

Writing Off Bad Debt

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This guide walks through various methods for writing off bad debt. It is intended for advanced users.

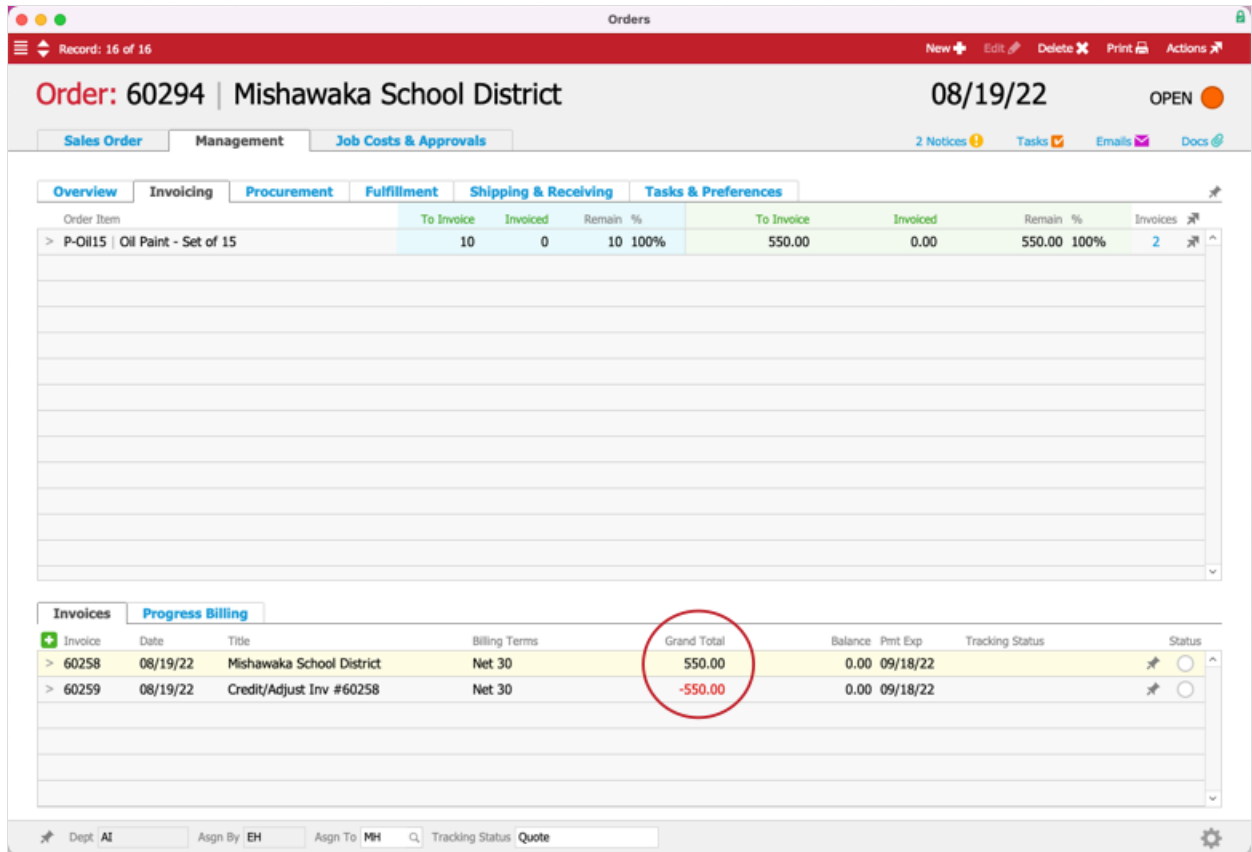
At times you may have one or more balances for invoices that will *not* be paid and need to be zeroed out. Depending on your company policies and the specific details of the situation, you can resolve this issue in three ways which are detailed below:

- [Crediting an invoice](https://aace6.knowledgeowl.com/help/writing-off-bad-debt#CreditingASpecificInvoice) (https://aace6.knowledgeowl.com/help/writing-off-bad-debt#CreditingASpecificInvoice) — Useful for adjusting a specific invoice
- [Using the adjustment column on a receipt](https://aace6.knowledgeowl.com/help/writing-off-bad-debt#UsingAdjustmentColumnInReceipts) (https://aace6.knowledgeowl.com/help/writing-off-bad-debt#UsingAdjustmentColumnInReceipts) — Useful for quick corrections in simple bad-debt scenarios
- [Using a credit invoice](https://aace6.knowledgeowl.com/help/writing-off-bad-debt#UsingACreditInvoice) (https://aace6.knowledgeowl.com/help/writing-off-bad-debt#UsingACreditInvoice) — Useful for reversing a batch of invoices

