred to as operating activities.

Craig's Design and Landscaping Services

Statement of Cash Flows
October - December, 2022




	TOTAL
▼ OPERATING ACTIVITIES	
Net Income	1,585.21
▼ Adjustments to reconcile Net Income to Net Cash provid...	
Accounts Receivable (A/R)	-5,281.52
Inventory Asset	-596.25
Accounts Payable (A/P)	1,602.67
Mastercard	123.72
Arizona Dept. of Revenue Payable	0.00
Board of Equalization Payable	360.44
Loan Payable	4,000.00
Total Adjustments to reconcile Net Income to Net Cash...	209.06

Statement of Cash Flows

The next section represents investing activities. Original cost of assets is subtracted from the net profit. The original cost of assets include investments acquired to help produce revenue, such as a truck. The goal is to see a return on your investments.

Next, we add and subtract financing activities from the net profit. Financing activities include loans we owe over a period of more than one year. Opening balance equity is populated when you link a new bank or credit card account that has a balance. This is a temporary holding spot.

Finally, we can see the cash we have at the end of a period. This balance should match the cash balance on the Balance Sheet (cash basis). This includes undeposited funds.

Net cash provided by operating activities	\$1,794.27
▼ INVESTING ACTIVITIES 	
Truck:Original Cost	-13,495.00
Net cash provided by investing activities	\$ -13,495.00
▼ FINANCING ACTIVITIES 	
Notes Payable	25,000.00
Opening Balance Equity	-14,337.50
Net cash provided by financing activities	\$10,662.50
NET CASH INCREASE FOR PERIOD	\$ -1,038.23
Cash at beginning of period	5,101.75
CASH AT END OF PERIOD 	\$4,063.52

Key Performance Indicators (KPI)

What is a Key Performance Indicator (KPI)?

A key performance indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives. Organizations use KPIs at multiple levels to evaluate their success at reaching targets. High-level KPIs may focus on the overall performance of the business, while low-level KPIs may focus on processes in departments such as sales, marketing, HR, support and others.

As business owners, we use the Balance Sheet and Profit & Loss information along with mathematical formulas to determine KPIs, then we compare those numbers to our specific industries. This process helps us set targets and goals in many areas of our business. We must emphasize the importance of accurate financial statements to assist in setting accurate and achievable goals.

Let's review a few examples of the different types of KPIs:

Sales Growth Rate – Measures the pace your sales revenue is decreasing or increasing. This metric is an essential factor in growth projections and setting sales targets. It will help your business account for monthly or quarterly spikes.

$$\frac{\text{Net Sales of (Current Period - Net Sales of Previous Period)}}{\text{(Net Sales of Previous Period)}} \times 100$$

Note: The number of months in the “period” must be the same for the current period and the previous period, e.g., one month, three months, twelve months.

Key Performance Indicators (KPI)

Gross Profit Margin – Measures the amount of profit your business makes on each dollar of sales before any operating expenses. It takes into account costs directly related to Sales or Cost of Goods Sold.

$$(\text{Sales} - \text{Cost of Goods Sold}) / \text{Sales} \times 100$$

Net Profit – The amount of money left over after deducting all expenses and costs. This is one of the most important KPIs used to determine if there is enough profit to compensate the owners.

$$\text{Total Revenue} - \text{Total Expenses}$$

Accounts Receivable Days or Days Sales Outstanding (DSO) – measures how many days on average it takes a business to collect money from its customers.

$$\frac{\text{Accounts Receivable} \times \text{Month Length}}{\text{Revenue}}$$

Key Performance Indicators (KPI)

Accounts Payable Days – A measure of how long it takes a business to pay its bills.

The best-case scenario is to make it easy for your customers to pay. It is also important to strategically manage when you pay your bills. If you pay them close to the due date (and avoid paying late fees) you hold onto your cash longer, a wise cash flow strategy. It is critical to establish and implement solid accounts receivable and accounts payable management policies.

Accounts Payable Days - Accounts Payable [Balance] x Month Length [30 or 31 days] / Total Cost of Sales [total in Cost of Goods Sold]

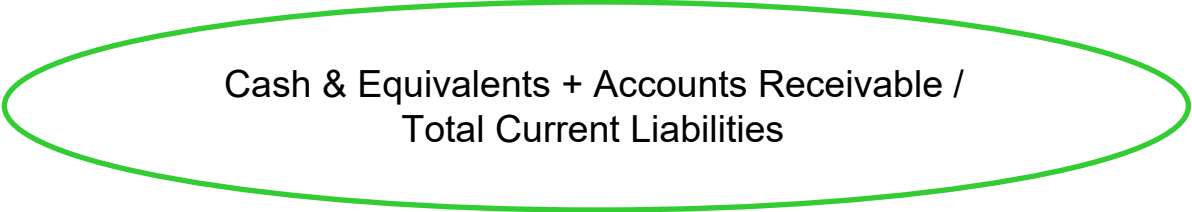
$$\text{Accounts Payable} \times \text{Month Length} / \text{Total Cost of Sales}$$

