Manually Processing Customer Deductions

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Overview

When you receive a payment from a customer that includes one or more deductions that are not tied to specific invoices and that do not refer to existing credit memos, use the following *manual* procedure to create the appropriate items in Oracle Receivables.

You will be creating offsetting Debit Memos and Credit Memos, thus having a zero impact on the customer's account. You will then have a credit memo to apply to the open invoices as indicated on the remittance advice AND you have debit memo(s) to research as to whether the deduction is really valid or not.

Process

This process should be completed before applying or completing the application of the payment:

1) Determine the total amount of "unauthorized" deduction(s) the customer took and the amount and reference number for each deduction that made up this total.

2) **Create *ONE* on-account credit memo** using the **Transactions** form for the total amount the customer deducted:

Transactions - Transactions

Enter as any standard **On Account Credit** but enter the following values that are particularly relevant to this process.

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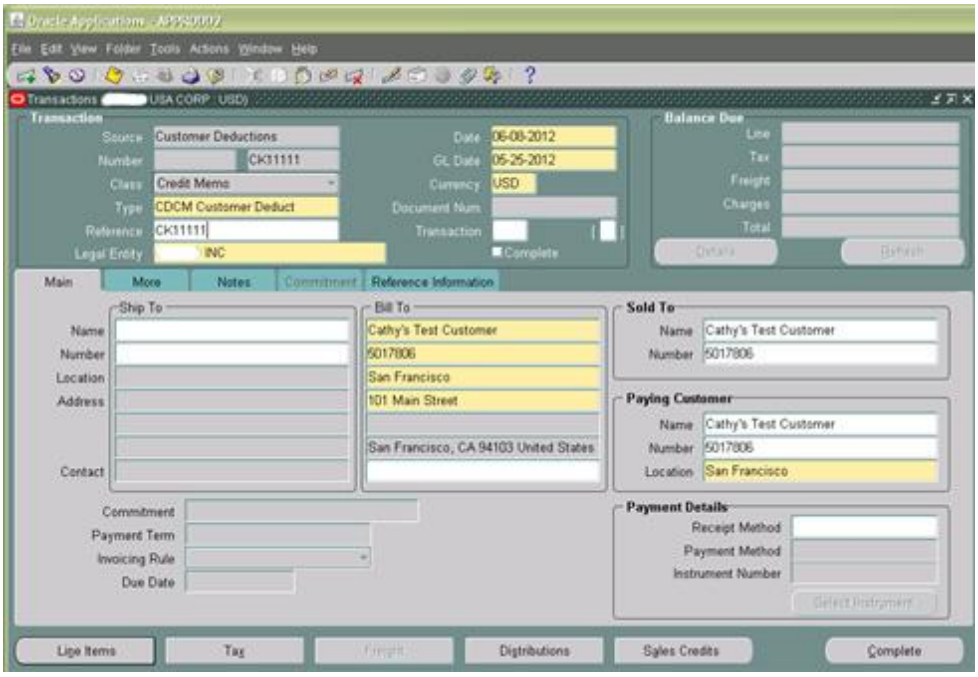

Source	(List) Customer Deductions
Date	Enter the current date
Number	CK (and the check, ACH or wire number)
GL Date	Enter the current date
Class	(List) Credit Memo
Currency	(List) Select the applicable currency
Type	(List) CDCM Customer Deduct
Reference	CK (and the check, ACH or wire number)
Ship To	(List) Select the applicable ship to customer information - optional
Bill To	(List) Select the applicable billing customer information

