

How to write-off Bad Debts on a Ledger Card

A common problem Millennium users ask us about is the correct method to write-off bad debts due to non-payment of bills and disbursements by clients. This is particularly important where there is a VAT element involved, and the practice wishes to claim back the VAT from Customs & Excise.

From Millennium V5.037 onward there are two methods by which Bad Debts can be written off, but which one to use depends on what end result you want:-

Before you proceed any further, ask yourself the following key questions:-

- Q. Is there a VAT element that I wish to reclaim?**
- Q. Do I want to write off non-payment of a Disbursement or a Bill?**
- Q. What if I have already posted write-offs, but not used the right method to reclaim VAT?**

Initially we will provide an overview of the methods, then a summary of the method to use, followed by the appropriate step-by-step procedure.

Method 1 - Overview

In Millennium V5.037 a new feature was introduced to make writing off money on a matter easier. This can be found in the Office Postings screen on the Posting Type drop-down menu. There are two new options called “Write-off” and “Reverse write-off”.

The screenshot shows the 'Main details' window in Millennium Accounts. The 'Posting type' dropdown menu is open, displaying the following options: 'Write off', 'Use office bank', 'Use counsel', 'Write off', and 'Reverse write off'. The 'Matter balances' table is visible on the right, showing zero values for Client current, Client deposit, Office, Unpaid bill, and Unbilled disb. The 'Transaction type' is set to 'Receipt'.

Matter balances	
Client current	0.00
Client deposit	0.00
Office	0.00
Unpaid bill	0.00
Unbilled disb	0.00

Do **NOT** use this method to write off **bills** if you want to reclaim its VAT from Customs & Excise.

Method 1 automatically utilises the Bad Debts write-off nominal account which should be set up once in the system configuration. To check this go to menu **Setup**, then **Special Accounts**, and check whether there is a nominal account code against the “*Bad debt write off account*”. If not then this nominal account should be set up in the Chart of Accounts, normally in the **Overheads / Bad Debts** category (typically range 79000-79999), as an **Expense** type nominal account called “*Bad Debts*”, (with a clear-down

account, type Nominal, probably under Capital & Reserves / Partners Capital, and called “Profit for Year”).

When a “**Write off**” posting type is selected from the drop-down menu, it automatically selects transaction type **Receipt**. Proceed to select the disbursements or bills, and the amount that you wish to write off.

The “**Reverse Write off**” posting type is used to contra an incorrectly posted **Write Off**. Note that you would need to use Manual Cash Allocation first to “Un-Pay a Bill or Disbursement” previously allocated to the **Write-off** posting, before you can post the **Reverse Write off**.

Method 1 is an improvement over Method 2 because it eliminates an extra posting, automatically assigns the Bad Debts nominal account, and automatically enters appropriate descriptions for you, thereby saving time.

Method 2 – Overview

Before Method 1 above was available, this was the original way of writing off a bad debt for both disbursements and bills, whether VAT was applied or not.

If the client has not paid any of the bill amount, for example due to a fee disagreement, or adjustment to the charge, then a fee credit note can be posted, but if part-payment has already been received, and the remaining bad debt is to be written off then the following method should be applied.

This method involves two postings. First a receipt into the office account on the matter ledger card using a Bad Debts **bank** account, and secondly a payment from the Bad Debts **bank** account to the Bad Debts **nominal** expense account.

It is this second-half, the Nominal posting, which allows you to reclaim VAT by entering the VAT amount as required. This way will ensure that reclaimed VAT appears on the VAT Report for the Bad Debts nominal expense.

To distinguish write-off transactions and keep them separate from normal office bank transactions it is best to set up a Bad Debts and Write-offs **bank** account, if one doesn't already exist, using the Banks Maintenance window.

