

CREDIT BALANCES AND CREDIT MEMORANDUMS



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A guide to determining the types of unclaimed property you need to track and report.

One area often overlooked by holders reporting unclaimed property is credit balances and credit memorandums. These can be in the form of consumer credit, patient credit, student credit, accounts receivable and many other cases.

Creation of Credit Balances

Credit balances occur as a result of:

- Duplicate payments.
- Overpayments.
- Pricing and Receiving Discrepancies - overcharges in invoices, undercharges on returns, billing errors.
- Discount and Allowances – cash or volume discounts omitted or miscalculated.
- Mismatched payments and invoices.
- Processing payments to the wrong accounts.

Small Balance Write-offs

There are no provisions in the law which allows the write-off of small credit balances to income or to offset other customer's debit balances.

Examples of Credit Balances

When a patient overpays any type of medical bill, or there is excess cash left after the insurance payment is applied to the patient's account, the excess amount must be refunded to the patient or reported to the State three years after the amount becomes payable.

When a utility customer overpays a bill or there is excess cash left after the deposit is applied towards their last bill, the excess amount must be refunded to the customer or reported to the State one year after the amount becomes payable.

Mail order customers frequently remit excessive amounts, often from miscalculated shipping charges.

Revolving vs Stand Alone Invoice Credits

"Revolving" credit balances arise when balances are brought forward from one period to another.

"Stand Alone" credit balances are created when each invoice is reviewed for accuracy and credits are issued. Most of the time the balances are not brought forward and the owner is not made aware of the credit balance.

Both of these credit balance types are considered unclaimed when there has not been any activity by the owner for three years.

Accounting System

Many systems will carry a credit balance in the customer's account while others automatically issue a check for the credit balance. Often systems suppress mailings of statements to customers who have credit balances.

The underlying liability for abandonment begins from the date the credit balance was first created. Simply issuing a check or applying a portion of a credit to a new charge does not start the abandonment period over again.

How Credits are Identified

When reviewing the accounts receivable trial balance or the billing statement, items representing credit balances can be determined as follows:

- Often a dash (-) or "CR" is placed to the right of the figure in the "new balance" or "amount due" column; or
- The notation "This is a credit balance. Please do not pay." is stamped on the invoice.

- Often statements showing credit balances are only during months in which there was some transaction in the account.

Elimination/Reduction of Credit Balances

If any of the following can be identified, the credit would not be deemed unclaimed.

- Credit is for another business entity.
- Credit was applied to outstanding debit balance or previous bad debt write-off for the same customer.
- Accounting or clerical errors.
- Owner located.

Continuing Customers

When an active continuing relationship exists between a holder and the customer, there can be no abandoned property. A holder should determine a maximum period, based on their business cycle, within which it is reasonable to expect that continuing customers will have activity in that account. Any customers that have credit balances and have not had activity within the determined period of are potentially unclaimed. Holders should contact the owner and make them aware of the credit.

Auditing for Credit Balances

Holders are unique in their accounting for overpayments of accounts receivable. Even

divisions of the same company account for credit balances differently from each other.

The auditor studies the internal control and interviews key personnel in the area of accounts receivable. The auditors establish what is considered an active customer relationship within the holder's business cycle. Any credit balances outside the parameters of an "active customer" are presumed to be potentially unclaimed. The holder is requested to determine whether the credit balance was created due to an accounting error or could be offset by a debit balance. If this is not the case, a request to perform due diligence with the customer is made. Many times the credit balance is claimed by the customer.

Auditor's Tip

If the credit balances in accounts receivable are significant, it is appropriate to reclassify them as accounts payable.

When credit balances first appear, the source documents should be reviewed in order to determine the authenticity of the credit balance.

Credit memorandums should be promptly issued and properly authorized ensuring that issue dates and redemption dates are captured.



Comments and questions should be addressed to ND State Land Department, Unclaimed Property Division, P. O. Box 5523, Bismarck, ND 58506-5523. You may also call us at (701) 328-2800 or visit our web site at www.land.nd.us .