Refunding Customers – Raising a debit memo

If you need to issue a refund to a customer who has paid their invoice, you will need to follow the procedure outlined below. A **credit memo** will need to be raised, then a **debit memo,** and finally an **'invoice'** (effectively the debit memo) will need to be processed in Accounts Payable to enable the refund to be paid to the customer.

Step 1: Create a credit memo in the normal way, using the data from the original invoice. Ensure you use the **same** General Ledger (GL) code as the original invoice and reference the original invoice number and details. See here for guidance on raising a credit memo.

Tip: The credit memo can be previewed from the transaction screen

Step 2: Complete and print the credit memo. You will need to send this to the customer once the refund has been processed and sent to their bank account. This is a requirement of HMRC and is good business practice. In any correspondence with the customer, ensure it is clear they will receive a cash refund accompanying the credit note, and the credit note is not to be used against future purchases.

See here for guidance on printing the credit memo.

Step 3: Create a **debit memo** for the same value as the credit memo, remember to use positive amounts.

Navigate:	Transactions > Transactions
Source:	Manual Invoice
Class:	Debit Memo
Type:	xx Ext Debit Memo (where xx is the department code)
Reference:	This is an optional field and free text. Select an option or 'cancel' to enter information that you feel may be helpful to you/your department.
Bill To:	Enter the customer. Tip: enter the customer number in the Number and tab to automatically complete the rest of the details.

Step 4: In the **More** tab, enter the salesperson and update the Remit To address.

Tip: Save the transaction after entering the Salesperson, and the Remit To address should automatically update.

Next, open the **line items** screen. For each line complete:

Description: This is a free text field where you enter the details of the product or service or any other reference you choose to enter. Your department may have specific rules but generally should include 'refunding' and the original invoice number and credit note number.

UOM: Unit of measure, this is an optional field and chose appropriately.

Quantity: Either this field or the Unit Price field must be a **positive** figure.

Unit Price: Value of product or service, for a debit note this should be a **positive** figure.

Tax classification: Debit memos **must not** include any VAT. Process the total amount to be refunded, including any VAT previously charged, then select EX - Exempt.

Step 5: Select **distributions.**

Change the dropdown to **Accounts for All Lines** and update the **Revenue** line.

Use the same cost centre and source of funds as the original invoice but use the transaction code **LKMD.**

Step 6: Close the screens and return to the Transactions screen as in step 1. **Complete** the debit memo using the button in the bottom right and make a note of the number now displayed in the top left.

Step 7: Apply the credit memo to the debit memo via the transaction summary screen. From the **Transactions Summary**, recall the credit memo transaction using the torch icon in the toolbar.
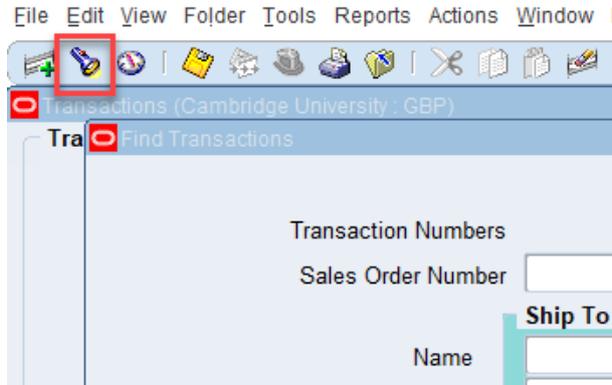
Select the **applications** button.

You will see this screen with details of the credit memo (1). The credit memo has already been linked to the original invoice (2). Link the credit and debit memos together by entering the debit memo number in a new line in the **Apply To** field (3). Press the **Tab** key to pull through the debit memo details. Select **Save** in the toolbar and the tick boxes should tick.
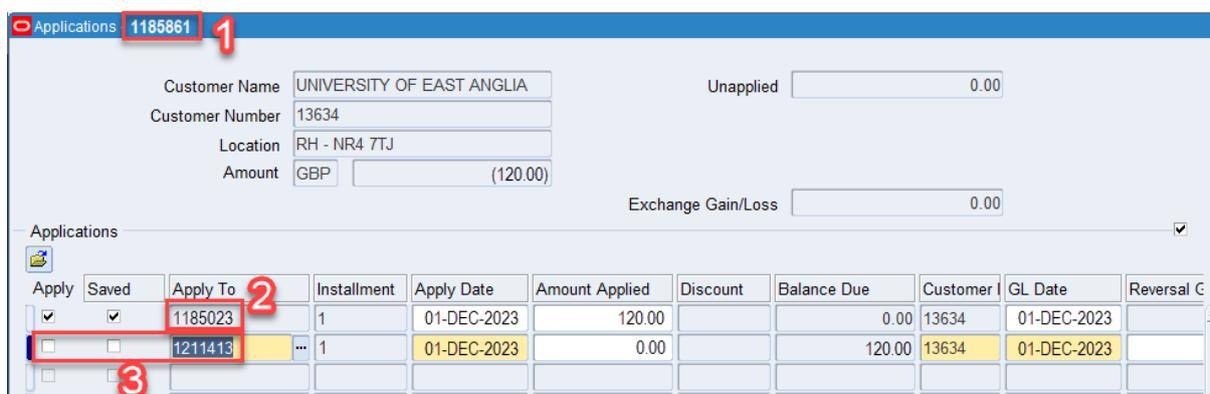
Step 8: Use the debit memo as the source document for inputting into AP to request the refund. Refer to Processing a Debit Memo for guidance.