Current Ratio –Compares total current assets to total current liabilities. The ratio indicates whether we have enough cash to pay all short-term debts.

$$\text{Total Current Assets} / \text{Total Current Liabilities}$$

Key Performance Indicators (KPI)

Quick Ratio – Measures the availability of assets which can quickly be converted to cash to cover current liabilities. Inventory and other less liquid current assets are not included in this calculation. Both ratios are reviewed by banks and creditors when evaluating a business loan application.


$$\frac{\text{Cash \& Equivalents} + \text{Accounts Receivable}}{\text{Total Current Liabilities}}$$

Cash on Hand – A measure of the cash and cash equivalents in actual possession by the business at a particular time.

Chris Craig has set a goal of accumulating 3 months of operating costs to set aside as liquid cash (an emergency fund). In addition, she would like to build the payroll account to cover lean times. Once the goal is determined, a cash on hand metric is created and monitored.

Balance Sheet - KPIs

Let's take another look at the Balance Sheet and how we use the information to calculate KPIs. Notice cash on hand is very low indicating the need for cash management. The accounts receivable and payable days need to be determined. The current ratio [Total Current Assets / Total Current Liabilities = 1.6 and appears low. The higher the number the better. Managing cash and consistently building our savings as well as keeping accounts receivable and accounts payable low, will drastically improve the ratios.

Craig's Design and Landscaping Services	
Balance Sheet	
As of January 12, 2023	
	TOTAL
▼ ASSETS	
▼ Current Assets	
▶ Bank Accounts	\$2,001.00
▶ Accounts Receivable	\$5,281.52
▶ Other Current Assets	\$2,658.77
Total Current Assets	\$9,941.29
▶ Fixed Assets	\$13,495.00
TOTAL ASSETS	\$23,436.29
▼ LIABILITIES AND EQUITY	
▼ Liabilities	
▼ Current Liabilities	
▶ Accounts Payable	\$1,602.67
▶ Credit Cards	\$157.72
▶ Other Current Liabilities	\$4,370.94
Total Current Liabilities	\$6,131.33

Profit & Loss KPIs

Now let's look at the profit & loss KPIs. We do not need to do much math to determine gross profit and net profit margins. Our gross profit is 96.03% which appears high. How do we know it is high? We compared our numbers to industry standards. Talk to your advisor for tips on where to find industry standards. When we take the gross profit and subtract total expenses, we can determine net income and the related percentage. Here we show 16.43%.

Craig's Design and Landscaping Services

Profit and Loss

October - December, 2022

	TOTAL
▼ Income	
Design income	2,250.00
Discounts given	-89.50
▶ Landscaping Services	6,192.72
Pest Control Services	40.00
Sales of Product Income	912.75
Services	503.55
Total Income	\$9,809.52
▶ Cost of Goods Sold	\$405.00
GROSS PROFIT	\$9,404.52
▶ Expenses	\$4,903.31
NET OPERATING INCOME	\$4,501.21
▼ Other Expenses	
Miscellaneous	2,916.00
Total Other Expenses	\$2,916.00
NET OTHER INCOME	\$ -2,916.00
NET INCOME	\$1,585.21

Fraud Prevention

Fraud is a serious problem for small business owners and the statistics are startling. According to a survey by AFP (Association for Financial Professionals), fraud hit an all time high. **82% of U.S. businesses reported experiencing payment fraud.**

We hope this got your attention; it should. Fraud prevention must be addressed and given serious consideration as you work to build a solid financial foundation in your business. The good news is, QuickBooks Online has tools built into the application designed to help you implement fraud prevention processes to detect and prevent fraudulent activity.

Fraudulent activity can take on many forms, including asset misappropriation, billing, expense reimbursement, skimming, cash register disbursements, and check tampering schemes to name a few.

Biz Q&A:

- How do you prevent fraud from occurring in a business?
- How do you identify areas where the likelihood of fraud is the greatest?
- How do you protect your business assets and cash?

Wow!

According to the Association of Certified Fraud Examiners, the average business will lose approximately 7% of revenues due to employee theft. Small businesses have a 38% greater amount of fraud than larger companies, due to lack of internal controls.