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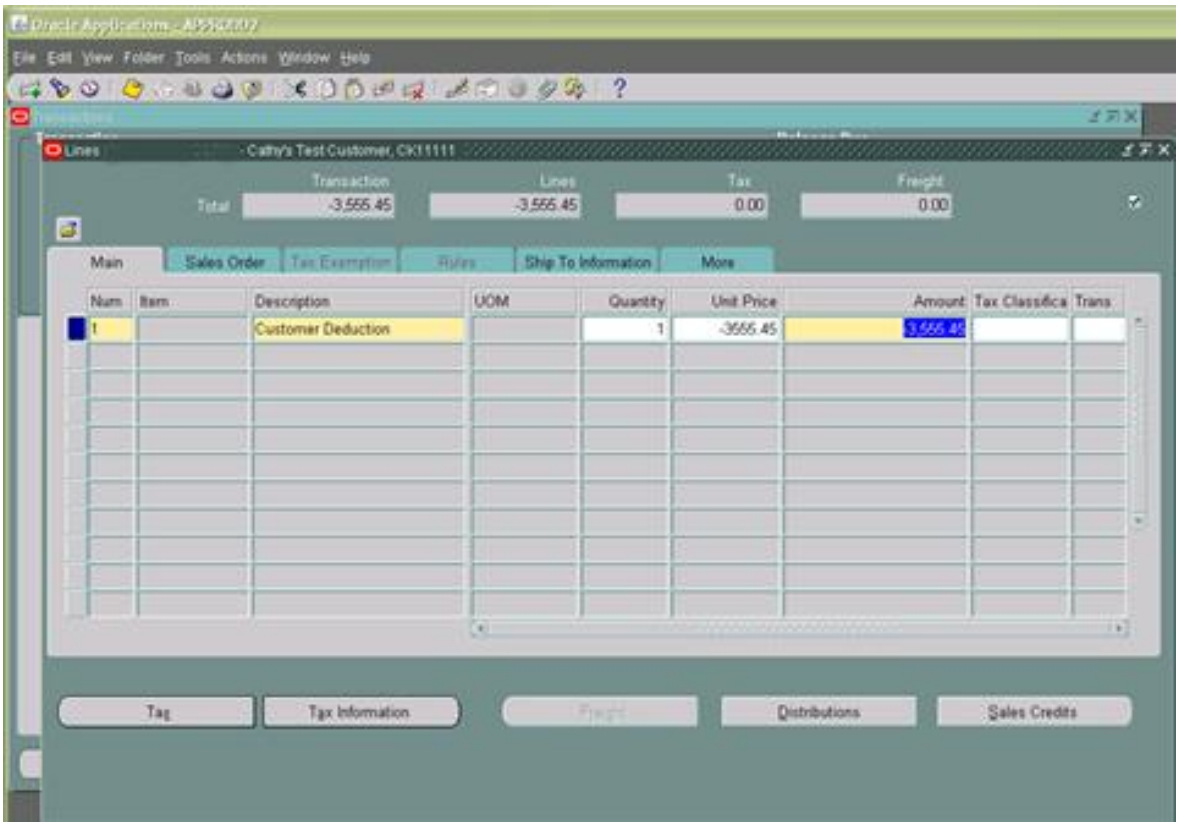
Payment Terms	(List) Immediate

