



**Processing Credit Card
Transactions in ADempiere**

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1.1 Managing Credit Card Transactions in Adempire

This how-to document suggests a number of ways of managing the processing of credit card transactions in ADempire

Credit Card transactions can occur due to

- employee expenses
- paying vendors by credit card
- receiving customer payments by credit card.

Each of these processes is explored.

Credit Card transactions raise a series of issues by employers which can be addressed in a number of ways. The most common issue is a need to pay the credit card company before an employee has provided all the details of the amounts spent. Companies adopt a number of methods to deal with this issue.

1.1.1 Conventions Used in this Document

"AMEX" is used to mean any credit card provider.

"GST" is used to mean GST, VAT or other kind of tax

2 Credit Card Receipts

Companies may receive either a small number of credit card receipts or a large number. The volume will affect the choice of the best method to process and account for the transactions.

2.1 Credit Card Receipts – Small Volume

Where there are a small volume of sales paid by credit card it is frequently easiest to just treat each individual credit card receipt as if it is a receipt in the main bank account.

Where a fee is levied by AMEX this should be taken up as an Invoice (Vendor) and the GST dealt with as required.

If the amount received from credit card company is less than the amount due on the sales invoice it can be taken up as two Payment, one from the Customer and one to AMEX with a net amount equal to what AMEX paid.

Clearly this approach is only suitable for very low transaction volumes.

2.2 Credit Card Receipts – High Volume

Where a high volume of customer receipts occurs by credit cards the following method of processing may be used.

- Create a Bank and Account called AMEX
- Create AR Payments in this Bank Account for the amounts paid by customers using their AMEX card (ie select this Bank Account in the dropdown in the Payment window).
- Create a Charge called "Credit Card Clearing" which points to a GL account in the banking accounts area of the trial balance called "Credit Card Clearing".
- When payment from AMEX is received create an AR Payment in the real Bank Account for the amount received and put to the Charge called "Credit Card Clearing".
- Create an AP Payment for the same amount in the AMEX Bank Account and put to the same Charge.
- If AMEX has deducted fees from what was remitted then create an Invoice (Vendor) for these fees (taking up any GST) and then process an AP Payment in the AMEX Bank Account for that amount of money selecting that AP Invoice in the AP Payment.
- Create a Bank Statement for the AMEX Bank Account and select all the AR Payments from Customers, select the Credit Card Clearing amount reflecting what was paid into your real

Bank Account. Select any AP Payments that relate to charges from AMEX and complete the Bank Statement. The total movement should be zero because the payment received from AMEX plus the charges from AMEX should be exactly equal to the Customer Payments AMEX was refunding to you.

Any items left as unpresented represent either

- payments made by customers which AMEX have yet to transfer to your account.
- Errors

3 Credit Card Expense Payments

3.1 Method 1 – Treat AMEX Statement as an Invoice.

This method typically is only suitable if there are a small number of credit cards are they are all in the hands of the owners and the statement amount will simply be paid.

3.1.1 Accounting for method 1

- Create a BP-Vendor account for AMEX.
- Create an Invoice (Vendor) for every item on the statement after having gathered such supporting documents as may be required to correctly identify any tax types and amounts that need to be identified on the invoice line.
- Pay the Vendor (Invoice) in the usual way.

3.2 Method 2 – Make the Employee pay AMEX.

This method is used by some organisations where the credit card holders are typically not owners. The method forces employees to promptly lodge the company expense items on their AMEX statements as an *Employee Expense Claim*. The company then pays the employee promptly so that the employee has the funds in his/her account before the AMEX payment due date. The employee then pays AMEX. AMEX does not appear as a creditor of the company at all.

Problems will arise if employees submits their expenses late, or if the company is late paying the employee or if the employee is late in paying/fails to pay AMEX. AMEX will then start chasing both the employee and the company for the unpaid amount. Also at reporting dates it will be necessary to ensure all employees have lodged their AMEX Expense Claim Form as at the reporting date or the company will need to accrue expenses to cover for them.

Companies who wish to adopt this type of process sometimes suggest that the employee provide their own credit card and perhaps the employere provides a permanent expenses advance to the employee so the employee can not complain that they are being forced to use their own money to meet company expenses.

3.2.1 Accounting for method 2

The employee is set up as a Business Partner who is a vendor as well as an employee.

The company uses a standard *Employee Expense Claim Form* which captures whatever information the employer requires to refund the expenses and perhaps contains a certification similar to: "I declare that the above ex-

penses were incurred by me for the purposes stated on behalf of and in the best interests of XYZ Ltd and that these expenses were necessarily incurred in earning XYZ's or my assessable income" .. or whatever may be required, if any, to meet the tax office requirement in your jurisdiction.

The Expense Claim Form is posted using the Invoice (Vendor) window with the employee as the BP and an invoice line for each expense claim form line with the GST component of the invoice line amount properly identified. The Invoice (Vendor) is then paid in the usual way.

The company may need to also need to process its own Invoice (Vendor) to take up any credit card company charges that do not appear on an individual card holders account.

Method 3 – Employer pays AMEX before Employee's Expense Report Received.

In this case the AMEX statement arrives - stating that \$500 is due on Bill's card and \$800 on Mary's card and a \$10 fee of some sort.

- The company creates an Invoice (Vendor) for vendor AMEX for \$1310.
- The company pays AMEX the \$1310.

Later, Bill and Mary provide an Employee Expense Claim Form detailing what was spent. Each Employee Expense Claim Form is approved and processed.

