



## QuickBooks® for Contractors Newsletter

### Bounced Checks....Everybody hates them....They Do Happen Once In Awhile....But How Do You Handle Them in QuickBooks?

**Q.** What is a quick and efficient way to handle bounced checks so the bank reconciliation can show both the money in and the money out.... But not affecting income in a prior period.

**A.** There are three different ways in which you can handle a customer's bounced check. Try each of these methods in a test file to see which one you like the best.

#### Method 1: Create an Invoice to send to the Customer

This method, while perhaps a little more work, is my personal preferred method as it leaves a good paper trail and provides you with something "real" that you can send to your customer to notify them that your bank has returned their check for insufficient funds.

**Step 1. Create an Other Charge Item in your Item List that links to the checking account that the original payment was deposited in to record the NSF Check.**

The screenshot shows the 'New Item' dialog box in QuickBooks. The 'Type' dropdown is set to 'Other Charge'. The 'Item Name/Number' field contains 'NSF Check'. The 'Description' field contains 'Check Returned by bank due to NSF'. The 'Account' dropdown is set to 'Checking - Bank Name', which is highlighted by a red arrow. The 'Amount or %' field is set to '0.00' and the 'Tax Code' is set to 'Tax'. The 'Item is inactive' checkbox is unchecked.

**Step 2: Create an Other Charge Item in your Item List that links to the same checking account to record any NSF Check Fee that you are charged by your bank.**

**New Item** Type a help question **Ask** **How Do I?**

Type: Other Charge Use for miscellaneous labor, material, or part charges, such as delivery charges, setup fees, and service charges.

Item Name/Number: NSF Check Fee Subitem of: [ ]

This item is used in assemblies or is a reimbursable charge

Description: Bank fee for NSF Check Amount or %: 0.00 Tax Code: Tax Account: Checking - Bank Name  Item is inactive

Buttons: OK, Cancel, Next, Custom Fields, Spelling

**Step 3: Optional – If your bank doesn't charge you a fee for NSF Checks but you wish to charge your customer a Returned Check Fee, create an Other Charge Item in your Item List pointing to Other Income.**

**Edit Item** Type a help question **Ask** **How Do I?**

Type: Other Charge Use for miscellaneous labor, material, or part charges, such as delivery charges, setup fees, and service charges.

Item Name/Number: Rtd. Check Fee Subitem of: [ ]

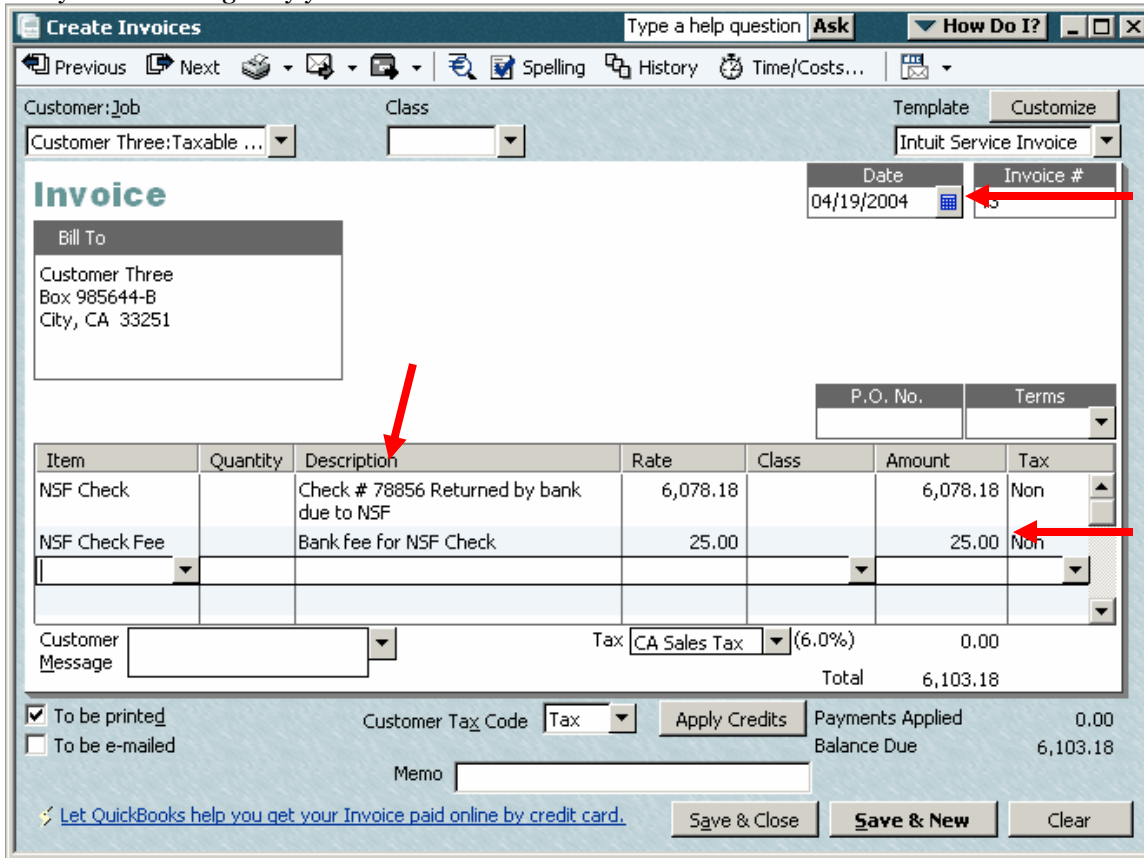
This item is used in assemblies or is a reimbursable charge

