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## Placate unhappy customers by handing out their refund checks pronto

### AT A GLANCE

Although you hate to do it, occasionally you have to give money back to a customer, whether it's due to a miscommunication that results in an overpayment or if your customer isn't satisfied with their merchandise. Since you write refund checks infrequently, you might not know the most efficient process. We'll walk you through it so you're prepared when the situation arises.

To issue a refund check to a customer for any situation, we'll:

- Refund a customer for merchandise that's damaged or not what the customer intended to receive.
- Issue a refund for an overpayment on a customer's invoice in the most efficient way given your QuickBooks version.
- Clean up the A/R Aging Detail report so it doesn't reflect the transaction after you've issued the refund (versions 2004 and earlier).

There are many reasons why a customer may want her money back, and you often don't want to argue. After all, the traditional business motto is "The customer is always right." If you want the customer to continue doing business with you, it's important to handle a refund check quickly and correctly. We'll show you how to issue refund checks in QuickBooks so you can smooth over any sticky situation.

### Refund money for merchandise

Let's suppose that Kern Lighting Warehouse, one of your best customers with no outstanding balance, purchases 12 chandeliers on January 29, 2007 for a total sale of \$3,900 and pays you in full on February 4. Kern Lighting Warehouse then notifies you that they don't want the chandeliers and they want their money back.

You entered an invoice for the sale and a receipt when they paid you. Because the receipt closed the invoice, you can't just enter a refund check — if you do, Kern Lighting Warehouse will have a credit balance. So you need to enter both a credit memo and a refund

check that you can apply to each other to bring Kern Lighting Warehouse's balance to zero.

In **Figure 1**, you see a credit memo to Kern Lighting Warehouse where we're actually returning the chandeliers to inventory.

Item	Description	Qty	Rate	Amount
Chandel...	Chestnut with Marble Glass	12	325.00	3,900.00

Total: 3,900.00  
Remaining Credit: 3,900.00

**1:** This credit memo corrects your inventory by placing returned merchandise back into your stock.



Our mission is to focus on the Accounting and Tax needs of Small Businesses Owners, so they can leverage their time to focus on what they do best and enjoy the most. Our ultimate goal is to help Clients reduce stress and make more money.



## To create a credit memo to return items to inventory:

1. Launch QuickBooks and open your company file.
2. Choose Customers | Create Credit Memos/Refunds from the menu bar to open the Create Credit Memos/Refunds window.
3. Select the customer (Kern Lighting Warehouse in our example) from the Customer: Job dropdown list.
4. Enter the correct date in the Date text box and then select the item(s) the customer wants to return in the line item area.
5. Type the quantity in the Qty column, as shown in **Figure 1**. The total should match the total of the original purchase, which was \$3,900 in our example.
6. Click the Save & Close button to save the credit memo.

## Return money without returning merchandise

There are cases when your customer won't return the merchandise to you

— perhaps because it was defective. To handle these situations, create an item (you might call it “Returns and Allowances”), make the item taxable, and assign the item to an appropriate income account or a Sales Returns And Allowances account.

### To create an item for refunds in which merchandise isn't returned:

1. Choose Lists | Item List from the menu bar to display the Item List window.
2. Press [Ctrl]N to create a new item and select Non-Inventory Part from the Type dropdown list.
3. Type *Returns and Allowances* in the Item Name/Number text box and select an appropriate account for the item from the Account dropdown list.
4. Enter a description for the item, as shown in **Figure 2**, and click OK to add it to the Item List window.

Now when you create a credit memo, as we did earlier in this article, use the

Returns and Allowances item instead of the actual returned merchandise items. By making the Returns and Allowances item taxable, the credit memo adjusts your sales tax liability as well as your sales and receivables.

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**Be aware:** Sales tax rates are different for each state and the rules regarding when items are taxable may vary. It's a good idea to consult your tax advisor about what kinds of transactions are taxable.

