

# USING QUICKBOOKS 2004 IN BUDGETING

QuickBooks Pro has user friendly budgeting features for profit and loss and balance sheet budgets.

To explore these we will use the file **Budget Demonstration** which has budgets already established. To open this file, on the menu bar, click on **File, Open, Budget Demonstration**.

On the menu bar, click on **Reports, Budgets & Forecasts, Budget Overview**. Use the pull down list to select **FY2003-2004 Profit & Loss by account** (click on Next, Finish) to look at a budget which has already been established.

	July 2003	August 2003	September 2003
<b>Income</b>			
Sales	120,000.00	125,000.00	122,000.00
<b>Total Income</b>	120,000.00	125,000.00	122,000.00
<b>Cost of Goods Sold</b>			
Cost of Goods Sold	60,000.00	62,500.00	61,000.00
<b>Total COGS</b>	60,000.00	62,500.00	61,000.00
<b>Gross Profit</b>	60,000.00	62,500.00	61,000.00
<b>Expense</b>			
<b>Selling Expenses</b>			
Advertising	4,500.00	4,500.00	4,500.00
Lease of shop equipment	2,000.00	2,000.00	2,000.00
Motor expenses	2,040.20	2,040.20	2,040.20
Rates - shop	250.00	250.00	250.00
Rent - shop	2,300.00	2,300.00	2,300.00
Shop salaries	11,000.00	11,000.00	11,000.00
<b>Total Selling Expenses</b>	22,090.20	22,090.20	22,090.20
<b>Administrative Expenses</b>			
Accounting fees			6,800.00
Consulting fees	600.00	600.00	600.00
Deprec. of Office Equip	100.00	100.00	100.00
Electricity	1,900.00	1,900.00	1,900.00
Insurance	700.00	700.00	700.00
Office salaries	2,300.00	2,300.00	2,300.00
Postage	1,300.00	1,300.00	1,300.00
Repairs - office equipment	400.00	400.00	400.00
Telephone	1,900.00	1,900.00	1,900.00
<b>Total Administrative Expenses</b>	9,200.00	9,200.00	15,800.00
<b>Finance Expenses</b>			
Bad debts	600.00	600.00	600.00
Bank charges	125.00	125.00	125.00
Interest	1,100.00	1,100.00	1,100.00
<b>Total Finance Expenses</b>	1,825.00	1,825.00	1,825.00
<b>Total Expense</b>	33,115.20	33,115.20	39,715.20
<b>Net Income</b>	<u>26,884.80</u>	<u>29,384.80</u>	<u>21,284.80</u>

Scroll down and to the right to see the complete budget.

The budget can be displayed with different formats. On the line above the budget, click on the pull down list for **Columns** to alter the length of the period.

We will add some new accounts to the chart of accounts for this business and then add these items into the budget.

On the menu bar, click on **Lists, Chart of Accounts** to get the chart on the screen. Click on **Account, New** at the bottom of the chart to open the box for creating new accounts. Open the following accounts:

Type	Account Name	Sub account of
Expense	Photocopying	Administrative expenses
Expense	Sales Commission	Selling expenses
Expense	Depreciation of Delivery Van	Selling expenses
Fixed Asset	Delivery Van	
Fixed Asset	Original cost	Delivery Van
Fixed Asset	Accumulated Depreciation	Delivery Van
Long Term Liability	Venture Bank	

Rearrange the accounts by locating the point of the cursor on the diamond at the beginning of the account and dragging the account into the desired position.

## SET UP BUDGETS

On the menu bar, click on **Company, Planning and Budgeting, Set up budgets**. Use the pull down list to select **FY2003-2004 Profit & Loss by Account**.

The screenshot shows the 'Set Up Budgets' window with a dropdown menu set to 'FY2003-04 - Profit & Loss by Account'. Below the menu is a table with columns for 'Account', 'Annual Total', and monthly columns from July03 to Jun04. The table lists various accounts such as Sales, Advertising, Motor expenses, and Finance Expenses with their corresponding budget amounts.

Account	Annual Total	Jul03	Aug03	Sep03	Oct03	Nov03	Dec03	Jan04	Feb04	Mar04	Apr04	May04	Jun04
Sales	1,502,000...	120,000...	125,000...	122,000...	126,000...	129,000...	132,000...	140,000...	100,000...	106,000...	126,000...	134,000...	140,000...
Uncategorized Income													
Cost of Goods Sold	751,000.00	60,000.00	62,500.00	61,000.00	64,000.00	64,500.00	66,000.00	70,000.00	50,000.00	53,000.00	63,000.00	67,000.00	70,000.00
Payroll Expenses													
Selling Expenses													
Advertising	54,000.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00	4,500.00
Lease of shop equi...	24,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00	2,000.00
Motor expenses	24,482.40	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20	2,040.20
Rates - shop	3,000.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00
Rent - shop	27,600.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00
Shop salaries	132,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00	11,000.00
Administrative Expen...													
Accounting fees	6,600.00			6,600.00									
Consulting fees	7,200.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00
Deprec. of Office E...	1,200.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Electricity	22,800.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00
Insurance	8,400.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00	700.00
Office salaries	27,600.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00	2,300.00
Postage	15,600.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00	1,300.00
Repairs - office eq...	4,800.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00	400.00
Telephone	22,800.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00	1,900.00
Finance Expenses													
Bad debts	7,200.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00	600.00
Bank charges	1,500.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00
Interest	13,200.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00

To check the budget for the balance sheet, use the pull down list to select **FY2003-2004 Balance Sheet by Account**

Account	Annual Total	Jul03	Aug03	Sep03	Oct03	Nov03	Dec03	Jan04	Feb04	Mar04	Apr04	May04	Jun04
Cash at Bank	50,000.00												50,000.00
Accounts Receivable	125,000.00												125,000.00
Undeposited Funds													
Inventory Asset	50,000.00												50,000.00
Office Premises	100,000.00												100,000.00
Office Equipment													
Original Cost	22,000.00												22,000.00
Accumulated Depr...	-9,300.00												-9,300.00
Accounts Payable	50,000.00												50,000.00
Payroll Liabilities													
Tax Payable													
Sales Tax Payable													
Loan - Enterprise Bank	20,000.00												20,000.00
Capital	35,260.00												35,260.00
Retained Earnings	182,440.00												182,440.00
Drawings	50,000.00												50,000.00

The balance sheet budget has been prepared at the end of the financial year only.