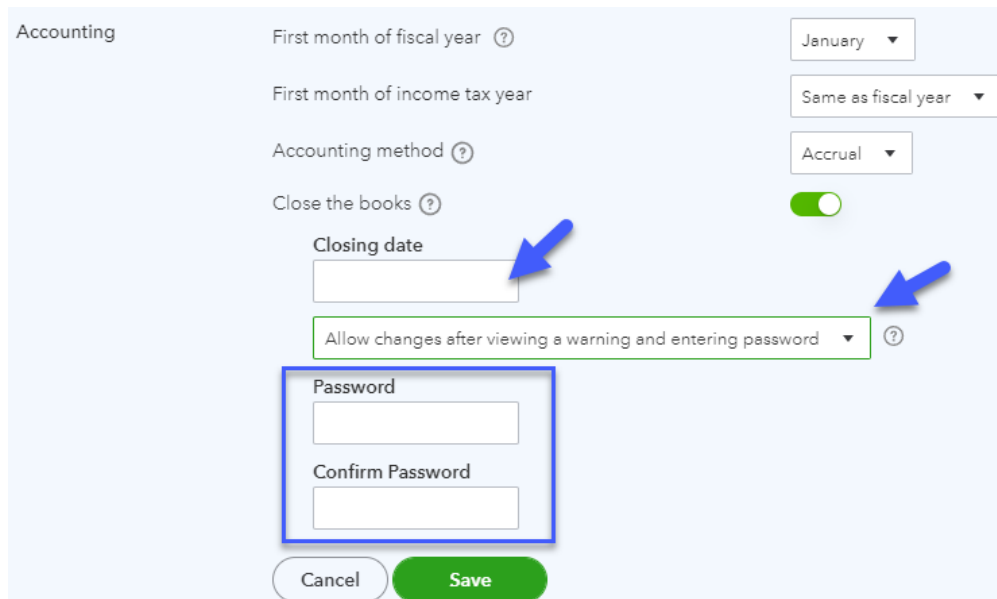
Once your accounting application is set up, we recommend you seek the advice of an accountant to verify you are taking full advantage of the fraud prevention tools in QBO and ensure you have internal controls built into your system.

Closing Date

Close the books

This is a great feature that allows you to close a period and assign a password. Turning on this setting triggers a warning box that prevents users from changing historical data, a powerful fraud prevention tool. We learned about the closing date features when we completed the setup section of this training.

We encourage you to use the closing date feature once you have reconciled all bank and credit card accounts, reviewed your financials, and filed sales tax, payroll tax or income tax returns. Remember to set a date and password. If a user tries to change an invoice or delete a transaction, etc. a warning window will pop up and require the password.



The screenshot shows the 'Accounting' settings page in QuickBooks. The 'Close the books' toggle is turned on. Below it, the 'Closing date' field is empty, with a blue arrow pointing to it. A dropdown menu is open, showing the option 'Allow changes after viewing a warning and entering password', which is highlighted with a green box and a blue arrow. Below this, the 'Password' and 'Confirm Password' fields are highlighted with a blue box. At the bottom, there are 'Cancel' and 'Save' buttons.

Accounting

First month of fiscal year [?] January ▾

First month of income tax year Same as fiscal year ▾

Accounting method [?] Accrual ▾

Close the books [?]

Closing date [?]

Allow changes after viewing a warning and entering password ▾ [?]

Password

Confirm Password

Cancel Save

Section 5 Action Steps

All business owners should complete this section and apply the knowledge to their own company file. Remember! You can always refer to various Modules of training if you need additional reminders of how features works.

1. Watch Video Links:

[Understanding the Balance Sheet in QuickBooks Online \(2:34\)](#)

[Understanding Profit & Loss Statement: Income, Cost of Goods \(1:54\)](#)

[How to use the Audit Log in QuickBooks Online \(2:02\)](#)

2. Statement of Cash Flows

3. Brainstorm which KPIs to use in your business.

4. Establish accounts receivable and accounts payable management policies.

5. Review the audit log and filter feature.

BUT WAIT...
THERE'S MORE!!



