2 Processing supplier invoices and credit notes

what this chapter covers . . .

This chapter:

- explains the need for the buyer to check invoices and credit notes received from suppliers for goods or services ordered, or goods returned
- describes the documents involved in this checking process; these include:
  - the purchase order – issued by the buyer ordering goods and services and setting out all the details of the order in the first place
  - the delivery note – issued and sent by the supplier – which sets out the details of the items being supplied
  - the supplier (purchase) invoice – issued by the supplier, setting out the details of the price charged, discounts given, Value Added Tax, and the total amount due
  - the supplier (purchase) credit note – issued by the supplier, normally when goods have been returned
  - the goods returned note – issued by the buyer and sent with the goods being returned – the details of which will have to be checked against the supplier's credit note to make sure the amount refunded is correct
- describes how errors and discrepancies in the documentation can be identified and what to do if a discrepancy is discovered

OCR assessment criteria covered

Unit M1: Preparing and processing bookkeeping documents

2.1 Check the accuracy of supplier invoices and credit notes against purchase orders, goods received and delivery notes

2.2 Check that agreed trade and bulk discounts have been applied accurately

2.3 Code supplier invoices and credit notes

PURCHASE DOCUMENTS

In the last chapter we described the processes carried out when, as the **seller** of goods and services, you issue:

- **sales invoices** – to obtain payment from the buyer for what you have sold on credit
- **sales credit notes** – to reduce the amount owed by the buyer, if, for example, goods have been returned

In this chapter we deal with the **same documents**, but from the point of view of the **buyer** of goods and services, who will need to check them carefully:

- **supplier invoices** – received from the supplier and payable by you
- **supplier credit notes** – to reduce the amount owed by you, if, for example, you return goods

If you look at the diagram below – it is basically the same diagram as shown in the last chapter – you will see that the documents involved are the same.

CHECKING THE DOCUMENTS

checking by the seller

In the last chapter it was seen as being very important to check for accuracy the main **sales documents** issued – the invoice and credit note. For example, checking:

- that the product codes of the goods invoiced are correct
- that the price charged is correct
- the calculations on the invoice, including the Value Added Tax, are all correct

If you make a mistake it could prove costly. Your level of customer service would look rather poor and payment could be delayed.

checking by the buyer

In this chapter we describe what checking has to be done by the buyer. If you are the buyer, you will need to check the **purchase documents**, and for very specific reasons: you will want to make sure that:

- the goods provided are the goods you have ordered in the first place – you can tell this from the product codes used
- the correct unit price has been charged
- any discounts you are entitled to have been correctly calculated and deducted
- any VAT charged has been correctly calculated
- the calculations on the supplier invoice or supplier credit note are all accurate

what to do if you find an error

If the buyer finds any errors or discrepancies on a supplier invoice or supplier credit note the document **must be rejected** and a reason given. This reason may be written on the document itself or in a separate record. In your assessments you will be given a table in which to record errors and discrepancies.

The golden rule is that **you should never alter the document** – an invoice total, for example – and process it as if it were correct. It should always be referred back to the seller.

On the next page we will explain in outline the main documents that need to be checked by the buyer who receives a supplier invoice. We will then set out a Case Study to illustrate all these principles.

what needs to be checked?

There are three documents involved in the checking process:

- **purchase order**

  This is the first document to be issued. It is drawn up by the buyer to order the goods and will set out all the details of the purchase:
  – quantity
  – product code
  – description
  – unit price

- **delivery note**

  This document is normally sent with the goods and is likely to be the first document relating to the transaction received by the buyer from the seller. The details on this document should be checked with the purchase order. The main question the buyer is asking here is "Has the supplier sent what we ordered?"

- **supplier (purchase) invoice**

  This sets out what is owed by the buyer and when it has to be paid. This should be checked against the purchase order and delivery note. The questions the buyer is asking here are: "Are we being charged for what we ordered?" and "Are we being charged the right amount?"

This process is summarised on the diagram below and also explained in full in the Case Study which follows over the next few pages.

CHECKING PURCHASE DOCUMENTS - A CASE STUDY

In this Case Study we will track the purchase (and return) of some memory sticks from a computer company. There are two businesses involved:

- Aztex Limited, the buyer – a computer shop
- Zilon Computers, the seller – a computer equipment supplier

We will concentrate on the process from the point of view of the buyer.

the purchase order is sent

Aztex Limited a computer shop, needs more memory sticks because stocks are running low. The order is placed by Aztex who send a purchase order on 9 December to its regular supplier, Zilon Computers.

