

# Recording Dishonoured Cheques in QuickBooks

## Aim

It is inevitable in business that one day a customer will give you a cheque that is dishonoured by the bank.

The aim of this paper is to give the reader an understanding of how to correctly record a dishonoured cheque and associated bank fees in QuickBooks.

## Versions

This paper was written using QuickBooks 2009-10. The process is largely the same in all versions.

## Scenario

Your customer, Fred's Fast Insulation Installations, has suddenly encountered cashflow problems and pays your invoice with a cheque that your bank dishonours. Relevant facts are as follows:

Date	Event
1/3/2010	Fred Invoiced for Services - Invoice # 1101 - \$550
30/3/2010	Fred pays \$550 via cheque #1296
31/3/2010	Cheque deposited with 2 other cheques - total deposit \$1320
1/4/2010	Bank dishonours cheque and charges \$9 Dishonour Fee

An extract of the Bank Statement is as follows:



## Bank Statement

Date	Particulars	Debits	Credits	Balance
30-Mar-10	Bought forward			5,625.00 Cr
31-Mar-10	Deposit		1,320.00	6,945.00 Cr
1-Apr-10	Dishonoured Cheque - Details Advised	550.00		6,395.00 Cr
1-Apr-10	Dishonour Fee	9.00		6,386.00 Cr

## Issues

Many people simply delete the customer payment, but the above example shows the difficulties with this approach:

- the payment can't be deleted as it forms part of a larger deposit;
- deleting the payment will affect the GST for the quarter;
- the bank may have been reconciled to the end of march;
- you're changing the record of what actually happened.

There are also a number of other issues here:

- how do you re-invoice the client
- what do you do about the Dishonour Fee
- what about other costs incurred

## The Right Approach

The approach I will take is as follows:

- raise a new invoice, but in such a way that the \$550 records as a withdrawal from the bank rather than income;
- include on the invoice any dishonor fees you charge.

### Step 1 - Set up new items to record the new invoice

The first item is linked directly to the Bank Account. Using it in an invoice will record as a withdrawal from the Bank Account. Note that the Tax Code is X (or Blank). This is because you are not recording a Good or Service - merely a bank transaction reversing an earlier deposit.

The screenshot shows the 'New Item' dialog box in QuickBooks. The window title is 'New Item' and it has a search bar with 'Type a help question' and 'Ask' buttons, and a 'How Do I?' dropdown. The 'Type' is set to 'Other Charge' with a description: 'Use for miscellaneous labour, material, or part charges, such as delivery charges, setup fees, and service charges.' The 'Item Name/Number' is 'Dishon Chq' and there is a 'Subitem of' checkbox and dropdown. A checkbox 'This item is used in assemblies or is a reimbursable charge' is unchecked. The 'Description' is 'Dishonoured Cheque' and the 'Amount or %' is '0.00'. The 'Tax Code' is 'X' and the 'Account' is 'Cheque Account'. There is an 'Amts Inc Tax' checkbox which is unchecked. On the right side, there are buttons for 'OK', 'Cancel', 'Next', 'Custom Fields', and 'Spelling'.

The second item is for recording the fee that you will charge the client. Note that the Tax Code is GST.

The screenshot shows the 'New Item' dialog box in QuickBooks. The 'Type' dropdown is set to 'Other Charge'. The 'Item Name/Number' field contains 'Dishon Fee'. The 'Description' field contains 'Dishonour Fees'. The 'Amount or %' field is set to '0.00'. The 'Tax Code' dropdown is set to 'GST'. The 'Account' dropdown is set to 'Sundry Income'. The 'Amts Inc Tax' checkbox is unchecked. The 'Subitem of' checkbox is unchecked. The 'This item is used in assemblies or is a reimbursable charge' checkbox is unchecked. The 'OK', 'Cancel', 'Next', 'Custom Fields', and 'Spelling' buttons are visible on the right side of the dialog box.

### A note on invoicing for dishonor fees.

Warning - this is my interpretation - you should seek your own legal/accounting advice on this issue.

You have 2 options when seeking to cover costs from the client:

- only seek reimbursement for the dishonor fee;  
Despite the fact that The \$9 Dishonour Fee is GST Free, if you invoice the client for this you are required to add on GST - so you will need to invoice \$9.90 including GST. This is because the \$9 fee is a legally a charge to you, not a charge to the client that you are merely paying on their behalf.
- charge the client for all costs you incur.  
You are normally entitle to claim "liquidated damages" from your client. This can include fees, postage and administrative costs incurred in processing the dishonor. The principle is that you can seek to cover your "damages" (costs), but you cannot impose a amount for punishment. In other words, you cannot charge the client and extra \$300 just because the dishonor really annoyed you, but you can charge say \$55 incl GST to cover the \$9.00 fee, the post & handling, and the 30 mins it took to re-invoice and process the paperwork.

## Step 2 - Raise an invoice

The next step is to raise an invoice to send to the client. In this example, I have just invoiced for the \$9 dishonour fee plus the GST.

Customer: Job  
Fred's Fast Insulation Ins...

Template: Print Preview  
Quicken Profession...

