Understanding Adjustment Invoices

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This guide explains adjustment invoices and how to use them to adjust open invoices. It is intended for advanced users.

Invoices create general ledger (i.e. accounting) entries when you open them. Therefore, editing an invoice that has been opened requires changing accounting entries that may have already appeared in financial reports. For this reason, aACE does *not* allow users to edit invoices once they have been opened; they can only be edited while they are in a Pending status. (Note: This same rule applies to other transactions that generate general ledger entries, such as purchases, disbursements, etc.)

However, some business cases require changes to be made to an invoice after it has been opened. Adjustment invoices fill this need. They do not carry their own balance, but instead affect the balance on the invoice they are adjusting (i.e. the 'parent' invoice). Most importantly, they help preserve a clear audit trail of all changes. Even if adjustment invoices are created on different dates by different users, each change can be easily reviewed.

Adjustment invoices can be used to:

- Record a price adjustment
- Record a credit for a customer (e.g. process a return or an order cancellation)
- Print a credit memo

When you create an adjustment invoice, the default state is for aACE to initially generate a full reversal of the parent invoice. Then you can edit the adjustment to only change the values you want updated.

Adjustment invoices *cannot* be opened in a closed accounting period (https://aace6.knowledgeowl.com/help/period-management-preferences). If you need to adjust an invoice that is in a closed period, there are two options:

- You can create the adjustment invoice and manually change the record date to an open period.
- You can request your controller to re-open the period, then create the adjustment invoice.

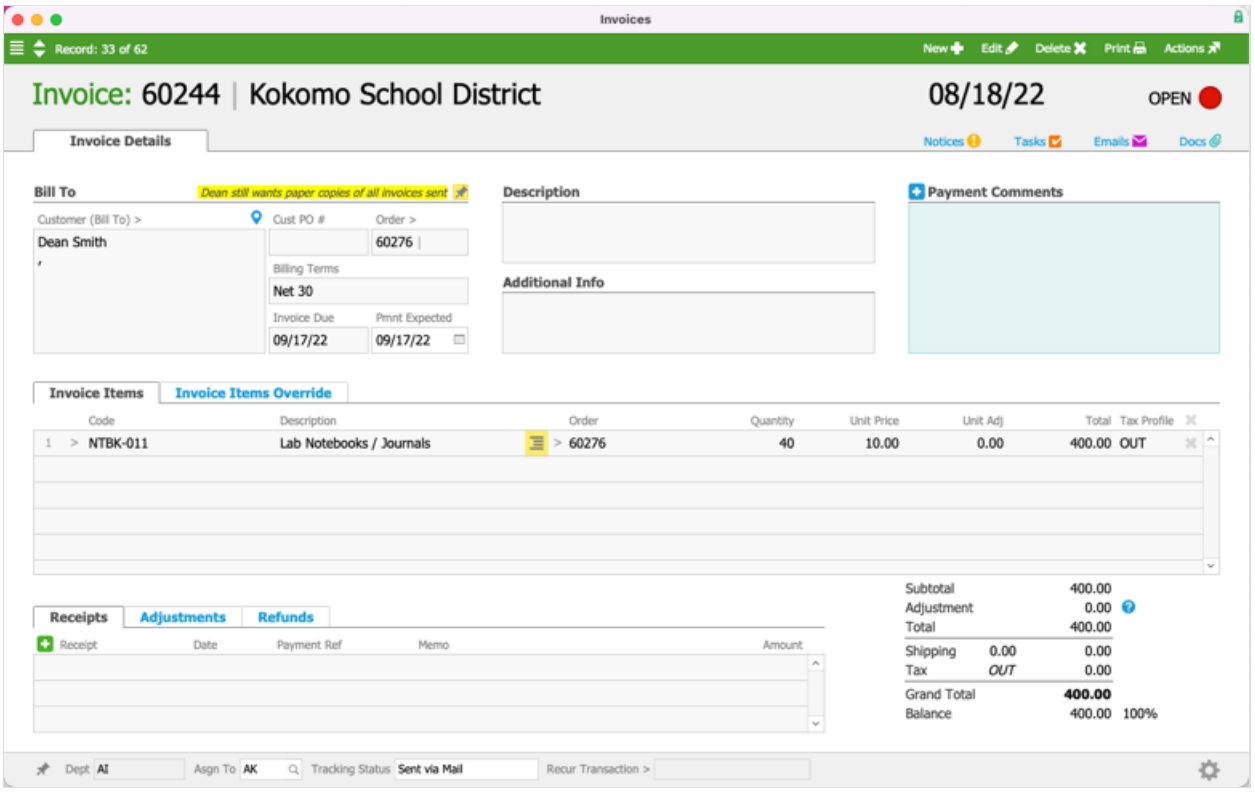
Your choice depends on when the changes need to be reflected in the books. You may need to consult with your controller to choose the best option.

Examples of Using an Adjustment Invoice

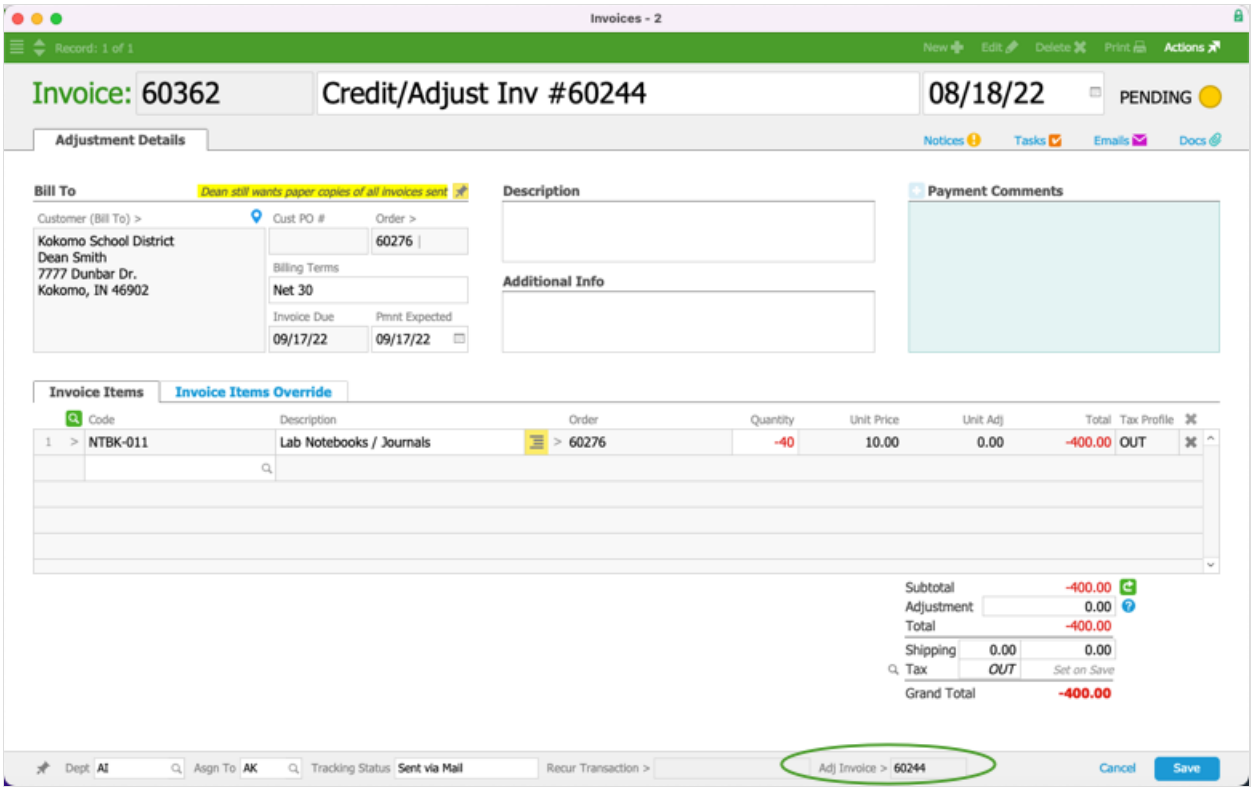
Fully Reversing an Invoice

Suppose a customer is unable to pay for product they recently ordered. The best way to resolve the situation is to simply reverse the outstanding invoice.