The purchase order is shown at the top of the next page. It has been given a unique reference number (1095) and sets out details of product codes, quantities, descriptions and prices.

the order is received

On 14 December Aztex Limited receives delivery of the order. It is accompanied by a delivery note issued by Zilon Computers. This is shown at the bottom of the next page.

The staff at Aztex will count and check the actual delivery to make sure:

- the correct number of items have been received
- the correct goods have been sent
- the goods are in acceptable condition

Any discrepancies or damage should be noted so that the matter can be taken up with the supplier. This is not the case here.

checking the documents

When the order has been received the purchase order should be checked against the delivery note. The specific checks (see opposite page) include:

- the purchase order number should be the same on both documents – here it is 1095
- the product codes, quantities and descriptions of the two types of memory stick should be the same – as they are here

Note that the delivery note may not show the price of the goods. The reason for this is that prices are not needed when goods are delivered. They are dealt with on the supplier's invoice, which may come with the consignment or it may follow separately. This is dealt with on pages 26 and 27.

checking the purchase order and the delivery note

The specific checks to be made are shown in the grey boxes below.

PURCHASE ORDER

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Zilon Computers
8 Circus Place
Southbury
SB2 8VJ

purchase order no 1095
date 9 December 2011

product code	quantity	description
UDX08	10	8GB Ulex Memory Stick @ £15.00
UDX16	8	16GB Ulex Memory Stick @ £30.00

DELIVERY NOTE

Zilon Computers
8 Circus Place, Southbury, SB2 8VJ
Tel 01402 776152 email sales@zileoncomputers.com
VAT Reg 298 1662 85

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

number 10972
delivery method Parcelswift
purchase order 1095
date 12 12 2011

Product code	Quantity	Description
UDX08	10	8GB Ulex Memory Stick
UDX16	8	16GB Ulex Memory Stick

checking the supplier's (purchase) invoice

The invoice for the memory sticks is received by Aztex Limited from Zilon Computers the following day. It is shown on the next page. The invoice is checked against the delivery note and the purchase order. The specific points to look at (shown with a grey background) are:

- **invoice and delivery note**
  Are the details of the goods on the invoice and delivery note the same? The product code, description and quantity of the goods should agree.
- **invoice and purchase order**
  Has the invoice quoted the correct purchase order number? Has the correct price been charged? The unit price quoted by the supplier or obtained from the supplier's catalogue will be stated on the purchase order, and should agree with the unit price stated on the invoice. If there is a difference, it should be queried with the supplier.

checking the calculations on the invoice

All the calculations on the invoice should be checked; they are shown on the next page within dotted lines. If any of these calculations is incorrect, the final total will be wrong, and the invoice will have to be queried with the supplier. The checks to be made are:

- **quantity x unit price**

  The quantity of the items multiplied by the unit price must be correct. The result is used for the calculation of any discounts applicable.

- **trade discount**

  Trade discount is a percentage deduction from the normal list price; it is normally given to approved 'trade' customers. This discount is deducted from the total price. In the case of the invoice shown opposite, the total price worked out is £390. The 25% trade discount is shown and deducted on the line below the £390. The calculation is:

  $$£390 \times \frac{25}{100} = £97.50$$

  The price charged (on which VAT will be charged) is therefore:

  £390.00 – £97.50 = £292.50

- **bulk discount**

  Bulk discount is given for bulk purchases – ie large quantity purchases. If, for example, Aztex was to order 500 8GB memory sticks rather than just 10 it may be able to negotiate a further bulk discount.

  Bulk discount is calculated on the invoice in the same way as trade discount, ie it is deducted from the total price before the VAT is calculated and added on.

- **Value Added Tax (VAT)**

  Value Added Tax is a tax on sales. In this book VAT is calculated at 20%. On an invoice VAT is added to the total after the deduction of discount. The calculation on the invoice below is:

  $$£292.50 \times \frac{20}{100} = £58.50 = \text{VAT amount}$$

  If you are using a calculator, all you need to do is to multiply the total by 0.2 to give the VAT, which is then added to the total.

  Note that fractions of a penny are normally ignored when calculating VAT. If the VAT comes out on the calculator as £56.666666, the actual VAT should be £56.66 and is not rounded up to £56.67.

