409: Adjustments on Customer Accounts

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Section: Accounting
Subject: Adjustments on Customer Accounts
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Policy

ADJUSTMENTS ARE MADE TO A CUSTOMER'S ACCOUNT TO ALTER THE ACCOUNT BALANCE. THERE ARE THREE CATEGORIES OF ACCOUNT BALANCE ADJUSTMENTS.

- ALLOWANCES
- BAD DEBTS
- MISCELLANEOUS ADJUSTMENTS

EACH OF THESE IS HANDLED IN A DIFFERENT MANNER. PLEASE SEE BELOW FOR SPECIFIC PROCEDURES IN EACH CATEGORY.

Allowances

An allowance is the reversal of a charge previously posted to a customer's account, and is used for the following reasons.

- The charge was posted correctly but the customer is not satisfied with the results of our service and requests that the charge be removed or that his payment for the service be refunded. In the case of a refund, the allowance adjustment is used to establish a credit on the customer's account in order to issue the refund.
- The charge was posted incorrectly and either needs to be removed (in the case of a duplicate posting) or transferred to the correct account. This situation only applies to incorrect postings

taking place in a prior month. If a charge is posted incorrectly in the current month, the account can be corrected by posting a reverse charge.

The Customer Allowance form will be used to record allowances. One form is to be used for each allowance. Requested customer account information must be complete and accurate, with full explanations required in all areas. **All allowances must be approved in writing by the Region/Divisional Manager before the adjustment can be posted to the customer's account**. To achieve this, allowance requests must be received by the Region/Divisional Manager by the 20th of each month. Approved allowances will be returned to the Service Center to insure posting by the end of the month. The employee posting the allowance should indicate so in the area provided at the bottom of the form. This form should be attached to its corresponding Batch Proof (see example in Policy 701, Page 26) and enclosed with the month-end closing package.

Bad Debts

A bad debt adjustment is the elimination of an account balance due to a customer's failure to pay. Only after a series of attempts to collect will the account balance be written off and pursued through a professional collection agency. The following specific conditions must be met before an account will be bad debted.

- All owed balances can be supported by signed invoices to establish proof of service.
- No arrangement has been made with the customer for satisfactory payment of the debt.
- The General Manager has made a final attempt to contact the customer by telephone and all collection efforts have been exhausted and documented according to Company policy.

As with allowances, bad debt must be approved in writing by the Region/Division Manager before the adjustment can be posted to the customer's account.

Refer to Policies 701, 802, and 901, Pest Control, Termite and Lawn Care Collection Policies and Procedures, respectively, for detailed explanations of collection and bad debt procedure.

Miscellaneous Adjustments

The following miscellaneous adjustments will be used to alter an account balance.

- Payment Correction

- Tax Adjustment
- Paid in Advance (PIA) Discount
- Other Discount
- Returned Check (NSF)
- Refund
- Renewal Refund Revenue Adjustment

Payment Correction

A payment correction adjustment will be used most often to transfer a payment from one account to another. Situations where this will be necessary are 1) when a payment is applied to the wrong account and 2) when a customer has a credit balance on one account and wants to apply that credit amount to another account within the same service center. These types of payment corrections will always require 2 transactions: the first to remove the payment from one account, the second to apply the payment to another account.

There are two situations when a payment correction will require only one transaction: 1) a payment has been posted twice and needs to be removed, and 2) a payment is being transferred to the customer's account in another service center. In the case of a transferred payment, prepare an inter-office credit transfer slip (as shown in Policy 411, Example 6), and attach one copy to the Miscellaneous Adjustments Sheet.

Tax Adjustments

A tax adjustment will be used to 1) apply sales tax to or 2)remove sales tax from an account after the charge has been posted. State law requires us to levy sales tax on applicable services (currently commercial pest control and termite only), and our accounting system does so when the tax code field on the customer's account is properly coded. If sales tax is charged on a non-taxable account (or not charged on a taxable account), a tax adjustment will correct the account balance. Contact the Corporate Accounts Receivable Administrator for specific instructions on using tax adjustments.

Paid in Advance (PIA) Discount

A customer may choose (and should be encouraged) to pay for the full year of pest or lawn service at the time of the sale. In doing so, the customer receives a 5% discount on the annual contract amount. This discount is calculated on the service agreement, and the customer remits 95% of the annual amount at that time. The advance payment should be posted to the customer's account along with credit for the PIA discount, thereby giving the customer full credit for the minimum one-year period. PIA discounts will also be earned in subsequent years if 95% of the effective contract amount is paid at the beginning of the subsequent contract year. See Policy 701, Page 8 for an example of a PIA discount and procedures on contacting the customer regarding discounts for subsequent years.

Other Discounts

The Company will occasionally offer special promotions on certain services which will require an adjustment to a customer's account. The extension of this discount would be initiated and/or approved by Corporate and the affected service centers would be informed of the details at that time.

Returned Check (NSF)

In the case where our bank returns a customer payment due to insufficient funds or other reasons, an adjustment is used to reverse the payment previously applied to the customer's account. This adjustment must be posted the day the check is returned. Do not redeposit the returned check. Procedures on contacting the customer for repayment are covered in Policy 701. Any repayment subsequently received should be posted to the customer's account as would any other payment.

Refund

There are three types of refund adjustments as follows:

- The customer has a credit balance and requests a refund.
- The customer has overpaid his/her termite renewal fee (usually paid twice in error) and requests a refund. The account has no balance in this case, because the excess renewal revenue has been realized (i.e. another renewal charge has been posted to offset the customer's payment). The refund should be issued and the excess renewal charge must be reversed. Renewal Refund

Revenue Adjustments are covered in the next section.

- The customer is dissatisfied with the results of our service and requests a refund of his payment for that service. Before the refund can be issued, an allowance must be posted to the account for the amount requested and agreed upon. This will establish a credit on the customer's account which can then be refunded.

To initiate the refund process, prepare an Accounts Payable voucher made payable to the customer, attach a complete customer account history and a copy of the service contract (contract not required for renewal refunds). Obtain General Manager approval of the Accounts Payable voucher and send to Corporate Accounts Payable for further approval routing and payment. The issuance of refunds will take 2 to 3 weeks given complete and accurate paperwork. Corporate Accounting will notify the Office Manager when the refund is issued. At that time, the refund adjustment should be posted to the customer's account.

Renewal Refund Revenue Adjustment

As stated in the previous section, a customer may overpay his/her termite renewal fee and request a refund. The excess renewal revenue has been realized at this point (i.e., another renewal charge has been posted to offset the customer's payment). The excess renewal charge must be adjusted and should be done after the Corporate notifies you that the refund has been issued. This adjustment must be posted in addition to the refund adjustment (which reverses the overpayment)thus leaving the account balance at zero while recording accurate account information.

The Miscellaneous Adjustment form (Page 8 of this policy) will be used to record miscellaneous adjustments. Simply check the box for which the adjustment applies. Requested customer account information must be complete and accurate, and the General Manager must approve this form before any posting takes place. These types of adjustments will be posted periodically throughout a month, therefore, the employee will enter for each adjustment the date posted and his/her initials. This form should be attached to the corresponding Batch Proof(s) and enclosed with the month-end closing package.

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