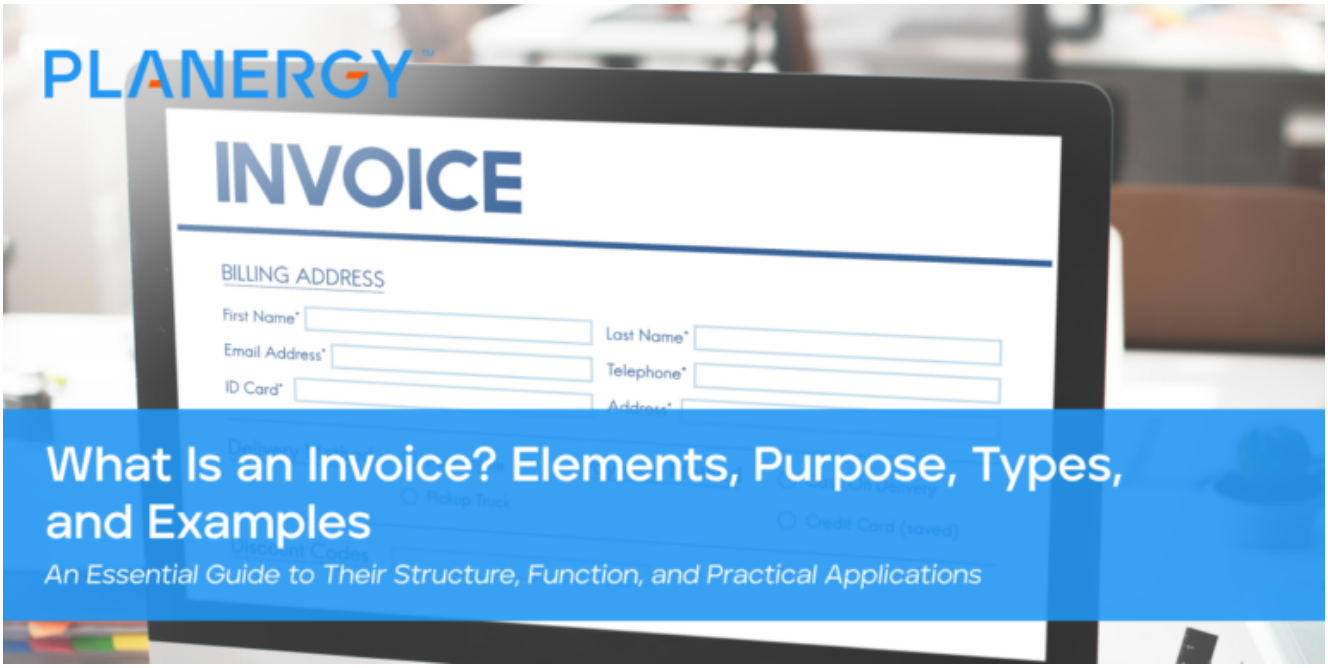
What Is An Invoice? Elements, Purpose, Types, and Examples