  Now study the invoice shown below and check the arithmetic.

KEY

arithmetic to check

check with purchase order and delivery note

INVOICE

Zilon Computers

8 Circus Place, Southbury, SB2 8VJ
Tel 01402 776152 email sales@zilloncomputers.com
VAT Reg 298 1662 85

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

invoice number 2741

purchase order number 1095

date 12 December 2011

Quantity	Product code	Description	Unit price £	Total £
10	UDX08	8GB Ulex Memory Stick	15.00	150.00
8	UDX16	16GB Ulex Memory Stick	30.00	240.00
				390.00
			Less trade discount @ 25%	97.50
				292.50
			VAT @ 20%	58.50
			Invoice total	351.00

terms:
Net 30 days

DEALING WITH ERRORS AND DISCREPANCIES

what can go wrong?

There are are number of situations where a buyer checking the purchase documents and the delivered goods will find errors and discrepancies. In each case action will have to be taken by the buyer.

Some common examples of errors and discrepancies are listed below, together with examples of the action that will need to be taken in each case. You will find in commercial practice that the actions taken may vary to some extent, but the examples given below are fairly common. As you will see from the table there are two main situations:

- an **invoice with an error** on it should be rejected and a new invoice issued by the seller
- a **problem involving the goods** themselves – in these cases the goods should be returned to the supplier with a goods returned note and a credit note requested from the supplier

error/discrepancy	action to be taken
error in calculation on invoice	invoice rejected and not processed for payment
incorrect discount given on invoice	invoice rejected and not processed for payment
incorrect application of VAT on invoice	invoice rejected and not processed for payment
quantity of goods sent is too low	balance of goods sent or credit note requested
wrong goods sent	goods returned and credit note requested
faulty goods sent	goods returned and credit note requested
goods damaged in transit	goods returned and credit note requested

At the top of the next page is a **goods returned note** issued by Aztex to Zilon Computers and sent back with a faulty pocket hard drive supplied by Zilon. The **credit note** issued by Zilon Computers is at the bottom of the page. The following checks will need to be carried out on these documents:

- is the purchase order number the same?
- are the product code, quantity, description and unit price the same?
- has the trade discount (25%) been calculated and deducted correctly?
- has the VAT (20%) been calculated and added on correctly?

If there is an error or discrepancy on the credit note it will need to be recorded and the credit note will not be able to be passed on for processing. It would appear that the two documents shown here are in order.

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Zilon Computers
8 Circus Place
Southbury
SB2 8VJ

purchase order no 977
date 14 November 2011

Product code	Quantity	Description	Reason for return
HD109	1	Lazio 500GB pocket hard drive @ £80. 25% Trade discount.	Faulty goods

KEY
arithmetic to check
check with goods returned note and credit note

CREDIT NOTE

Zilon Computers
8 Circus Place, Southbury, SB2 8VJ
Tel 01402 776152 email sales@zilloncomputers.com
VAT Reg 298 1662 85

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 151
purchase order number 977
date 21 November 2011

Quantity	Product code	Description	Unit price £	Total £
1	HD109	Lazio 500GB pocket hard drive	80.00	80.00
				80.00
			Less trade discount @ 25%	20.00
				60.00
			VAT @ 20%	12.00
			Credit note total	72.00

reason for credit:
Faulty goods

AN EXAMPLE OF ERRORS AND DISCREPANCIES

The documents on the previous page are both in order and therefore the credit note can be processed through the books of Aztex Limited. The result of this returns transaction will be that the amount owed by Aztex to Zilon Computers, its supplier, will be reduced by £72, ie the total of the credit note issued by Zilon Computers.

Your assessment is likely to require you to identify errors and discrepancies on these documents and to record them in a table. As an initial exercise, you should check the goods returned note below against the credit note on the next page. You will find a number of basic errors. Write them down, using the table at the bottom of this page if you wish, and compare your findings with the upside-down answer on the bottom of the next page. Hopefully errors on this scale will not be too common in the workplace!