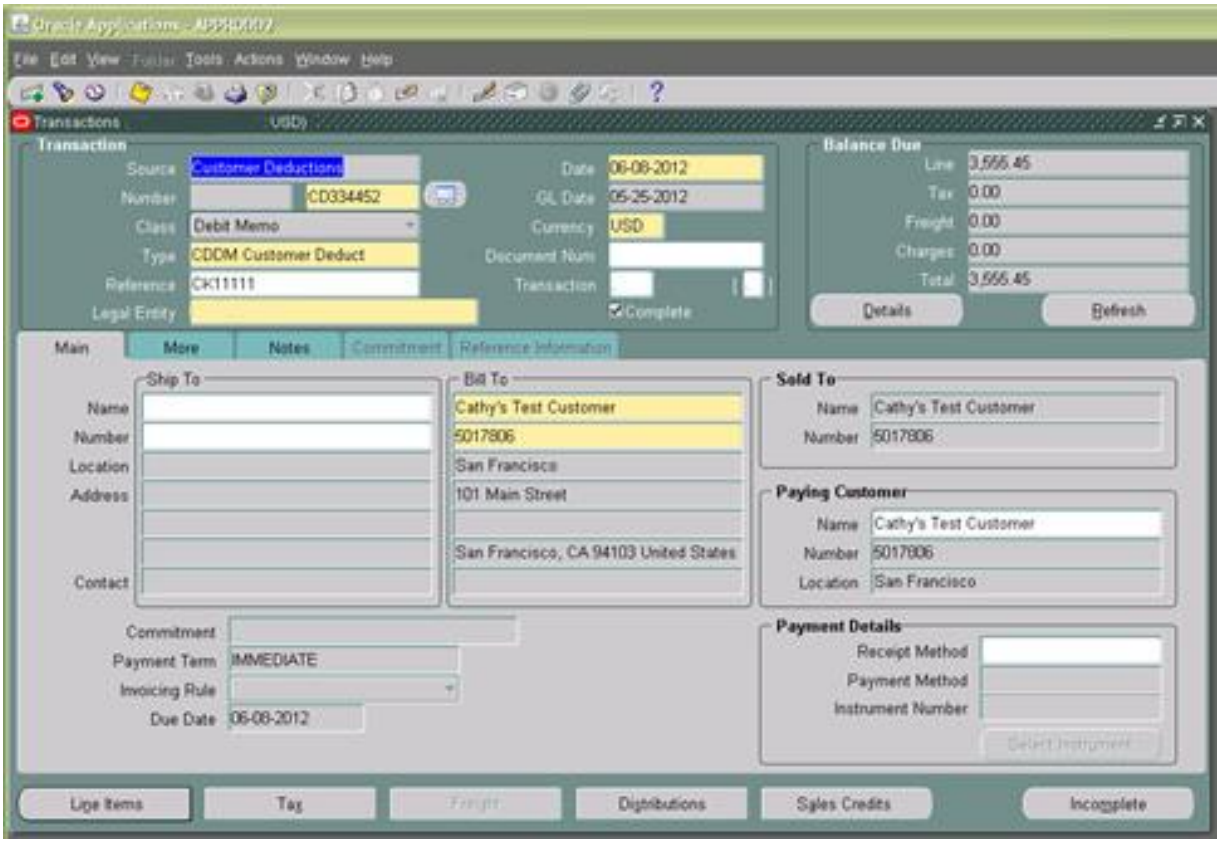


Description	(List) Customer Deduction append: "on Check Number _____"
Quantity	1
Unit Price	The total amount of the customer deductions (negative).
	Save
	Go to the More tab
Line Reason	(List) Select the appropriate reason for this credit – "*Customer Deduction*"?
	Complete

Create one Debit Memo for EACH deduction that the customer took using the **Transactions** form**:**

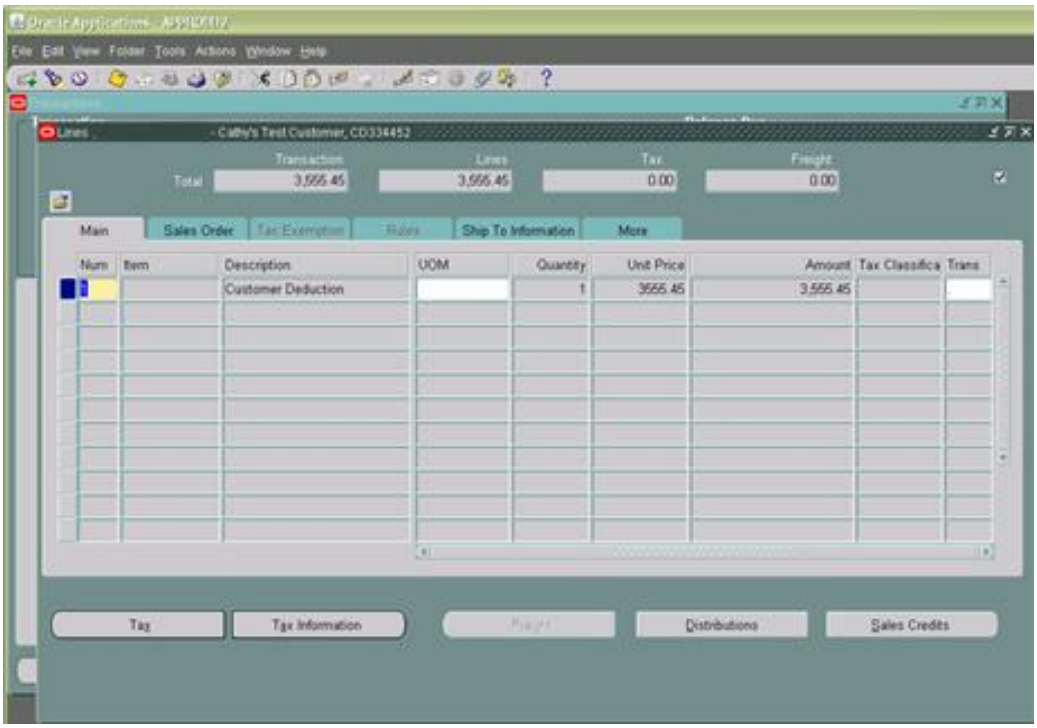
Transactions - Transactions

Enter as any standard Debit Memo but enter the following values that are particularly relevant to this process.