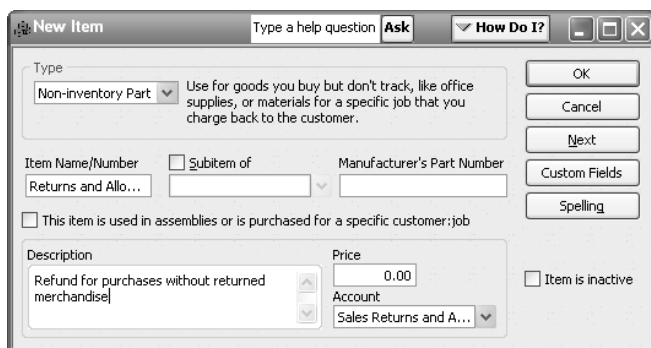
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### Fill out the refund check

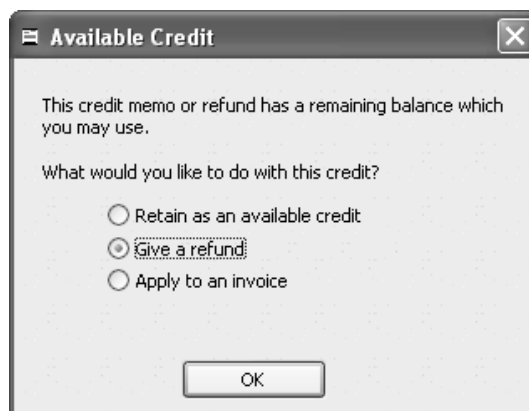
Now that your credit memo is in place, you can issue the refund check.

### To issue the refund check:

1. In the Create Credit Memos/Refunds window, click the Use Credit To button to display the Available Credit window, as shown in **Figure 3**.
2. Select the Give A Refund option button and click OK; the Issue A Refund window opens.
3. Double-check the information in the Issue A Refund window and enter a



**2:** You can create a new non-inventory item to use for refunded money.



**3:** You can issue a refund check or give the customer credit toward his current balance.

note in the Memo field, as shown in **Figure 4**, and click OK.

The credit memo now contains a watermark that reads *Refunded*.

## Refund an overpayment in 2005/2006

In QuickBooks 2006, you can issue a refund for an overpayment as you're recording the payment. This is the most efficient way to handle an overpayment because QuickBooks automatically clears the transactions against each other.

### To issue a refund check for an overpayment in 2005/2006:

1. Choose Customers | Receive Payments from the menu bar to open the Receive Payments window.
2. Select the customer from the Received From dropdown list. (We'll use Lavery Lighting & Design for this example.)
3. Enter the payment amount in the Amount text box in the upper portion of the window. In the lower-left corner of the window, QuickBooks informs you of the overpayment amount.
4. Select the Refund The Amount To The Customer option button, as shown in **Figure 5**, and click the Save & Close button.
5. When the Issue A Refund window displays, double-check the amount and click OK when you're ready to issue the check.

In some cases, you may have applied the credit to a customer's account or don't decide on a refund until after you enter

the payment and grant the customer credit. You can still issue a refund by viewing the transaction in the Receive Payments screen and then selecting the Refund The Amount To The Customer option button in the lower-left corner just as you would when you record the payment.

## Refund an overpayment (2004 and earlier)

Suppose that your situation varies slightly; let's say that, instead of return-

ing merchandise for a refund, your customer overpays the account and you and the customer agree that you should issue a refund check. For example, let's say that Kern Lighting Warehouse paid \$4,000 instead of \$3,900. In this case, after you record the payment, your customer will have a \$100 credit balance on the A/R Aging Detail report.

### To issue a refund check for an overpayment:

1. Press [Ctrl]W to open the Write Checks window.

The screenshot shows the 'Issue a Refund' dialog box. The 'A refund is due to' field is set to 'Kern Lighting Warehouse'. The 'Issue this refund via' dropdown is set to 'Check'. The 'Refund Amount' is \$3,900.00. The 'Account' is 'Company Checking A...'. The 'Date' is 02/07/2008. The 'Ref/Check No. To Print' is blank. The 'Ending Balance' is 93,808.43. The 'Address' field contains 'Kern Lighting Warehouse, 1 Main Street, Musicville, TN 00211'. The 'Class' dropdown is blank. The 'Memo' field contains 'Refund without returned merchandise'. There is a checkbox for 'To be printed' which is checked. The 'OK' and 'Cancel' buttons are at the bottom right.