Crediting a Specific Invoice

When you have a single invoice to consider, you can [create a credit/adjustment invoice](https://aace6.knowledgeowl.com/help/issuing-a-customer-credit) (https://aace6.knowledgeowl.com/help/issuing-a-customer-credit) to eliminate the bad debt. Using an adjustment invoice will keep a clear history on the order, update the sales tax amounts appropriately, and result in accurate sales amounts.

The invoicing history for an order where the original invoice was reversed in its entirety might look like this:



Using the Adjustment Column in Receipts

When you have to consider only a few invoices, involving relatively small adjustment amounts, and sales tax values are *not* a concern, you can apply an [adjustment on a receipt item](https://aace6.knowledgeowl.com/help/using-the-adjustment-field-in-receipts) (<https://aace6.knowledgeowl.com/help/using-the-adjustment-field-in-receipts>). This will change the amount applied to the balance of the related invoice. It is a quick method for resolving bad debt; however, it does *not* reduce the tax liabilities of the bad debt.

For example, suppose a certain customer repeatedly transposes numbers on payments. In paying two invoices for \$1,406.30 and \$10,769.27, they have sent checks for \$1,406.03 and \$10,768.72. Posting these checks would result in the invoices remaining open with balances of \$00.27 and \$00.55. To resolve the issue, the A/R rep could receive the two checks as they are written, then record the imbalance amounts in the Adjustment column as discounts given to the customer:

Receipts

Record: 1 of 1

New Edit Delete Print Actions

Receipt: 60080 Correcting transposed amts - ORD60023/48 08/19/22 PENDING

Customer Payment Details Notices Tasks Emails Docs

Payment Info

Company > Westbury Catholic High School Amount 12,174.75

Pmnt Method Check # Customer Credit Card Notification Status

CHECK

Bank Info

Bank Account > 1120 Undeposited Funds - Cash/Checks

Deposit On Deposit Status Batch Bank Rec Status > Reconciled

08/19/22

Invoices

Invoice	Date	Title	Order	Suggested Balance	Amount	Adjustment	Total
1 > 60205	07/23/22	Westbury Catholic High School	> 60048	1,406.30	1,406.03	0.27 DISC	1,406.30
2 > 60085	07/26/22	Westbury Catholic High School	> 60023	10,769.27	10,768.72	0.55 DISC	10,769.27

Total Allocated 12,174.75

Out of Balance 0.00

Office AI Tracking Status Pmnt Taken By EH Cancel Save

When the A/R rep posts this receipt, the invoice balances will be zero. (For other details of the accounting impact, see our guide on [using the adjustment column in receipts](https://aace6.knowledgeowl.com/help/using-the-adjustment-column-in-receipts#AdjColOnReceipt_AccountingImpact) (https://aace6.knowledgeowl.com/help/using-the-adjustment-column-in-receipts#AdjColOnReceipt_AccountingImpact).

Using a Credit Invoice

When you need to write off a larger number of invoices or debit multiple GL accounts, and also need to reduce the sales tax liabilities of the bad debt, you can use this two-step process.

First, create a credit invoice that includes negative values for the sum total of what is being written off (e.g. -3 widgets that are assigned the correct tax profile). This invoice posts the total negative amounts to the appropriate GL Accounts.

Second, use a zero-value receipt to 'pay' both this credit invoice and the bad debt invoices that need to be zeroed out. Note: This second step is identical to [moving a payment](https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another) (<https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another>).

Depending on your business needs and policies, you can construct your credit invoice in two ways (detailed below):

- Write off the bad debt using specific line item codes (LICs) and tax profiles – This

creates a 'summary' invoice using the details from all the invoices you are writing off.