Source	(List) Customer Deductions
Date	Enter the current date
Number	CD (and the customer reference number)
GL Date	Enter the current date
Class	(List) Debit Memo

Currency	(List) Select the applicable currency
Type	(List) CDCM Customer Deduct
Reference	CK (and the check, ACH or wire number)
Ship To	(List) Select the applicable ship to customer information - optional
Bill To	(List) Select the applicable billing customer information
Payment Terms	(List) Immediate



Description	(List) Customer Deduction, append: "on Check Number _____. Please fax backup to (xxx) xxxxx? or email to xxx@xxx.com"

Quantity	1
Unit Price	The amount of the customer deduction (positive).
	Save
	In the More tab, set Print to Yes
	Complete

4) Apply the credit memo you created in step 2 with the payment you received to the invoices as indicated by the customer on the remittance advice either through the Lockbox process or using the Receipts form.

5) **Use the Receipts form to apply the receipt:**

Receipts - Receipts

a) Enter or query the receipt.

b) Click on the Applications tab.

c) Select and apply the credit memo you created in Step 2 (this will increase the amount you have available in your unapplied amount).

d) Apply the receipt and the credit memo to the open invoices as indicated on the remittance advice.

*NOTE: If the customer deduction relates to a single, specific invoice, you may use the Chargeback feature in **Receipts** to more easily process the deduction.*

If the Deduction is Valid:

If you determine later that the deduction is valid:

1) Determine the applicable invoices (s) where the deduction is valid
2) Unapply the Credit Memo you created in step 2 from the applicable invoices
3) Apply the Credit Memo you created in step 2 to the applicable Debit Memo(s) that you created in step 3.
4) Create Credit Memo (s) to offset the applicable original invoice (s) using the appropriate AR, Revenue, Tax and Freight values and accounts.

What you have done:

a) Created items with a zero net effect on the customer balance.

b) Created offsetting General Ledger entries (provided that you use the same GL accounts for the debits and the credits).

c) Created separate debit memos for each deduction so you can individually research and resolve them.

d) Created documents (debit memos) that you can print and send to the customer to notify them that the deduction(s) were not allowed.

e) Paid the open invoices as indicated on the remittance advice.

f) If the deduction is valid, offset the CD_M Debit Memo and Credit Memo and created and applied credit memo (s) to the proper original invoices.

It is usually easier to perform this process prior to starting your cash application, that way the credit will be available for use when applying the payments according to the remittance advice.

