Top 7 things you need to know about QuickBooks Balance Sheet Class Tracking

Well, we asked for Balance Sheet by Class and we got it. Are we happy with it? I have no clear answer on that. It is valuable for some, but you have to be extremely diligent in the way you input transactions for it to be of value and accurate.

The following is a list of some of the common transactions that generate unexpected results on the Balance Sheet by Class report. This is not an all-inclusive list, but the issues that I find most often influence whether or not my client wants to go through the work of doing Balance Sheet by Class Tracking.

1. **Journal entries with "unbalanced classes"**
   a. **Problem:** You enter a journal entry that changes only one side of the balance sheet for a specific class. This creates an "unbalanced" balance sheet for the class. The entry balances as far as debits and credits; however, if you debited Class A and credit Class B, then from a class perspective, it did not balance.

Figure 1: Unbalanced Journal Entry by Class

Figure 2: Balanced Journal Entry by Class

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b. **Solution:** Debits and credits must equal in each transaction by class.
    i. Set up a new account on your chart of accounts.
        1. "Clearing" account that is an "Other Type of Expense" on your chart of accounts.
        2. This should not be used for any day to day transactions – strictly for balancing your classes.
        3. The total in the clearing account should ALWAYS be zero.
2. **Paychecks allocated to multiple classes**
    a. **Problem:** You assign multiple classes to a paycheck. However, the Balance Sheet by Class report doesn't support multiple classes on a paycheck. QuickBooks displays the transaction (bank account and payroll liabilities) in the unclassified column.
    b. **Solution:** Assign only one class per paycheck.
        i. Open the Payroll & Employee preferences when logged in as the Admin in QuickBooks.
        ii. Choose Edit > Preferences.
        iii. In the Preferences window, click Payroll & Employees in the list to the left.
        iv. Click the Company Preferences tab.
        v. Next to assign one class per, select Entire Paycheck.
        vi. Click OK
    c. Then you will need to edit each employee and assign them to a class so that QuickBooks will automatically use that class when you create paychecks. This solution ensures that the report shows the paycheck in the right class.
        i. You need to know, it also means that you can't allocate a paycheck to multiple classes for the Profit & Loss by Class report
    d. A good rule of thumb is to assign a single class per employee paycheck. This means you can use different classes for different employees. However, if you do, solving the problem with payroll liability payments is more difficult.
3. **Payroll Liability Payments**
    a. **Problem:** The Balance Sheet by Class report does not automatically allocate payroll liability payments to classes.
    b. **Solution:** When you make a liability payment, edit the check and enter the appropriate class for each line item.
        i. When you edit, you are going to be dealing with the class column, enter the appropriate class for each line item.
            1. If you assign all paychecks to a single class, enter that class.
            2. If you assign different employee paychecks to different classes, you must assign different amounts to different classes. To do this:
                a. Run the Balance Sheet by Class report on the last day of the period for which you are paying liabilities.
                b. Write down the amount you owe for each class. You can print the report if necessary.

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c. In the liability payment window, add line items so you have one per class.
d. Based on step b, enter the amount and class for each line item.

4. **Sales Tax Payments**
    a. **Problem:** When you create an invoice, the Balance Sheet by Class report allocates the sales tax liability to the right class (based on the proportion of taxable sales items assigned to each class).
        i. However, the report doesn't allocate the sales tax payment to the appropriate class. QuickBooks shows the payment in the unclassified column.
    b. **Solution:** The sales tax check doesn't have a class field. You must make a journal entry to move the sales tax payment from unclassified to the correct class.
        i. You first need to assess the amount of the sales tax payment you should apply to each class. To determine these numbers, run the Balance Sheet by Class report as of the date you paid sales tax through. Look at the sales tax liability you owe for each class.
        ii. Make a journal entry to move the payment from the unclassified column to the appropriate class.

5. **Discount or Credit for a Bill.**
    a. **Problem:** You have one bill that includes multiple classes. When you pay the bill, you use the Pay Bills window to record an early payment discount. This causes a net income difference between the Balance Sheet by Class and Profit & Loss by Class reports.
        i. The Profit & Loss by Class report shows the full discount in a single class.
        ii. The Balance Sheet by Class report allocates the discount based on the classes from the original bill.
    b. **Solution:** Only enter one class per bill. Then when you pay the bill, enter the same class for the discount. If the vendor's bill has multiple classes, you must enter each class on a separate bill
        i. If you have credits you need to apply to a bill, ensure that the credit only has one class as well and that it is the same class as the bill and payment.

6. **Using the Banking Menu to Transfer Funds between Bank Accounts and classes.**
    a. **Problem:** You can not use the Funds Transfer window to transfer funds between classes.
    b. **Solution:** Do the transfer using a journal entry and your "Clearing" account so that your journal entry is balanced between classes.

7. **Class Tracking for Building Assemblies.**
    a. **Problem:** You cannot assign classes to build assemblies function.
    b. **Solution:** QuickBooks doesn't support classes for build assemblies, you shouldn't run or use the report if you use build assemblies in QuickBooks. There is no workaround for this issue at this time.

Now you may be asking yourself if you want to use this feature. The key is having a discussion with your team and accountant as to the value of this process. What are you

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expecting from it and outline the clear processes you are going to go through to ensure your Balance Sheet stays in balance by Class. It can be done, but you want to clearly have someone who owns this verification process monthly as it can quickly become unbalanced and difficult to correct. That being said, I have clients who thoroughly enjoy this feature and wouldn't use QuickBooks if they couldn't track their Balance Sheet by Class – so it is a good solution for some.

If you have any questions as to whether this is a good fit for your company, please feel free to give us a call.

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