

Creative credits – How vendors can use your credits to their benefit if you're not looking

By Sherry DePew



Does your company have a policy against paying finance charges? Do you know if suppliers apply credits to unrelated invoices? Unless you are using a technology-driven statement audit recovery process, chances are high that both of these scenarios are happening out of sight and beyond your control.

Even if you have a traditional AP audit project in place, unless you are performing a deep-dive across the breadth of your supplier spend, it's likely you are losing money to the practice of *creative credit application*.

This is an important topic that often is overlooked, as vendor credits can represent a potential extremely large profit loss for your company. This, in turn, points to a large boost to the company's bottom line if your AP department can uncover these credits before they vanish.

A comprehensive statement audit can play a critical role in ensuring you have full transparency into *all* credits due to your company – from vendors across the spend spectrum, from the highest to the lowest amounts.

Here are a just a couple examples of the creative ways suppliers can use your company credits to their own advantage.

Example #1:In this situation, a supplier took a portion of a larger credit, \$392.83, and rather than returning the entire amount to the company. It noted on the credit verification form that some of the funds were applied to cover an "outstanding finance charge." Not only is paying finance charges against that company's policies, but applying funds to an outstanding invoice poses other problems for AP. If it is a real liability by that company, the purchase order and receipt will continue to accrue on a monthly basis if no invoice is presented.

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San Jose, CA 95160

Wednesday, September 29, 2010

XXV 542317 XX

Vendor #228302

Subject: Credit Verification

As part of our accounting review, we would like to verify the following credits on our account. This will serve as verification for our records that the credit is open to deduct. In the event that a particular credit has already been applied, please indicate which invoice it was applied to. Kindly fax this page back to us, without a cover page, at 408-754-0515.

Reference	Date	Amount	Type	Credit Status	Original Inv# or CM
20965	3/22/2010	\$3,748.36	<input type="checkbox"/> Overpayment <input type="checkbox"/> Duplicate <input checked="" type="checkbox"/> Return <input type="checkbox"/> Rebate <input checked="" type="checkbox"/> Other	<input type="checkbox"/> Open <input type="checkbox"/> Closed	

Def. finance ch. \$392.83 applied to outstanding finance charge

Should you have any further questions, please contact me at:

Please sign & date

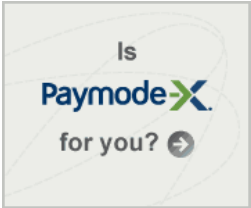
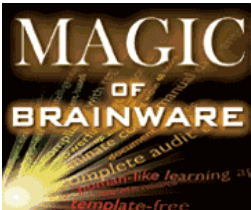
Verified by

Position

Date

Signature

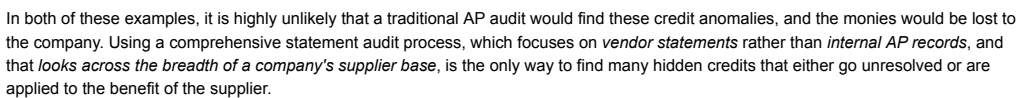
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Without a comprehensive statement audit, this "creative credit application" would have been missed. And while \$392.88 may seem like an insignificant amount, multiply this by thousands of other potential invoices and the amounts can be quite large.

Example # 2: Here, a supplier uses a credit it has identified – a credit that remains unknown to the company – to pay a completely unrelated, and in this case a disputed, invoice. The typical scenario is when a credit is identified by the supplier and there is an unpaid invoice outstanding, the supplier simply applies the credit to that invoice rather than refunding the dollars back to the company.

11/11/2016



For more information on how statement audits work, download the white paper [Statement Audits: An Untapped Source of Dollars for Your Company](#).

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