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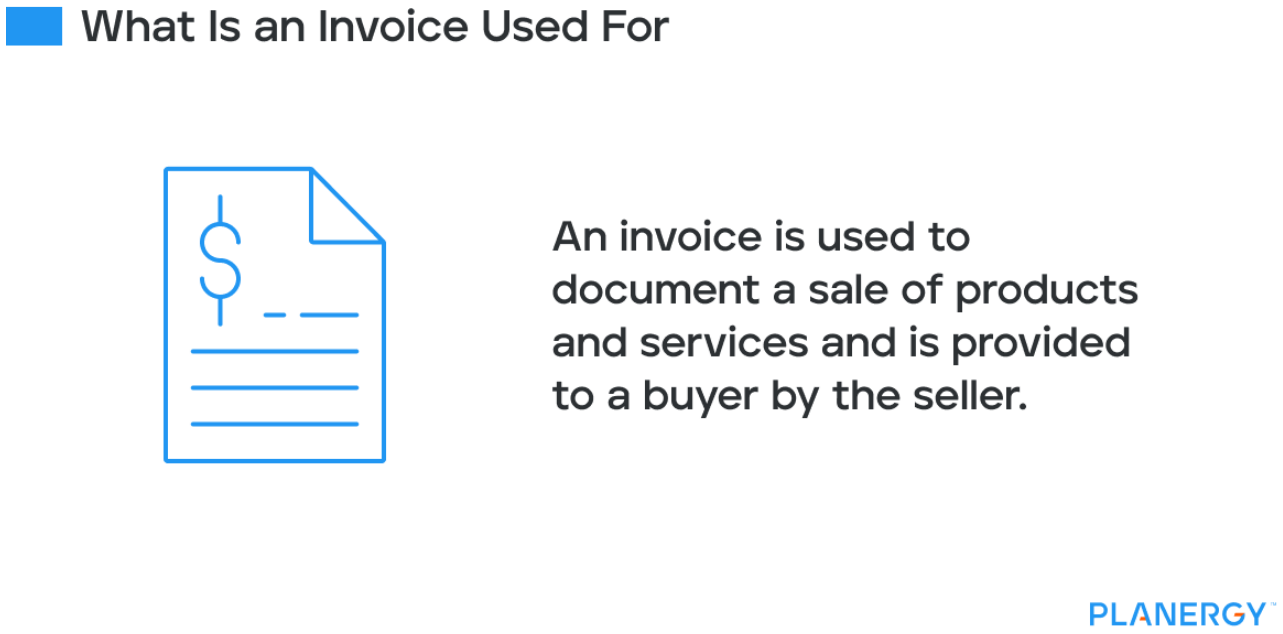
If you’re a business owner, you’ve likely created and received many different types of business documents, with none more recognizable than an invoice.

While you may be familiar with invoice basics, do you know what should (and should not) be included on an invoice?

Whether you’re new at preparing and receiving invoices, or just want a refresher, take a few moments and learn what an invoice is, what should be included on an invoice that you prepare or receive, and the different types of invoices commonly used.

What Is an Invoice Used For?

An invoice is used to document a sale of products and services and is provided to a buyer by the seller.



Entities that commonly use invoices include:



- Businesses of any size
- Freelancers
- Independent contractors
- Government bodies
- Nonprofit organizations
- Service providers such as accountants, attorneys, physicians
- Wholesalers and manufacturers
- Educational institutes

If you offer credit terms to your customers, you'll need to provide them with an invoice, which should include details about the customer's purchase as well as when payment is due.

For instance, if you provide legal services to a client, you would specify the number of hours and the hourly rate on the invoice.

For businesses selling products, the number of products sold and their per-unit cost will need to be included in the invoice.

Because an invoice is also considered a legal document, for record-keeping purposes, it's important for both buyers and sellers that the appropriate information be included in the invoice.

What Are Invoices Used For?

Invoices are used for various purposes, depending on whether you are the buyer receiving the invoice or the seller providing the invoice.

- ## Buyers

  Buyers use invoices to document a purchase, even if a purchase order is used.

  The invoice is used to verify the terms of the purchase, including the number and type of products or services purchased.

  Once this verification process is completed, the invoice is recorded in accounts payable, where it will be paid when due.

  Once the invoice is paid, the invoice and the payment information are filed electronically or manually, serving as part of an audit trail.

- ## Sellers

  It would be very difficult for a business to keep track of its sales data if an invoice wasn’t created.

  For sellers, an invoice is a way to document the purchase made by the buyer, including what was purchased.