3.2.2 Accounting for method 3

- Create a BP-Vendor account for the credit card company AMEX
- Create an Invoice (Vendor) for AMEX
- Invoice Line 1 with no tax goes to a Charge called "AMEX Payments – Bill" \$500. This Charge should be set up to point to a GL account "Uncleared AMEX for Bill" [see note below].
- Invoice Line 2 with no tax goes to a Charge called "AMEX Payments – Mary" \$800". This Charge should be set up to point to a GL account "Uncleared AMEX for Mary".
- Invoice Line 3 with no tax goes to a Charge called "AMEX Fees" \$10". This Charge should be set up to point to an expense GL account "AMEX Fees" or equivalent.

Bills Expense Claim Form is then processed as as a Vendor (Invoice) from Bill as described in Method 2 except that an extra invoice line is added with a negative amount of \$500 and that line is put to the Charge "AMEX Payments – Bill". The individual invoice lines deal with tax as required. The invoice totals to zero.

When posted the accounting will show something like:

● Dr Stationary	90
● Dr Travel	360
● Dr Tax (expense or GST/VAT recoverable)	50
● Cr "Uncleared AMEX for Bill"	-500

Total	zero

The -500 line will bring the account "Uncleared AMEX for Bill" to zero.

The same process then occurs for Mary's \$1300.

Note 1: If Mary only provided a Employee Expense Claim Form for (say) \$1200 then a balance of \$100 would be left in the account "Uncleared AMEX for Mary" for later follow up. If it was a private purchase then Mary should refund the amount and the Receipt be credited directly to the "AMEX Payments- Mary" charge to bring the account "Uncleared AMEX for Mary" to zero balance.

Note 2: The account "Uncleared AMEX for Bill" (etc) can be in the Balance Sheet Current Assets or the P&L Expenses accounts. Unless the credit card expenditures contain a large amount of personal purchases which are to be refunded to the company it is probably more sensible to put these accounts in the P&L so they show immediately as expenses.

3.3 Method 4 – Setup AMEX as if it were a Bank.

To utilise this approach for processing purchahses made on credit cards you can do the following.

3.3.1 To Record the Employee Expenses

- Create a Bank Account called AMEX.
- Create Invoice (Vendor) entries from the Expense Claim Forms for Fred and Mary taking up all required GST entries. Note that the amount needs to equal the AMEX statement amount for each of Fred and Mary and if some amount is a private expense then this should be put to a Charge pointing to an a GL account like Sundry Debtors.
- Create an AP Payment for the invoice from the AMEX Bank Account.
- If you have paid any other Invoice (Vendor) entries by AMEX then process AP Payments from the AMEX Bank Account.
- Create an Invoice (Vendor) for any additional charges from AMEX (with any GST) and create an AP Payment from the AMEX Bank Account to clear.

The balance in the AMEX Bank Account should now be a credit balance equal to the liability to AMEX.

3.3.2 To Pay AMEX

- Create an AP Payment in your real Bank Account and put to the "Credit Card Clearing" Charge.
- Create an AR Receipt in the AMEX Bank Account for the same amount and put to the "Credit Card Clearing" Charge.
- Create a Bank Statement for the AMEX Bank Account and select the appropriate debit and credit amounts. Any uncleared amounts should relate only to Expense Claim Forms for AMEX purchases that are more recent than the last AMEX statement.

Note 1: the steps detailed above show how to create a separate AP Payment and AR payment to effect transfers between two bank accounts. This has been done to highlight the underlying accounting processes. The same result will be achieved by using the Bank Transfer menu option in Open Items.

Note 2: The GL account linked to the Credit Card Clearing Charge should now balance to zero

3.4 Dealing with Payments made by AMEX to Company Vendors

Assume we have a vendor "Smith Ltd". A complication can arise if an expense line on an *Employee Expense Claim Form* represents a payment to Smith Ltd and Smith Ltd's invoice has already been taken up in Adempiere in Smith Ltd's own AP account. If this happens it can be dealt with as follows.

- Create a General Ledger account named like "Vendor Card Payment Suspense"
- Create a Charge with the same/similar name pointing to that GL account code.
- Process the Employee Expense Claim Form line with no tax amount and put it to the "Vendor Card Payment Suspense" Charge.
- Create a new Invoice (Vendor) record for Smith Ltd, add a line with no tax and a description like "paid on Fred's credit card on <date>". Enter the (negative) amount and select the "Vendor Card Payment Suspense" Charge.
- In the Payment Allocation Window for Smith Ltd, tick the invoice and its negative offset from our adjusting document to clear. If you choose you can create an Invoice (Vendor) Document Type based on a credit note and give it a name like "Credit Card Offset"

If Payment by AMEX to vendors occurs frequently then consider using the process whereby AMEX is set up as a Bank Account.

4 Adaxa's Offices and Contacts

Information of a general nature about Adaxa and its services can be found at www.adaxa.com or obtained by sending an email to info@adaxa.com with a description of the information that you would like to receive. If you are an existing client and wish to initiate a request for software support please send an email to helpdesk@adaxa.com with as much detail as possible about the nature of your support request.

For all other information please contact the Adaxa office nearest to you.

4.1 Australia

Address: Level 1, 616 St Kilda Road, Melbourne, Victoria, 3101, Australia

Contact: Office

- 1300 990 120 (Within Australia)
- +613 9510 4788 (Outside of Australia)

4.2 New Zealand

Address: 73 Boston Road, Mt Eden, Auckland, 1023, New Zealand

Contact: Office

- 0800 232 922 (Within New Zealand)
- +649 9744 600 (Outside of New Zealand)

4.3 United States of America

Address: PO Box 6350 Oceanside, CA 92052-6350

Contact: Office

- 760.576.5115 Main
- 888.575.1489 Fax