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Zilon Computers
8 Circus Place
Southbury
SB2 8VJ

purchase order no 963
date 7 November 2011

Product code	Quantity	Description	Reason for return
WLK2W	1	Wireless keyboard (white) @ £60. 25% Trade discount.	Goods damaged in transit

Supplier	Purchase order number	Credit note number	Reason why credit note cannot be processed

CREDIT NOTE

Zilon Computers

8 Circus Place, Southbury, SB2 8VJ
Tel 01402 776152 email sales@zilloncomputers.com
VAT Reg 298 1662 85

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 2732

purchase order number 936

date 11 November 2011

Quantity	Product code	Description	Unit price £	Total £
1	WLK2W	Wireless keyboard (white)	60.00	60.00

	60.00
Less trade discount @ 25%	12.00
	48.00
VAT @ 20%	9.60
Credit note total	38.40

reason for credit:
Goods damaged in transit

Supplier	Purchase order number	Credit note number	Reason why credit note cannot be processed
Zilon Computers	963	2732	Wrong purchase order number quoted Trade discount incorrectly calculated at 20% VAT should be added, not deducted

Chapter summary

- It is necessary for the buyer to check financial documentation relating to purchases in order to ensure that the goods received are:
  - the correct goods (ie the right quantity and the right specification)
  - charged at the correct price (including any discounts and Value Added Tax)
- When goods arrive from the supplier they should be checked against the delivery note sent with the goods.
- A purchase invoice should be checked against the purchase order issued by the buyer and the delivery note sent with the goods. If there are any errors or discrepancies, they should be noted and the purchase invoice should not be processed for payment.
- If goods are returned to the supplier, they should be sent back with a goods returned note. A purchases credit note will then be issued by the supplier.
- The purchases credit note should be checked against the goods returned note issued by the buyer. Any errors or discrepancies should be noted.
- When checking documents, particular attention should be paid to arithmetic accuracy, the level of discounts and treatment of Value Added Tax.

Key terms

supplier invoice	an invoice issued to the buyer by the supplier, setting out what is owed by the buyer and when it has to be paid
supplier credit note	a credit note issued to the buyer by the supplier, setting out a reduction in the amount owed to the supplier
purchase order	a document completed by the buyer of goods or services and sent to the seller, setting out details of what is required
delivery note	a document which goes with the goods from the seller to the buyer
goods returned note	a document which goes with goods returned by the the buyer to the seller
trade discount	a percentage reduction in the selling price of goods or services, normally given to trade customers who buy regularly
bulk discount	a percentage reduction in the selling price of goods or services, given for large quantity ('bulk') purchases

Exercises

Answers to the asterisked questions are to be found at the back of this book.

2.1* The documents that need to be checked when processing a supplier invoice for payment include:

A the invoice, the purchase order and the goods returned note

B the invoice, the price list and the goods returned note

C the invoice, the purchase order and the delivery note

Choose the correct option.

2.2 The documents that need to be checked when processing a supplier credit note when calculating the payment due include:

A the credit note and the delivery note

B the credit note and the goods returned note

C the invoice and the goods returned note

Choose the correct option.

2.3* Which of the following options best describes the term 'bulk discount'?

A a discount given to a customer who buys large quantities of goods

B a discount given to a very large customer

C a discount which avoids the need to charge VAT on an invoice

2.4 VAT is a tax which is shown on an invoice and

A is calculated on the cost of goods before discount is added on

B is calculated on the cost of goods after discount has been deducted

C is deducted from the cost of goods after discount has been calculated

Choose the correct option.

2.5* If you find that a supplier has made a simple arithmetic mistake on an invoice total, you should:

A not process the invoice because it is incorrect

B change the total to avoid further problems

C pass the invoice for payment because the total is lower than it should be

Choose the correct option.

2.6* The question that follows is based on the computer shop business, Aztex Limited, featured in this chapter. You are employed by this business as a bookkeeper.

During the course of November 2011 you are required to process a number of supplier credit notes which relate to items ordered which you have had to return for various reasons.

Your job here is to check the five credit notes and goods returned notes set out on the next five pages. If you find any errors or discrepancies you are required to complete the table below, setting out your reasons for not processing the credit notes. These pairs of documents are labelled (a) to (e) for ease of reference.

The current Value Added Tax (VAT) rate is 20%.

