

# Invoice vs. Statement in QuickBooks Pro

by Melanie Hodgdon

Accounting software like QuickBooks Pro (QBP) treats an invoice and a statement differently. If you try to use them interchangeably, you will wreak havoc on your company's financial records.

The difference is simple: An invoice is a record of an individual transaction, while a statement is a summary of all account activity during a given billing cycle. For example, if you charge a box of screws and some copper plumbing fittings to your account at the local hardware store, the sale is recorded on an invoice. You can request separate invoices for each item — if the screws were for the Smith job, for instance, and the copper fittings were for the Jones job — but the invoices are still just a record of the sale.

At the end of the month, the hardware store collects all of the invoices from your account for that month and puts them into a statement, along with any past-due amounts or credits you have incurred during the billing cycle. The statement summarizes all of this financial information and shows you the balance due for that month's purchases.

To keep your own financial records straight, you should be using invoices and statements the same way the hardware store does. In my work as a QuickBooks Pro consultant, however, I have discovered that several of my clients have gotten creative and have started recording payment information on the invoice. It's easy to do and it produces a clear explanation to the customer — but behind the scenes this practice is messing up their sales figures.

## "Creative" Invoicing

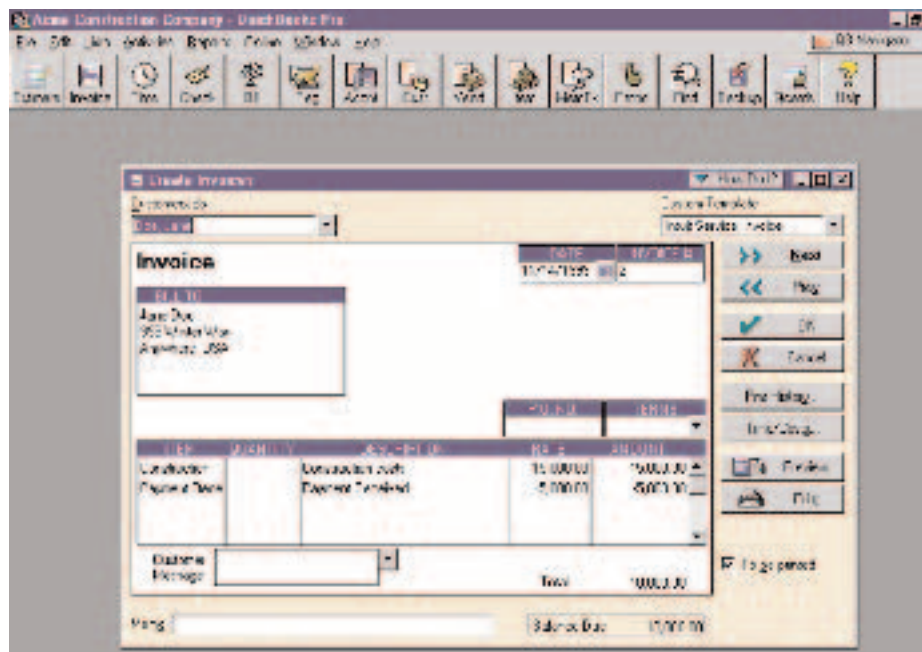
Here's a typical scenario involving three payments that illustrates how creative invoicing can get you in trouble.

**Original invoice.** Let's say you create an invoice to customer Jane Doe for \$15,000. This creates a balance owed of \$15,000 — if you click your customer list, you will see \$15,000 next to Jane Doe's name. The \$15,000 also shows up on your Balance Sheet in Accounts Receivable if you're looking at the accrual-basis report; cash-basis receivables will still be zero. If your Profit and Loss report (P&L) is set to a cash basis, you won't see the income till Jane pays you. But if your P&L is set to report on an accrual basis, you will immediately

see \$15,000 of income.

**First payment.** Jane Doe pays \$5,000. Recording the payment reduces Accounts Receivable from \$15,000 to \$10,000 if you are running your Balance Sheet on an accrual basis; if you are on a cash basis, receivables will remain zero, and your customer list shows Jane Doe's balance as \$10,000. A cash-basis P&L now shows \$5,000 of income; an accrual-basis P&L still shows \$15,000.

