

How to: Write-Off A Bad Debt

Overview

The purpose of this document is to outline how to write off a sale as a bad debt by raising a credit invoice. Please check with your financial advisor before proceeding

Credit Invoice

- (1) Create a billing group for the order to be written off.
- (2) If there isn't one, create a service code for "Bad Debts". This service will likely be added to in the Product Category "Discounts and Other Finance Charges" or something similar.
- (3) Create a new order within the billing group for the same value as the outstanding debt. The quantity should be a negative number, the price; the value of the write-off and the total will then be a credit for the value of the write-off. In this instance Joe Brown had a debt owing of \$500 that has been credited with the following Credit Order.
- (4) Job Cost the Credit Order.

Original Order

Order # SS000091
Store T
Order Date 30/06/16
Work
Customer # 26

Sold To

BROWN, JOE
THE AVENUE
SOME SUBURB
BIG TOWN 0200
County: NEW ZEALAND

Ship To

BROWN, JOE
THE AVENUE
SOME SUBURB
BIG TOWN 0200
County: NEW ZEALAND

Sales Rep #1 STEVE WLLERT

Sales Rep #2

Time Slot -None-

Tax Status Taxable

PO Number BAD DEBT W/OFF

Status ** No Status Specified **

Delivery Date 30/06/16

Invoice Date 30/06/16

Measure Date

Est Lay Date

Job Number

Customer Type RESIDENTIAL

Occupied No

Line #	Style	Product Code	Roll/Item Number	Color/Description	Status	Group	Material	Services	Misc. Charges	GST Included	Order Total	Balance Due	Grand Total
91				BAD DEBTS AND FINANCE			0.00	-500.00	0.00	-65.22	\$-500.00	\$0.00	\$-500.00

- (5) Pay off both the original unpaid balance and the credit balance using Hyper Pay in Accounting. Post the receipts to the bank register - the net effect is zero funds posted to the bank register

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Credit Note GL Posting

The General Ledger posting of this credit invoice will be included in the month end journal close post and the GL posting will be DEBIT Sales, DEBIT GST Collected on Sales and, CREDIT Accounts Receivable.

Automatic Journal Entry for a Credit Invoice				
Date	Account	Ref	Debit	Credit
30/06/2016	A/Receivable			500.00
30/06/2016	Sale		434.78	
30/06/2016	GST Collected		65.22	
			\$ 500.00	\$ 500.00
<i>Bad Debt Write-off - J Brown</i>				

General Ledger Journal Batch Entry

To show the bad debt write off in the Income Statement as a separate GL Account balance a manual general ledger batch entry needs to be posted moving the debit to Sales to a Bad Debt account.

The manual journal entry required is as follows.

Manual Journal Entry for a Bad Debt Expense				
Date	Account	Ref	Debit	Credit
30/06/2016	Sales			434.78
30/06/2016	Bad Debt		434.78	
			\$ 434.78	\$ 434.78
<i>Bad Debt Write Off - J Brown</i>				