

Computerized Accounting with QuickBooks® Online (6e)

By Gayle Williams & Jennifer Johnson

Chapter 1 – Chart of Accounts

New Chart of Accounts Features and Account Setup

In May of 2022, Intuit changed how general ledger accounts are managed in QBO. The change was made **after** your textbook was printed.

Here's how the new account classifications and types in QBO align with the elements of the accounting equation.

| Financial Statement Categories | Asset | | Liability | | Equity | Income | Expense |
|--|---|--|--|--|--|---|--|
| QBO Financial Statement Classification | Banks | Assets | Credit Cards | Liabilities | Equity | Income | Expenses |
| QBO Account Types | <ul style="list-style-type: none">• Bank Accounts | <ul style="list-style-type: none">• Accounts Receivable• Other Current Assets• Fixed Assets• Other Assets | <ul style="list-style-type: none">• Credit Cards | <ul style="list-style-type: none">• Accounts Payable• Other Current Liabilities• Long Term Liabilities | <ul style="list-style-type: none">• Equity | <ul style="list-style-type: none">• Income• Other Income | <ul style="list-style-type: none">• Cost of Goods Sold• Expenses• Other Expenses |

Third-party bank and credit card accounts can be directly connected to QBO, which is one reason why they are separated from other asset or liability accounts.


QBO further breaks down the accounting equation elements into **account types**. (**Account types** are not new.) **Account types** are used to identify:

- the financial statement on which an account will appear
 - Balance sheet or profit and loss statement
- where on that statement the account will be displayed
 - QBO prepares classified balance sheets and multi-step income statements
- AND which QBO features are available for that account.
 - For example, a reconciliation tool can be used with some accounts.

All accounts in QBO must have an **account type** and a **tax form section type**. **Tax form section types** can be helpful when preparing a company's federal tax return. They are similar to the **detail types** used in QBO before May 2022.

The options available for **account** and **tax form section types** are defined by QBO and cannot be modified. Although it should be easy for you to determine the correct **account type**, finding an appropriate **tax form section type** can be challenging. Select the most reasonable alternative if you don't find an exact match. You can substitute **tax form section type** for any references to **detail type** in QBO or in your textbook

New Process for Adding an Account

Open your Chart of Accounts by clicking the  in the icon bar and selecting **Chart of Accounts**. If asked, click **See your Chart of Accounts**.

Click **New** in the top right of your window to create a new account and follow these steps:

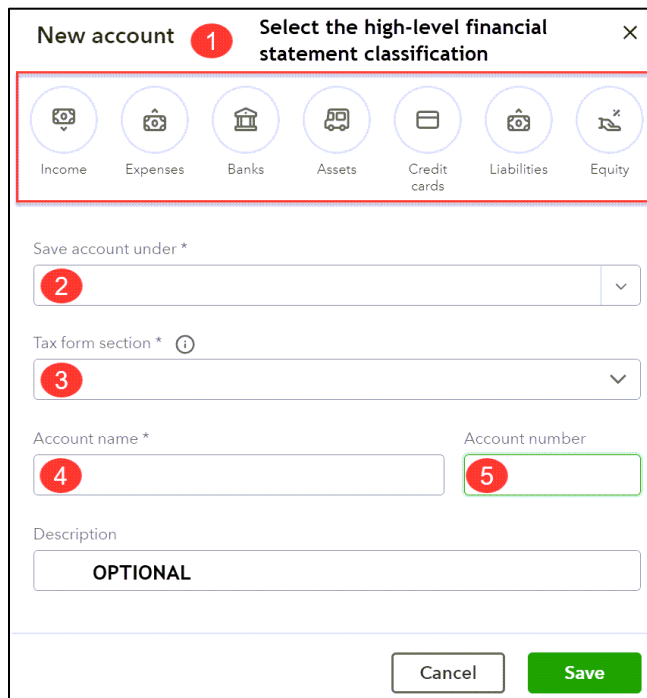


Figure 1

New account
setup window

1. Select the high-level financial statement classification that best fits your new account.
2. In the **Save account under** field, identify where you want the account to appear on the financial statement. Available options in the dropdown menu will include all the QBO **account types** in the classification selected in (1) above, **plus** any accounts of that **type** that already exist in the chart of accounts of your QBO company file.
3. In the **Tax form section** field, select the **detail type** that best fits your account. **Tax form section** options vary based on the selection in (2) above.
4. In the **Account name** field, enter the name for your account.
NOTE: Names must be unique.
5. In the **Account number** field, enter the account number for your account.
NOTE: Numbers must be unique. Account numbers are not used in the test drive company, but they will be used in your homework company.

For new balance sheet accounts, **Starting date and opening balance** fields will appear below the **Description** field in Figure 1. These can be used when users manually convert to QBO from another accounting system. You will NOT be entering opening balances utilizing this feature.

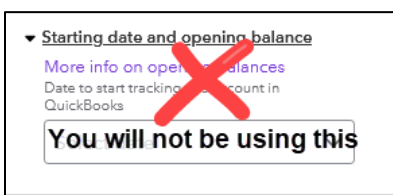


Figure 2

Option for entering
starting balances

As you enter your data, you will see your account start to appear in your chart of accounts list in the image at the bottom of the new account screen (Figure 3). The **NEW ACCOUNT PREVIEW** shows you exactly where the account will be placed in the chart of accounts. As an example, let's create a new account, **Interest Payable**, and use account number **215**.

1. **Interest payable** is a liability. Select **Liabilities** for the account classification.
2. In the **Save account under** field, select **Other Current Liabilities**. Interest payable is a current liability due in 12 months or less.
3. In the **Tax form section** field, select **Other Current Liabilities**. No specific **detail type** matches, so "other" is the best choice.
4. Enter **Interest payable** as the **Account name**.
5. Enter **215** for the **Account number**.

Figure 3

Example of new account setup

In QBO, you can group accounts together in a parent-child relationship (a parent account and one or more sub-accounts). Parent and sub-accounts must have the same **account type**, but they can have different **detail types**.

| Number | Account Name | Account Type | Detail Type |
|--------|-------------------|--------------|----------------------------|
| 620 | Facility Costs | Expenses | Rent or Lease of Buildings |
| 621 | Rent expense | Expenses | Rent or Lease of Buildings |
| 622 | Telephone expense | Expenses | Utilities |
| 625 | Utilities expense | Expenses | Utilities |

Figure 4

Example of parent/sub-accounts

The parent account must exist before any sub-accounts can be created. Sub-accounts are created by selecting the parent account in the **Save account under** field. (The sub-account will automatically have the same **account type** as the parent.) As an example, let's create a new sub-account, **Copier rental expense**, under Facility Costs.

1. **Copier rental expense** is an expense account. Select **Expenses** as the account classification.
2. In the **Save account under** field, select **620 Facility Costs**. Because the new account will be a sub-account, you need to select the parent account in this field.
3. In the **Tax form section** field, you can use the same **Tax form section** as the parent or select a different one. In this case, select **Equipment Rental**.
4. Enter **Copier rental expense** as the **Account name**.
5. Enter **623** for the **Account number**.

New account

Income Expenses Banks Assets Credit cards Liabilities Equity

Save account under *
620 Facility Costs

Tax form section *
Equipment Rental

Account name *
Copier rental expense

Account number
623

Description

Profit & Loss
Balance as of 05/28/2022

603 Employee benefits expense
610 Professional Development
611 Technical reading materials expense
615 Software seminar expense
620 Facility Costs
621 Rent expense
622 Telephone expense
623 Copier rental expense
625 Utilities expense
630 Marketing Costs

NEW ACCOUNT PREVIEW

Cancel Save

Figure 4

Example of sub-account setup

On financial statements, sub-accounts can be shown individually under the parent account, or all accounts can be summarized at the parent account level.