PBS Tips and Tricks #16

Accounts Receivable – Cleaning up AR Open Item issues   Part 2

In the last Tips & Tricks we discussed the how's and why's of PBS Accounts Receivable open items becoming complicated due to differences between the original invoice amount and the amount(s) paid or credited with six scenarios outlined.

We will now cover detailed examples to illustrate how to resolve these issues. One case, where we have two open invoices and the customer sends a check to "sort of" cover those invoices - but not exactly. The customer failed to identify specific invoices the check was to pay, so when cash was applied, the check was accepted but placed as credit on account. This can also happen when an invoice is double-paid and the client asks you to clear two existing invoices with that extra money.

There are two concepts in PBS that need to be understood. The mixing and matching of invoices, debits, credits etc. to create zero balance invoices (or as you will see, invoice sets) has one major restriction and one open secret. A "secret" that can be very useful.

Rule: The AR Open Item file (AROPEN) contains all the transactions that together make up the net value remaining for any given client. As discussed before, the Apply-to number is the hook to hang any group of transactions together so they can be netted. The rule that covers all items in the AR Open item file is that any transaction in the file (i.e. any line you can see on an Aging or line in a View) must be unique. Just like postal addresses and Social Security numbers are unique, the combination of identifiers for a particular transaction in the AR Open Item files has to be unique. These identifiers are:

- Customer **ID** – we are usually only concerned with one customer at a time (i.e. we are not trying to move data from one customer to another) so we can assume the Customer ID is always the same for these purposes.
- Document **number** – one of: invoice number, check number, debit or credit number, Finance charge number. These are all used the same way – as the primary identification for the document/line.
- Document **date**
- Document **type** – (I) nvoice, (P) ayment, (D) ebit, (C) redit, (F) inance charge.
- **Apply-to** number

All five are combined for testing purposes to check for uniqueness.

If, for any single transaction, any of the data in these five fields (ID, number, date, type, apply-to) is different from the equivalent data for any other transaction, then the transaction will be considered unique and allowed. If they are all the same it will not be allowed. This means you could have, for the same customer: the same document number and the same document date, but, a set of three transactions- one an invoice, one a credit and one a debit would all be allowed because the transaction type is different. Or, you could have a series of credits with the same credit number but different dates and these would be allowed.

Example: you want to apply two separate credits through the Miscellaneous Charges and you would like to identify the credits by putting a "C" at the end of the invoice number. (This is an allowed Credit document number.)

The invoice number is 144578, so one of the credits could be "144578C" dated 07/01/20 and applied to 144578. If you tried to put in the second credit with the same document number and date against the same invoice the program would not allow it to be posted. (The edit list will show it as a duplicate.) However, simply changing the date to 07/02/20 will get around this problem.

Open Secret: The apply-to number is actually a number that *you can choose*. This is not often realized especially since the apply-to number is defaulted to being the same as the invoice number when the invoice is posted. However, using the "AR/Open items/Change apply-to or due date" function, the apply-to's can be adjusted for any document type including invoices, in any manner that suits you, providing the results don't conflict with the rule above.

The most prominent or obvious way this can work is that we can change the apply-to's for two invoices to be the same and then, change the open apply-to for a payment so it matches the pair of invoices. Example:

Doc#	Doc Type	Inv Dt	Amt	Apply-to
12234	I	03/31/20	2,000	12234
12245	I	04/30/20	1,500	12245
5566	P	05/02/20	-3,488	**open**

Note that we have two invoices with their default apply-to numbers and a cash-on-account (unapplied) check. We could bring these all together by changing each of their apply-to numbers to one of the existing apply-to's (e.g. 12245) or to an entirely different (arbitrary) apply-to (99988):

Doc#	Doc Type	Inv Dt	Amt	Apply-to
12234	I	03/31/20	2,000	99988
12245	I	04/30/20	1,500	99988
5566	P	05/02/20	-3,488	99988

The result will be a three transaction set (the apply-to set) that has a net balance of $12.00.

Assuming twelve dollars is considered non-material, a $12 dollar Miscellaneous Charge credit could be issued (also with apply-to 999988) and this would create a net zero set which would no longer appear in the AR View or in an Aging. These items could, as well, be purged off the AR and would no longer appear on a Statement. Similarly, if the payment had been $3,507, the same operation would produce a $7.00 debit which could be eliminated with a Miscellaneous Charge debit transaction.

If complications of uniqueness do arise, you may not be able to put all the transactions together in one set because of lack of uniqueness. This is not common but it does happen occasionally. If this occurs, you can "split" a payment or invoice by applying it to one invoice or invoice set giving a net balance. You can then *debit or credit* that balance off against that set, and then *credit or debit* the same amount against a different invoice or invoice set. If you don't know what to do with the extra money, you can also simply put in a blank apply-to number and the "extra" amount will become an open debit or credit for that client. Though complicated it does work and with appropriate notes in the reference field of the Miscellaneous Charge transaction, it can remain clear what you have done.

Example:

Doc#	Doc Type	Inv Dt	Amt	Apply-to
12234	I	03/31/20	2,000	12234
12234	C	04/30/20	-1,500	12234
12234	C	04/30/20	-600	**open**

In the next case, the two debits were entered identically (by mistake) except for the apply-to. The apply-to on the second debit can't be changed to 12234 to fix the problem because that would conflict with the uniqueness rule. You will need to create a new debit against 12234 for the $500 needed. And then create a separate credit (also $500) which could then be applied to the second debit or left open:

Doc#	Doc Type	Inv Dt	Amt	Apply-to
12234	I	03/31/20	2,000	12234
12234	C	04/30/20	-1,500	12234
55555 (or 12234C)	C	04/30/20	-500	12234
55555 (or 12234D)	D	04/30/20	500	99999 (or **open**)
12234	C	04/30/20	-600	99999 (or **open**)

Despite the duplications of document number and date (keeps documents together in listings) the uniqueness rules have been followed because of differences in document type or apply-to.

Given the complexities of mixing and matching to get the various invoices and their credits and payments to match, it is usually easier to "fix" these kinds of issues when the cash is received by making the appropriate allowance (plus or minus). Office procedures, requirements for authorization, the need for clear documentation on what was done, or the lack of a clear understanding of the problem being faced (i.e. research required) may mean this can't be done in an on-the-fly environment of receiving cash and getting to the bank. But if you can, do the fixing at cash time and avoid the issues described above. It's just easier.