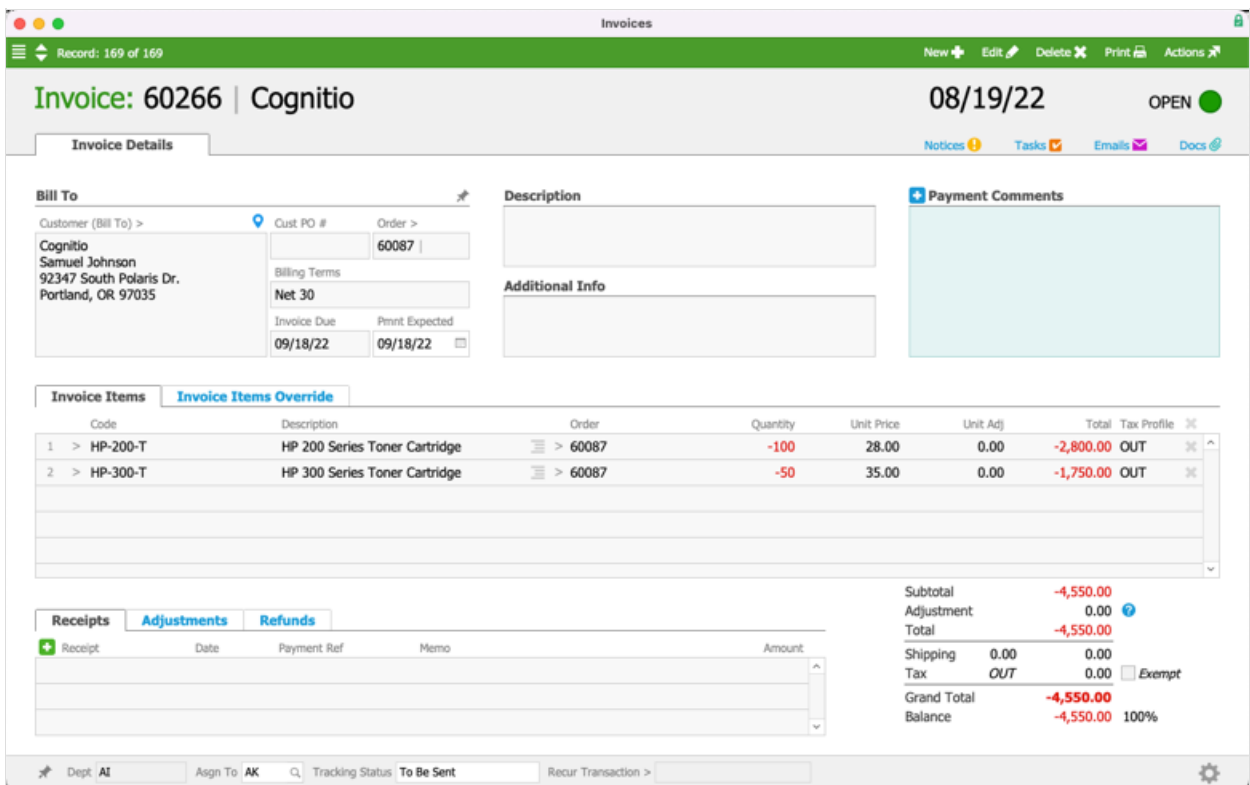
- Write off the bad debt using a generic LIC for "Bad Debt" and a generic LIC for "Tax Lines" – This streamlines the process, while still ensuring that the values are attributed to the appropriate GL accounts.

Write Off Bad Debt Using Specific LICs

Using the specific LICs from the bad debt invoices is helpful because it drives the negative values to the separate GL accounts.

For example, suppose a customer went bankrupt, leaving several outstanding invoices, totaling \$4,550.00. Your A/R rep would create a new invoice that 'summarizes' the customer's bad debt:

- Date – Must reflect the accounting period in which you are recording the bad debt
- LICs – Populated with the specific items being written off (i.e. all LICs that were included on all the bad debt invoices)
- Quantities – Converted to negative values (e.g. a bad debt invoice with 10 textbooks should be reflected in the summary invoice as -10 textbooks)
- Unit Prices – Matched to those used on each of the bad debt invoices
- Tax Profiles – Matched to those used on each of the bad debt invoices
- Tax Exempt Flag – Cleared so the specified tax profiles will be applied



When the A/R rep saves and opens the invoice, it would result in general ledger entries that reverse the values for each LIC / tax profile combo.

