



Article # 1061

Technical Note: How Open Credit Transactions Affect the General Ledger

Difficulty Level: Intermediate AccountMate User

Version(s) Affected: AccountMate 7 for SQL and Express
AccountMate 6.5 for SQL and MSDE
AccountMate 6.5 for LAN

Module(s) Affected: AR, AP, BR, GL

Posting Date: 07/04/2007

DESCRIPTION

Posting and refunding open credits in the AccountMate system have various effects on the general ledger account balances and the customer records. This document discusses the entries that are created in the system from the time a payment is recorded or a sales return is created up to the time that the resulting open credit is refunded to the customer.

SOLUTION

Open credit transactions result either from sales returns, excess collections from customers or unapplied customer deposits. The effects that posting and refunding each type of open credit have on GL account balances are discussed below.

Open Credits from Sales Returns

Open credits from sales returns are created when customers return goods which have been invoiced and received payment. To illustrate how the system treats the transactions from the point of sale to the issuance of a refund check in the AR module, let's take a look at the following example.

ABC Company purchased several items from XYZ Company in cash amounting to \$1,500. ABC returned all the merchandise and requested for a refund from XYZ Company. The following entries are generated in XYZ's AccountMate system, as a result of this transaction:

1. Point of Sale (AR - Create Invoice Function)

Accounts Receivable	\$1,500	
Sales Revenues		\$1,500
<i>To record credit sales.</i>		

2. Collection and Application of Payment (AR - Apply Payment Function)

Cash	\$1,500	
Customer Deposits		\$1,500
<i>To record collection of payment from customer.</i>		

Customer Deposits	\$1,500	
Accounts Receivable		\$1,500
<i>To record collection of payment from customer.</i>		

The receipt of payment and its application to an invoice may or may not take place at the same time. Whether a payment is applied to an invoice immediately upon receipt or at a later date, the said collection will always be posted first to a **Customer Deposit** account. Only when the receipt is applied to an invoice will the Customer Deposit account be cleared of the payment and the amount applied against the **Accounts Receivable** balance.

NOTE: The Customer Deposit account ID is drawn from the **Customer Deposits** field in the **GL Accounts tab** of the **AR Module Setup**.

3. Sales Return (AR - Create Sales Return Function)

Sales Returns	\$1,500	
Accounts Receivable		\$1,500
<i>To record sales return.</i>		

Notice that after recording the sales return and given that there are no other outstanding invoices, the Trade Accounts Receivable account will have a credit balance of \$1,500.

4. Refund Open Credit (AR - Refund Open Credit Function)

Accounts Receivable	\$1,500	
Open Credit Refunds		\$1,500
<i>To record liability for customer refund.</i>		

At this point, the system enters a debit to Trade Accounts Receivable to offset the credit balance resulting from the sales return. A liability representing the amount to be returned to the customer is also set up. This liability is posted to the account ID defined in the **Open Credit Refunds** field under the **GL Accounts tab** of the

AR Module Setup. When issuing a refund check, debit the same liability account to bring its balance to zero.

Open Credits from Customer Deposits

Open credits from customer deposits are created when advance payments are made for future purchases or excess collections from customers. To illustrate how the recording of the transaction affects certain accounts in the AR module, let's take a look at our example.

ABC Company deposited an amount of \$1,500 for an intended purchase from XYZ Company; however, the sale was not consummated hence ABC Company requested for a refund. The following are the entries generated in XYZ Company's AccountMate system, as a result of this transaction:

1. Collection of the Deposit (AR - Apply Payment Function)

Cash	\$1,500	
Customer Deposits		\$1,500
<i>To record advance collection from the customer.</i>		

The account credited by the system is the account specified in the **Customer Deposits** field of the **AR Module Setup** function. This is basically a liability account that is used to represent all unearned income from unapplied receipts.

2. Refund Open Credit (AR – Refund Open Credit Function)

Customer Deposits	\$1,500	
Open Credit Refunds		\$1,500
<i>To record refund.</i>		

The above entry is to reclassify the liability from one that represents an obligation to deliver goods or services (customer deposit) to one that represents an obligation to return a sum of money (refund). To facilitate reconciliation of the GL account balances and for accurate reporting, it is advised that different account ID's be used to represent these two divergent kinds of obligations.

NOTE: *The same process and entries apply when the Open Credit is generated from collections made in excess of the amounts that the customer owes.*

Issuance of Refund Check

There are three ways in which disbursements for the refund may be recorded in the AccountMate system. You can either use the **Record Check/Other Disbursements** function of the BR Module or issue an **AP Check** for the said customer using the **One-Time Vendor** feature of the **AP Invoice Transactions** function in the AP Module or post a **Journal Entry** directly in the GL Module. All three options will ultimately have the same effect on your GL account balances provided your system is setup properly.

The following discussion will show you how to record the refund transaction in each of the three options mentioned above.

a) *To record payment in the BR module:*

When you have the Bank Reconciliation module activated, perform these steps to record payment and issuance of a refund check.

1. Set up a transaction code in BR to represent Customer Open Credit Refunds. Assign to the transaction code the same GL account ID specified in the **Open Credit Refunds** field of the AR Module Setup function.

NOTE: For more information on setting up BR Transaction Codes, refer to the Online Help or your User Manual.

2. Record the payment through the Record Checks/Other Disbursements function. In this window, the GL account ID that is displayed in the grid of the GL Distribution Tab is drawn from the GL Account assigned to the transaction code.

Open Credit Refunds	\$1,500	
Cash		\$1,500
<i>To record disbursement for refund.</i>		

As in our example, ABC Company, the foregoing entry will offset the liability established when recording the Refund Open Credit transaction.

b) *To record payment in the AP module:*

To record payment and the issuance of check for an open credit refund in the AP module, follow the steps below:

1. Post an AP Invoice against a One-Time Vendor. This will be the AP invoice used when disbursing for the refund. On this invoice, assign for the GL Distribution Account the same GL Account ID as the one used for your Open Credit Refunds in AR.
2. Post a check for the said invoice. If the refund amount is automatically applied for payment, you can print a computer check from AP; otherwise, you can issue a handwritten check.

NOTE: For detailed instructions on setting up One-Time Vendor invoices, refer to the Online Help or your User Manual.

With our example, ABC Company, the following are the entries resulting from the transactions above:

1. Create One-Time Vendor Invoice (AP- Invoice Transactions Function)

Open Credit Refunds	\$1,500	
Accounts Payable		\$1,500
<i>To set up the refund invoice.</i>		

2. Post a Check (AP – Post Handwritten Check or Print Computer Check Function)

Accounts Payable	\$1,500	
Cash		\$1,500
<i>To record issuance of refund check.</i>		

c) *To record payment in the GL module:*

Post a Journal Entry Transaction for the payment directly in the General Ledger module. Reverse the amount from the **liability account** in the **AR Module Setup** that was used to take up the refund obligation and reduce your cash account balance.

Below are the entries resulting from the transactions above following our example, ABC Company:

Open Credit Refunds	\$1,500	
Cash		\$1,500
<i>To record disbursement for refund.</i>		

Posting and refunding of open credit transactions in AccountMate have its effects on specific general ledger accounts. Knowing what these affected GL accounts are and understanding how open credit transactions affect the accounts' corresponding balances gives you more flexibility and better control over your business transactions, utilizing the system to your advantage. Simply follow the steps outlined in this document and you will be sure to accomplish a more accurate and organized customer and business records.

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