

# Handling Bad Debts in QuickBooks

## Background

Unfortunately in business, you will get a Debt that will need to be written off as a Bad Debt. This paper shows the correct way of handling this in QuickBooks

## Versions

All Versions

## Aim

Our aim is to counterbalance the Income recorded by the sale with an expense called Bad Debts Expense. The date of this transaction will be the date the debt is considered bad (eg today or 30<sup>th</sup> June).

## What NOT to Do

The original Tax Invoice/Sales Receipt should not be changed or deleted, especially if it is in a previous BAS Period or Financial Year:

- You may already have paid GST or Income Tax on that Income.
- It may incur extra Accounting Fees from your Accountant trying to figure out why your Balance Sheet has changed from last Tax Year

## Example

Square Blocks Ltd has gone out of business. They have an outstanding debt of \$80 from 7/10/03. The receivers have advised that creditors won't be paid, so the debt needs to be written off.

## Set-up

The first step is to create a new Expense Account called Bad Debts Expense.

The screenshot shows the 'New Account' dialog box in QuickBooks. The 'Type' is set to 'Expense'. The 'Name' field contains 'Bad Debts Expense'. The 'Subaccount of' field is empty. The 'Description' and 'Note' fields are empty. The 'Tax Line' is set to '<Unassigned>'. The 'Usual Tax Code' field is empty. There are 'OK', 'Cancel', and 'Next' buttons on the right. A checkbox for 'Account is inactive' is unchecked. A link 'How Do I choose the right tax line?' is visible at the bottom right.

Next, create a new "Other Charge" item called Bad Debt. This item should be linked to the Bad Debts Expense Account created above.

**New Item**

Type: Other Charge (Use for miscellaneous labour, material, or part charges, such as delivery charges, setup fees, and service charges.)

Item Name/Number: Bad Debt (Subitem of: )

This is a reimbursable charge

Description: Bad Debt Write-off

Amount or %: 0.00

Sales Tax Code: GST

Account: Bad Debts Expense

Buttons: OK, Cancel, Next, Custom Fields, Spelling

Note that I have used GST as the Sales Tax Code. This will vary according to the GST charged on the original debt.

### Step 1 - Create an Adjustment Note

Now we are ready to write off the debt.

First, go to the invoice you want to write off and note the Date, Invoice Number, Invoice Total and Total Tax. In our example: 7/10/03, Invoice #37, \$80.00 and \$7.27)

Create an Adjustment Note (Customers > Create Adjustment Note) for the customer.

**Create Adjustment Note (Editing Transaction...)**

Customer: Job: Square Blocks Ltd

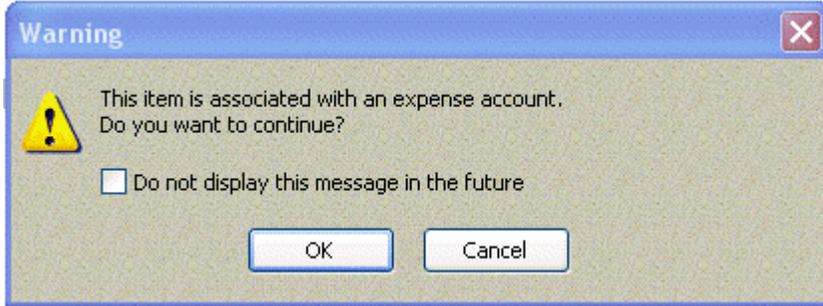
Class:

**Adjustment Note**

Customer:  
Square Blocks Ltd  
Graham Sturt  
Greenland Business Park  
214 Fairview Block  
Littleview 2345

Item: Bad Debt Description: Bad Debt Write-off Invoice #37, 7/10/03.

You will need to use the Item "Bad Debt" (created above). This will generate a message:

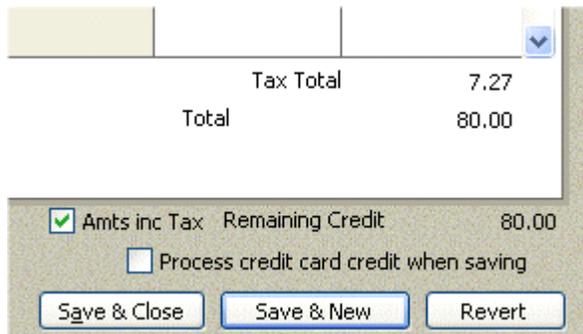


Select "OK" as we want our bad debt to record against the Bad Debts Expense account.

In our example, the entire debt included GST, so the first line of the Adjustment Note will read:

Item: Bad Debt  
Description: Bad Debt Write-off Invoice #37, 7/10/03.  
Tax Code: GST  
Amount: \$80.00  
Tax Amt: \$7.27 (This is calculated - not data-entered)

At the bottom of the screen, Amts incl Tax should be ticked, Tax Total should equal \$7.27 and Total should equal \$80.00.