So far, so good. But the trouble starts when you decide to remind Jane that she still owes \$10,000. That's what a statement is for, but many QBP users make the mistake of using an invoice instead. Such a mistake can take many forms, but



**Figure 1.** QuickBooks Pro users sometimes confuse invoices and statements when attempting to acknowledge partial payment from a client. One common mistake is to create a second invoice, as shown here, that includes both the original amount and the payment. Because QBP adds invoice amounts together, this creates errors in the Customer List, and on Balance Sheet and P&L reports.

here are the two most common.

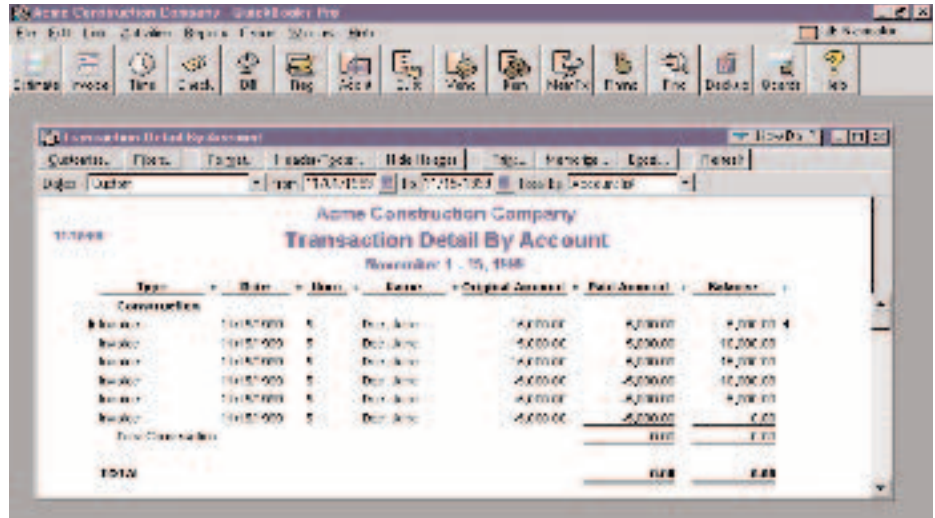
**Error 1.** Instead of creating a statement, you create a second invoice, this time for \$10,000. To be “thorough,” you create two lines, one showing \$15,000 for the original invoice and a second showing a \$5,000 payment (see Figure 1). The unexpected result, however, is an increase in your receivables and Jane Doe’s balance to \$25,000. That’s because now you have two invoices — the original invoice for \$15,000 plus a second invoice for \$10,000 (\$15,000 minus the \$5,000 payment), and QBP adds these amounts together.

**Error 2.** The other mistake you might make is to go back to the original invoice for \$15,000 and add a discount category Item called something like “Payment Received” to show the \$5,000 payment. This new Item would be linked to your Income account, since it is an attempt to show a change to income that occurs as a result of payment. What QBP actually does, however, is treat it as a revision to the first invoice. This decreases your receivables and changes the original balance from \$15,000 to \$10,000.

**It’s all downhill from here.** Whichever error you make, everything you do from here on out just compounds the problem. To see why, let’s look at what happens when Jane Doe makes a second payment of \$5,000. If you repeat Error 1 and create a third invoice, QBP will add the three invoices and subtract the two payments. The result is that, after paying \$10,000 against the original \$15,000, Jane Doe will now appear to owe \$20,000:

Invoice 1	\$15,000
+Invoice 2	10,000
+Invoice 3	5,000
–Payment 1	(5,000)
–Payment 2	(5,000)
<u>Total Due</u>	<u>\$20,000</u>

An accrual-based P&L will show \$30,000 of income (the sum of the three invoices). Both the Customer List and Accounts Receivable in your Balance



**Figure 2.** Another common error is to revise the first invoice each time a payment is received. In the cash-based transaction detail shown here, each time the invoice is revised QBP makes automatic adjustments behind the scenes that offset customer payments and alter the original invoice amount. Eventually, this results in an invoice amount of \$0 and no record of any customer payments.

Sheet (if set to accrual basis) will show Jane owing \$20,000.