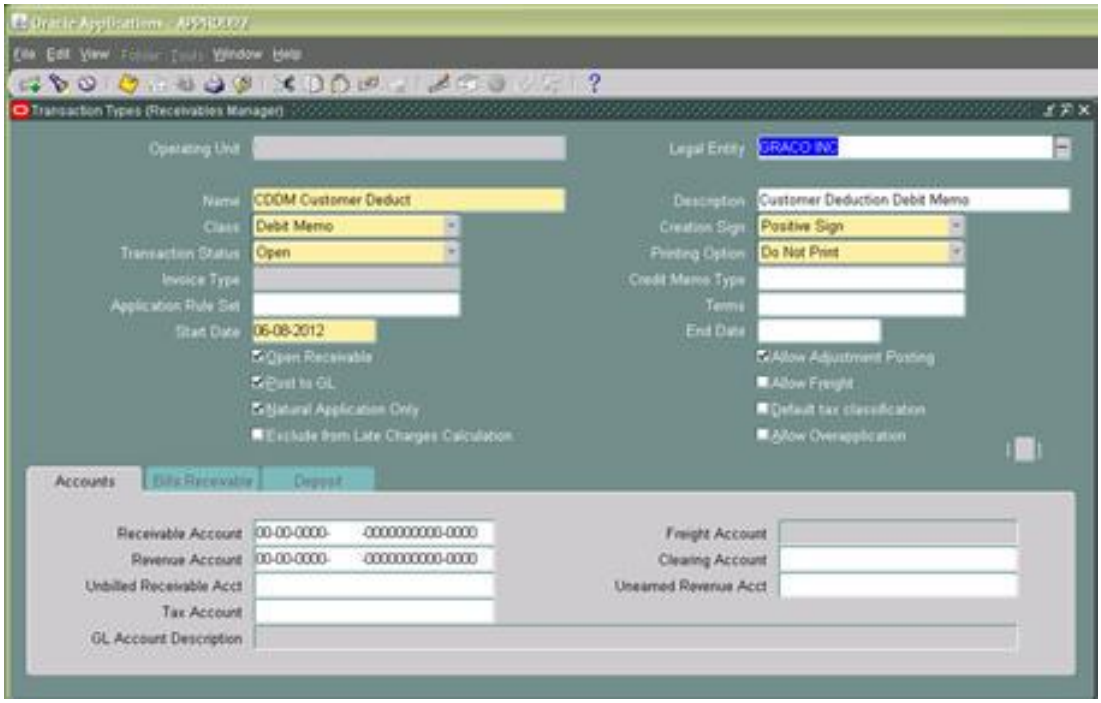
Related Set-Ups

Prior to using this procedure, you need to define the following set-ups (one time only)

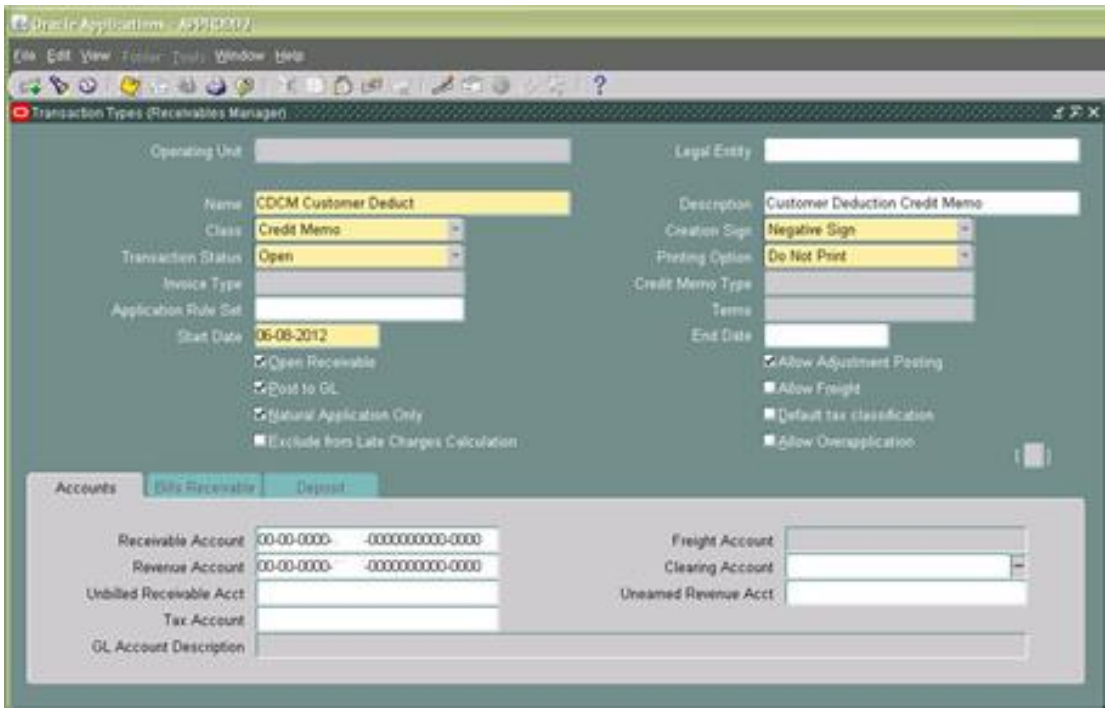
Transaction Types

Setup - Transactions - Transaction Types

1) Create a Transaction Type for "CDDM Customer Deduction Debit Memo" (Class = Debit Memo) using the appropriate Receivables and Revenue Accounts.



2) Create a Transaction Type for "CDCM Customer Deduction Credit Memo" (Class = Credit Memo) using the appropriate Receivables and Revenue Accounts.