Supplier	Purchase order number	Credit note number	Reason why credit note cannot be processed

(a)

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Zilon Computers
8 Circus Place
Southbury
SB2 8VJ

purchase order no 950
date 7 November 2011

Product code	Quantity	Description	Reason for return
HD110	2	Lazio 1TB pocket hard drive @ £120. 25% Trade discount.	Goods damaged in transit

CREDIT NOTE

Zilon Computers
8 Circus Place, Southbury, SB2 8VJ
Tel 01402 776152 email sales@zilloncomputers.com
VAT Reg 298 1662 85

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 2703
purchase order number 950
date 10 November 2011

Quantity	Product code	Description	Unit price £	Total £
1	HD110	Lazio 1TB pocket hard drive	120.00	120.00
				120.00
			Less trade discount @ 20%	24.00
				96.00
			VAT @ 20%	19.20
			Credit note total	115.20

reason for credit:
Goods damaged in transit

(b)

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Droitwich Digital
19 Kidder Estate
Droitwich
DW3 8JG

purchase order no 955
date 8 November 2011

Product code	Quantity	Description	Reason for return
LMS16	10	Letho 16GB memory sticks @ £19.95. 20% Trade discount.	Goods damaged in transit

CREDIT NOTE

Droitwich Digital
19 Kidder Estate, Droitwich, DW3 8JG
Tel 01905 772191 email sales@droitwichdigital.co.uk
VAT Reg 244 1694 88

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 1789
purchase order number 955
date 14 November 2011

Quantity	Product code	Description	Unit price £	Total £
10	LMS08	Letho 16GB memory sticks	8.00	80.00
				80.00
			Less trade discount @ 20%	16.00
				96.00
			VAT @ 20%	19.20
			Credit note total	115.20

reason for credit:
Goods damaged in transit

(c)

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Delphic Limited
34 Oracle Street
Walvern
WA1 7ST

purchase order no 977
date 9 November 2011

Product code	Quantity	Description	Reason for return
OM120	5	Topo optical mouse @ 18.00. Trade discount @ 15%.	Incorrect goods supplied.

CREDIT NOTE

Delphic Limited
34 Oracle Street
Walvern WA1 7ST
Tel 01706 654281 Email info@delphiclimited.co.uk
VAT Reg GB 2645 3383 26

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 1924
purchase order number 977
date 16 November 2011

Quantity	Product code	Description	Unit price £	Total £
5	OM120	Topo optical mouse	18.00	90.00
				90.00
			Less trade discount @ 15%	13.50
				76.50
			VAT @ 20%	15.50
			Credit note total	92.00

reason for credit:
Incorrect goods supplied

(d)

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Presto Supplies
18 Fencote Road
Worcester
WR2 6HY

purchase order no 981
date 10 November 2011

Product code	Quantity	Description	Reason for return
SNC6	10	Sticky Notes (coloured) 6 pack @ 6.95. 20% Trade discount.	Duplicated order

CREDIT NOTE

Presto Supplies
18 Fencote Road, Worcester WR2 6HY
Tel 01905 334482 email info@prestosupplies.com
VAT Reg 987 5441 21

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 907
purchase order number 981
date 17 November 2011

Quantity	Product code	Description	Unit price £	Total £
10	SNC6	Sticky notes (coloured) 6 pack	6.95	69.50
				69.50
			Less trade discount @ 20%	13.90
				55.60
			VAT @ 20%	11.12
			Credit note total	66.72

reason for credit:
Duplicated order

(e)

GOODS RETURNED NOTE

Aztex Limited
29, Commercial Road
Witton WT1 2HJ
Tel 01723 654298 Fax 01723 654322 Email sales@aztex.co.uk
VAT REG GB 0347 7383 01

supplier
Zilon Computers
8 Circus Place
Southbury
SB2 8VJ

purchase order no 982
date 15 November 2011

Product code	Quantity	Description	Reason for return
TB100	1	Troybuster anti-virus software @ £48.00. Trade discount 25%.	Wrong version of software sent

CREDIT NOTE

Zilon Computers
8 Circus Place, Southbury, SB2 8VJ
Tel 01402 776152 email sales@zilloncomputers.com
VAT Reg 298 1662 85

Aztex Limited
29, Commercial Road
Witton
WT1 2HJ

credit note number 2732
purchase order number 928
date 22 November 2011

Quantity	Product code	Description	Unit price £	Total £
1	TB100	Troybuster anti-virus software	40.00	40.00
				40.00
			Less trade discount @ 25%	8.00
				32.00
			VAT @ 20%	6.40
			Credit note total	38.40

reason for credit:
Wrong version of software sent