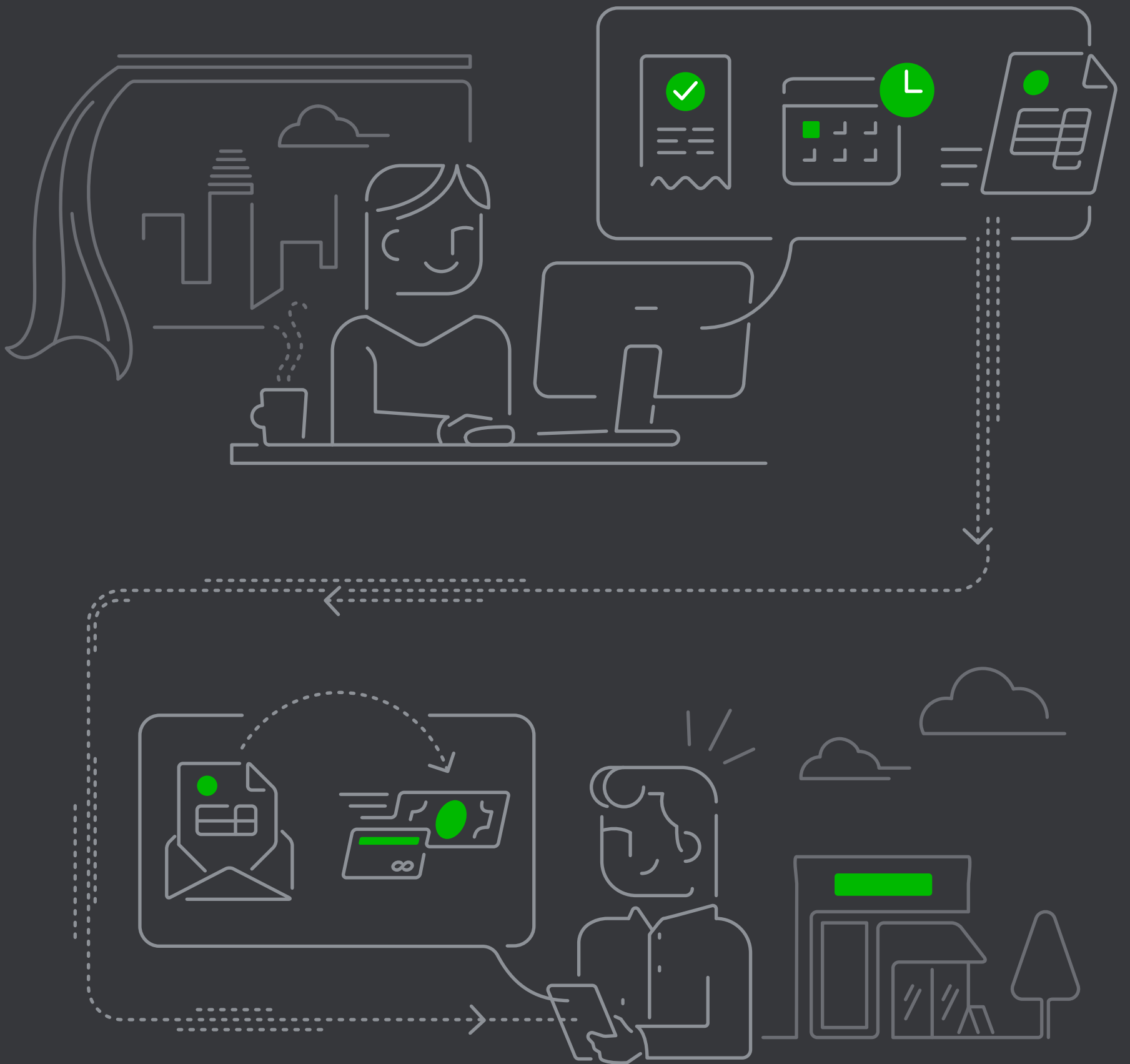


The Invoicing Handbook

# How to Bill Clients and Get Paid

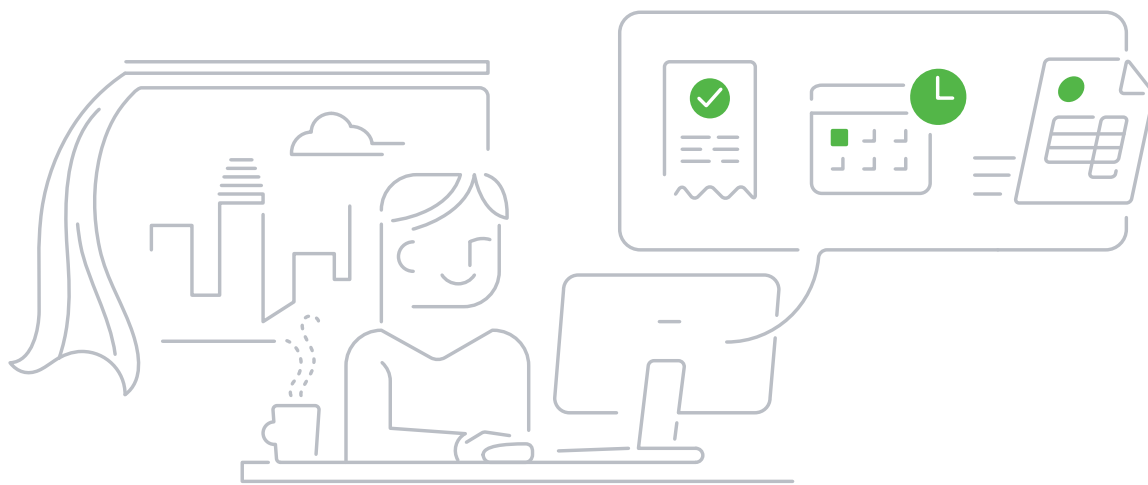


# Contents

Introduction .....	<u>03</u>
<b>Chapter 1: The Anatomy of an Invoice .....</b>	<b><u>04</u></b>
Hourly Rate vs. Flat Rate/Fixed Fee.....	<u>04</u>
Line Items.....	<u>05</u>
How to Create an Invoice .....	<u>06</u>
<b>Chapter 2: How to Get Paid for Your Work.....</b>	<b><u>08</u></b>
Create a Contract With Your Customers or Clients.....	<u>08</u>
Request Deposits for Large Jobs.....	<u>09</u>
Offer Flexible Payment Options.....	<u>09</u>
Fees: The Cost of Getting Paid.....	<u>11</u>
What to Do When Customers Don't Pay.....	<u>12</u>
Assess Late Fees .....	<u>13</u>
<b>Chapter 3: Invoicing and Cash Flow .....</b>	<b><u>14</u></b>
Mind the Gap .....	<u>14</u>
Paying Yourself .....	<u>15</u>