PROCEDURE

Considering our original questions we can proceed as follows:-

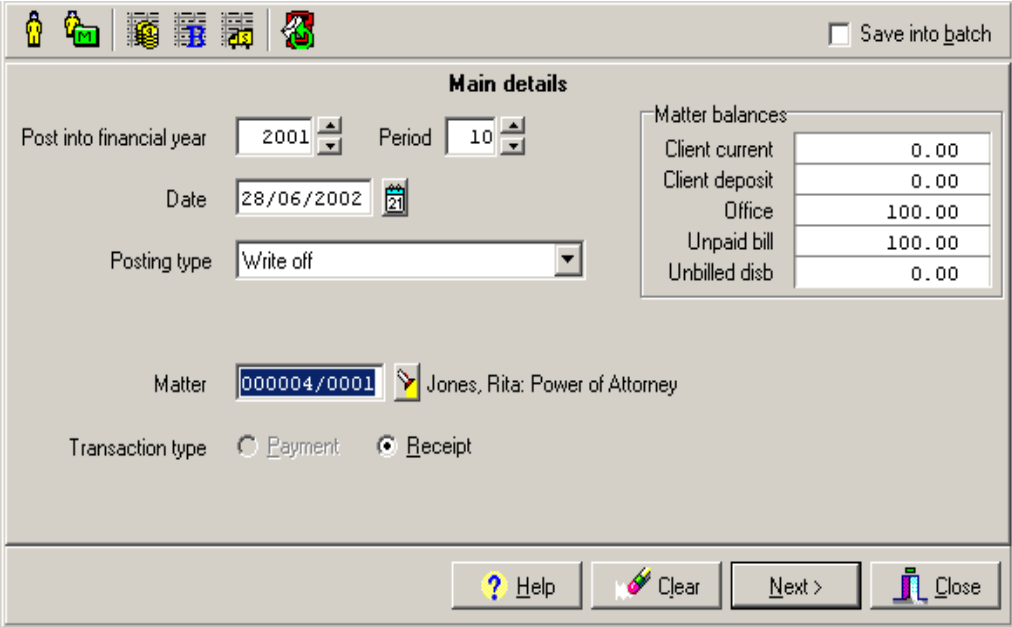
- Q. Is there a VAT element that I wish to reclaim?**
- A.** Method 1 is the quicker, easier way to write off unbilled disbursements with or without VAT. Bills may also be written off using this method but if you wish to reclaim any VAT on the Bill you should use Method 2.
- Q. Do I want to write off a disbursement or a bill?**
- A.** Unbilled Disbursements can safely be written off using Method 1 regardless of whether they have VAT or not. Usually Method 2 will be used to write-off a Bill, unless it has no VAT or it is negligible and considered not worth claiming.

Reclaim VAT?	Disbursement	Bill
Yes	Use Method 1	Use Method 2
No	Use Method 1	Use Method 1

Method 1 - Procedure

When a “**Write off**” posting type is selected from the drop-down menu, it automatically selects transaction type **Receipt**. Proceed to select the disbursements or bills, and the amount that you wish to write off.

1. Display the Office Account Posting wizard (View | Accounts Posting menu).
2. On the wizard's 'Main Details' screen, select **Write off**.



The screenshot shows the 'Main details' screen of the Office Account Posting wizard. The interface includes a toolbar at the top with icons for help, clear, next, and close, and a 'Save into batch' checkbox. The main area contains the following fields and controls:

- Post into financial year:** 2001
- Period:** 10
- Date:** 28/06/2002
- Posting type:** Write off
- Matter:** 000004/0001 Jones, Rita: Power of Attorney
- Transaction type:** Payment Receipt

A 'Matter balances' table is displayed on the right side of the screen:

Matter balances	
Client current	0.00
Client deposit	0.00
Office	100.00
Unpaid bill	100.00
Unbilled disb	0.00

At the bottom of the screen, there are four buttons: Help, Clear, Next >, and Close.

Note that the Bank code box has disappeared now because the transaction will be handled automatically through the Bad Debts nominal special account, and transaction type **Receipt** is automatically selected.

3. Click **Next** and select disbursements or bills in the normal way to allocate the Write-off against.

Method 2 - Procedure

The following is the old way of doing write offs:

NB: Set up a Bad Debts and Write-offs bank, if one doesn't already exist, using the Banks Maintenance window.

NB2: Set up a Bad Debts nominal Expense account, if one doesn't already exist, using the Nominals Maintenance window.

There are two parts to the posting procedure, one involving the Office Account Posting wizard and one involving the Nominal Posting wizard.

Part 1 - Office Account Posting

1. Display the Office Account Posting wizard (View | Accounts Posting menu).
2. On the wizard's 'Main Details' screen, select **Use office bank** and type the code number of the **bad debts** bank.