Save and Close

### GST Variations

If the original invoice was entirely GST Free:

Tax Code: FRE  
Amount: \$80.00  
Tax Amt: \$0.00

If the original amount has GST and GST Free items, then two lines on the Adjustment Note would be required: Example \$80.00 and Total Tax \$4.75)

**First Line**

Item: Bad Debt  
 Description: Bad Debt Write-off Invoice #37, 7/10/03 - GST Sales.  
 Tax Code: GST  
 Amount: \$52.25 (this is equal to Tax Amount multiplied by 11)  
 Tax Amt: \$4.75 (This is calculated - not data-entered)

**Second Line**

Item: Bad Debt  
 Description: Bad Debt Write-off Invoice #37, 7/10/03 - GST Free Sales.  
 Tax Code: FRE  
 Amount: \$27.75 (This is equal to Invoice Total minus \$52.25 calculated above)  
 Tax Amt: \$0.00 (This is calculated - not data-entered)

**Step 2 - Apply the Credit from the Adjustment Note against the Tax Invoice**

At this stage, Square Blocks Ltd have an account balance of \$0.00, but we need to do one more step to square the transaction away. If we don't do this final step, the debt will continue to show in the Open Invoices Report, and Square Blocks will display with a zero balance in our A/R Aging Summary.

**Stadium Construction & Hardware Pty Ltd**  
**A/R Ageing QuickZoom**  
 As of December 15, 2007

Type	Date	Num	Due Date	Ageing	Open Balance
<b>Square Blocks Ltd</b>					
▶ Tax Invoice	07/10/2003	37	06/11/2003	1500	80.00 ◀
Adjustment Note	15/12/2007	65	15/12/2007		-80.00
Total Square Blocks Ltd					<u>0.00</u>
<b>TOTAL</b>					<u><u>0.00</u></u>

The final step involves going into the Customers>Receive Payments function and applying the credit against the open invoice.

In the Receive Payments screen, select the customer and set the date as the same date as the Adjustment Note. **Ensure that the amount received is left at zero.**

Receive Payments (Editing Transaction...)

Previous Next History Journal Print Adjustment Note

### Customer Payment

Received From Square Blocks Ltd Customer Balance: **80.00**

Pmt. Method                      Date 15/12/2007

Card No.                      Exp. Date   /   Amount                     0.00

Memo                      Cheque No.                     

Applied To:  Show credit information

<input checked="" type="checkbox"/>	Date	Number	Orig. Amt.	Amt. Due
<input checked="" type="checkbox"/>	07/10/2003	37	80.00	80.00

Note at the bottom of the screen that there are unused credits.

	0.00
Unused Payment	<b>0.00</b>
Unused Credits	<b>80.00</b>

In the bottom half of the screen (in the "Applied To:" section), select the invoice that is being written off by clicking anywhere on the line except the column headed with the tick. Select the Set Credits button on the bottom left of the screen. The following box will appear. Select Done.

Credits

Tax Invoice

Customer: Job Square Blocks Ltd Amount Due 80.00

Number 37 Credits Used **80.00**

Date 07/10/2003 Balance Due 0.00

Original Amt. 80.00

<input checked="" type="checkbox"/>	Date	Credit No.	Credit Amt.	Amt. To Use	Credit Balance
<input checked="" type="checkbox"/>	15/12/2007	65	80.00	80.00	0.00
Totals			80.00	80.00	0.00

Of all the credits issued to this customer, only unused credits for this specific customer:job are displayed above.

Clear

Done Cancel Help

Note that the amount (80.00) now appears in the Credits column against the invoice

Orig. Amt.	Amt. Due	Credits
80.00	80.00	80.00

.... and Unused Credits now show as 0.00

Unused Payment	0.00
Unused Credits	0.00

Select "Save and Close" to record the transaction.

### Checking the Transaction

To ensure that you have written-off the Invoice correctly, check these reports:

Reports>Customers & Receivables>Open Invoices

- The invoice being written off should no longer appear in this report.

Reports>Company & Financial>Profit & Loss Detail

- Details of the write-off should appear under the Bad Debts Expense Code.  
Note that the amount showing is net of GST (\$80.00 less \$7.27 GST).

#### Expense

##### Bad Debts Expense

Adjustment Note	15/12/2007	65	Square Blocks Ltd	Bad Debt Write-off Invoice #37, 7/10/03.	<u>72.73</u>
Total Bad Debts Expense					72.73

### Variations on the Theme

This same procedure can be used for minor account adjustments - for example where a client owes \$70.20 but pays you \$70.00.

Instead of using the Bad Debts item, I would create an "Other Charge" Item linked to an Income Account called "Account Adjustments".

-- End --