



## *The QuickBooks™ Client Newsletter*

Helping You Grow a Profitable Business with QuickBooks™ Software

### **From the office of:**

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## **May 2016**

### **Are You Applying Finance Charges? Should You Be?**

*Assessing finance charges is a complicated process. But if you have a lot of late payments coming in, you may want to consider it.*

There are many reasons why your customers send in payments past their due dates. Maybe they missed or misplaced your invoice, or they are disputing the charges. They might not be very conscientious about bill-paying. Or they simply do not have the money.

Sometimes they contact you about their oversight, but more often, you just see the overdue days pile up in your reports.

It is a good practice to send monthly statements reminding customers of invoices due. However, that may not be enough. You could use stronger language in your customer messages or make phone calls if the delinquency goes on too long. Or you could start assessing finance charges to invoices that go unpaid past the due date. If you choose to impose finance charges it is **very important** to have language on your invoices stating you will impose a finance charge if the invoice is past due. Also state what the finance charge will be.

If you choose to impose finance charges QuickBooks provides tools to accommodate this, but you will want to make absolutely sure you are using the tools correctly – or you will risk angering customers and creating problems with your accounts receivable.

### **Setting the Rules**

Before you can start, you will need to tell QuickBooks how you would like your finance charges to work. It is at this stage that we recommend you let us work with you. There is nothing overly difficult about understanding finance charges in theory: you apply a percentage of the dollar amount that is overdue in order to come up with a new total balance. Nonetheless, setting up your QuickBooks file with the finance charge rules you want to incorporate may require some

assistance. Here is how it works. Open the **Edit** menu and select **Preferences**, then **Finance Charge | Company Preferences**.

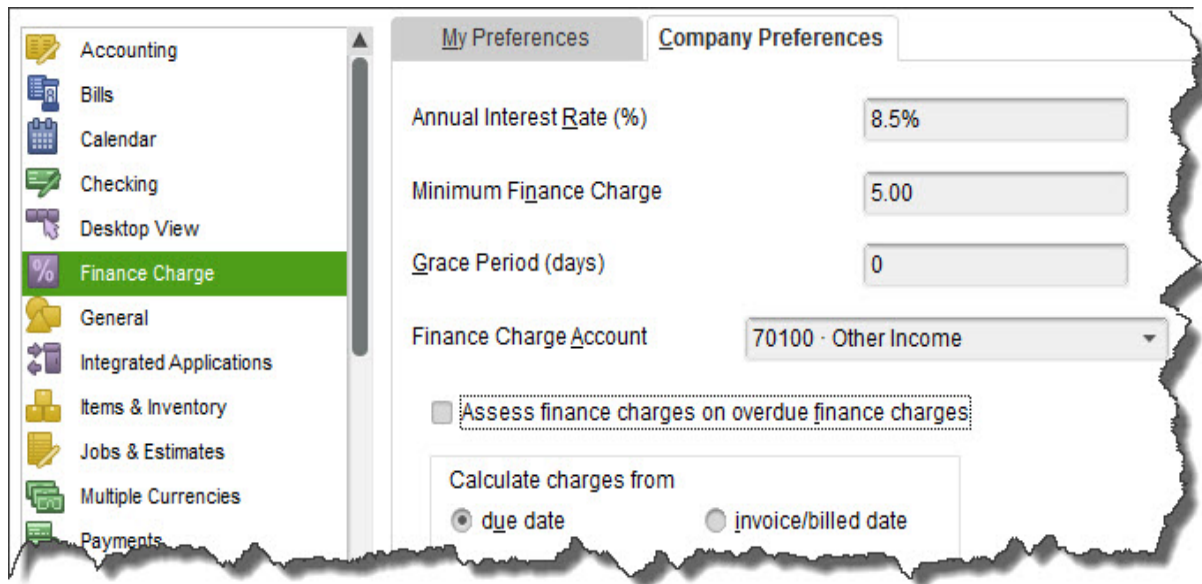


Figure 1: Before you can start adding finance charges to overdue invoices, you will need to establish your company preferences.

What **Annual Interest Rate** percentage do you want to tack onto late payments? This is an issue we can discuss with you. Too low, and it is not worth your extra time and trouble. Too high, and your customers may stop patronizing your business. And do you want to set a **Minimum Finance Charge**? Will you allow a **Grace Period**? If so, how many days?

You will need to assign an account to the funds that come in from interest charges. This needs to be an income account. In our example in figure 1 above, it is an **Other Income** account.

The next decision that needs consideration – and some research is whether to **Assess finance charges on overdue finance charges**. This may not be an option depending on the lending laws in the jurisdiction where your business is located. So again, if you want to charge interest on unpaid and tardy finance charges themselves, let's discuss.