# Introduction

One of the strangest things to adapt to when you become self-employed is that you don't automatically get paid anymore—you have to *ask* your clients to pay you. This can be quite an adjustment from working for someone else and receiving a regular paycheck every two weeks. Now you have to track your projects, hours, and expenses or risk not getting paid for them.



In order to catalog these costs and request payment from a client or customer, we use an invoice. It's a fairly straightforward document once you get the hang of it, but figuring out what information to include, how to accept payments, and what to do if clients *don't* pay can feel a bit overwhelming at first.

In this ebook, we'll break down the basics of invoicing and also share a few tips to help make your business more efficient and profitable.

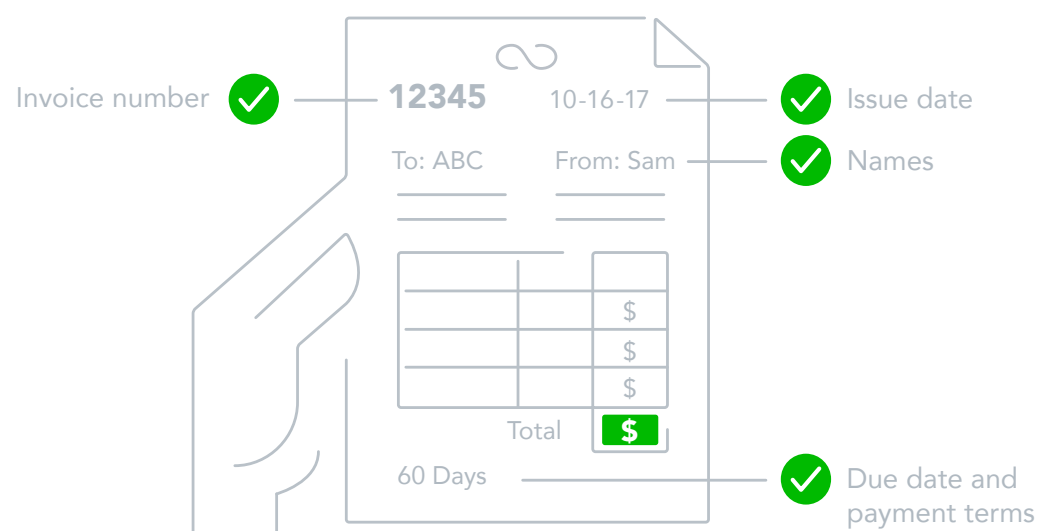
Let's get started.