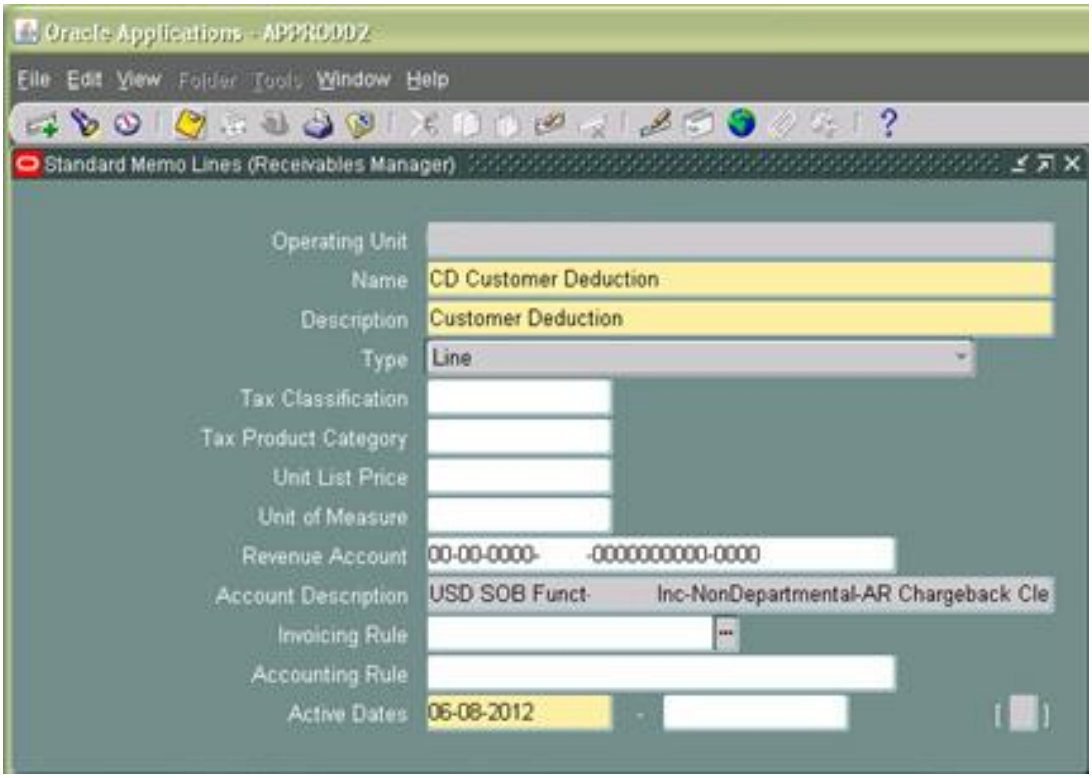


The point of using CD_M in the name is that when you see items on the Aging with these Transaction Type names, you will know that it is a Customer Deduction based item.

