Tip of the Week: Mastering Interest Calculations

Managing client payments can be a challenge, especially when it comes to handling interest on overdue invoices. At TimeSolv, we understand the nuances of charging interest and offer customizable settings to ensure you can align your billing practices with your business needs. This week, we're diving into how to effectively set up and manage interest on invoices, exploring the differences between Simple and Compound interest, and providing a step-by-step guide for turning on interest in your TimeSolv account.

Simple vs. Compound Interest: What's the Difference?

Simple Interest: This method calculates interest only on the principal balance of the invoice. For example, if you have an outstanding balance of $1,000 and your annual interest rate is 5%, the interest for one year would be $50, regardless of how long the payment remains overdue.

Compound Interest: In contrast, Compound Interest is calculated on the total balance amount, including any previously accrued interest. This means if your client has unpaid interest, the next period's interest will be calculated on both the principal and the accumulated interest. For instance, if your client owes $1,000 and the interest is 5% annually, after one year, the total balance would be $1,050. If the interest compounds monthly, the interest in the subsequent period will be calculated on $1,050, not just the original $1,000.

Configuring Interest Settings in TimeSolv

To set up interest on your invoices, follow these steps to ensure you're correctly applying interest from the start:

1. Enable Interest for Your Matters/Projects:

- Navigate to **Clients** > **Clients & Matters** and select the relevant client or matter.
- Go to **Invoice Settings** and click on **Apply Interest?** to enable interest calculation for that client or matter

2. Specify Global Interest Settings:

- For firm-wide settings, go to **Clients** > **Settings** > **Invoice Settings**.
- Here, you can specify the global interest settings that will apply to all matters and projects unless overridden at the client or matter level.

3. Define Interest Parameters:

- **Interest Rate**: Enter the annual interest rate here. For example, a 5% annual rate is entered as 5. For monthly rates, multiply the monthly rate by 12 (e.g., 1.5% monthly = 18% annual).
- **Interest Type**: Choose between Simple and Compound interest based on your preference.
- **Grace Period**: Set the number of days beyond the due date that you will allow before interest begins accruing.
- **Payment Terms**: Define the number of days after the grace period before interest starts to accrue.

Activating Interest After Invoice Issuance

Often, interest needs to be activated after the initial invoice has been issued and is overdue. Here's how to apply interest retrospectively:

1. Create an Expense Entry:

- Go to **Expense** > **Expense Entry**.
- Create a new expense entry with a fixed fee amount to activate interest. Adjust the quantity and amount fields accordingly and save the entry.

2. Generate a Draft Invoice:

- Navigate to **Invoice** > **Draft** and click **New Draft Invoice**.
- Create a draft invoice for the relevant matter or project.

3. Remove Zero Expense Entries:

- After creating the draft, if you need to delete the zero expense entry used for activating interest, click on the dollar amount of the draft invoice.
- Go to the **Expense** tab, click **Edit** for the entry, then click **Update Original Entry**, and finally select **Delete**.

By following these steps, you can ensure that interest calculations are applied correctly and in alignment with your billing policies. Whether you choose Simple or Compound interest, TimeSolv provides the flexibility to manage client payments effectively and maintain your financial practices with precision.