**4:** The Issue A Refund window carries over all of the information from the credit memo to save you time.

The screenshot shows the 'Receive Payments' window. The 'Customer Payment' section shows 'Received From' as 'Lavery Lighting & Design' with a 'Customer Balance' of 2,708.10. The 'Amount' is 3,000.00. The 'Date' is 12/15/2007. The 'Pmt. Method' is blank. The 'Reference #' is blank. The 'Memo' is blank. The 'Card No.' is blank. The 'Exp. Date' is blank. There is a checkbox for 'Process credit card payment when saving'. Below the form is a table with columns: Date, Job, Number, Orig. Amt., Amt. Due, Payment. The table shows one row with a checkmark in the first column, date 12/03/..., job #JL-08, number 71139, orig. amt. 2,708.10, amt. due 2,708.10, and payment 2,708.10. Below the table is a summary section with 'Totals' and 'Amounts for Selected Invoices'. The 'Totals' row shows 2,708.10 for Orig. Amt., 2,708.10 for Amt. Due, and 2,708.10 for Payment. The 'Amounts for Selected Invoices' section shows 'Amount Due' 2,708.10, 'Applied' 2,708.10, and 'Discount and Credits Applied' 0.00. There are buttons for 'Un-Apply Payment', 'Discount & Credits...', 'View Customer Contact Information', 'Save & Close', 'Save & New', and 'Clear'.

**5:** You can issue a refund at the time of the overpayment if you use QuickBooks 2006.

2. Select Kern Lighting Warehouse from the Pay To The Order Of dropdown list.
3. Enter the amount of the refund, in this case \$100.00, in the appropriate place on the check.
4. Ensure that Accounts Receivable displays on the Expenses tab in the Account column.
5. Save the transaction by clicking the Save & Close button.

### Make a clean report

At this point, if you print the A/R Aging Detail report, you'll see that Kern Light-

ing Warehouse has a net balance of \$0 (assuming that the company had a zero balance before the refund). However, two entries appear on the report — the overpayment and the refund check.

### To remove these entries and clean up the report:

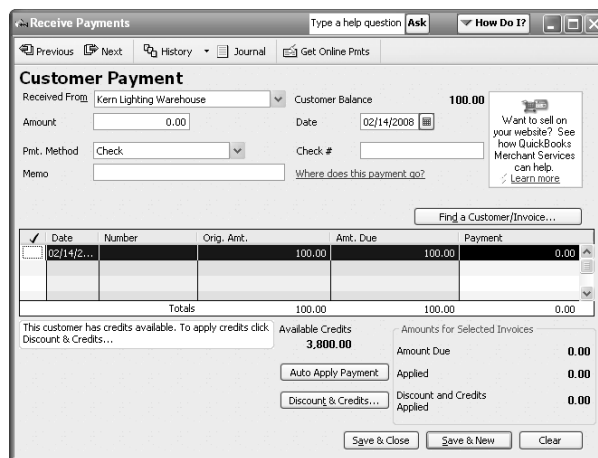
1. Choose Customers | Receive Payments from the menu bar to display the Receive Payments window.
2. Select Kern Lighting Warehouse from the Received From dropdown

list. The refund check should display at the bottom of the window, as shown in **Figure 6**.

3. Click on the refund check entry to select it — do not try to place a check mark next to it — and then click the Discount & Credits button.
4. In the Apply Credits window, ensure that a check mark appears to the left of the credit and the balance is appropriately adjusted; click Done.
5. Click Save & Close to apply the credit to the customer's account.

### Correction:

In the October 2006 issue of *QuickBooks User*, the article "Stress-free tips for wrapping up each quarter's payroll tasks" contains an error. The article states: "If your cumulative FUTA liability exceeds \$100 for the quarter, you're required to make a payroll tax deposit for your FUTA liability. If your cumulative FUTA liability is less than \$100, you can carry it over to the next quarter." However, the cut-off for your FUTA liability payment schedule should be \$500 instead of \$100. We apologize for any confusion.



**6:** When you receive a payment by applying credit to the customer, it clears the transaction from the A/R Aging Detail report.

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The  
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