If you repeat Error 2, the consequences are even more surprising. In this case, you would have gone back once again to the original invoice and shown a second payment of \$5,000. You expect this to leave a balance due of \$5,000, but it has a very different effect. Because you are continuing to revise the original invoice, QBP keeps adjusting the original amount due. After two \$5,000 payments, the original \$15,000 invoice has been whittled down to only \$5,000. But because Jane has paid you \$10,000, she now appears to have a credit of \$5,000:

Invoice 1	\$15,000
–1st revision	(5,000)
–2nd revision	(5,000)
New Invoice 1	5,000
–Payment 1	(5,000)
–Payment 2	(5,000)
<u>Total Due</u>	<u>(\$5,000)</u>

**Bad to worse.** By the time Jane Doe pays you the third and final \$5,000, your financial records will be a mess. If you commit Error 1 again and create a fourth invoice, this time for \$0, she will appear to still owe \$15,000 (\$15,000 + \$10,000 + \$5,000 + \$0 - \$5,000 - \$5,000

- \$5,000). Your accrual-based P&L will show income of \$30,000.

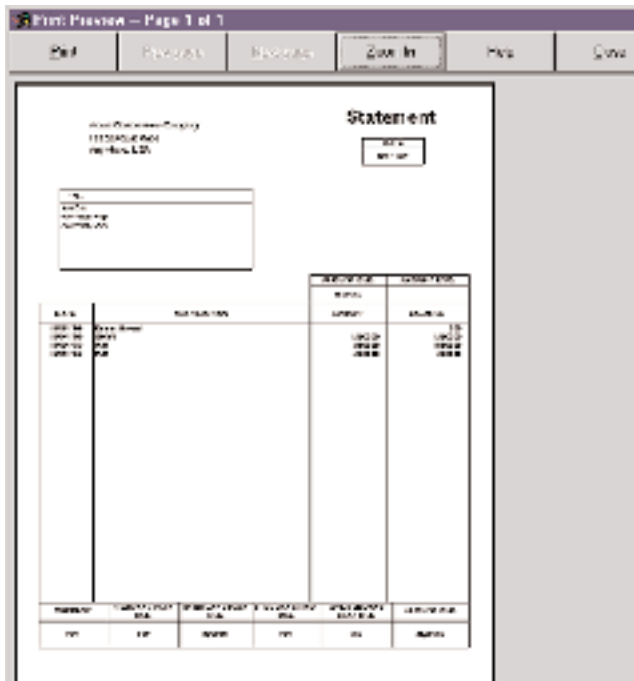
If you carry Error 2 to its logical conclusion and revise the original invoice one final time showing all three \$5,000 payments, the absurd results are that QBP will show a credit of \$15,000 for Jane. That’s because your final edit created an invoice of zero balance, against which Jane has made three \$5,000 payments. Your accrual-based P&L will show \$0 income.

And here’s the kicker: Your cash-based P&L will also show \$0 income. That’s because every time you revise the original invoice to reflect another payment, QBP makes adjustments based on the Item called “Payment Received” that you created and linked to your Income account. After the third revision, the original invoice has been whittled down to zero and Jane Doe appears to have paid nothing (Figure 2).

### Doing It the Right Way

You can avoid all of this confusion simply by using a statement. Here’s what the proper sequence would be when recording three installment payments for a single invoice.

As in the example above, when you create the original invoice for \$15,000,



**Figure 3.** The proper way to acknowledge payments is to create a statement, which deducts payments from the original invoice amount and calculates a new balance.

the QBP customer list will show \$15,000 next to Jane Doe's name. The \$15,000 also shows up on your Chart of Accounts in Accounts Receivable, and your P&L shows either \$0 (cash) or \$15,000 (accrual).

Jane Doe's first \$5,000 payment also has the same effect as in the previous example. Both your receivables and Jane's balance drop to \$10,000. A cash P&L will now show \$5,000 income; an accrual P&L still shows \$15,000.

**Create a statement.** This time, however, when you want to remind Jane of the outstanding balance, you send her a statement. The statement shows the original amount (\$15,000), her payment (\$5,000), and her current balance (\$10,000).

When Jane makes her second \$5,000 payment, both your receivables and

Jane's balance drop to \$5,000. Your P&L will report either \$10,000 (cash) or \$15,000 (accrual). This time when you send Jane a statement to remind her of the outstanding balance, it shows the original amount (\$15,000), both payments (\$5,000 and \$5,000), and Jane's current balance (\$5,000) (Figure 3). When Jane makes the final payment, your receivables and her balance both drop to zero and your P&L will report \$15,000 whether it's set to accrual or cash. Nobody owes anybody anything and all's right with the world.



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