# The Anatomy of an Invoice

An invoice is a record of sale between a buyer and a seller, or a service provider and a client. It's a lot like a bill except that a bill is usually due immediately upon receipt while an invoice typically offers longer payment terms.

Creating and issuing invoices is essential if you're self-employed. Not only does it help keep track of your clients and the work you've done for them, but it also ensures that you get paid for that work.

There are dozens of different invoice layouts, but there are several components that should always be included:



Once you've included this basic information, you can customize your invoices to suit your needs and the type of work you do for your clients.

## Hourly Rate vs. Flat Rate/Fixed Fee

Different small business owners will bill differently depending on their service structure. You can choose to bill hourly based on the amount of time and materials needed to complete each job, or simply charge a flat rate or fixed fee for each client or project.

It's up to you to determine which fee structure is best for you, and there are no hard and fast rules about which one is better. Generally speaking, however, if every project you take on will require a different amount of time and/or a varying amount of materials, an hourly structure may make the most sense for you. In these cases, it would be challenging to pick one flat rate that works well for all of your clients across the board without overcharging some and drastically undercharging others.

If on the other hand, you provide a set of specific services for your clients, a flat rate or fixed fee structure might be easier to work with. Flat fees and fixed rates for services offered make it easy for you to budget and quote your customers.

To illustrate what this might look like, we'll use Sam as an example. Sam is a home inspector and runs his own small business, just like you do. He offers the same home inspection services to all of his clients, although the cost varies based on the size of the house. He owns all of the equipment he needs to conduct inspections and doesn't need to purchase any additional supplies or materials for each new project.

Based on this business model, Sam has made the decision to bill his clients on a fixed fee basis. He charges his clients \$0.25 per square foot for the home inspection and offers testing for asbestos or radon for an additional flat rate as required.

## Line Items

Part of the reason it's important to understand what payment structure to choose is so that you can invoice your customer appropriately. It's common practice to identify each separate charge on an invoice so that your client knows what you're charging them for and why. These are called line items. Line items are usually organized by category, with each category on a different line.

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Let's take a look at Sam's invoice to see what this looks like.

Service	Rate	Amount
Inspection – 1,500 sq. ft	\$0.25/sq. ft.	\$375.00
Radon Testing	\$100.00	\$100.00
Asbestos Testing	\$100.00	\$100.00

**TOTAL**

**\$575.00**

Sam's invoice lists each service he provided to his client, and each service category (home inspection, radon testing, asbestos testing) occupies its own line item.

The inspection cost appears on the first line, along with the rate per square foot (\$0.25), the square footage of the home being inspected (1500 square feet), and the total fee ( $0.25 \times 1500 = \$375$ ).

The home Sam was inspecting was an older house and so the potential buyers requested that Sam perform radon testing and asbestos testing as well, so these services appear as separate line items, at a fixed rate of \$100 each.

After all line items are listed, the invoice provides a subtotal, any applicable taxes, and the total amount owed. By breaking down his fees like this, Sam's clients can see exactly what they're paying for and why.

## How to Create an Invoice

Now that you know what goes into creating an invoice, how and where? Do you make your own?

A great place to start is QuickBooks' [free online invoice generator](#). The invoice generator will prompt you to fill in all of the information we discussed above and then uses it to populate your invoice in a neatly laid out, professional design. You can even add your own logo to customize it for your business.

The process involves three simple steps: entering your business information, the client's billing information, and any applicable line items.

You can also choose from four distinct invoice designs (airy, fresh, friendly, or modern) and customize the invoice with your business logo and company colors.