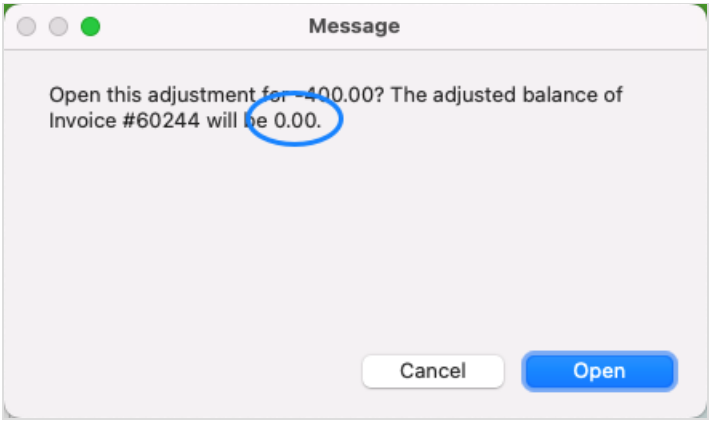
Your A/R rep locates the open invoice for that order:



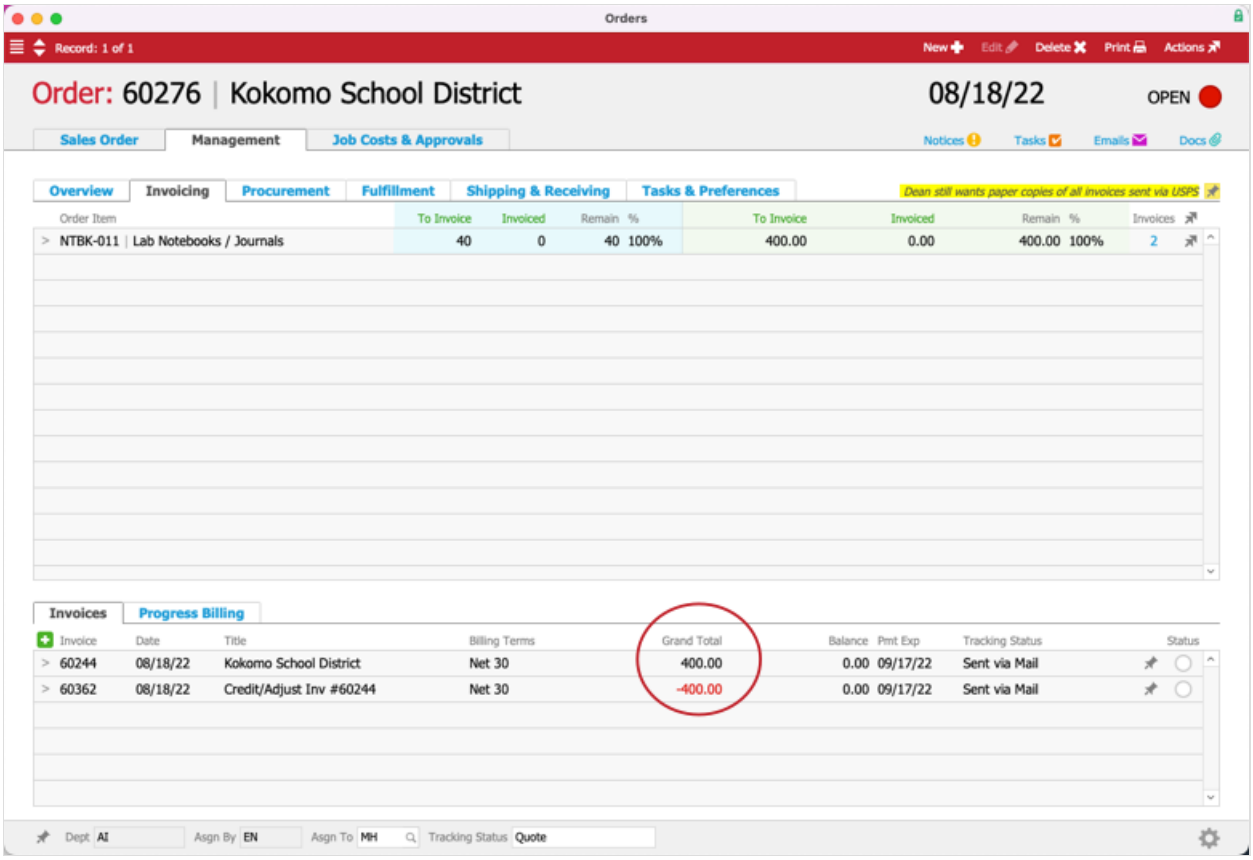
At the detail view, they use the Actions menu to create a credit/adjustment invoice. (Note: They could also create an adjustment invoice by clicking the Add icon ( ) on the Adjustments tab.) The adjustment invoice in its default state fully reverses the values from the original invoice and provides a link to that invoice in the footer:



With the new, fully reversed adjustment, the A/R rep could edit the items or the quantities to reflect the appropriate entry. For this example, the invoice needs to be reversed in its entirety, so no changes are required. They click Save, and aACE displays a message summarizing how the adjustment invoice will affect its parent invoice:



The message highlights that the balance of the parent invoice will be reduced to zero. They click Open, then aACE processes and closes both the adjustment invoice and the parent invoice. The order record's Invoicing tab shows the invoicing history and balance that add up to zero:

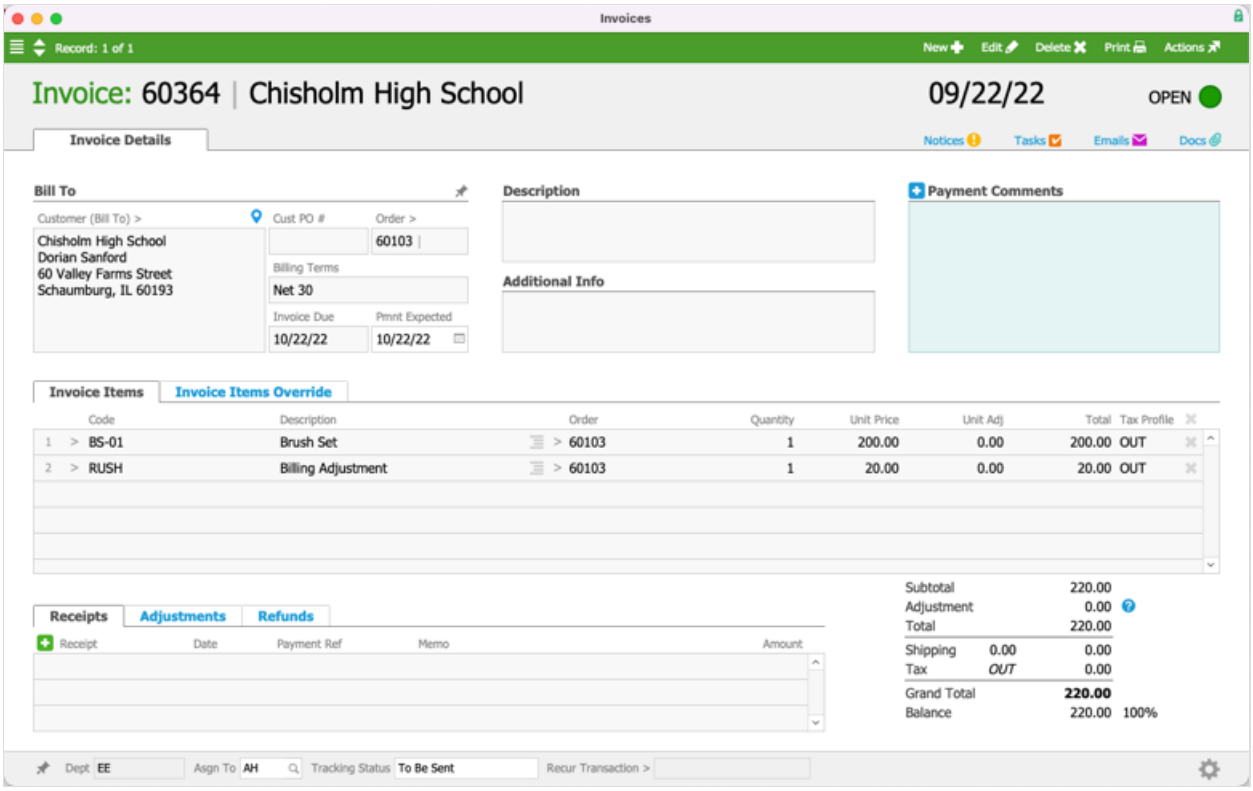


Note: For more info about handling this kind of situation, see our guide on writing off bad debt (https://aace6.knowledgeowl.com/help/writing-off-bad-debt).

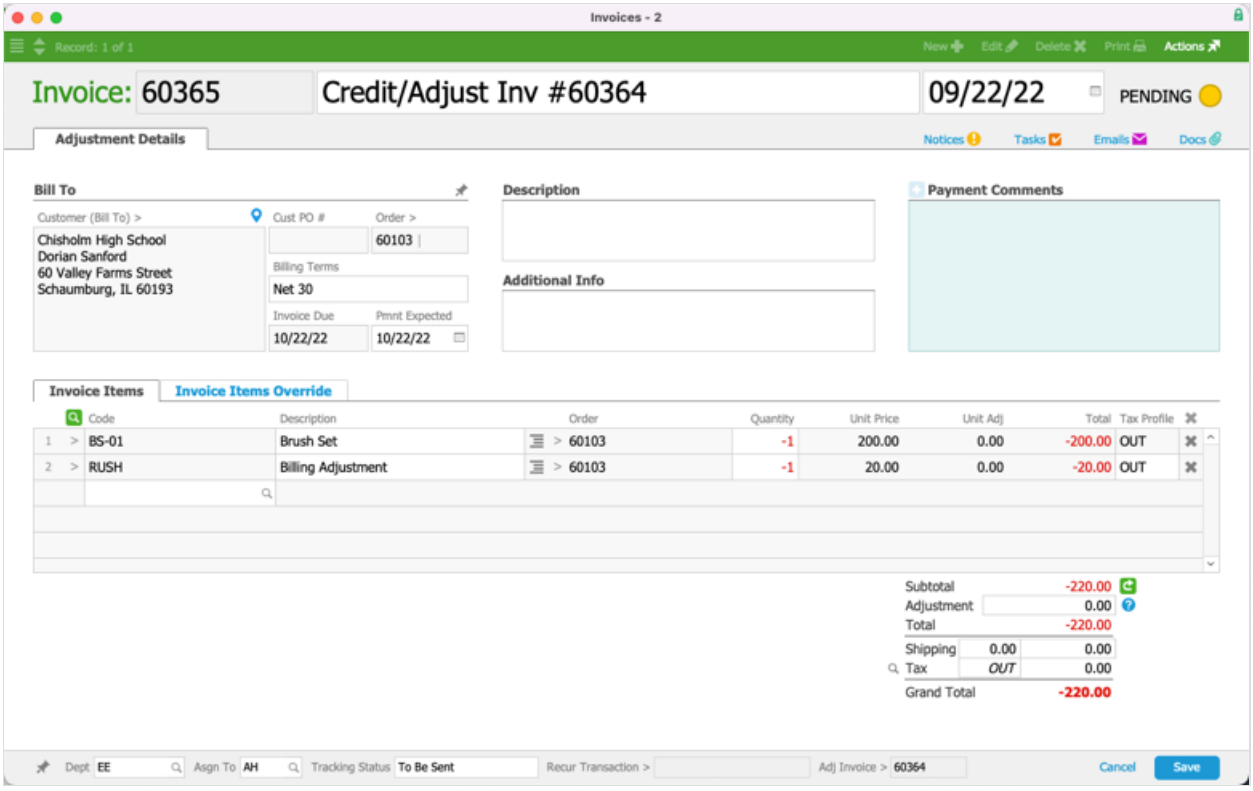
Partially Reversing an Invoice

Suppose a customer sends in a rush order. A $20 charge for a same-day shipment is added; however, other factors slow the order down slightly. When the customer receives the invoice, they dispute the rush charge, but agree to pay half the amount since the order did arrive earlier than normal. The rush charge can be modified using an adjustment invoice.

Your A/R rep locates the open invoice for that order:

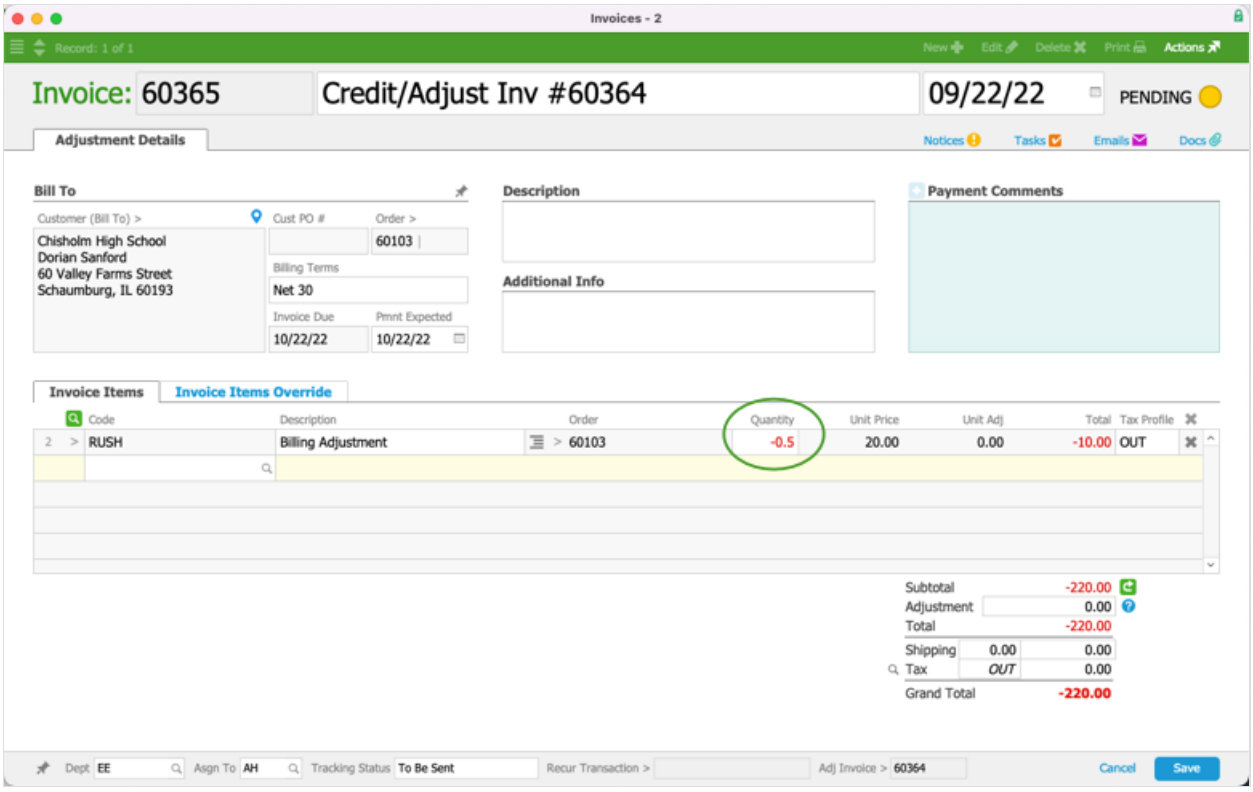


At the detail view, they use the Actions menu to create a credit/adjustment invoice:

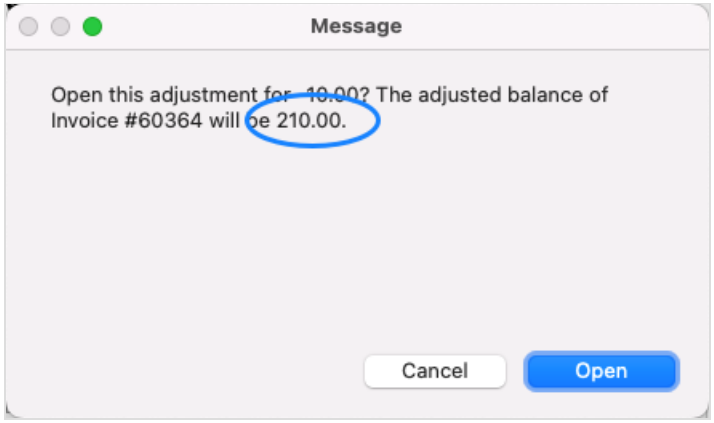


On the adjustment, they edit the items and quantities to reflect the appropriate credit entry. For this example, only part of the rush charge needs to be reversed. They click the Delete icon (✖) to remove the brush set, then also clears the Shipping values. The Unit Price on the

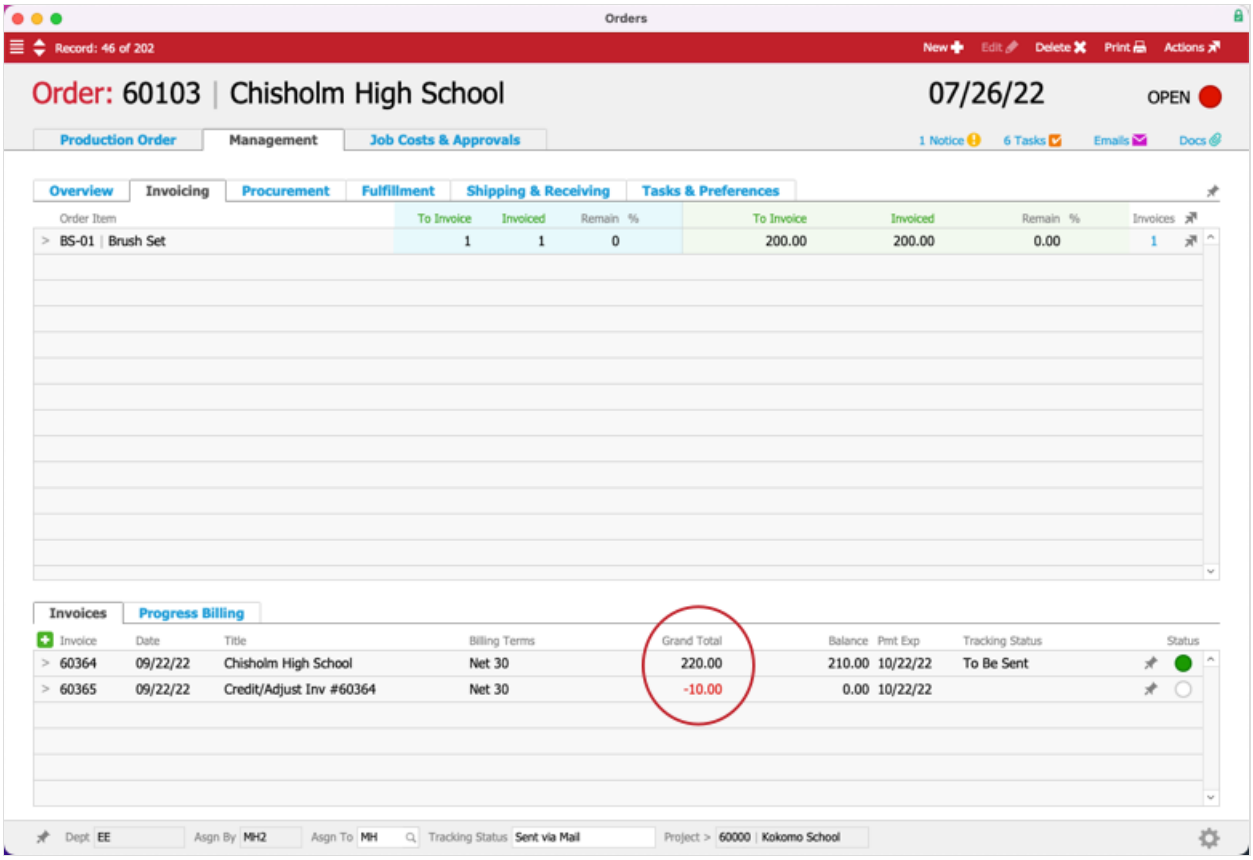
invoice item cannot be modified (see below for details), so instead they change the Quantity from -1 to -.5:



When the rep clicks Save, aACE displays a message summarizing how the adjustment invoice will affect the parent invoice:



The message highlights that the balance of the parent invoice will be reduced by $10.00. They click Open, then aACE processes and closes the adjustment invoice. The order record's Invoicing tab shows the invoicing history and balance:



Changing Quantities vs Changing Prices

While you can edit quantities on an invoice that has been opened, aACE does *not* allow users to directly edit prices for lines tied to the parent invoice. This constraint helps keep records clear and reporting accurate.

