



Navigating the nuances of billing and invoicing

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For some, billing and invoicing are interchangeable with each other; they'll just as quickly ask for the bill, as they will ask for the invoice.



However, when you look at them closely, they're distinctively different approaches to getting paid.

For accountants, in an industry where precision and clarity reign supreme, the distinction between billing and invoicing stands not merely as a matter of semantics but as a fundamental aspect of financial management.

In this guide, we'll unpack what differentiates billing from invoicing, boosting your understanding and practical application of these financial cornerstones.

So, whether you're sharpening your existing expertise or looking to better understand the terminology, our guide is here to help.



What is an invoice?

When purchasing a product/service, if there is a gap in time between delivery and payment, an invoice is used.

Invoices are transactional documents that demand payment from a customer for delivered goods or services and can legally be used to recover overdue payments.

They also provide the seller with a track record of the goods and services exchanged, showing the existence of credit since the seller will not be paid immediately but at a later time.

Because an invoice is a formal document, it necessitates correct handling.

For instance, no invoice should be discarded post-finalization, instead, it ought to be negated through a credit note.

It should also bear an appropriate serial number, adhering to a certain invoice numbering pattern.

Invoices are crucial papers for fiscal reporting, taxation, and bookkeeping.

Using an invoice

The purpose of invoices is as follows:

- The issuance of an invoice initiates the request for payment, dispatched before the funds are collected
- For accounting purposes, an invoice documents the items or services a business has purchased
- An invoice itemizes and details what has been delivered, in addition to specifying the customer's payment deadline and terms of payment

When do invoices need to be paid?

The most common length for due dates of an invoice is either a 15-day grace period or a 30-day grace period.

These typically get abbreviated to a net 15 (for having 15 days to make the payment on the invoice) or a net 30 (for having 30 days to make the payment on the invoice).

Note: some invoices may have a longer grace period, and you may see net 60 or net 90 in some industries.

To help incentivize clients, some invoices may also include a discounted payment rate if the payment is made early.

These discounts will appear as fractions before the net rate.

The fraction's numerator is the percentage reduction, and the fraction's denominator is how long the deal lasts.

For example, a 2/10 net 30 deal on an invoice would mean you have 30 days to pay the invoice (net 30), but if you make the payment within the first 10 days, you will get 2% off (2/10).



What is a bill?

A bill signifies the sum a customer owes to a business for goods or services used/acquired, which is expected before or directly after delivery.

This proof of purchase can be provided in written or printed form.

In essence, a bill serves as proof of a transaction from both the buyer's and seller's perspectives.

The majority of retail businesses, including grocery and retail stores, dining establishments, and eateries, require upfront payment for their products or services, thus using billing processes.

Defining the difference: bill vs invoice

To summarise, both bills and invoices detail sales transactions, capturing the total amount a customer owes.

However, bills simply outline how much customers owe, whereas an invoice lists the goods or services provided, along with prices, quantities, and terms of payment.

Note: invoices are common in business-to-business (B2B) dealings, where ongoing relationships and more detailed recordkeeping are important, while bills are more prevalent in business-to-consumer (B2C) interactions, where transactions are more immediate and less detailed.

When should I use a bill or invoice?

The best way to determine if you should use a bill or an invoice is to look at the time spent between delivery and payment.

Is there a gap in time between delivery and payment? Use an invoice.

Is the payment expected before or directly after delivery? Use a bill.

For example, going to eat at a restaurant is a bill, because you were provided food, ate it, and immediately paid.

However, having that same restaurant cater an event where payment isn't expected until a week before the event would require an invoice.

Frequently Asked Questions (FAQs)

Q: Do I need to send my client an invoice and a bill?