When do you want the finance charge “countdown” to begin? When QuickBooks identifies a transaction that has not been paid within the stated terms, do you want the added charge to be applied based on the **due date** or the **invoice/billed date**?

*Note: If your business sends statements rather than invoices, leave the **Mark finance charge invoices “To be printed”** box at the bottom of this window unchecked.*

## Applying the Rules

QuickBooks does **not** automatically add finance charges to your customers' invoices. You will need to administer these additions yourself. However, QuickBooks will handle the actual calculations. Open the **Customers** menu and select **Assess Finance Charges** to open this window:

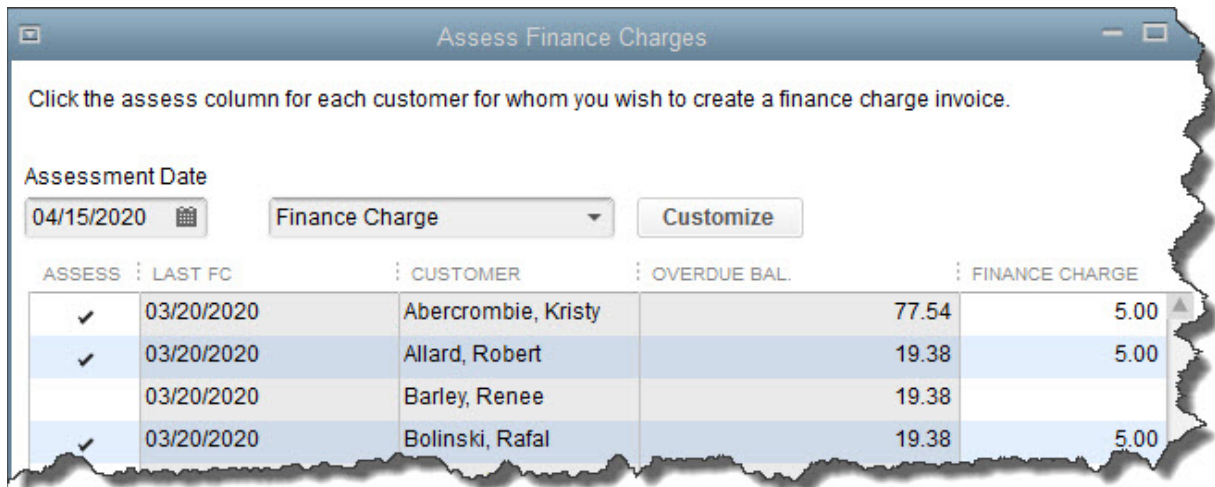


Figure 2: You will determine who should have finance charge invoices created in the **Assess Finance Charges** window.

Make very sure that the **Assessment Date** is correct, as it has an impact on QuickBooks' calculations; being even a **day off** makes a difference. Select the customers who should have finance charges applied by clicking next to their names in the **Assess** column. QuickBooks will display the **Overdue Balance** from the original invoice, as well as the **Finance Charge** it has calculated.

- If you choose **not** to apply finance charges to a customer because he or she has provided a good reason for the late payment, be sure the box in the **Assess** column is unchecked.
- If you want to change the finance charge due for a valid reason, you **can** type over the amount in the last column. This would be a rare occurrence and should be exercised only after consulting with us.

**Important: If there is an asterisk next to a customer's name, there are payments or credit memos that have not yet been applied to any invoice.**

Once everything is correct you can click the **Assess Charges** button at the bottom of the screen. QuickBooks will create separate invoices for finance charges for each customer who owes them.

We cannot stress enough the importance of consulting with us before you start to work with finance charges. Keep your company file accurate and your customers happy by getting this complex accounting element right from the start.

We hope you find this month's QuickBooks tip helpful. Please visit our company website <http://www.accountingconnections.org> often as it is updated constantly and offers a wealth of tax and accounting tips, along with links to better serve your business needs. Our QuickBooks Tips newsletters are archived on our website as well.

Accounting and Taxation is **our** business; having us a part of your team allows **you** to concentrate on **your** core business.



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*Enrolled Agent (EA), Master of Accounting (MAcc), NTPI Fellow (National Tax Practice Institute), Certified QuickBooks™ ProAdvisor*



*An **Enrolled Agent (EA)** is a federally licensed tax professional, who has taken an extensive test in taxation and must comply with continuing education in tax law to maintain their license.*

*Enrolled Agents are allowed to represent clients before all administrative levels of IRS without their clients' presence (the same as a Certified Public Accountant).*