



Award Winning Online Accounting Software

How to write off bad debts

Please follow steps below for an easy method of writing off bad debts.

The simplest method of writing off a bad debt is to create a credit note on the system for the amount of the bad debt. See here for creating Credit Notes. But before you start read the whole article and then come back to the how-to for creating Credit Notes. <https://sortmybooks.zendesk.com/entries/514774-Credit-Notes-Refunds>

Preferences: If you want to keep track of how much bad debt you've written off then you can create a sub-nominal of Sales called 'Bad Debt' and when you are creating the Credit Note use 'Bad Debt' as the Nominal. If you don't want to track Bad Debt separately then you should use the same Nominal you used for the original sales invoice. <https://sortmybooks.zendesk.com/entries/20937361-How-to-add-new-Nominals-change-the-Chart-of-Accounts>

You will also be asked for a date when you create the Credit Note – see my FAQ below on the date you should use for Credit Notes.

How will this affect my VAT? If you are reporting VAT on a cash receipts basis then it won't affect your VAT at all. Remember cash receipts means that you only pay over VAT when you get paid.

If you are on an Invoice basis for VAT then creating a credit note for a bad debt means that you will get a refund of that VAT.

How will this affect my Debtor balances? The Customer in question should no longer be showing in your Debtor listing.

How will this affect my Sales? Your sales income for the year will be reduced by the Net (ex-VAT) amount of the bad debt.

What date should I use to record Bad Debts? As soon as you know the debt is irretrievable you can write it off but at the very least you should do it at year end time. The reason being that bad debts falsely inflate your turnover and therefore your profit. We're all taxed on our profits so a bad debt reported on your year-end is a double whammy. First of all is the insult of not being paid for your work and secondly you'll be paying extra tax for money you are not going to receive. So when I'm checking our Debtors at year end I make sure to write off any debts that I know we're not going to be paid for.