For example, suppose the last unit of an item was sold for $80, but was damaged en route and a reduced price of $60 was negotiated. The parent invoice would show Quantity '1' and Unit Price '$80'. The A/R rep might create various adjustment invoices affecting *both* the quantity and price, but they would not match the reality:

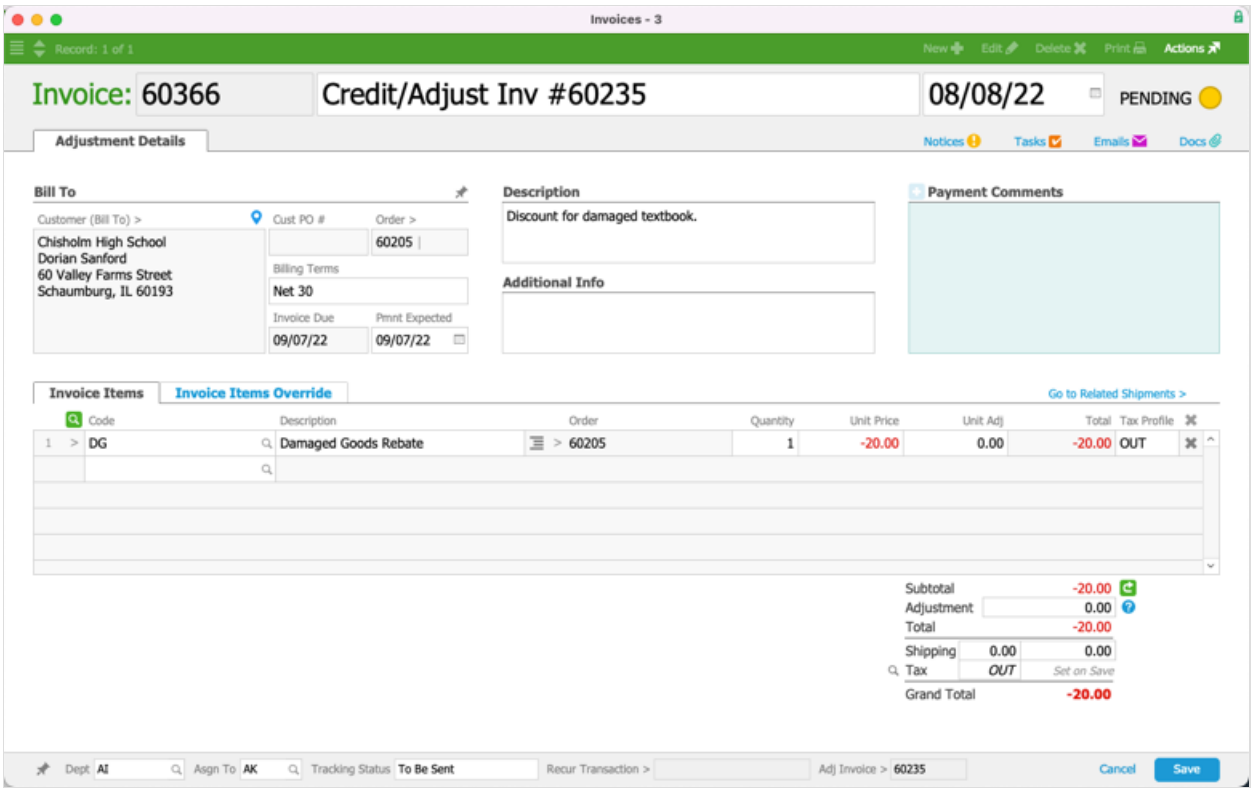
Adjusted Qty	Adjusted Price	Reporting Impact
-1	$20	The net quantity on the sale is *zero*; the revenue is $60.
1	-$20	The net quantity on the sale is *two*; the revenue is $60.

Neither of these results are accurate. We need the records to match the reality — one unit sold for $80 and then granted a $20 credit. This is of critical importance for keeping sales reports reliable, because many organizations use these reports to guide their decision-

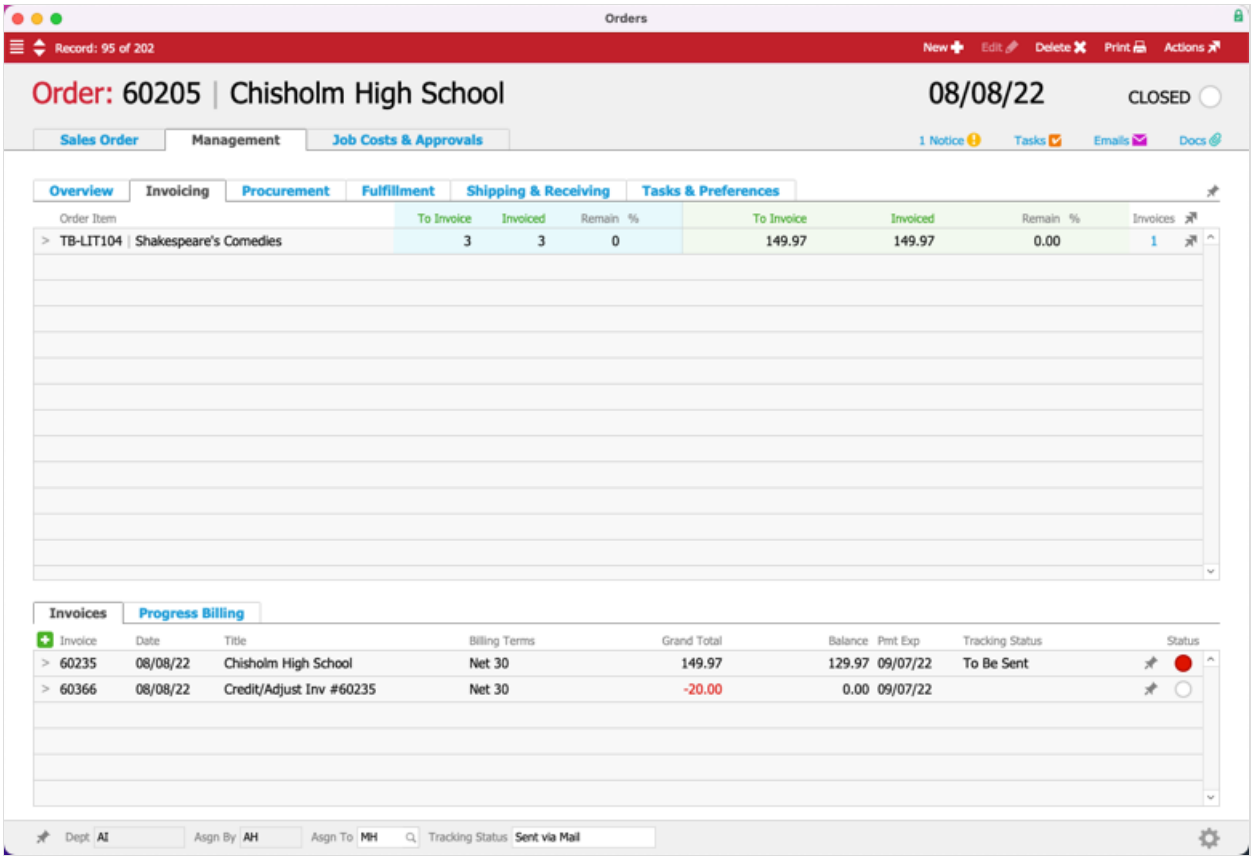
making.

When you adjust an invoice, the best method for handling updated values or new charges (e.g. damaged goods, a restocking fee, etc) is usually to add a new line using a line item code specifically for that charge. This allows you to control both quantity and price.