Return to the Profit and Loss budget.

To edit an amount, select the amount to be adjusted and click on the button **Adjust row amounts** at the bottom of the screen.

Adjust the amount which has been entered into the profit and loss budget for Advertising to **5000** from September 2003 to June 2004.

Adjust the amount for Interest to decrease it by **2%** from October 2003 to June 2004.

QuickBooks 2004 has the facility to compound the increases in a budgeted amount. For example, if as a result of an advertising campaign, the sales revenue is to increase by 1% each month, this can be included in the budget.

To do this, select the amount for sales in the July column. At the bottom of the screen, click on **Adjust row amounts**. Use the pull down list to select **Currently selected month**. Key in **1%** in the Increase box, then click to insert a tick into **Enable compounding**. Click on **OK**. The amount for sales will be adjusted across the year.

There are no amounts in the budgets for the accounts which have just been opened. We will create the following budget lines for these (3 are profit and loss items and 3 are balance sheet items):

Account	Amount	Notes
Photocopying	\$250	Per month
Sales Commission	\$1100	Increasing 1% per month
Depreciation of Delivery Van	\$938	Per month
Delivery Van – Original cost	\$50000	
Accumulated Dep of Delivery Van	-\$11256	NB needs minus sign
Venture Bank	\$43000	

The new accounts which you opened are showing on the budgets. In the Profit and Loss, enter the amount for photocopying into July and click on **Copy across**. Enter the amounts for depreciation and copy across. Enter the amount for Sales commission in July and use the compounding facility.

On the balance sheet budget, enter the amounts for Delivery Van, Accumulated depreciation and Venture Bank in June 2004.

#### TO CREATE A NEW BUDGET

From the Company menu, select **Planning & Budgeting, Set up budgets**. At the budget screen, click on the button **Create new Budget** answer **Yes** and select the type of budget (profit and loss or balance sheet) and the date of the accounting period required.

Enter the amounts and copy across the desired period.

#### BUDGET REPORTS

To check the budget reports, on the menu bar, click on **Reports, Budgets & Forecasts**. Select Profit and Loss or Balance Sheet – the new items which you entered should now be included in the budget. Using **Reports, Budgets & Forecasts**, use the pull down list to select and check the **Profit and Loss budget v. actual** report (if necessary, adjust dates 01/07/03 to 30/09/03). Some actual figures have been put in for July to September for basis of comparison. If the budget is displayed on a year basis, use the pull down list **Column** to select **Month**.

Click on **Reports, Budgets & Forecasts, budget overview**. Use the pull down list to select **Balance sheet** (adjust dates if necessary) to see the delivery van, accumulated depreciation and Venture Bank loan (use the pull down list for **Column** to select **Year**). To see the balance sheet comparison at 30 June 2004, select the report **budget vs actual**, then select **Balance Sheet** from the pull down list (use the pull down list for **Column** to select **Year**).

## WHAT IF?

One of the benefits of computer generated budgets is to be able to carry out 'What if' scenarios with the minimum of effort. A couple of possible options:

1. Management is considering various ways to improve the sales performance. An advertising campaign is to be held (cost \$30000) in an effort to break into a new level of the market. It is anticipated that this will lift the sales by 5% each month after the advertising campaign in October. There will be ongoing follow-up advertisements after the initial campaign, costing \$10000 in December. A new employee will be required in October (annual salary \$48000) to cope with the increased level of sales. Mark up is to stay at 100%
2. Management is considering new sales premises and are looking at the option of renting or buying. A suitable building is available in the appropriate area \$500000. A mortgage will be required of \$450000, interest rate 10% per annum, payable monthly. Rates on the building are \$6000 per annum, and repairs are estimated to be \$7000 per year. Depreciation on the building would be 5% per annum and insurance would be \$2500. Alternatively, a suitable building could be available at an annual rent of \$100000. The new premises would be required to facilitate the increased sales drive. New accounts would be needed for Shop Premises (Fixed asset), Mortgage (Long Term Liability) Building repairs (expense – sub account of Selling Expenses), Depreciation of shop premises (expense – sub account of Selling Expenses). Amounts entered for this exploration would be in addition to amounts already included in the budget, for instance, Insurance and Rates.

## NOTES

Items in the budget do not affect the actual reports – these amounts will not appear as items on the profit and loss or balance sheet actual reports.

Reports can be looked at in various ways – monthly, yearly, etc This can be selected at the top of the report screens.

Reports can be customized for columns etc This is also accessed from the report screens.

Reports can be collapsed so that only the subtotals for the expenses are shown

Charts of accounts – numbers can be used through **Edit, Preferences, Accounting** (from the box on the left), **Company Preferences**, Click on **Use account numbers**. Accounts which are predetermined by the nomination of the type of business will have preset numbers. Other accounts will need to have numbers assigned as the account is opened.