Description: Returned Check Charge Amount or %: 0.00 Tax Code: Tax Account: 7030 - Other Income  Item is inactive

Buttons: OK, Cancel, Custom Fields, Spelling

**Step 4: Creating an invoice to send to the customer.**

When you receive the notice from the bank that the check has bounced, create an invoice with the date you were notified by your bank. Include the check # in the description for the NSF Check Item and add any NSF Check fee that you were charged by your bank.



**The accounting that QuickBooks does for you.**

Because both the NSF Check and NSF Check Fee Items are linked to your company checking account, when you Save & Close this invoice, QuickBooks automatically posts the following transactions to your checking account register.

As you can see in the screenshot below you originally received the deposit on 4/12 and on 4/19 the bank notified you that the check was being returned for NSF and that you were charged a \$25.00 fee. Your accounting is properly taken care of without affecting the original transaction. All that's left to do is mail your customer the invoice and your paper trail is now complete.

04/12/2004	DEP	1390 · Undeposited Funds	Deposit		6,078.18	16,866.80
04/19/2004	INV	Customer Three: Taxable Job		6,078.18		10,788.62
04/19/2004	INV	1210 · Accounts Receivable [split]	Check # 78856 Returned by bank due			
04/19/2004	INV	Customer Three: Taxable Job		25.00		10,763.62
		1210 · Accounts Receivable [split]	Bank fee for NSF Check			

Now that your accounting is correct, it's time to notify your customer and while a phone call letting them know what happened is appropriate; they too need a good paper trail for their records. Make a photocopy of the check that the bank returned to you (front and back) and send or fax them a letter along with the invoice.

To create the letter, instead of reinventing the wheel, use the QuickBooks "Write Letters" function.

1. From the Customer Center Customers & Jobs tab, find the job that the original payment was for, click to highlight.
2. Select the Word drop down menu on the upper right of the screen and choose "Prepare Letter to {Job Name}"
3. From the "Choose a Letter Template" window click to select the "Bounced check" template
4. Edit this letter as necessary

One thing to note, when the NSF check is paid off, it should be returned to the customer, that way they have possession of it and can't be collected on again.

## Method 2: Record the customer's bounced check by "Writing Checks".

This method does not pass on any bank fees to the customer that you might incur.

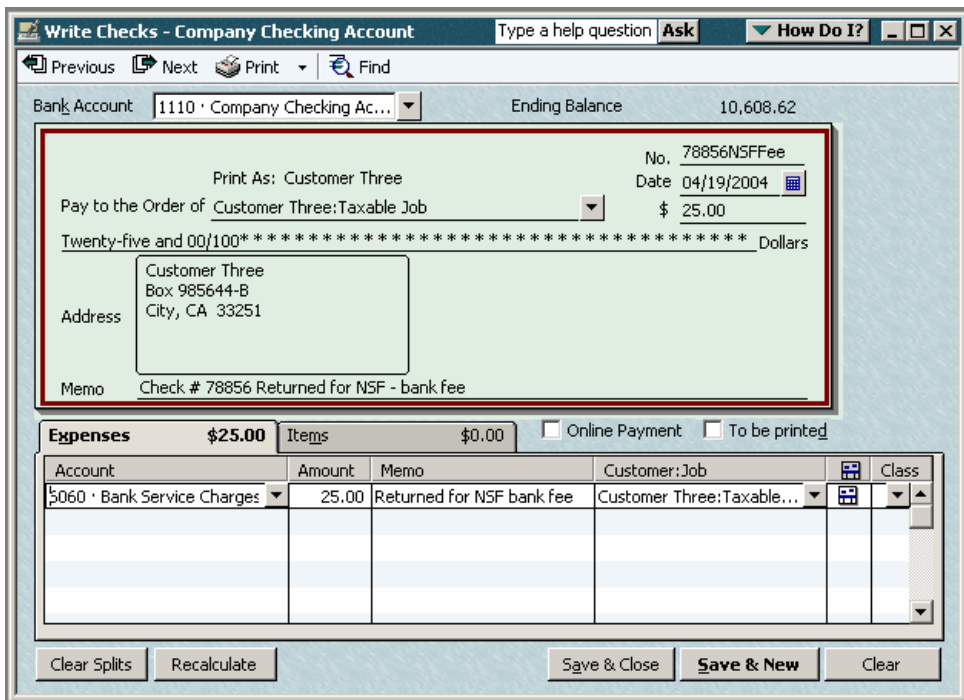
1. In QuickBooks, choose Write Check.
2. The number field can be left blank, or you can use NSF.
3. The date is the date the check was returned. Refer to the bank notice.
4. The name is the person who wrote it.
5. The amount is the amount of the original check (no fees).
6. THE ACCOUNT IS ACCOUNTS RECEIVABLE