Tax Date: 01/04/2010  
Invoice No.: 1239

**Tax Invoice**

Invoice To  
Fred's Fast Insulation Installations  
PO Box 999  
South Beach 3555

Item	Description	TAX	TAX AMT	Amount
Dishon Chq	Dishonoured Cheque - Cheque #1296 dated 30/3/10 dishonoured by Gold Stachs Bank 1/4/10.	X	0.00	550.00
Dishon Fee	Dishonour Fees charged by bank	GST	0.90	9.90
				Total Tax 0.90
				Total 559.90

Customer Message: [Dropdown]

To be printed  
 To be emailed  
 Amounts include tax

Add Time/Costs... Apply Credits...  
 Customer Tax Code: [Dropdown]

Payments Applied: 0.00  
 Balance Due: 559.90

Memo: [Text Box]

The underlying journal is as follows:

Item	Item Description	Account	Debit	Credit
		Accounts Receivable	559.90	
Dishon Chq	Dishonoured Cheque	Cheque Account		550.00
Dishon Fee	Dishonour Fees	Sundry Income		9.00
GST	10% GST	Tax Payable		0.90
X-S		Tax Payable	0.00	
			<u>559.90</u>	<u>559.90</u>
			<u>559.90</u>	<u>559.90</u>

You can now see the "withdrawal" in the Bank Register.

31/03/2010				1,320.00	6,945.00
	DEP	-split-	Deposit		
01/04/2010			Fred's Fast Insulation Installations	550.00	6,395.00
	INV	Accounts Receivable [split]	Dishonoured Cheque - Cheque		

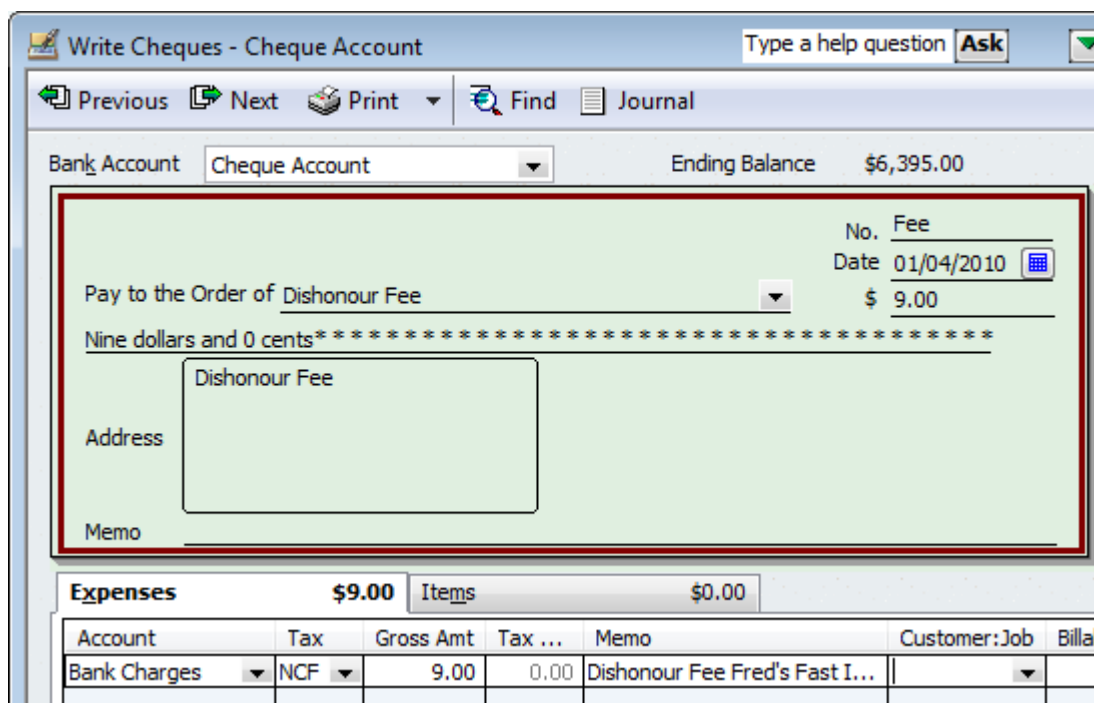
Importantly, you have also re-raised the debt to the client.

**Fred's Fast Insulation Installations**

Tax Invoice	01/03/2010	1101	Accounts Receiva...	550.00	550.00
Payment	30/03/2010	1296	Accounts Receiva...	-550.00	0.00
Tax Invoice	01/04/2010	1239	Accounts Receiva...	559.90	559.90
Total Fred's Fast Insulation Installations				559.90	559.90

**Step 3 - Record the Dishonour Fee**

The final step (apart from chasing up the money from Fred) is to record the dishonour fee. This is done just like any other bank fee.



This shows in the register as follows:

31/03/2010					1,320.00	6,945.00
	DEP	-split-	Deposit			
01/04/2010			Fred's Fast Insulation Installations	550.00		6,395.00
	INV		Accounts Receivable [split] Dishonoured Cheque - Cheque #129			
01/04/2010	Fee		Dishonour Fee	9.00		6,386.00
	CHQ	-split-				

That's all folks!

-- End --