Main details

Post into financial year: 2001 Period: 10

Date: 28/06/2002

Posting type: Use office bank

Bank: 996 Bad Debts Write-Off Account

Matter: 000008/0001 Kray, Mr Harry: Attempted Escape

Transaction type: Payment Receipt

Save into batch

Matter balances	
Client current	0.00
Client deposit	0.00
Office	957.13
Unpaid bill	957.13
Unbilled disb	0.00

Buttons: Help, Clear, Next >, Close

3. Specify the appropriate client matter number.
4. Click on the **Receipt** radio button.
5. Complete the wizard by posting the receipt to the value of the write-off, allocating the write-off to the bill or disbursement as required.
6. Proceed to Part 2 of the procedure.

Part 2 - Nominal Posting

- Once you have completed Part 1, display the Nominal Posting wizard (View | Accounts Posting menu).

Main details

Post into financial year Period

Date

Source account Bank Nominal

Bad Debts Write-Off Account

Transaction type Payment (credit) Receipt (debit)

This is a posting correction

Buttons: Help, Clear, Next >, Close

- In the Main Details screen, click on the **Bank** radio button to specify the Source Account.
- Type the code number of the **bad debts bank** into the next field.
- Select **Payment**, click Next.
- Fill in the Detail & amount screen with a suitable description, and the total amount of the write-off, then click Next.

Detail & amount

Our reference

Detail

Amount

Buttons: Help, < Back, Next >, Close

6. Click on the 'Nominal' tab to specify the destination account:-

The screenshot shows a software window titled "Destination account(s)". It has two tabs: "Bank" and "Nominal", with "Nominal" selected. Below the tabs, it says "Please add some nominal codes below" and "Amount left" with a value of "0.00". A table is displayed with the following data:

Code	Description	Amount	VAT code	VAT
00079000	Bad Debts	957.13	01	127.88

To the right of the table are three buttons: "+ Add", "- Remove", and "Adjust". Below the table, there are input fields for "Nominal code" (00079000), "Description" (Bad Debts), "VAT code" (Standard), "Amount (inc. VAT)" (957.13), and "VAT amount" (127.88). At the bottom of the window are buttons for "Help", "< Back", "Next >", and "Close".

7. Click **Add** to add the nominal code, which should be your 'Bad Debts' **expense** nominal account in the **Nominal code** box.
8. Enter the total **Amount** (including VAT) to be written off (this will default to the total amount initially).
9. Select appropriate **VAT code** if there is VAT to be reclaimed. It will calculate the VAT for the total amount at the set VAT rate. Remember to adjust this to the actual value of VAT being reclaimed, for example a bill might include non-VATable disbursements, so the actual VAT to be reclaimed should be reduced.
10. Complete the remaining wizard screens as required and click **Post**.

What if I have already posted Bill write-offs, but not used the right method to reclaim VAT?

In instances where you might have already written-off Bills using Method 1 described above, and you expected the VAT to be reclaimed and show up on the VAT Report, you could correct this in a couple of ways.

You might have posted write-offs to several different matters using Method 1 for Bills with VAT. One method is to post individual Reverse Write-offs to each matter, but you must de-allocate the Write-off transaction from the Bill before you can post the Reverse Write-off. However, the simplest and quickest correction is to make a single adjustment to the Bad Debts Expense nominal account.

Calculate the grand total for ALL the write-offs to the various matters and their associated total VAT to be reclaimed.

Ensure that only Bills are included in the total, as disbursements will have already been written off to this account.

The office account transactions for the ledger cards have already been handled, so all that is required is to:-

1. Post a single **Receipt** using the Nominal Posting screen, specifying the Bad Debts bank account as the Source bank, the Bad Debts Expense nominal as the

destination account, for the grand total amount of ALL the write-offs already made to the matters inclusive of VAT, but **do not** specify any VAT in this posting – in other words this will be a single grand total correction or “Reverse write off” of the original multiple postings.

2. Now post the equivalent **Method 2, Part 2** posting as described earlier, but for the grand total of the Amount, and this time also specifying the VAT (remember the VAT will be calculated automatically at the VAT rate, and you might need to adjust this where some bills had non-VAT Disbursements).