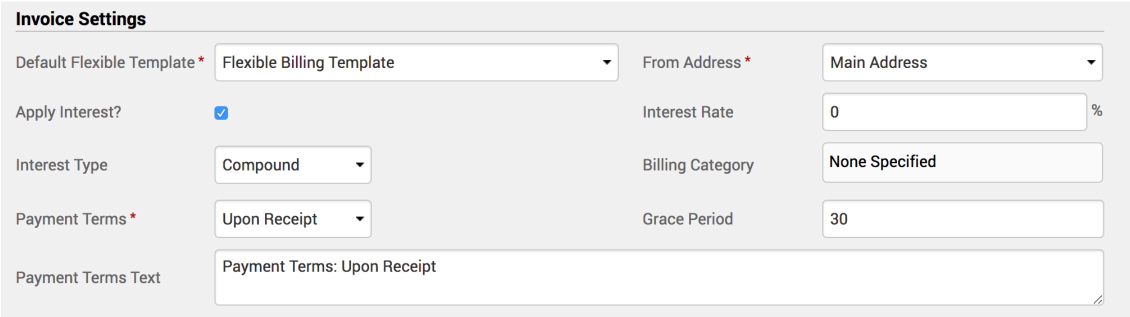
Tip of the Week: Simple and Compound Interest

Are you worried your clients will be charged interest on top of interest? At TimeSolv, we understand that this might not be the way every business would like to charge interest, so we actually allow users to specify interest calculation between ‘Simple’ or ‘Compound’. This Tip of the Week explores the differences between the two types of interest calculations and how to apply them against your clients.

In the case of ‘Simple Interest’, interest will always be calculated against the principal balance amount.

Whereas in the case of ‘Compound Interest’, it will be calculated against the total balance amount. In short, if interest is unpaid, your Clients will be charged interest on top of interest because it is calculated on the balance owed. For example, if your invoices give a 30 day grace period, then no interest is calculated within the first 30 days. On day 31, it would start to calculate interest on the unpaid balance owed at the percentage that you have assigned it.

There are several levels under which users can set up interest definitions. To specify global firm-wide interest settings, click under **Clients>Settings>Invoice Settings**. For Client or Matter level settings, click under **Clients>Clients & Matters>[Client or Matter name]>Invoice Settings**.



Click on **Apply Interest?** to enable all subsequent interest related fields.

The **Interest Rate** is based on an annual percentage rate. As an example, if you were to charge a 5% annual interest, you would enter 5 in this field. Or, if you wanted to charge 1.5% monthly interest, you would type in 18 (because 1.5 * 12 months of the year = 18).

Specify the **Interest Type** and **Grace Period (days)** – this is the amount of provisional time you will allow your Client(s) to make a payment beyond the due date before you begin to charge interest.

The **Payment Terms** define when interest will start accruing, which is not until the **Grace Period** plus specified **Payment Terms** days have run their course.

If you'd like TimeSolv support for more help in understanding interest calculations in TimeSolv, please call 1.800.715.1284 or Contact support!

[Contact support]