Why put so much thought into the design of an invoice? Because it's more than just a bill of sale or a register receipt, it's a significant interaction with your client. Your invoice is what you use to ask your customers to pay you for your hard work. Creating a clean, professional invoice that fits with the rest of your branding goes a long way toward building a cohesive look for your business and justifying the cost of your work.

A professional invoice can even make your customers feel more secure about paying you. It's the difference between walking into a doctor's office that's clean, modern, and up front about their costs and one that's poorly located, shabby, and dodgy about their fee structure. Which doctor would you want treating you? Which doctor would you think was worth more?

Similarly, if your invoice is sloppy, disorganized or incomplete, it undercuts the value that you've already provided to your client. You've done the work and that work is worth something, there's no need to feel uncomfortable asking your client to pay for it.

Making sure that your invoice looks great, makes sense, and clearly communicates your payment requirements gives your work the professional polish it deserves and leaves your customers with a sense of confidence in your business.

# How to Get Paid for Your Work

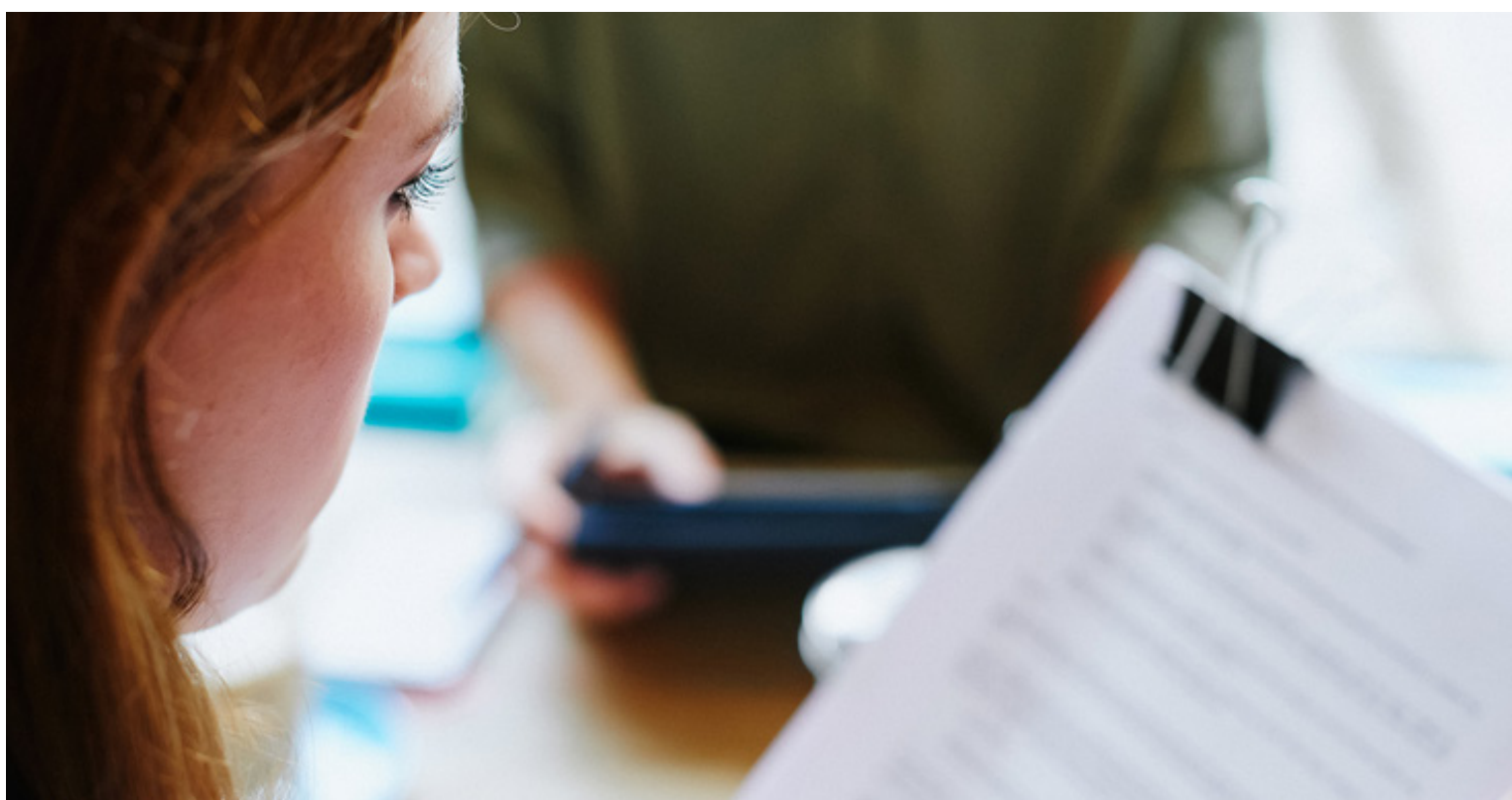
No matter how passionate you are about your work, you still need to get paid in order to keep doing it. This process trips up a lot of new freelancers and business owners. Here's how to make it easy.