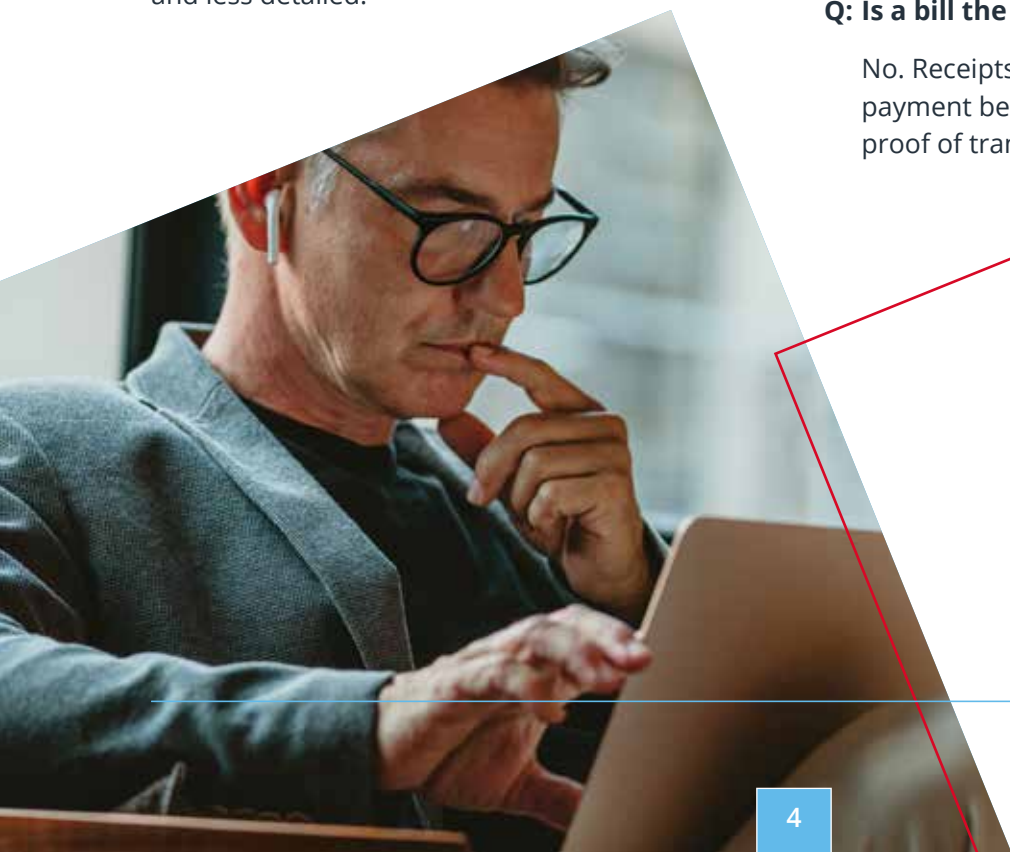
No. When invoicing a client, they may refer to it as a "bill"; however, it's just a matter of perspective and the documentation remains an invoice.

Q: Is an invoice a legally binding document?

Yes. Invoices are legally binding as they are financial records for taxation purposes relating to goods and services provided.

Q: Is a bill the same as a receipt?

No. Receipts are legal evidence of a payment being received, while a bill is the proof of transaction.



Three ways to optimize your billing and invoicing with software

1) Digitize

Manual billing and invoice processing can be a draining, lengthy procedure.

A mailed bill or invoice can take several days to arrive as you rely on conventional mail delivery, essentially wasting a whole week of business time waiting for payments.

Embracing digitization cuts down this waiting period, allowing invoices to be sent and payments received on the very same day.

2) Automate

While the billing and invoice procedure has several steps, they are often repetitive and foreseeable.

However, essential details such as your client's name, address, and billing information can be automatically generated for each bill or invoice.

When setting up your billing and invoicing process, strive to automate as many aspects as you can as it saves time and ensures greater precision.

3) Integrate

Billing and invoicing should be synchronized with other areas in your firm.

Integrated systems aid easy data movement between applications, nullifying the need for manual data input and boosting company transparency.

Integration also facilitates timely order fulfillment and ensures accurate inventory management.



Billing and invoicing solutions

IRIS has **billing and invoicing solutions** that grow with you.

Whether you are just getting started and need help organizing your basic processes or are well-established and looking to optimize your existing structure, IRIS is ready to help.



Get started today and find the best solution to your billing and invoicing needs.

