

Credit Memos - How to Submit to the Disbursing Office and Its Effect on Encumbrances

Sample Credit Memo Scenarios

Below are sample credit memo scenarios and how the encumbrance is affected in each scenario:

Scenario 1

You receive an invoice for the items on No Quantity Line 1 of the PO, which charges you the full amount for Line 1 of \$500 plus an additional \$100, due to an invoicing error. You also receive a credit memo for the \$100 overcharge, and the vendor will not issue a revised invoice.

- In this case the credit memo is for items on the invoice it is being submitted with, and the correct payment is the net of the credit and invoice. You should indicate on the invoice that the \$100 overage should be applied to the Miscellaneous Line, and indicate on the credit memo that the \$100 credit should also be applied to the Miscellaneous Line. Applied to the Miscellaneous Line, neither the overage nor credit will affect encumbrances.
- Note: The PREQ can only liquidate encumbrances up to what was encumbered on the PO. Regardless if the overage on the PREQ is paid on Line 1 or the Miscellaneous Line, only up to \$500 encumbrance can be liquidated on Line 1.

Scenario 2

You receive an invoice for partial payment on No Quantity Line 1 of the PO. The invoice total is \$300, which is less than the total amount encumbered on Line 1 of \$500, but per the PO pricing, total should be \$250. The vendor issued a credit memo of \$50. Net of invoice + credit = correct partial payment of \$250.

- Similar to Scenario 1, since the correct payment is the net of the invoice and credit, you should indicate that both the overage of \$50 and the credit of \$50 should be applied to the Miscellaneous Line.

Scenario 3

You receive an invoice for 10 of 10 items from PO Item Line 1 (10 x \$20 = \$200). However, you only received 8 and the remaining 2 are backordered. Your invoice is a lump sum of \$200 and the vendor has issued you a credit for the 2 backordered items (2 x \$20 = \$40).

- You need the \$40 re-encumbered to pay for the remaining 2 items when they are received and re-invoiced. Therefore, the \$40 credit should be applied to PO Item Line 1 (along with the full invoice amount of \$200, to net to the correct payment of 8 x \$20 = \$160).

Scenario 4

You have a \$20 credit memo for items from a paid invoice that were returned, and need to apply it to a current invoice on the same PO, which includes the charge for the replacement items. The PO is still open and you just received the final invoice, which is greater than the amount of the credit. All the PO Lines are No Quantity.

- If you need the \$20 re-encumbered to pay for the replacement items that were invoiced, credit should be applied to the appropriate Item Line(s). If you do not need/want the \$20 re-encumbered, it can be applied to the Miscellaneous Credit Line.

Scenario 5

You paid an invoice for full payment of a PO. You later discovered some items were defective, but the vendor no longer carried the item, so they issued a credit memo for the defective items. PO was paid in full, so it is closed and credit memo is being applied to a different PO with the same vendor.

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- Since the credit is for a different PO, not for items in the PO Item Lines, the credit should be applied to the Miscellaneous Credit Line.

Scenario 6

You have an invoice which does not group items by PO Item Line (e.g. grocery store, office supply store, etc.), so multiple invoice lines need to be applied to a single PO Item Line. PO Lines are No Quantity. Two of the items are charged at a higher price and a credit memo for the overages also lists multiple items per PO Item Line.

PO Item Line	Item Description	PO Line Amount
Line 1	Pens	5 x \$2.00 = \$10.00
Line 2	Staplers	3 x \$15.00 = \$45.00
Line 3	binders	3 x \$7.00 = \$21.00

Sample Invoice Items

Invoice Items	Invoice Amount	PO Item Line	
Pen	2.00	Line 1	For an invoice with multiple items per PO Item Line, in lieu of indicating the PO Item Line # next to each item on the invoice, departments should indicate a summary of the total to be paid per PO Item Line: Line 1: \$8.00 Line 2: \$45.00 Line 3: \$21.00 Miscellaneous Line: \$9.75 (overage)
Pen	2.00	Line 1	
Pen	2.00	Line 1	
Pen	2.00	Line 1	
Stapler	18.00	Line 2	
Stapler	18.00	Line 2	
Stapler	18.00	Line 2	
Binder	7.25	Line 3	
Binder	7.25	Line 3	
Binder	7.25	Line 3	

Sample Credit Memo Items

Credit Memo Items	Credit Memo Amount	PO Item Line	
Stapler	(3.00)	Line 2	In this sample, the department indicated the \$9.75 overage on the invoice should be applied to the Miscellaneous Line. So the full credit of (\$9.75) should also be applied to the Miscellaneous Line. The payment & credit both in the Miscellaneous Line will net to \$0.00.
Stapler	(3.00)	Line 2	
Stapler	(3.00)	Line 2	
Binder	(0.25)	Line 3	
Binder	(0.25)	Line 3	
Binder	(0.25)	Line 3	