## Create a Contract With Your Customers or Clients

No one likes surprises when it comes to paying for something, so it's best to be upfront with your customers about your rates and payment terms before you begin the work.

When you're first starting out, it may feel uncomfortable to discuss money, but approaching the topic in a straightforward, matter-of-fact way is the best way to avoid awkward misunderstandings down the road.

Sit down with your client and explain how you charge for the work that you do, and consider providing a customer contract.





Sam has a sheet he gives to each client. It breaks down the range of services he provides and what is included within each one. He lays out his net-30 payment terms and explains his late fee policy.

For a home inspection, for example, he explains exactly what he'll be checking, how he calculates the cost of the inspection, and when he recommends that customers add on extras like asbestos testing. Seeing this helps his customers understand what's included, why he's charging what he does, and what to expect when they receive his home inspection report.

Once his clients have read and understood his services and payment structure, both Sam and his clients sign the contract to ensure they're both on the same page.

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“ Asking for a deposit mitigates the risk of a client skipping out on the bill or refusing to pay.

## **Request Deposits for Large Jobs**

Sam's invoices rarely exceed a few hundred dollars, but if you regularly take on larger jobs or projects which require you to invest in a substantial amount of equipment or supplies upfront, it's not unreasonable to ask for a 50% deposit, especially if you've never worked with this client before. Asking for a deposit mitigates the risk of a client skipping out on the bill or refusing to pay.

## **Offer Flexible Payment Options**

After you invoice your customers, it's time for them to pay you. But how, exactly do they go about doing that? There are several different ways to get the money from their bank account into yours, each with benefits and drawbacks.

### **Cash**

Although it comes with zero fees, cash is rarely used as a payment method in business transactions because there's virtually no way to trace it.

### **Check**

Paying by check is far more common than paying by cash. It's a tried and true method of payment, you have a solid paper trail, and it's

a tangible way to transfer money for those who aren't comfortable with online banking. With a standard checking account, there aren't usually transaction fees associated with issuing or depositing checks, though there may be penalties if a check bounces or gets returned.

The downside of checks, of course, is that they take time to be issued, signed by all necessary parties, and mailed to their recipient. This means that your payment may be delayed by a few days or even a few weeks. There's also the potential for checks to get lost or damaged, and while they can be reissued, it ends up being a hassle for everyone involved.

### **Automated Clearing House**

It's sometimes referred to as an e-check, but an Automated Clearing House (ACH) transfer is simply an electronic funds transfer directly from a client's checking account to yours.

Customers can sometimes be reluctant to pay via ACH transfer because they need to look up their routing transit and account numbers to make a payment, but encouraging them to do so can pay off. QuickBooks offers [zero-fee ACH payments](#) for self-employed and small business customers. Fees add up, so this can save quite a bit of money in the long run.

### **Credit and Debit Cards**



One of the most commonly used payment methods is credit or debit card. QuickBooks customers can accept both types with a small fee. Fees vary slightly based on the payment platform. (See the fee table on the next page.)

You can also use tools like Square if you're primarily accepting payments in person, or PayPal if you most often accept payments online.

## BitCoin

It's still gaining traction in mainstream consumer culture, but more and more people are choosing to buy into this alternate currency model. To accept bitcoin payments, many people simply treat it as cash-in-hand, with their customer using their Bitcoin wallet app to generate a QR code which you then scan and add to the digital wallet of your business.

QuickBooks customers can accept Bitcoin by turning on the [PayByCoin feature](#).

## Fees: The Cost of Getting Paid

With so many payment methods—and so many fees involved when accepting payments—it can be tempting to stick to good old-fashioned cash and check. But by accepting other forms of payment you can attract more customers and even get paid up to two times faster.