Suppose a customer bought a few textbooks for $49.99 each. When the customer received it, they saw that one was damaged, so they demanded a price reduction of -$20.00 for the one textbooks. The customer service rep created an adjustment invoice which initially fully reversed the invoice. They removed the textbooks from the adjustment invoice, added the appropriate LIC for the rebate, set the adjustment item Unit Price to -$20.00, then cleared the shipping and tax values:



When they opened the adjustment invoice, the balance on the parent invoice was reduced accordingly. The order's Invoicing tab shows the invoice history:



Voiding an Invoice

Voiding an invoice can resolve some situations easily. For example, suppose you wanted to fully reverse an invoice (as described above) with fewer steps. Or perhaps a large number of changes needed to be made to an invoice, and it would just be easier to recreate it.

When you void an invoice from the invoice's detail view (Actions > Void Invoice), aACE automatically creates and opens an adjustment invoice that *fully reverses* the parent invoice.

Voiding and Replacing an Invoice

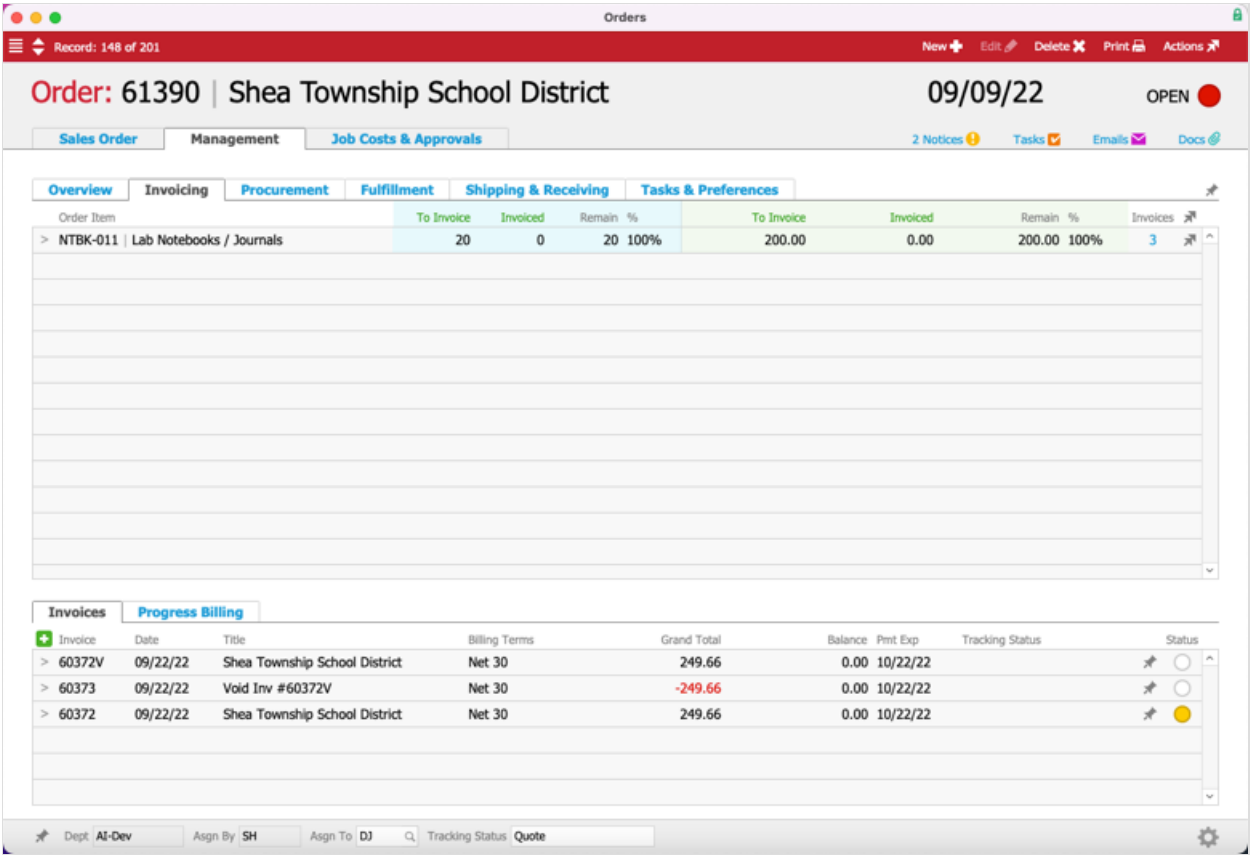
Suppose a customer requires a large number of changes on an invoice, but does not want to alter your invoice number that they have already entered in their system. aACE enables users with admin privileges to handle this easily.

At the invoice detail view, click Admin Actions ( ) > Void and Replace Invoice. This feature automatically completes several actions:

- Duplicates the original invoice
- Adds the suffix 'V' to the original invoice ID (e.g. invoice #12345 becomes #12345V)

- Voids the original invoice
- Transfers the original invoice ID to the duplicate invoice
- Leaves the duplicate invoice in Pending status where you can make changes

The order Invoicing tab will display the invoicing history, including the original invoice with the 'V' suffix, the voiding adjustment invoice, and the new, duplicated invoice:



Correcting Errors

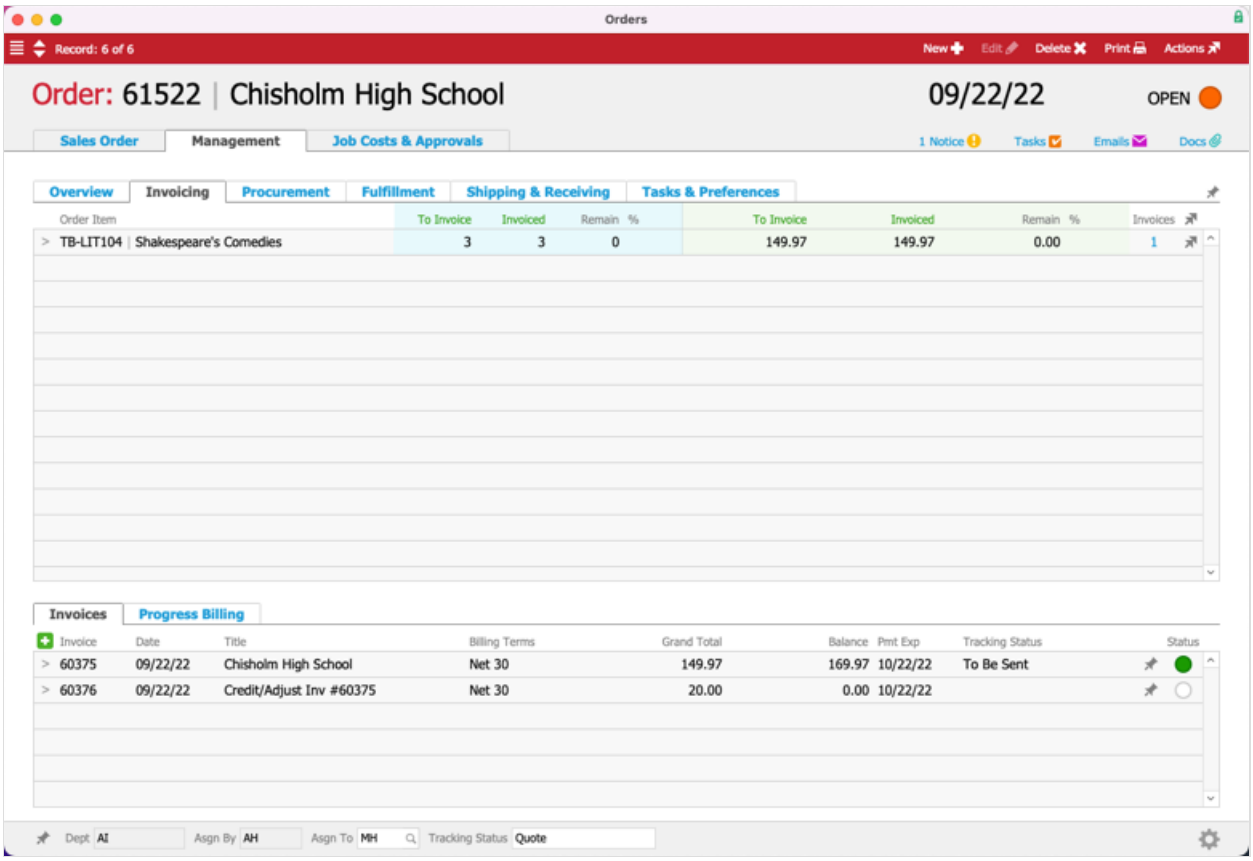
After you adjust an invoice, you might realize you made a mistake. There are two general ways of correcting an adjustment invoice: void the adjustment so you can start over, or adjust the adjustment.