Online Foundations Training

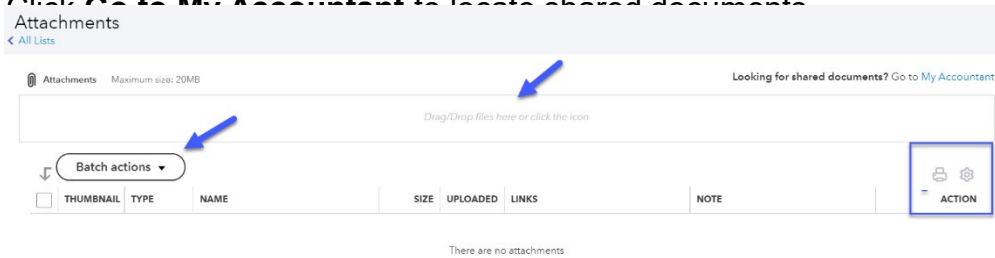
APPENDIX A ADDITIONAL FEATURES

Attachments
Mileage
Import from Desktop

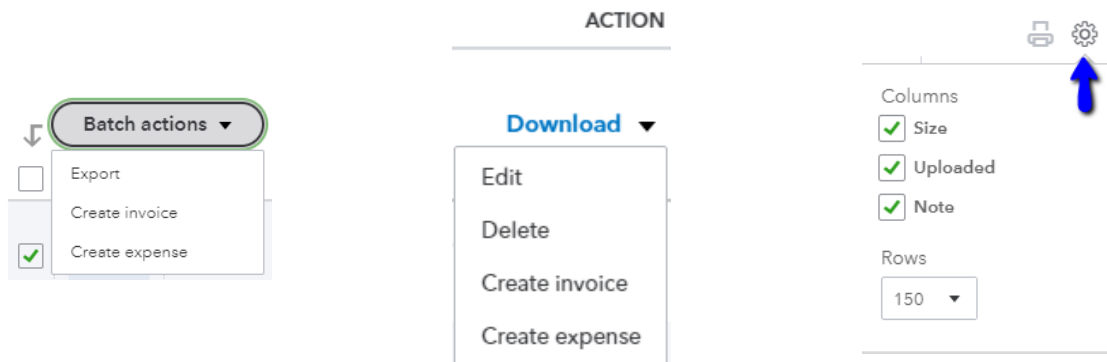
Attachments

This feature allows you to drag and drop files directly into the **Attachment Center**, where you can manage documents and create transactions.

1. Click the **gear** icon.
2. Click **Attachments** under **Lists**.
3. Select the **Attachment paperclip** or use the drag and drop feature to import files.
4. Click **Go to My Account** to locate shared documents.



5. Click the drop-down arrow for **Batch actions** to export documents or create a batch of Invoices or Expenses.
6. Click the drop-down arrow in the **Action** column to edit, delete, or create an Invoice or Expense for a single file.
7. Click the **gear** icon to change the way columns and rows are displayed.



Mileage

Tracking mileage is a necessary task for many business owners. You can manually track your mileage from within the company file or use the mobile app. Be sure to check with your tax professional to keep up with proper methods for tax purposes.

Within the company file:

1. Click **mileage** from the **left navigation bar**.
2. Choose **QR option** OR **add trip manually**.

Mileage can be tracked for business or personal, and the history will be kept for years.

3. Click the **Add trip** button to download trips, import trips and manage vehicles.

Import Data from Desktop

Business owners transitioning from the QuickBooks Desktop version to QuickBooks Online, will be interested in this important Import feature. Learn how-to set up a new company when converting from the Desktop version of QuickBooks Online by reviewing the information below:

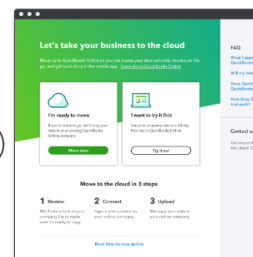
1. Click **Gear Icon -> Import desktop data.**
2. Click **See how it works, watch the video and follow the instructions.**

Bring in your data for a seamless switch

Do it yourself or let us help with step-by-step guides, demos, and support.

- 1 Update your desktop first
Make sure QuickBooks Desktop is **up-to-date** before you start the process.
- 2 Export some or all of your data
During the process, you'll choose the data you want to bring over and which company you want it to go to.
- 3 Finish setup in QuickBooks Online
After upload, come back to QuickBooks Online to finish the rest of the setup tasks.

Exporting company files



[See how it works](#)



Online Foundations Training

APPENDIX B

GLOSSARY OF TERMS

KEYBOARD SHORTCUTS

Glossary of Terms

Accounts Receivable - Accounts receivable (AR) is the balance of money owed to you for goods received or services delivered but not yet paid by customers.

Accounts Payable - Accounts payable are amounts due to vendors or suppliers for goods or services received that you have not yet paid for.

Assets – An asset is anything of value that can be converted into cash.

Fixed Asset - A fixed asset is a long-term tangible piece of property or equipment that a firm owns and uses in its operations to generate income. Fixed assets are not expected to be consumed or converted into cash within a year.

Liabilities – Your company debt. What you owe.

Equity - The net worth of a company. This is the difference between what you owe (liabilities) and what you own (assets).