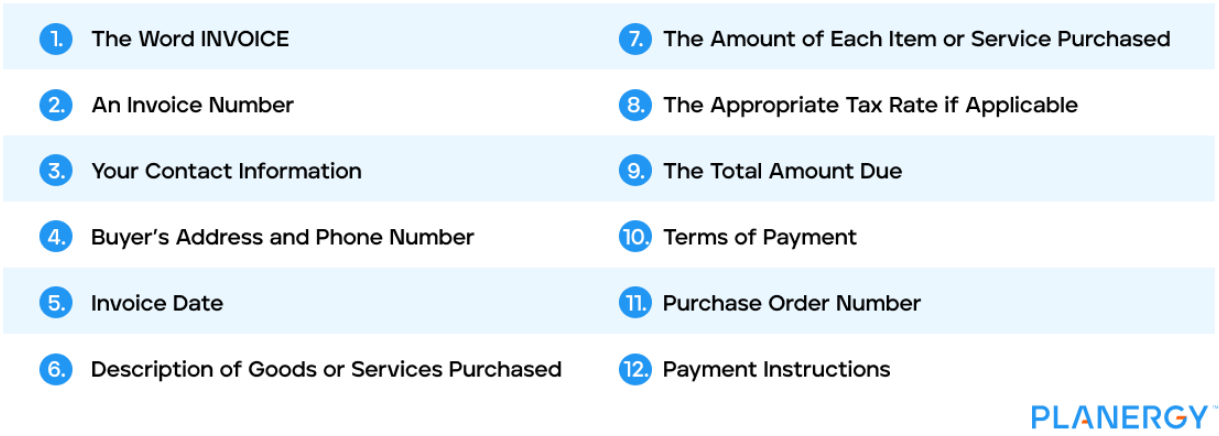
  An invoice also provides sellers with a way to track any outstanding payments by including the agreed sales terms which should include the invoice due date.

  An invoice also provides sellers with the necessary backup for inventory movement and is a valuable part of the seller’s audit trail.

What Is Included in an Invoice?

An invoice contains information valuable to both buyers and sellers. Any invoice that you create or receive should include the following information.

What Is Included in an Invoice



1. The Word INVOICE

The word 'invoice' should always be front and center on any invoice that you create.

This helps differentiate the document from a purchase order, shipping receipt, or other similar documents.

2. An Invoice Number

A unique invoice number is important to both buyers and sellers, with both keeping track of this unique number for payment purposes and to ensure that duplicate invoice numbers are not processed.

3. Your Contact Information

Your company information including company name, complete address, phone number, and email address should be included in any invoice that your business sends.

4. Buyer's Address and Phone Number

Buyer information including the company name if your customer is with a company, and their complete address including phone number and email

address should be included on all invoices.

5. ## Invoice Date

   The invoice date is important, particularly for buyers, since the invoice date is technically the first date of their payment term.

   For example, if your payment terms with a company are Net 30 and the invoice date is September 21, your payment due date would be October 20.

6. ## Description of Goods or Services Purchased

   An invoice should always include a complete description of any items or services purchased including the purchase date, the number of items purchased, or the type of service purchased.

   Each item or service purchased should be listed as a separate line item.

7. ## The Amount of Each Item or Service Purchased

   Along with the description (see # 6), each product or service will need to have an individual cost as well as the total cost.

   If you purchase 10 bookcases, you will need to include the cost of each bookcase, along with the total cost.

8. ## The Appropriate Tax Rate if Applicable

   If you're selling products, for tax filing purposes, you'll need to include sales tax on your invoice.

   Determining the correct sales tax rate can be confusing, particularly if you frequently sell out of state.

   Following these steps can help:

   - **Find the Appropriate Sales Tax Rate:** If you're selling in your

home state, use your state's current tax rate. If you're selling to another state, you'll need to determine the tax rate for that state.

- **Determine What Items Are Taxable:** Products sold to an end-user are typically taxable, while those that have been purchased for resale may not be. It's best to consult the tax regulations for the appropriate state or jurisdiction.
- **Calculate the Sales Tax:** If your taxable items total $200 and the state tax rate is 10%, the total tax due would be $20.
- Add the tax to your product or service total to determine the total amount due from your customer.

9. ## The Total Amount Due

   The total amount due should include the individual total of all products and services purchased as well as additional charges such as shipping or sales tax.

