

# QuickBooks cleanup & chart of accounts rebuild

Halcyon Creative Studio · Pre-engagement diagnostic and post-engagement structure

Engagement: 2 weeks · Scope: COA rebuild, transaction reclassification, monthly reporting setup

SAMPLE / PORTFOLIO PIECE — FICTIONAL COMPANY, FICTIONAL ENGAGEMENT

## The starting state

Halcyon came in with a QuickBooks file that had been operated by three different people over four years. Revenue was lumped into a single account. Production costs were tagged as office supplies. Owner draws were running through "Miscellaneous." The chart of accounts had grown to 184 lines, most of them inactive duplicates. Reports out of QBO were unusable for ownership — they showed the bottom line, but couldn't answer which service line was making money or which projects were over budget.

184

Active accounts at start

62

Accounts at end

1,247

Transactions reclassified

5

Reports built post-cleanup

## Diagnostic findings

Issues identified in the existing chart of accounts, ordered by severity

ISSUE	SEVERITY	WHY IT MATTERS
<b>All revenue posted to a single "Sales" account</b> No service-line breakdown	CRITICAL	Cannot tell what's driving revenue. Cannot price by service line. Cannot decide where to invest team capacity.
<b>Production costs miscategorized as office expenses</b> Gear rental, talent, location fees	CRITICAL	Distorts gross margin badly. Project profitability cannot be calculated. Looks like the business has high overhead when it actually has high cost of sales.
<b>No COGS / OpEx separation</b> All expenses flat under one parent	CRITICAL	P&L shows operating margin only. Gross margin is hidden. Cannot benchmark against industry standards.
<b>Owner draws routed through "Miscellaneous expense"</b>	CRITICAL	Tax filing risk. Distorts expense totals. Will be flagged at year-end by the CPA and create rework.
<b>184 active accounts, ~70% unused</b>	MAJOR	Bookkeeper guesses where to post. Reports are noisy. Switching bookkeepers = lost institutional knowledge.
<b>Inconsistent vendor naming (e.g., "B&amp;H," "B&amp;H Photo," "BH Photo Video")</b>	MAJOR	1099 reporting becomes a manual sort. Vendor spend reports under-report concentration risk.
<b>Unreconciled bank account (4 months of pending transactions)</b>	MAJOR	Cash position in QBO doesn't match actual balance. Any P&L pulled is unreliable until reconciled.
<b>No class or location tracking</b> Halcyon has 4 subsidiary entities	MAJOR	Inter-entity reporting impossible. Each entity needs separate management view, but ownership wants consolidated too.
<b>Missing prepaid expense schedule</b>	MINOR	Annual software licenses hit P&L in one month rather than amortizing. Distorts monthly trends.

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## Chart of accounts — before vs. after

Excerpts from the income and expense sections; numbering follows industry convention (4xxx revenue, 5xxx COGS, 6xxx OpEx)

### BEFORE

As inherited — 184 accounts, mostly unused, no hierarchy

#### Income

4000 Sales **all revenue here**  
 4001 Sales — old **duplicate**  
 4002 Service income **unused**  
 4099 Other income

#### Expense

6010 Office supplies **includes gear rental**  
 6011 Office supplies (old) **duplicate**  
 6020 Salaries  
 6021 Wages **duplicate of 6020**  
 6022 Payroll expense **duplicate of 6020**  
 6030 Rent  
 6040 Subscriptions  
 6041 Software **duplicate**  
 6042 SaaS **duplicate**  
 6050 Travel  
 6060 Meals  
 6061 Meals — 50% **duplicate**  
 6070 Insurance  
 6080 Professional fees  
 6090 Bank fees  
 6099 Miscellaneous **incl. owner draws**  
 6100 Other expense **unused**  
 6101 General expense **unused**  
 ... 160+ more, mostly inactive

### AFTER

Rebuilt structure — 62 accounts, two-level hierarchy, service-line revenue split

#### Income (4xxx)

##### Service revenue

4010 Audio / visual **new**  
 4020 Print & packaging **new**  
 4030 Strategy retainers **new**  
 4040 Voiceover **new**