Balance Sheet - A financial statement of assets, liabilities, and capital; the report details the balance of income and expenditure over a specified period.

Profit & Loss - A financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year.

Statement of Cash Flow - A financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources.

Cash Flow Projection - A cash flow projection shows the amount of money expected to come into a business minus money expected to go out over a determined amount of time.

Cash flow - Cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business.

Glossary of Terms

Cost Analysis – The goal of cost analysis is to determine the true cost of the products or services you are offering.

Expenses – A resource or service you spend money on in order to generate revenue (wages, computers, etc.).

Direct Cost – A cost that can be directly tied to the production of specific goods or services.

Indirect Cost – A cost that is not directly related to a cost object (such as a specific project, facility, function or product).

Overhead - Ongoing business expenses not directly attributed to creating a product or service.

Breakeven - The level of production at which the costs of production equal the revenues for a product or service.

Variable Costs - A variable cost is an expense that changes in proportion with production output.

Fixed Costs – A cost that does not change with an increase or decrease in the amount of goods or services produced or sold.

Inventory – Products you purchase and currently stock to resell or products in stock you produce from raw goods to sell.

Glossary of Terms

Revenue, Sales, Income - Revenue is the income a company generates before any expenses are subtracted from the calculation. **Sales** are the proceeds a company generates from selling goods or services to its customers. **Income** is a company's total earnings or profit.

Cost of Goods Sold - An account for costs directly related to producing a service or product for sale.

Chart of Accounts - An organizational tool that provides a digestible breakdown of all the financial transactions that a company conducted during a specific accounting period, broken down into subcategories.

Gross Payroll vs Net Payroll - Gross payroll refers to the total amount of money the company pays out for its employees during a pay period. **Net payroll** refers to the money that employees receive from the company after it deducts the required withholdings.

Gross Profit Margin - Gross profit margin is the proportion of money left over from revenues after accounting for the cost of goods sold (COGS).

Net Profit Margin - Net profit margin is the percentage of profit generated from revenue after accounting for all expenses, costs, and cash flow items.

Contribution Margin – Determines how much revenue can be used to contribute to fixed costs and profit.

Cash vs Accrual Basis – Cash basis accounts for the costs and sales where payments have already changed hands. **Accrual** includes AP, and AR where services and goods have been provided, but have not yet been paid for.

Keyboard Shortcuts

From the Dashboard use [Ctrl]+[Alt]+[?] to show **Keyboard Reference** while logged into QuickBooks® **Regular Pages**.

Ctrl + Alt + i	Invoice
Ctrl + Alt + w	Check
Ctrl + Alt + e	Estimate
Ctrl + Alt + x	Expense
Ctrl + Alt + r	Receive payment
Ctrl + Alt + c	Customers
Ctrl + Alt + v	Vendors
Ctrl + Alt + a	Chart of accounts
Ctrl + Alt + l	Lists
Ctrl + Alt + h	Help
Ctrl + Alt + f	Search transactions

Transaction Pages

Ctrl + Alt + x	Exit transaction view
Ctrl + Alt + s	Save and new
Ctrl + Alt + m	Save and send (think of it as “send as message”)
Ctrl + p	Print
Ctrl + Alt + c	Cancel
Ctrl + Alt + d	Save and close



Online Foundations Training

APPENDIX C RESOURCES

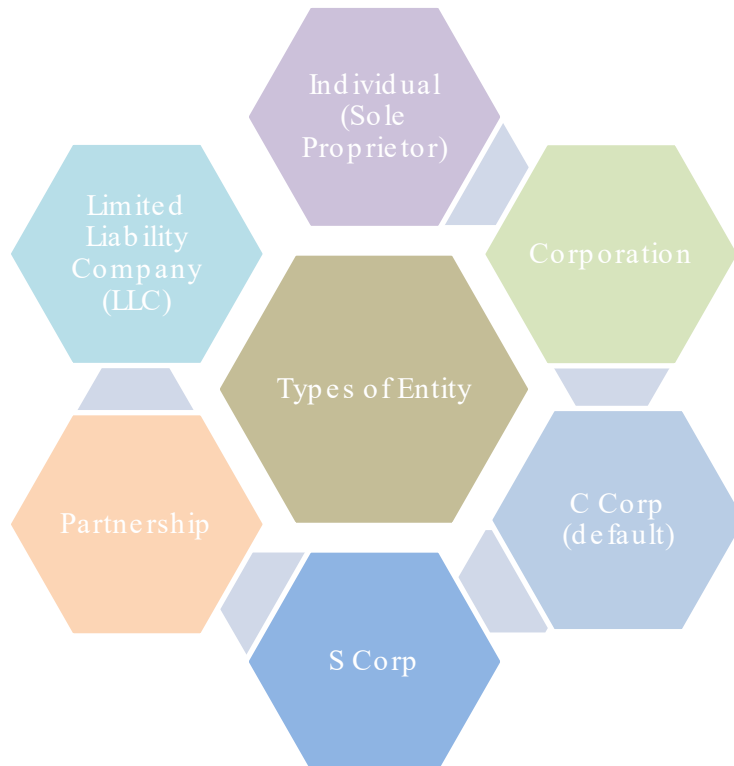
Entity Types
Debits & Credits
Quick Accounting Review

What is an Entity?