10. ## Terms of Payment

    Before you sell to a customer, specific payment terms should be agreed upon.

    Those agreed-upon terms will need to be included on any invoice including both early payment options and late payment fees.

11. ## Purchase Order Number

    If your customer used a purchase order during the sales process, the purchase order number should be included on the invoice.

12. ## Payment Instructions

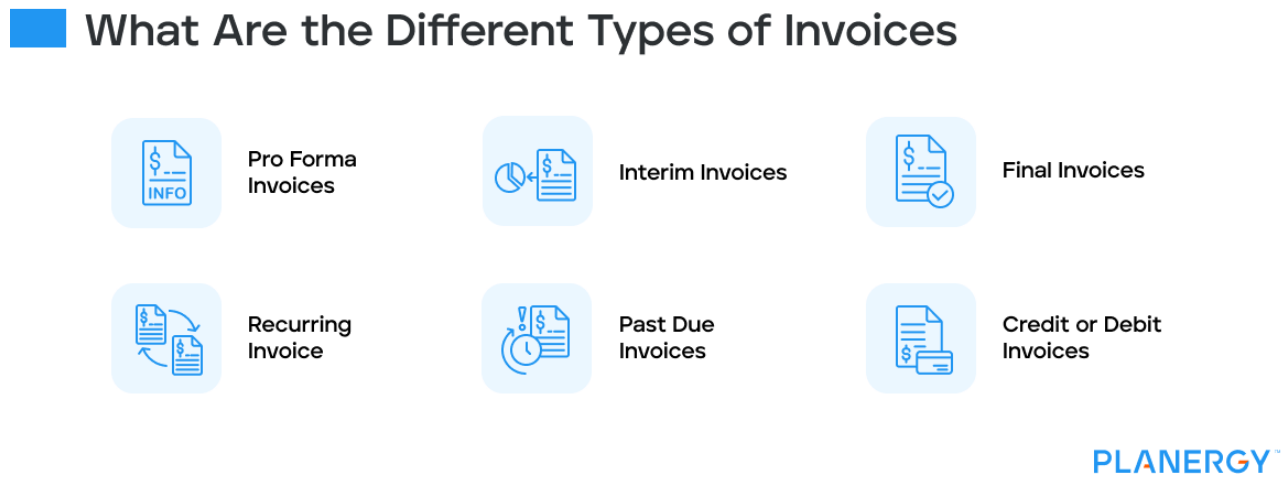
    Payment instructions can include a remittance address where a check can be sent as well as a website or other link where customers can pay an invoice electronically.

Remember, the more payment options you provide your customers, the quicker the customer usually pays.

For companies required to create a VAT invoice will also have to include the VAT number, the total amount of the invoice excluding VAT, and the VAT rate for each item.

What Are the Different Types of Invoices?

While there are multiple types of invoices including commercial invoices and timesheet invoices, the most commonly used invoices are:



Pro Forma Invoices

A pro forma invoice is provided to customers to inform them of how much a product or service will be once the product has been delivered or a service completed.

Used as an estimate of sorts, a pro forma invoice is not a demand for payment and is used for informational purposes only.

Interim Invoices

If you’re working on a large project for a customer, you may want to use an interim invoice.

An interim invoice allows you to bill your customer for the portion of the project that has been completed.

Final Invoices

A final invoice is provided to your customer once all work has been completed.

Generally considered a sales invoice, in most cases, a final invoice may be the only invoice you send, particularly when a pro forma invoice or interim invoice is not necessary.

Recurring Invoice

If you provide products or services regularly, or on a subscription basis, you'll likely be sending a recurring invoice to your customers.

Past Due Invoices

If a customer does not pay by their due date, a past-due invoice is typically sent.

The past due invoice will be a copy of the original invoice with a reminder of the agreed-upon payment terms as well as any late fee that may be added to the original invoice total.

Credit or Debit Invoices

Any time a refund is due to a customer or an additional amount needs to be billed, a debit or credit invoice will be issued.