Voiding an Adjustment Invoice

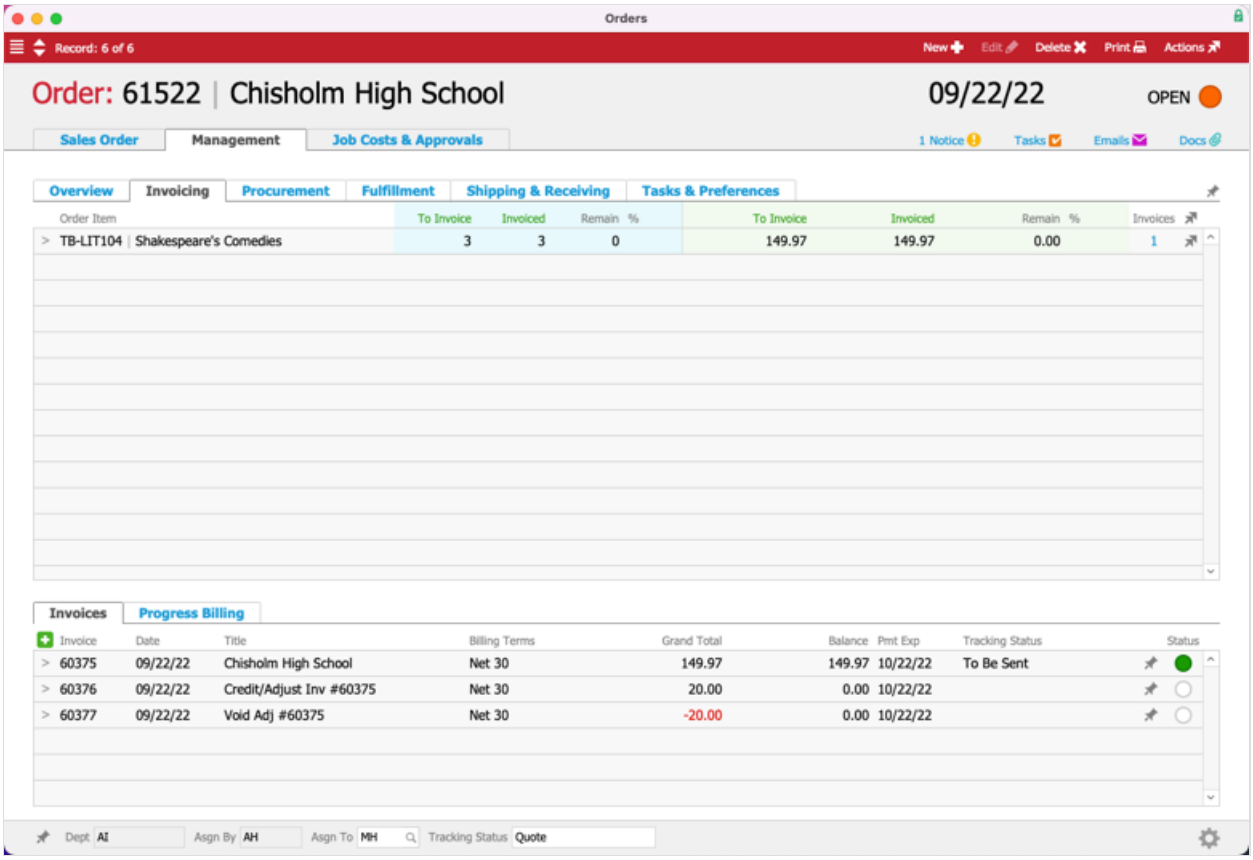
This is often the best solution. It keeps the adjustment requirements simple, rather than creating a new record to modify a second record in order to modify a third record.

Suppose that in the example used above, where a -$20.00 credit should have been applied to an invoice for a damaged textbook, instead the A/R rep accidentally created an adjustment for $20.00, increasing the invoice balance. After they recognize the error, they

locate the order again and review the Invoicing tab:



They click the go-to link for the incorrect adjustment invoice. At the adjustment invoice detail view, the rep clicks Actions > Void Invoice. aACE prompts for a reversal date and reason for the void, then completely reverses the adjustment, returning the order to its initial values:



At this point, the A/R rep can create the proper adjustment for the parent invoice.

Voiding Multiple Adjustment Invoices

If there are multiple adjustment invoices that you need to void, you can take care of them at one time from the invoice list view. Filter out any invoices that do *not* need to be reversed. Then click Actions > Void Invoices in List.