The term Entity refers to how your business will be treated from both a legal and tax perspective. Choosing the right entity type is critical and each entity type choice should be re-examined periodically, throughout the life of your business.

There are several types of entities in the eyes of the law. They include:

- Individual (Sole Proprietor)
- Corporation
- C corp (default)
- S corp (must elect and is not available to all C corps)
- Partnership
- Limited Liability Company (regulated by states and accepted by feds)



Entity Types

As you can imagine, there are benefits and drawbacks to each type of entity. Our discussion today will not focus on Partnerships, as they do not provide limited liability and they do require a separate tax return. Traditional partnerships have all but been replaced by the option to become an LLC.

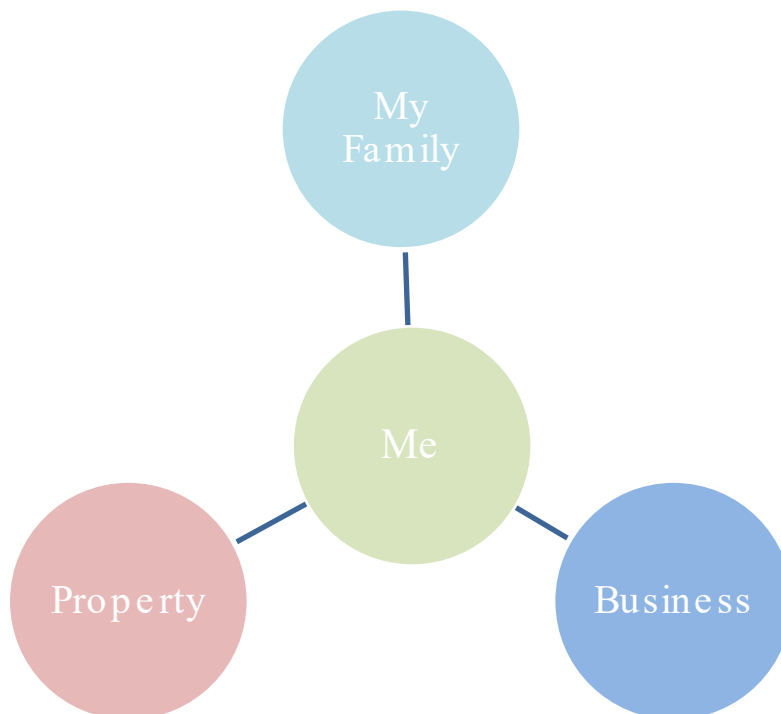
Entity Type	Limited Liability	Separate Tax Return	Tax Advantage/Disadvantage
Sole Proprietorship	No	No	Disadvantage
C Corporation	Yes	Yes	Disadvantage
S Corporation	Yes	Yes	Advantage
Partnership	No	Yes	Disadvantage
LLC	Yes	Maybe	Disadvantage

Separation of Legal Liability

The goal from a legal perspective, is to separate the parts of your life that could result in litigation.

In other words, the higher the likelihood that you will be held liable for something, the more important it is to limit your legal exposure to the entity that has been deemed liable.

Since there is no way to avoid liability after the fact, it is important to set up your entity in advance of any such incident so you will be protected, should that day arrive.



