

The QuickBooks™ Client Newsletter

Helping You Grow a Profitable Business with QuickBooks™ Software

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How to Apply Finance Charges in QuickBooks

You may hate to have to do it, but assessing finance charges for late payments may improve your overall cash flow.

There are a myriad of ways to bring in customer payments faster and improve your cash flow. You can:

- Get a merchant account and let customers pay you electronically
- Offer a discount for early payments
- Shorten the payment due cycle (21 days instead of 30 days, for example)
- Be more aggressive about collections

QuickBooks can help you take all of these steps. It also offers a fifth option: assess finance charges for tardy remittances.

Maybe you don't want to do this because it seems like a less-than-friendly way to treat customers – especially valued ones. But you're not in the business of lending money, which is what you're doing when you continue to let your accounts receivable slide. So, here's how to do add finance charges to your payment policies.

Multiple Issues Involved

Before you can start adding finance charges to tardy payments, you'll need to let QuickBooks know how you want them handled. Open the **Edit** menu and select **Preferences**. Click the **Finance Charge** tab in the left vertical pane, then the **Company Preferences** tab in the window that opens. You'll see something like this:

A screenshot of the QuickBooks Finance Charge settings window. The window has a white background with a dark, torn-edge border. It contains several input fields and checkboxes. The 'Annual Interest Rate (%)' field is set to '10.0%'. The 'Minimum Finance Charge' field is set to '5.00'. The 'Grace Period (days)' field is set to '0'. The 'Finance Charge Account' dropdown menu is set to '70100 - Other Income'. There are three checkboxes: 'Assess finance charges on overdue finance charges' (checked), 'Calculate charges from' (with 'due date' selected and 'invoice/billed date' unselected), and 'Mark finance charge invoices To be printed' (checked).

*You'll need to decide on your QuickBooks **Finance Charge** settings before you can begin to apply these late fees.*

What **Annual Interest Rate** will you charge? Will there be a **Minimum Finance Charge**? Do you want to offer a **Grace Period**? If you've never worked with finance charges before, you might be at a loss as to how you should answer these questions. We can talk it through with you if you'd like, and make sure you're selecting the correct **Finance Charge Account**. In our example, QuickBooks defaulted to **70100 – Other Income**, which may be the best option for you.

The next question may require some research. Some jurisdictions don't allow you to **Assess finance charges on overdue finance charges**; you'll need to find out. If there's any doubt, make sure that the box in front of that option isn't checked.

QuickBooks also needs to know on what date it should start calculating finance charges: on the **due date** or **invoice/billed date**. Finally, check the box in front of **Mark finance charge invoices "To be printed."** QuickBooks doesn't include finance charges on invoices themselves; it bills them on separate invoices. Check this box if you want the software to print all of them as a batch.

When you are done, click **OK**.

Applying the Charges

ASSESS	LAST FC	CUSTOMER	OVERDUE BAL.	FINANCE CHARGE
<input checked="" type="checkbox"/>	01/01/2024	Allard, Robert Remodel	14,896.63	126.52
<input checked="" type="checkbox"/>	01/01/2024	Burch, Jason Room Addition	1,015.00	8.62
<input checked="" type="checkbox"/>	01/01/2024	Campbell, Heath... Remodel	13,931.66	118.32
<input checked="" type="checkbox"/>	01/01/2024	Cook, Brian 2nd story additi...	5,433.39	46.15

*By selecting an **Assessment Date**, you're telling QuickBooks how many late days should be included in its finance charge calculations.*

When you are ready, open the **Customers** menu and select **Assess Finance Charges**. A window like the one in the image above will open.

QuickBooks, of course, performs all of the required calculations in the background. But it must first know what specific date you plan to actually assess the charges so that it can determine the number of late days that should be included. This may not be the current date, so *be sure the **Assessment Date** is correct before proceeding.*

All you have to do here is make sure there's a check mark in front of every finance charge that should be invoiced (they'll probably already be there, but you should verify this). If you send statements, clear the box in front of **Mark Invoices "To be printed."** The finance charges will appear on the next statement.

When you're satisfied, click **Assess Charges**.

Dispatching the Charges

Your finance charges have now been recorded in QuickBooks as individual invoices. When it's time to print, open the **File** menu and select **Print Forms | Invoices**. You'll see your numbered finance charge invoices displayed like this:

A/R Account 11000 - Accounts Receivable

Select Invoices to print, then click OK.
There are 14 Invoices to print for \$852.66.

✓	DATE	TYPE	NO.	CUSTOMER	TEMPLATE	AMOUNT
✓	01/01/2024	INV	FC 112	Cook, Brian:2nd story addition	Finance Charge	10.39
✓	01/01/2024	INV	FC 113	Cook, Brian:Kitchen	Finance Charge	12.35
✓	01/01/2024	INV	FC 114	Ecker Designs:Office Repairs	Finance Charge	5.00
✓	01/01/2024	INV	FC 115	Hendro Riyadi:Remodel Kitchen	Finance Charge	50.91
✓	01/01/2024	INV	FC 116	Jacobsen, Doug:Kitchen	Finance Charge	5.00

You can see your finance charge invoices when you go to print them.

(Of course, if you email invoices, you'd click on **File | Send Forms.**)

It's a good idea to notify your customers before you start assessing finance charges. This will give them a chance to catch up, and no one will be surprised to see the extra invoices.

QuickBooks does the hefty lifting as far as calculations are concerned, but it's very important that you set your finance charges up correctly. Customers will be annoyed by mistakes. And it's much easier for us to help you get this tool set up right from the start than to have to go in and untangle errors. Let us know if you plan to start assessing finance charges, and we'll help make it work for you.

We hope you find this 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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