Account	Transaction ID	Date	Office	Dept	Code	Order	PO	Debit	Credit	Debit Balance	Status	
1202 Accounts Receivable												
> 1202	> INV-60266	08/19/22	AI	AI		> 60087			4,550.00	4,550.00 CR	OPEN	
1202 Accounts Receivable								4,550.00	4,550.00 CR			
4002 Product Sales												
> 4002	> INV-60266	08/19/22	AI	AI	> HP-200-T	> 60087		2,800.00		2,800.00	OPEN	
> 4002	> INV-60266	08/19/22	AI	AI	> HP-300-T	> 60087		1,750.00		1,750.00	OPEN	
4002 Product Sales								4,550.00		4,550.00		
List Totals								4,550.00	4,550.00	0.00		

Next, the A/R rep would create a new customer payment at the Receipts module. This credit/adjustment receipt should have a Total Allocated of \$0.00, and should include all the bad debt invoices plus the new credit invoice. (Note: This step is identical to [moving a payment](https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another) (<https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another>).

Receipts
New Edit Delete Print Actions

Receipt: 60087

Customer Payment Details

Crdt/Adj for Bad Debt - Cognitio

08/19/22

PENDING

Payment Info

Company > Cognitio Amount 0.00

Pmnt Method Reference # Customer Credit Card Notification Status

CREDIT/ADJ

Bank Info

Bank Account > 1120 | Undeposited Funds - Cash/Checks

Deposit On Deposit Status Batch Bank Rec Status > Reconciled

08/19/22

Invoices

Invoice	Date	Title	Order	Suggested Balance	Amount	Adjustment	Total
3 > 60207	07/25/22	Cognitio	> 60087	4,550.00	4,550.00	0.00	4,550.00
5 > 60266	08/19/22	Cognitio	> 60087	-4,550.00	-4,550.00	0.00	-4,550.00