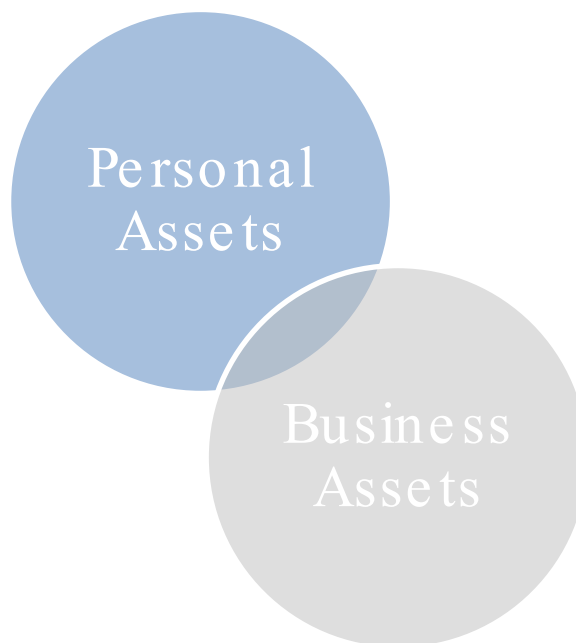
Embracing the Tax Advantages

Fortunately, there are tax advantages that come with entity selection. Let's start with the least advantageous of all entity types – the sole proprietor. Although this choice allows for a lot of flexibility, (you can obtain an EIN, hire employees, rent or own property to work from, set up and contribute to a retirement plan, and not have to file a separate tax return), you will pay income tax and self-employment tax on all your profits. Any determination that you are legally liable for any reason, can result in a judgement that causes you to lose all your personal, as well as business assets.



C corporations

It is easy to see why many businesses choose to incorporate. Creating a separate entity limits the exposure to assets held within the business. By default, incorporation creates a C-corporation, (this is the designation chosen by large corporations, such as McDonalds or Tesla). While C-corporations are great, they are subject to their own rate of tax, which is currently 21%. This means that the corporation will file a separate tax return, pay taxes and then ultimately, pass the profits on to you. You will then be required to pay tax at the individual rates. This concept is commonly referred to as double taxation. The only way C-corporation owners can avoid double taxation is to take all profits out of the corporation in the year they were earned, and this requires careful planning which can be costly. Most small businesses prefer to choose a different entity type to avoid this tax consequence.



Limited Liability Companies

Limited Liability Companies can be either single member LLCs or multi-member LLCs. From a **tax point of view**, single member LLCs are *exactly the same* as Sole Proprietors and multi-member LLCs are *exactly the same* as Partnerships. The only distinction is that the LLC provides the legal protection that separates business assets from personal assets that sole proprietors and partnerships do not benefit from. Since we have already talked about sole proprietorships, let's spend a few minutes talking about multi-member LLCs.

Members in a multi-member LLC are taxed exactly like sole-proprietors but based only on their portion of ownership. In other words, two people who each own 50% of an LLC will each pay tax on 50% of the profits. The entire amount of their profits will be subject to income taxes (based on individual rates) along with self-employment taxes. Let's talk about self-employment taxes, as that can be a very confusing topic.

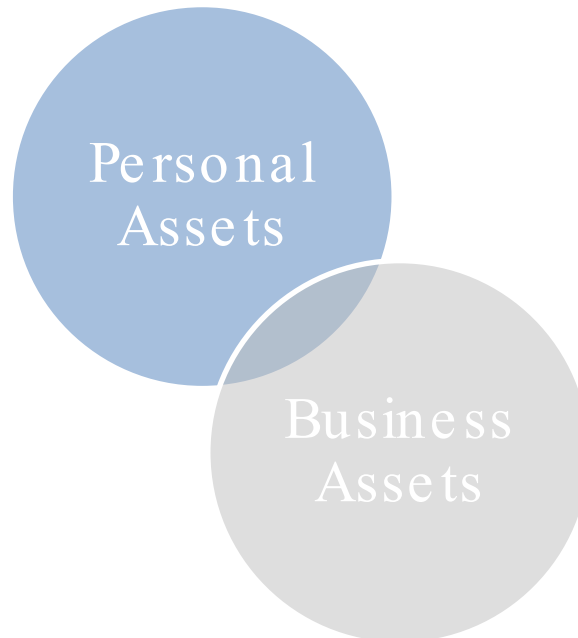
Self-employment Taxes

Self-employment taxes are designed to replace taxes for Social Security and Medicare that would otherwise be paid by both an employee and their employer. Here is how they work: When an employer withholds tax money from an employee, they withhold amounts for Federal Income Tax, State Income Tax, Social Security (often referred to as FICA) Tax and Medicare tax. Most people are familiar with this concept because they see the amounts for each type of tax coming out of their paychecks and then reflected on their W-2s. What many people are not aware of is that the employer is matching the amounts for Social Security and Medicare and sending those amounts into the IRS and the state tax authority on a periodic basis. The rates are shown above, and the total 15.3%. When we refer to Self-Employment taxes, we are referring to the 15.3% tax that gets applied to revenue earned by self-employed people, which refers to people who are sole-proprietors, as well as those who are Members in an LLC. Remember that self employment taxes are in addition to income taxes.

