



*Giving Businesses A Competitive Edge™  
Today and Tomorrow...*



## Finance Charge Calculation

To calculate finance charges the customer's statement option must be set up as type '2' - PRINT STATEMENT WITH FINANCE CHARGE. This is set up in the Accounts Receivable Menu; Add, Update Delete Customers option. Otherwise, there will be either no statement printed, or the statement will not include any finance charge calculations.

### Step 1 is to find out how long the invoice has been overdue:

The days overdue for each invoice is computed by counting the numbers of days between the invoice date and the statement date.

e.g. Invoice date is September 24; statement end date is December 31

September	25, 26, 27, 28, 29, 30	6 days
October	1-31	31 days
November	1-30	30 days
December	1-31	31 days
Total		98 days

Next, the net invoice date is subtracted from the 98 days

E.g. The customer terms are 2% 10 Net 30

Therefore 98 days – 30 days is 68 days.

The DAYS OVERDUE is 68 days for that invoice

### Step 2 is to calculate the compound interest factor:

The equation to do this is  $(\text{days overdue} - \text{number of days overdue for financial charge}) / 365 * 12$

E.g. the invoice is 68 days overdue, and you have specified to charge it as soon as it is one day overdue.

The compound factor is therefore  $((68-1)/(365))^*12=2.2$

### **Step 3 is to calculate the finance charge for that invoice:**

The equation to do this is (balance of the invoice\*monthly finance rate to the power of compound factor)

e.g. The monthly finance charge you specified is 2%, the invoice has a balance of \$1286.19

The finance charge is therefore  $1286.19((1.02 \ 2.2)-1)=57.27$