Memo Lines

Setup - Transactions - Memo Lines

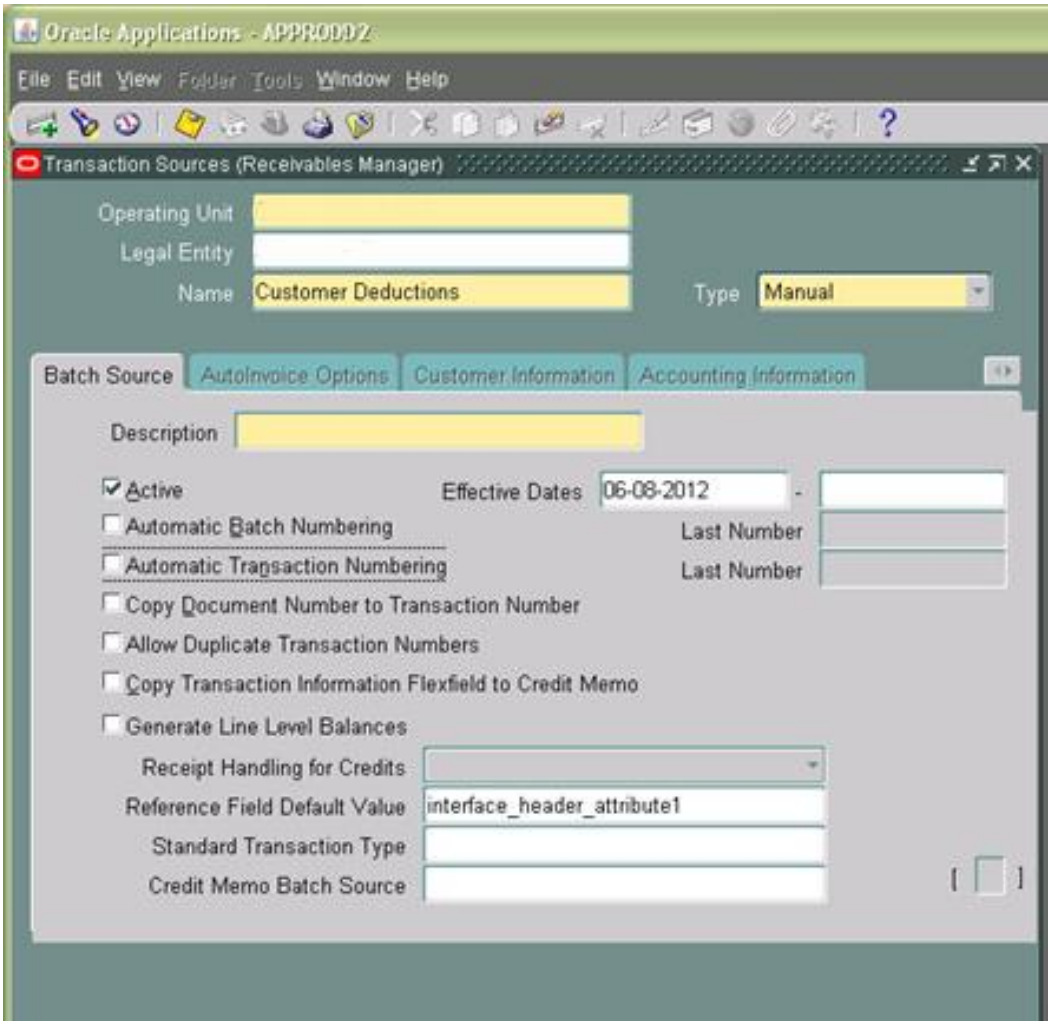
Create a memo line called "Customer Deduction" using the appropriate account for the Revenue Account: xxxx *(determine the applicable account to use for this process)*



Could include the standard verbiage in this description: "Please fax backup to (xxx) xxx-xxxx or email to Receivables@xxxx.com. Customer Deduction on Check number:"

Transaction Sources

Setup - Transactions - Sources



Create a batch source that allows manual transaction numbering (e.g., called Customer Deductions). Note that this is a Manual Type.

Related Reports:

The information you entered is available in the following reports:

Report Name	Navigation
Transaction Register (List of invoices, credit memos, debit memos and commitments)	Reports → Accounting
Aged Trial Balance (various) (List of open transactions)	Reports → Accounting Reports → Collections

Accounting Impact – Creating CD_M Transactions

Activity	Debit	Credit
CDCM Credit Memo	Revenue (from Memo Line)	AR (from the Transaction Type)
CDDM Debit Memo	AR (from the Transaction Type)	Revenue (from Memo Line)

Accounting Impact – if the Deduction is Valid:

Activity	Debit	Credit
Credit Memo (unapply)	AR (from original invoice)	AR (from the Credit Memo)
Debit Memo (apply credit memo)	AR (from the CDCM Credit Memo)	AR (from Debit Memo)
Credit the original invoice(s)	Revenue, Tax, Freight (from the original invoice)	AR (from the original Invoice)

Note that there is no impact on the Tax and Freight accounts when you create the CD_M transactions.

Policy Decisions:

1) Require batches when entering these debit and credit memos? (this is a good way to insure the you have created exactly offsetting items) – **Not necessary since usually only created one at a time.**

2) Will you use a single debit memo or multiple debit memos (one for each customer deduction)? One is faster and easier to enter but you lose track of what the customer is intending and their reference numbers. You could have this policy vary by customer. **Single summary credit memo when entered manually and one credit memo per deduction when created automatically.**

3) What is the best account of use for the clearing account? If you use a special account, if you ever see balances in the account, then you know that something is missing since it should always net to 0.

4) I am assuming:
   a. Manually numbering for all of these transactions
   b. Create one credit memo for the total of the deductions on a single receipts and multiple debits memos – one for each deduction on the receipt
   c. I am assuming that you will print the debit memos but not the credit memo or the customer might take the credit again