Tax Type	Rate to Employer	Rate to Employee	Total
Federal Income Tax	N/A	TBD at tax time	
State Income Tax	N/A	Depends on State	
Social Security Tax	6.2%	6.2%	12.4%
Medicare Tax	1.45%	1.45%	2.9%
Total	7.65%	7.65%	15.3%

S-corporations

Let's return to our discussion about corporations. Remember that the biggest drawback to a C-corporation is the concept of double taxation. One of the easiest ways to avoid double taxation is to convert a C-corporation to an S-corporation. This creates a pass-through entity, meaning that the profits are not taxable at the corporate level (not subject to the 21% tax) and are instead passed through to the individual owners and subject to individual tax rates. Remember that individuals are taxed using a marginal tax rate system, meaning that there is not a flat rate that applies to all taxable income. The individual tax system is also where taxpayers can benefit from a multitude of tax savings opportunities. In addition to the pass-through nature of S-corporations, only a portion of the profits are going to be subject to the Social Security and Medicare taxes, otherwise referred to as self-employment taxes.



Wages for S-corporation Owners

Now that we have a better understanding of the nature of the self-employment tax, let's return to our discussion about S-corporations and look at the reasons the profits from an S-corporation are not subject to self-employment taxes.

Since the S-corporation is an actual corporation, its owners are not considered self-employed. Instead, they are formally employed by a corporation, much the same way McDonalds employs the people who work there. Instead of paying self-employment taxes, owners of S-corporations (and C-corporations, for that matter) are required to pay Payroll taxes, which include the employer portion of both Social Security and Medicare taxes. This amounts to 7.65%, as demonstrated on our earlier slide. This amount must be paid on behalf of all employees who are being paid wages. Owners of S-corporations are required to pay themselves a **reasonable wage**, based on their day-to-day contributions to the business. What they are not required to do is to pay Social Security and Medicare taxes on all profits, which is required of Members in an LLC and Sole-proprietors. This means that once a reasonable wage is determined for the owner, each the owner and the corporation (on behalf of the owner, who in this case is the same person) pay their share of the Social Security and Medicare taxes **only on the amount of the wages** paid to the owner. None of the rest of the profits are subject to these taxes and this has the potential to save a significant amount in overall taxes.

Sample Profit and Loss	
Income	\$200,000
Operating Expenses	\$-20,000
Salaries and wages – staff	\$-65,000*
Owners Compensation (wages)	<u>\$-35,000*</u>
Net Income (profit)	\$ 80,000**

*The amounts that will be subject to FICA and Medicare taxes.

**The amount that will NOT be subject to FICA and Medicare taxes.

Summary

The reason there are so many options available is because each business has its own unique needs. Since the tax implications can be substantial, it is a good idea to determine the best entity type for your business by consulting a professional tax and business advisor. Once you have decided how to proceed, focus your attention on learning what rules pertain to your selected entity type. Just as businesses change over time, you can start with one entity type and then later decide to change to another entity type. That said, entity selections should be thought of as long-term decisions and should be made only after careful consideration.

Debits & Credits

Assets	
Debits	Credits
Increase	Decrease
Normal Balance	

Liabilities	
Debits	Credits
Decrease	Increase
	Normal Balance

Equity Owner's Contributions	
Debits	Credits
Decrease	Increase
	Normal Balance

Equity Owner's Distributions	
Debits	Credits
Increase	Decrease
Normal Balance	

Income	
Debits	Credits
Decrease	Increase
	Normal Balance

Expense	
Debits	Credits
Increase	Decrease
Normal Balance	

Quick Accounting Review

ASSETS (what you own —things of commercial value)	=	Liabilities (what you owe others)	+	Equity (what your business is currently worth; in other words, your assets minus liabilities)
• Bank accounts		• Accounts payable (unpaid bills)		• Assets left over after paying all liabilities
• Petty cash		• Loans		• Owner investment
• Fixed assets (equipment, computers, trucks, etc.)		• Credit cards		• Owner draws
• Inventory		• Taxes (income tax, sales tax, payroll tax owed to the government, etc.)		• Stock
• Cash & checks on hand (not yet deposited in the bank)		• Line of credit balance		• Retained earnings
• Accounts receivable (what others owe you that you have not yet collected)		• Accrued wages (compensation earned but not yet paid to employees)		As you can see, revenue increases equity and expenses decrease equity.

Thank you for participating!

Thank you for including us on your journey to entrepreneurial success! We hope this training has been helpful and shed light on important building blocks necessary to develop a solid financial foundation. Our mission is to provide the support you need throughout every phase of growth.

Small business is the mainstay of the U.S. economy, and the health of your business is important to the well-being of our nation.

Do not hesitate to reach out for additional help and advice from your instructor, advisor or accountant.

Here's to a prosperous future!