THE INVOICE

Author: Glen Bullivant FICM

What is an invoice?

Whether it is for the supply of goods or for the provision of services (or indeed for both), the purpose of an invoice is twofold: it acts as an official record of that sale to the customer and in effect is most often also the very first request for payment made to that customer. Accuracy and promptness are vital on both counts. As a true record of the sale, the invoice must be correct in every aspect, and in order to ensure payment on due date, it should be issued without delay to the customer.

Far too many small businesses, typically those involved in serving customers direct, such as plumbers, electricians, joiners and carpenters etc., and even some of the larger SMEs seem to think that "paperwork" is of secondary importance to doing the work or supplying the parts. On the contrary, the correct paperwork is fundamental to the professional finish to the work done, and is not something that can be "held over until we have time". Invoicing must be part of the whole order-to-cash process.

From a credit management perspective, the purpose of an invoice is essentially to inform a customer how much he owes, by when it should be paid, and exactly to where it should be paid.

What should an invoice look like?

Many supplier invoices are poorly designed. There is no regulation as to the size or colour of an invoice, whether portrait or landscape, or indeed how it should be laid out. Many computer produced invoices are on poor quality paper, have faded print and/or have somewhat confusing product descriptions or codes. The more complex an invoice appears to be, the greater the chance of processing delays by the recipient, and the greater the volume of customer queries.

It should therefore be clear and uncluttered – over-complicated or fancy company logos should be avoided, together with unnecessary "marketing" additions. The customer need to recognise at a glance that the document is an invoice and can be readily matched to his order and to the actual goods received or service provided.

What information should an invoice contain? *[EDITOR'S NOTE: THE FOLLOWING REFERS TO DOMESIC UNITED KINGDOM B2B INVOICES, THOUGH CAN ALSO APPLY TO UK DOMESTIC B2C*

INVOICES IN CERTAIN RESPECTS. FECMA MEMBERS MAY WANT TO AMEND OR ADD IN THIS SECTION THOSE ASPECTS THAT RELATE SPECIFICALLY TO THEIR COUNTRIES]

- The supplier's full correct legal name and address
- Telephone and fax number for customer contact
- Email address for customer contact
- The customer's full name and address (for invoicing)
- The customer's full name and address (for delivery if different)
- The supplier's VAT number
- The supplier's company registration number (if applicable)
- The customer's account number
- The customer's order number and if appropriate the method of ordering (fax/email/telephone etc)
- The date of delivery or work done
- The date of the invoice – this crucially establishes the due date for payment according to the agreed terms as well as the tax start date for VAT purposes. VAT is due from the date of supply, NOT from the date of payment
- Correct product or service description
- All correct pricing information – cost per unit, number of units, discounts etc
- VAT payable
- VAT rate
- Correct extensions and totals – a clear and unambiguous figure showing the amount to be paid
- Payment terms
- Payment due date
- Payment instructions – supplier's bank details, address for remittances etc. Many companies include a tear off remittance advice as part of the invoice
- All invoices sequentially numbered – a legal requirement
- Clearly identified as an INVOICE

It is worth emphasising that correct product or service description is of the utmost importance. It is far too easy to allow computerised systems to simply transpose internal product codes for example to the invoice document from warehouse, stock or accounting programs, without expanding sufficiently to allow the customer to immediately recognise the goods or service to which the invoice refers. The customer needs to be able to match the invoice document to his order, to the supplier delivery note and to his own goods received note, as well as to any quotation received prior to placing the order. Any difficulty encountered in that matching process simply adds to payment delay, notwithstanding the unprofessional image that it generates.

Invoice administration

The invoice should be produced promptly, ideally on the day of delivery or at least no later than 24 hours after. That should be a given in any organisation, small or large. The sooner the customer receives the invoice, the sooner the whole matching and payment processing sequence can begin. There is often a “push” by Sales in the last few days of a calendar month to get more sales for that month which puts pressure on invoicing, but systems and processes should be geared up for such eventualities.

Getting the invoice to the customer as quickly as possible involves not just prompt production, but also utilising the most effective delivery method. In the UK this means at the very least using First Class Post. Cost savings which may be achieved by Second Class Post are far outweighed by revenue loss due to delays and should on no account be considered. This is particularly important when invoices are being raised in the last 2 0 3 days of the month. The same is true of subsequent reminder notices or letters. **[EDITOR’S NOTE; FECMA MEMBERS MAY WANT TO INSERT HERE THE RELEVANT FAST METHOD OF POSTAGE OR DELIVERY IN THEIR PARTICULAR COUNTRY]**

High value invoices, especially where they will have a significant impact on the supplier’s own cash requirements and cash flow, should be delivered by courier or by the supplier’s own staff – sales force, delivery drivers etc. No delay in delivery should be tolerated at any time.

Invoices should be securely stored (electronically with back up off site) and accessible via sequential numbering, customer account number, product code or a number of combinations – ease of retrieval is vital in resolving problems, supplying copies or further information.

Conclusion

The credit period begins with the invoice and concludes with the receipt of payment. However, the supplier may be involved in considerable payment outlay between receiving the order and delivering the goods or completing the service. It makes no sense, commercially or financially, to add to that period by delaying the production of the invoice for whatever reason. Accuracy is also of the essence – no customer should be expected to pay for the supplier’s errors and in practice, very few will!