This creates a receivable until the person pays you, without affecting prior period income accounts or reports.

The screenshot shows the 'Write Checks' window in QuickBooks. The window title is 'Write Checks - Company Checking Account'. The bank account is '1110 · Company Checking Ac...'. The ending balance is 16,686.80. The check number is 78856-NSF, dated 04/19/2004, for the amount of \$6,078.18. The payee is 'Customer Three: Taxable Job'. The address is 'Customer Three, Box 985644-B, City, CA 33251'. The memo is 'Check # 78856 Returned for NSF'. The expenses table shows a debit to '1210 · Accounts Recei...' for \$6,078.18 with the memo 'Returned for NSF'. The window includes buttons for 'Clear Splits', 'Recalculate', 'Save & Close', 'Save & New', and 'Clear'.

Account	Amount	Memo	Customer:Job	Class
1210 · Accounts Recei...	6,078.18	Returned for NSF	Customer Three:Taxable...	

1. Create another "check" using the same number, date, and name for the amount of the bank fee.
2. Use account Bank Service Charges



**The accounting that QuickBooks does for you.**

Your checking account register entries will look almost identical to that shown in Method One. The amount of the NSF Check will appear in your Accounts Receivable Reports as shown below, however, no invoice is created that you can send to your customer and it does seem rather odd to see a “check” in your Accounts Receivable Reports.

**Customer Three  
Taxable Job**

Check	04/19/2004	78856-NSF			6,078.18	◀
Invoice	02/27/2004	6	02/27/2004	821	11,255.88	
Invoice	03/31/2004	9	03/31/2004	788	<u>27,014.10</u>	
Total Taxable Job					<u>44,348.16</u>	

Total Customer Three 44,348.16

You would have to create a Statement to send your customer along with a letter requesting payment. To create the Statement:

1. From the Customer Center, choose the Customers & Job Tab, find the Job for the customer that you received the original payment for.
2. Highlight the Job Name, right click on it and choose Create Statement
3. Change the dates to reflect the current month to date
4. Select Preview to review the Statement prior to printing

Date	Transaction	Amount	Balance
03/31/2004	Balance forward		44,348.16
04/12/2004	Taxable Job- PMT #78856.	-6,078.18	38,269.98
04/19/2004	CHK #78856-NSF. Returned for NSF	6,078.18	44,348.16

Create a Letter to send along with the statement along with a photocopy of the returned check (front & back) as in Method 1.

### Method 3: Another combination of checks and statements.

1. Go into the Checking Account register (the bank account that you deposited the money). Use date of bounced check. In the "Check #" field, put "NSF Check". Payee put "Customer's Name" enter the amount of the bounced check. In the "Account" select "Account Receivable". Record.
2. Add the bank charge fee. In the "Check #" put "NSF Fee" Payee "Name of bank". Put the amount of bank fee. In the Account select "Bank Service Charges ". Memo "NSF Fee with Customer's Name. Record.
3. If you charge an additional fee for bounce checks then add that. Create an item called "NSF Check Fee" as "Other Charges". Account "Returned Check Fee". In the "Statement Charges" register and select "Customer Name" record the fee. Use date of bounced check, Payee "Customer Name". Enter amount of fee. Account is "NSF Check Fee".. Memo, put the check # of bounced check.
4. Create Customer Statement. Select "Customer Name", highlight it, right-click and select "Create Statement". This will show that amount they owe you plus the amount of the bank fee and the extra charge that you charged (if you charge, in #3).

Send the customer the "Customer Statement" and a letter requesting a payment.



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