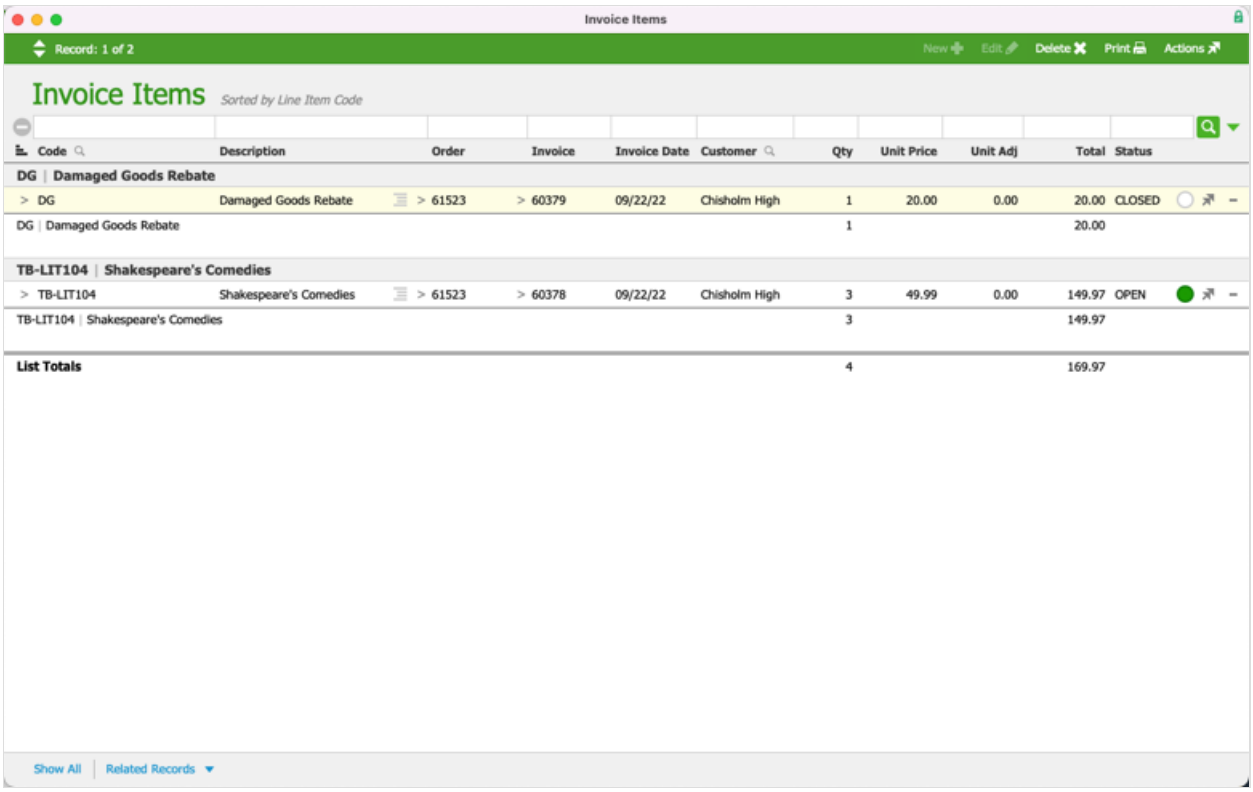
Adjusting an Adjustment

At times, it may be simple to create a second adjustment. Before you begin, make sure you have a clear understanding of what the end result should look like. To get a clearer picture of the data, you can review the LICs on the invoice(s):

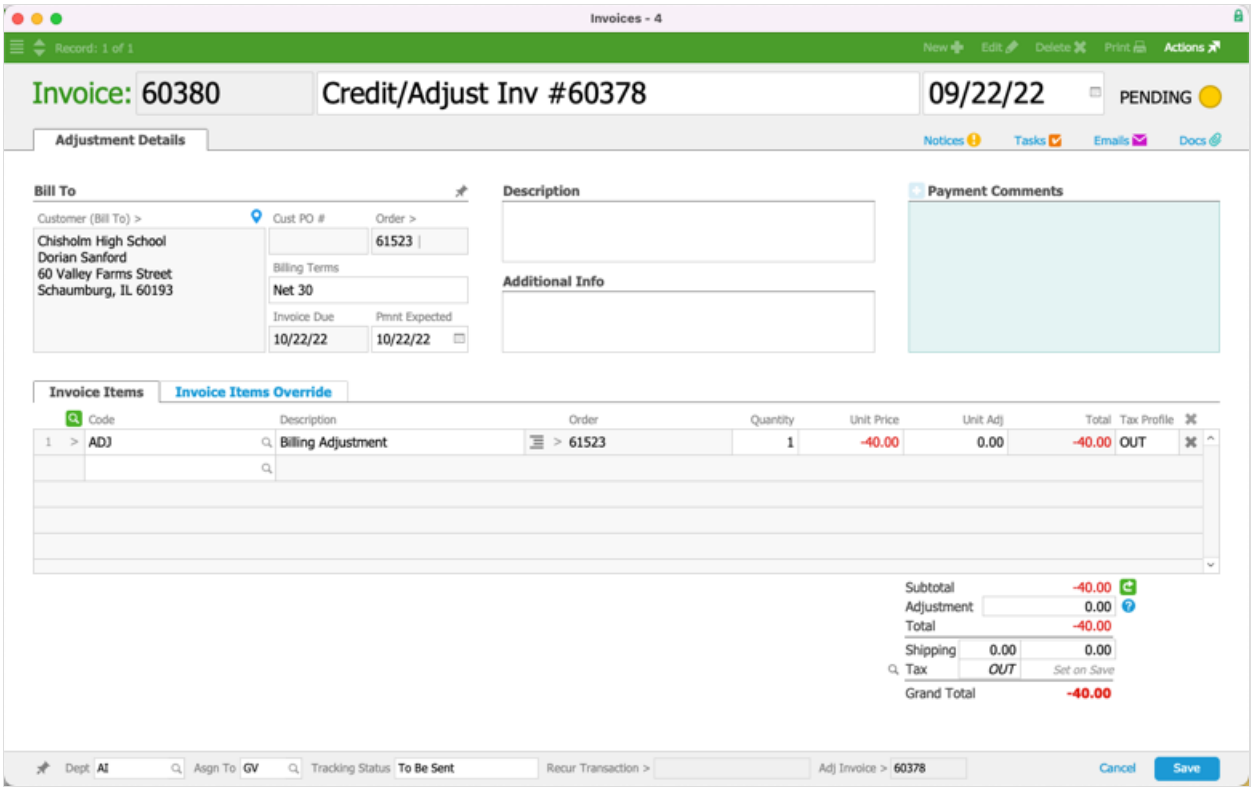
1. At the Invoices module list view, filter the list to show the original invoice and the current adjustment invoice(s).
2. Click the footer link for **Related Records** > **Invoice Items**.
3. At the Invoice Items module, click the **Code** column to sub-summarize the list.

aACE displays the net quantities and values for each LIC included on the invoices. This can help you discern what changes are needed to correct the situation.

Using the earlier example again, suppose a few textbooks were sold, but was one was damaged en route. A -$20.00 credit should have been applied to the invoice, but instead $20.00 was *added* to the total. When the A/R rep recognizes the error, they can search the Invoices module for the needed Order number, then review the Invoice Items module to see where things stand:



This shows that to reach the end goal of a -$20.00 deduction on the textbook invoice, they must create an adjustment invoice for -$40.00. Half that amount will balance out the mistaken adjustment, then the other half will reduce the original invoice as agreed. At the original invoice, they create a new adjustment invoice for -$40.00.



After they save and open the adjustment invoice, they can verify things are correct at the order's Invoicing tab.

Note: If repeated adjustment invoices do *not* result in the changes you wanted, it may be best to void all the adjustments for a fresh start (see above) or to get help from your aACE Support Representative. Re-adjusting invoices over and over can make an issue even harder to resolve.

Positive Adjustments

New charges can be added using an adjustment (e.g. a restocking fee).

Suppose a customer returns a unit that must be restocked. As described above, your A/R rep locates the open invoice and creates a credit/adjustment invoice. They edit the initial items and quantities, then add a new line for an Adjustment LIC. They assign this LIC a Unit Price equal to the restocking fee, save the adjustment invoice, and open it.

Handling Negative Balances After an Adjustment

Adjusting an invoice downward may result in a negative balance if the customer has already paid the invoice. You can handle this balance in three ways:

- Leave it as a credit for future transactions (https://aace6.knowledgeowl.com/help/applying-a-customer-credit-to-an-invoice)
- Issue a refund (https://aace6.knowledgeowl.com/help/processing-refunds-for-customer-payments)
- Move the payment to another existing invoice (https://aace6.knowledgeowl.com/help/moving-a-customer-payment-from-one-invoice-to-another) (or a portion of it)

Guidelines for Adjustment Invoices

To set up the adjustment invoice, it's often helpful to consider what the net value needs to be. In other words, the original order was the starting point while subsequent changes to the order create a new end point — the adjustment invoice is the difference between the start and the end point.

Often you can identify the needed changes by going to the desired order's Management tab, then reviewing the Overview tab. This may include values or quantities in the Invoiced column that need to match another value, such as the Shipped column.

For example, suppose a customer ordered 20 units. The order was fully shipped and invoiced. But then 3 units were returned. The Shipped column would then show 17. Therefore, the net quantity of invoiced units should be seventeen, which means the adjustment invoice should show -3 units.