##### Other income

4900 Interest income

#### Cost of goods sold (5xxx)

5010 Production — gear & locations **moved from OpEx**  
 5020 Production — talent fees **moved from OpEx**  
 5030 Subcontractors — post / color / sound **moved from OpEx**  
 5040 Print production costs **new**  
 5099 COGS — other

#### Operating expenses (6xxx)

##### Personnel

6010 Salaries & wages  
 6011 Employer payroll taxes  
 6012 Benefits & insurance  
 6013 Continuing education

##### Facilities

6020 Rent — studio  
 6021 Utilities & internet

##### Technology

6030 Software subscriptions  
 6031 Equipment depreciation

##### Insurance

6040 General liability + E&O  
 6041 Equipment insurance

##### Office & operations

6050 Office supplies  
 6051 Travel  
 6052 Meals (50% deductible)

##### Professional services

6060 Legal & CPA  
 6061 Marketing & biz dev

##### Financial

6070 Bank & merchant fees

#### Equity (3xxx)

3100 Owner contributions  
 3200 Owner draws **moved from "Misc"**  
 3300 Tax distributions **new**

**What changed structurally:** revenue split into 4 service lines (so the P&L tells you which line is making money), COGS separated from OpEx (so gross margin becomes visible), owner draws moved from expense to equity (correct GAAP treatment, eliminates tax filing risk), and 122 dead accounts deactivated.

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## Design principles for a creative agency COA

The rules I follow when building or rebuilding a chart of accounts for a creative services business

### 1. Revenue splits by service line, not client

Clients/visual; service lines, persist. Splitting revenue by audio/image, print, strategy, voiceover means ownership can answer "which line should we invest in?" without rebuilding reports.

### 2. COGS is anything that scales with a project

Gear rental, talent fees, post/color subcontractors, print production. If a project doesn't happen, the cost doesn't happen. Everything else is OpEx.

### 3. Owner draws are equity, not expense

Routing draws through expense accounts inflates expenses, shrinks net income on paper, and creates tax filing rework. They belong in 3xxx (equity).

### 4. Two levels of hierarchy, never three

Parent → child is enough for QBO reports to roll up cleanly. Three levels turns reports into a tree that no one can read.

### 5. Deactivate, don't delete

Old accounts stay in the file (preserves history) but are flagged inactive. New transactions can't post to them. The active list shrinks; the audit trail survives.

### 6. Class-track multi-entity from day one

If the business has subsidiaries or multiple service entities, set up class tracking immediately. Retrofitting it later means reclassifying every historical transaction.

## What got built alongside the cleanup

Cleanup is half the engagement. The other half is the reporting infrastructure that becomes possible afterward.

DELIVERABLE	CADENCE	AUDIENCE	PULLS FROM
<b>Friday Report</b> — billing overview, AR aging, cash position, P&L	Weekly	Ownership	QBO direct
<b>13-week cash flow forecast</b> — receipts, disbursements, running cash	Weekly	Ownership	QBO + AR aging
<b>Project profitability tracker</b> — per-project P&L and margin	Monthly	Ops + Ownership	QBO + time tracker
<b>Service-line P&amp;L</b> — comparative across A/V, print, strategy, voiceover	Monthly	Ownership	QBO direct (now possible)
<b>Quarterly tax package</b> — P&L, balance sheet, journal log for CPA	Quarterly	External CPA	QBO direct

## Engagement timeline

Two weeks, fixed scope, with a handoff document

DAY	ACTIVITY	OUTPUT
Day 1-2	QBO audit · diagnostic findings memo · proposed COA structure for review	Findings doc + draft COA
Day 3	Ownership review meeting · finalize new COA · map old accounts to new accounts	Approved COA + mapping spreadsheet
Day 4-7	Build new accounts · deactivate old accounts · reclassify transactions in batches by category	Cleaned QBO file
Day 8	Reconcile bank and credit card accounts to current month	Reconciled cash position
Day 9	Set up class tracking for subsidiaries · build standard reports · set up recurring journal entries (prepaids, depreciation)	Reports + automation
Day 10	Build the first Friday Report from clean data · walk ownership through the new structure · deliver SOP and handoff document	First report + SOP

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