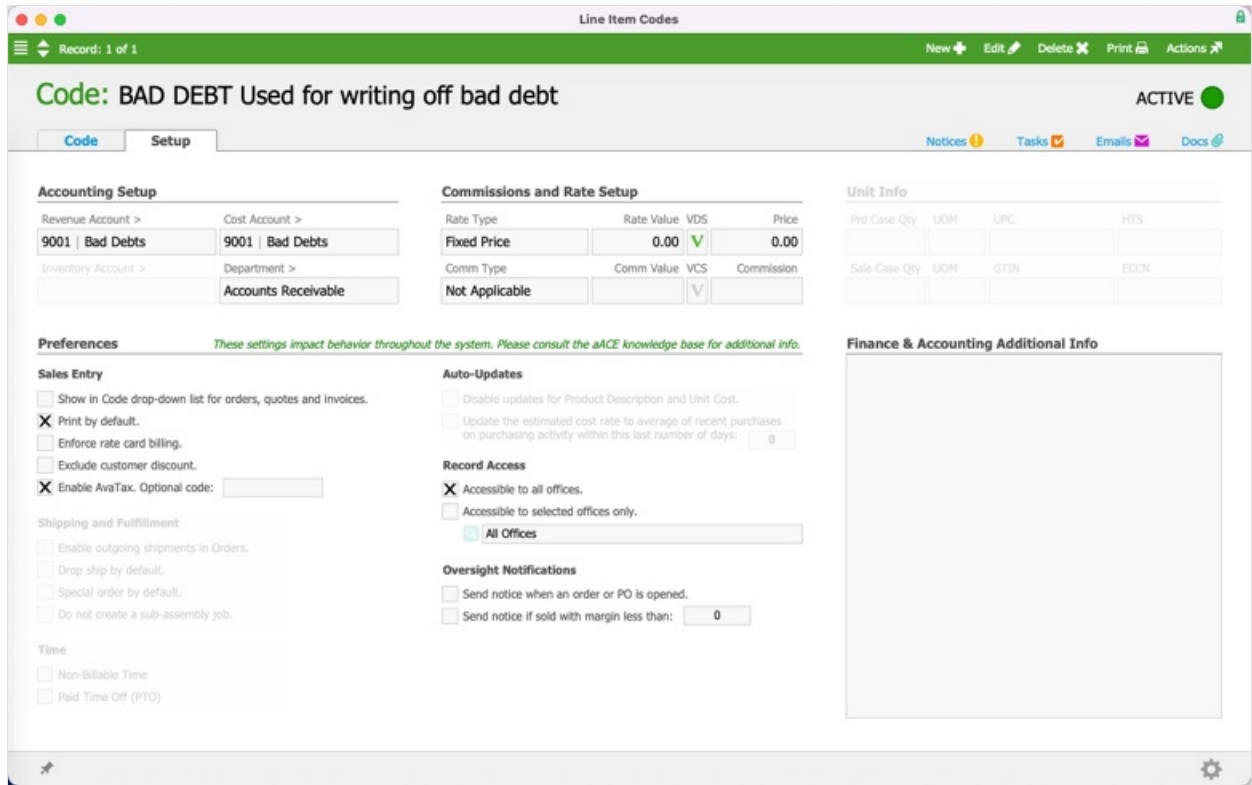
Total Allocated 0.00

Out of Balance 0.00

Office AI Tracking Status Pmnt Taken By EH Cancel Save

Write Off Bad Debt Using a Generic Bad Debt LIC

Using a single LIC streamlines the process of writing off a batch of invoices, attributing the value to a single GL account. Before using this method, verify whether your system already includes a "Bad Debt" LIC for this purpose. If it does not, ask your system administrator to create one similar to this example. (Note: The Revenue Account should reference the account in the GL where bad debts accrue.)



As an example of using this method, suppose you need to zero out multiple invoices for a customer that total \$1,131.42. Your A/R rep would create an invoice for that customer:

- Date – Must reflect the accounting period in which you are recording the bad debt
- LICs – Populated with the single LIC for Bad Debt
- Quantity – Set to one
- Unit Price – Negative value equal to the total of the invoices you are writing off
- Tax Profiles – Leave the default setting. Usually Other-type LICs would use a 0% tax rate.

Note: If you need to also reduce sales tax liabilities, use a separate line on the invoice (see below).

Record: 2 of 2 New Edit Delete Print Actions

Invoice: 60267 | NSACS Bad Debt 08/19/22 OPEN

Invoice Details Notices Tasks Emails Docs

Bill To *Always use the Mastercard on file*

Customer (Bill To) > Cust PO # Order >

New Start Academy Charter School
Tony Conforto
80 David Street
North River, NJ 08882

Billing Terms
Net 30

Invoice Due Pmnt Expected

09/18/22 09/18/22

Description

Additional Info

Payment Comments

Code	Description	Order	Quantity	Unit Price	Unit Adj	Total	Tax Profile
1 >	BAD DEBT	Used for writing off bad debt	1	-1,131.42	0.00	-1,131.42	OUT

Receipts Adjustments Refunds

Receipt	Date	Payment Ref	Memo	Amount

Subtotal -1,131.42

Adjustment 0.00

Total -1,131.42

Shipping 0.00

Tax OUT 0.00 Exempt

Grand Total -1,131.42

Balance -1,131.42 100%

Dept: AI Asgn To: AK Tracking Status: To Be Sent Recur Transaction >

Next, the A/R rep creates a new customer payment from the Receipts module. This credit/adjustment receipt should have a Total Allocated of \$0.00, and should include all the bad debt invoices plus the new credit invoice. (Note: This step is identical to [moving a payment](https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another/) (<https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another/>).

Record: 19 of 19 New Edit Delete Print Actions

Receipt: 60089 Crdt/Adj for Bad Debt - NSACS 08/19/22 PENDING

Customer Payment Details Notices Tasks Emails Docs

Payment Info

Company > Amount

New Start Academy Charter School 0.00

Pmnt Method Reference # Customer Credit Card Notification Status

CREDIT/ADJ

Bank Info

Bank Account >

1120 | Undeposited Funds - Cash/Checks

Deposit On Deposit Status Batch Bank Rec Status > Reconciled

08/19/22

Invoice	Date	Title	Order	Suggested Balance	Amount	Adjustment	Total
1 >	08/10/22	New Start Academy Charter School	> 60028	1,131.42	1,131.42	0.00	1,131.42
2 >	08/19/22	NSACS Bad Debt		-1,131.42	-1,131.42	0.00	-1,131.42

Total Allocated 0.00

Out of Balance 0.00

Office: AI Tracking Status: Pmnt Taken By: EH Cancel Save

Notes about Taxes

Organizations that collect sales tax may also need reversing entries for tax accounts in order to avoid paying sales taxes on bad debt. Be mindful of this when creating a receipt that includes a bad debt adjustment or when creating a credit invoice to reverse a batch of invoices.

If adjustments to sales tax accounts are required, your system administrator can create generic LICs for each tax jurisdiction. These should be Other-type LICs, leaving the default 0% tax rate for all [tax profiles](https://aace6.knowledgeowl.com/help/setting-up-tax-profiles) (<https://aace6.knowledgeowl.com/help/setting-up-tax-profiles>). When your A/R rep creates a credit invoice, he should add a line for each applicable tax jurisdiction, entering the correct tax amount with detailed notes.
