Discounts, credits and reimbursement options in Inomial

Authored by DGIT09/04/2021

Introduction

Discounts, credits/adjustments, and reimbursements/refunds are related but different processes. These processes are explained here to clarify what each of them are, and how they work in Inomial – including the relevant functionality available in Inomial and its intended application.

Understanding the breadth of what is available will help you select the most appropriate approach for your requirements.

Credit note transaction

A credit note transaction is a simple, one-off adjustment transaction for a credit.

> ⓘ Inomial also supports debit notes.

Being simple, it is easy to create. However, it has only one associated reporting category, which means the entire amount is reported against this category.

Example 1

Let's say you have a new Product X, with charge C_PX for which revenue will be reported against reporting account RA_PX. Product X is launched in May and there are 10 sales each of $100. Reporting account RA_PX reports revenue of $1,000.

To accelerate sales, a $50 refund is offered to all new customers. In June, there are 10 more sales so revenue for RA_PX is 20 * 100 = $2,000.

The refund is applied as a credit adjustment to the accounts of the new customers. Credit adjustments have the reporting account 'General Credit Note', so 10 * -$50 = -$500 is added to the 'General Credit Note' revenue reported.

It could be argued that RA_PX revenue is overstated because the refunded revenue is reported elsewhere. It may be advantageous to show refunds elsewhere as it makes them easier to identify and so review.

However, if a credit note is used widely, then the refunded revenue associated with RA_PX may be hard to identify if there are lots of other reasons for rating a credit note. A way to mitigate this is to create a specific credit adjustment for C_PX refunds – but setting up a new credit adjustment for each scenario may be onerous or inappropriate for the Inomial Operators charged with the responsibility of raising refunds.

This approach also relies on the Inomial Operators being aware of and selecting the correct adjustment type for each given scenario and setting the correct details and amount on the credit note.

Example 2

If you have an entire invoice to refund with lots of items, then a credit note is a quick and easy way to refund these.

Negative charge

A refund can be raised as a negative charge.

Example

Using the Product X example above, if a one-off refund is required it could be raised as a separate:

- Itemised credit for -$50 of C_PX (an invoice with a negative total).
- Charge for -$50 of C_PX on the next invoice.

If a recurring refund is required, it could be raised as a recurring charge for -$50 of C_PX, e.g. on a plan or binding.

Advantages of this approach are:

- Both one-off and recurring refunds are possible.
- Because the same charge item is being used, C_PX, the same reporting account is used for the refund and so arguably the revenue for RA_PX is more accurate. However, reporting account-based reports will not easily identify the scale of the refunding.

Discounting

A discount can be applied as a one-off or recurring charge. Discounts generally show as additional line items and are associated with their own reporting account.

> **Note:** While it will be extended, Inomial's discounting support is currently fairly limited. If a discounting approach is a consideration, please discuss this with DGIT.

Rate reduction

A rate reduction can be applied. This is possible at the plan, account and binding level. Rate reductions can also be applied in arrears, e.g. effective two months ago.

Using the Product X example above, Inomial’s future invoices will recognise an effective reduction in arrears and automatically raise appropriate credits against C_PX. This means that the RA_PX will show the full effect of the change.

Invoice reversal

An invoice can be reversed, and this is very easy to do in Inomial.

Reversing an invoice reverses the revenue associated with each reporting account of the original invoice. This approach is therefore arguably better than a credit note. However, all items on the invoice are reversed or none at all. You can’t reverse a subset of an invoice, such as one or two charges.

Reimbursement transaction

The reimbursement transaction can be relevant to the refund process. This transaction type represents the return of funds to a customer, e.g. by cheque or bank transfer.

Some typical use cases for a reimbursement are:

- A customer has paid an invoice twice
- A customer has paid for a service in advance that has been terminated early.

A reimbursement is a debiting transaction, and so it should be used in conjunction with a crediting transaction such as a credit note, itemised credit or inverse reversal.

From a revenue perspective, reimbursement transactions are like debit notes in that only one reporting account is associated with them. Reimbursements are easy to identify and therefore to review, however they also rely on Inomial Operators setting the correct details and amount.

> **Note:** It is rare for payment providers to support the automation of reimbursements, i.e. where funds would be transferred to the end customer's account.
>
> If your payment provider does support this, DGIT can investigate calling the payment provider's API on the raising of an Inomial reimbursement transaction to automatically transfer funds to the customer's account.