

Creating and Applying a Debit Memo

Sam: Hey Tabitha, I just entered the invoice from ABC Metals for 10 hours of consulting. And then I noticed that it has \$175 per hour but we agreed on \$165 per hour.

Tabitha: Oh, we have that in writing.

Sam: I know, so I gave June a call and she agrees that the invoice is incorrect. But it'll be a few days before she can send us a credit memo.

Tabitha: OK, so, what's the problem?

Sam: I want to pay the correct amount now so that we can get our early payment discount. What is the best way to handle this while I wait for the Credit Memo?

Tabitha: You could cancel or correct it, but why don't you enter a debit memo and apply it to the invoice.

Sam: Ah. So, let me get this straight. I create a debit memo with the difference between what is on the invoice and what we really owe. I'll apply the debit memo to the invoice. Then the balance will be the correct amount.

Tabitha: You've got it. Now go do it. Can't you see I'm busy?

Narrator: A Debit Memo, also sometimes called a Charge Back, is an AP invoice with a negative amount. You send it to the supplier to let them know that you are expecting a credit. Another scenario for a Debit memo is when materials are returned to a supplier, for whatever reason. Debit memos give you a clean way to track negative dollar amounts in your transactions with suppliers. Make sense? So, let's do this.

Topics

- Creating a Debit Memo
- Applying a Debit Memo

Creating a Debit Memo

Start with a new group in AP invoice entry and add a new debit memo. Enter the information such as the supplier name and a number or identifier for the debit memo. And then the amount \$100. It's a good idea to add a description, in case you forget why you did this or someone else is looking at it later.

Enter a new miscellaneous line. You could add 1 entry at \$100 or, to be precise, 10 hours at \$10.

Notice that the amounts are entered as positive numbers. That is correct since this is a debit memo and not an invoice.

Take a look at the summary sheet and verify the amounts. You won't always apply a demo to an invoice right away. It could be that you didn't discover the difference in the amounts until you had already paid the invoice so the debit memo would be something you would apply later to another invoice. Or in a scenario where you returned materials, it could be a placeholder until you receive the invoice from the supplier.

Double check the Edit List to verify your work and which GL accounts are being credited in debited. If everything looks correct go ahead and post.

Let's take a look at the supplier tracker. We have the invoice that was entered earlier, and the debit memo.

Applying a Debit Memo

Using Apply Debit memo/Prepayment you can apply a single debit memo to one or more invoices. The system will only allow you to apply debit memos to the same supplier and only up to the amount of the debit memo.

Select the Debit memo we created and enter the amount you want to apply. In this case the entire \$100.

Save and then select the invoice you want to apply this to. Select Save.

Lastly, use Apply Debit Memo/Correction Invoice to complete the process.

Go back to the Supplier Tracker and refresh. The Debit memo is no longer available to apply elsewhere since we used the entire amount and the Invoice now shows a balance of \$1650. Nicely done!

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