Rather than paying from a credit or debit memo, the invoice is used to correct a customer's balance.

What Are the Advantages of an Invoice?

Unless you buy or sell products or services on a cash-only basis, it’s impossible to adequately track your income and expenses without issuing an invoice.

Other advantages of invoices include:



- **They Help You Present a Professional Image** – For small businesses especially, a well-designed invoice helps you get noticed.

  It also indicates to your customers that you’re a professional.

- **They Keep Customers Happy** – Your customers should never have to request an invoice from you.

  Customers need to keep track of their expenses, and the best way to do that is by receiving invoices from their vendors and suppliers promptly.

- **They Are a Legal Document** – Aside from being a good representation for your business, invoices also provide a legal benefit should your customer not pay, since they represent proof that the goods and services ordered were delivered as promised.

- **They Help You Get Paid Faster** – Providing customers with an invoice promptly will help you get paid faster.

  This is especially true if all the important information such as payment

terms and options are included with the invoice.

Is an Invoice a Receipt?

No. Though both documents are part of the sales process, an invoice is issued after goods and services have been provided to a customer.

A receipt is issued after a customer has paid for the goods or services that were provided.

Though both an invoice and a receipt should contain the invoice number and amount paid, a receipt simply provides proof of payment received.

Is an Invoice What You Owe?

An invoice represents the amount of money a customer owes a vendor or supplier.

After a purchase is complete or a service rendered, the seller issues an invoice to the buyer for the amount due.

The only exception would be when a credit invoice is issued to a buyer for product returns, products damaged, or items lost in shipping.

What Does "Subject to Terms and Conditions" Mean on an Invoice?

Subject to terms and conditions is used to further specify any additional terms other than those included in the separate agreement between a buyer and a seller.

Including terms and conditions can be helpful if a previous agreement has not been reached and typically includes payment due dates, accepted payment methods, any late payment fees or penalties that may be charged, and any dispute resolution practices that may be employed.

Bill vs. Invoice: Are They the Same?

In many cases, the terms ‘invoice’ and ‘bill’ are interchangeable, since both are indicative of the amount of money that owed.

Both bills and invoices have business information such as the name of the seller, the date, and an itemized list of services rendered.

However, an invoice is a formal document that is sent to a customer to request payment for goods or services purchased on credit, while a bill can be something as simple as the check you receive after dining at a restaurant.

The difference may also lie in how the document is perceived.

For example, if you’re sending your customers a bill for products and services, you would send an invoice.

The buyer on the receiving end of the invoice may consider it a bill since it will have to be paid by a certain date.

How To Create an Invoice

If you’re using accounting or invoicing software, the application will be able to easily create invoices for your customers.

However, if you’re using manual accounting or a spreadsheet application to manage your accounting, the best solution is to use an invoice template.

There are a variety of invoice templates available that will allow you to easily create a professional invoice.

Sites like Google Docs include a basic invoice template that can be used to create an standard invoice, while Microsoft offers a variety of invoice templates that can be easily customized in either Word or Excel.

Online invoice generators such as Invoice Simple and Invoice offer easily customizable invoice templates that offer easy electronic invoice creation.

When using a template, remember to include all the necessary information such as a unique invoice number, invoice date, payment due date, an itemized list of

charges, and remittance information such as how your customer can pay you.

Invoicing Is an Important Part of Your Business Operations

Invoicing is an important part of your business, so properly managing the invoicing process is important.

Proper invoicing starts with setting clear policies regarding payment terms, and late payment fees, while offering your customers multiple ways to pay their invoices.

The best way to ensure that your invoices are accurate is to invest in an accounting software application that includes an automated invoicing solution.

Doing so provides easy integration with your core accounting system, eliminates manual errors, and streamlines the entire invoicing process.

Automation also increases efficiency, boosts productivity, and allows you to better manage both accounts payable and accounts receivable, leading to improved cash flow for your business.

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