The question becomes, is it worth it?

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// But by accepting other forms of payment you can attract more customers and even get paid up to two times faster.

Let's look at Sam's latest client, Ms. Ramirez. She is looking at buying a 3,600 square foot house and needs it inspected and tested for radon. After completing the inspection, Sam issues her an invoice for \$1,000 (his fixed rate of \$0.25 per square foot x 3,600 square feet = \$900, plus \$100 for radon testing).

Fees can vary depending on the provider, but to give you an example of the differences between payment types, here's how much of that \$1,000 Sam will end up keeping if he accepted it using each of the most popular payment methods.

Payment Method	Transaction Rate	Transaction Fee	Sam Receives
Cash	N/A	\$0	\$0
Check	N/A	\$0	\$1,000
ACH	None	\$0	\$1,000
Paypal	2.9% + \$0.30	\$29.30	\$970.70
Credit Card (swiped)	2.4% + \$0.25	\$24.25	\$975.75
Credit Card (invoiced)	2.9% + \$0.25	\$29.25	\$970.75
Credit Card (keyed)	3.4% + \$0.25	\$34.25	\$966.75

So, is it worth 2-3% of each invoice to offer your clients more payment options, avoid the hassle of depositing checks and manually tracking cash, and get paid up to two weeks sooner? For many business owners, the answer is yes.

### What to Do When Customers Don't Pay

This is a topic we'd all like to skip but unfortunately, it can be common to have clients who are slow to remit payment for invoices even when you've been clear about your payment terms.



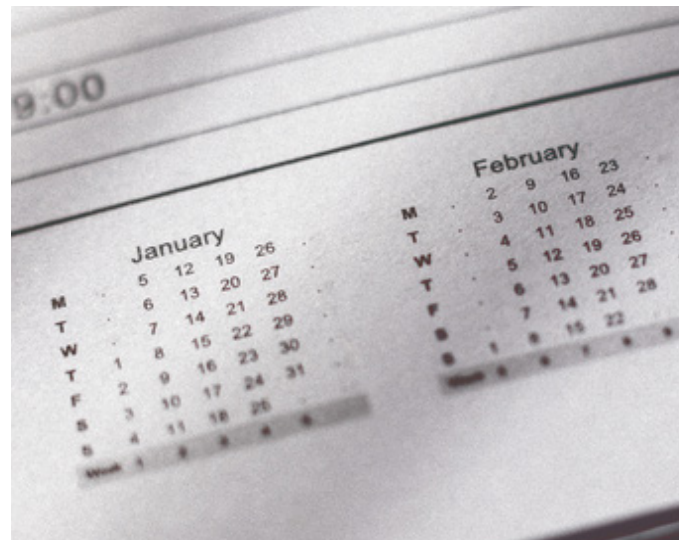
Being able to track your invoices properly and see which ones are overdue is the first step toward following up with late payments.

Accounting software like QuickBooks allows you to input your payment terms and will automatically show you which invoices are past due and how much is left owing.

To make it a little less uncomfortable to let a customer know that their invoice is outstanding, you can have QuickBooks do it for you by setting up automatic reminders.

In the "Invoicing" menu, click "Customize Your Invoices" and then click on the "Email" tab. You can tailor the email your clients receive with their initial invoice and also add the option of sending a reminder message if payment isn't remitted on time.

Editing the message to read something like, "This is a friendly automated reminder that we haven't yet received payment for this invoice. Let us know if you have any questions!" can provide a gentle nudge to your clients while also taking the awkwardness out of the interaction.



## **Assess Late Fees**

Charging late fees on outstanding balances can be a powerful incentive to get clients to pay on time. If you're going to charge late fees, make sure you include this information (including the fee amount or percentage) on your client contract and also on the initial invoice.

Most business owners choose to charge late fees by levying a percentage of the total amount after the invoice is overdue by a specific number of days. For example, Sam charges any accounts more than fifteen days overdue a late fee of 10% of the total invoice amount.

For a \$500 bill, that works out to an additional \$5 a month until the invoice is paid in full.

To add a late fee to an invoice, just add a new line item and under "Product/Service" choose Late Fee (or, if this is your first time using this fee, follow the prompts to add this service charge). Fill out the other information as required and reissue the invoice with the late fee included.

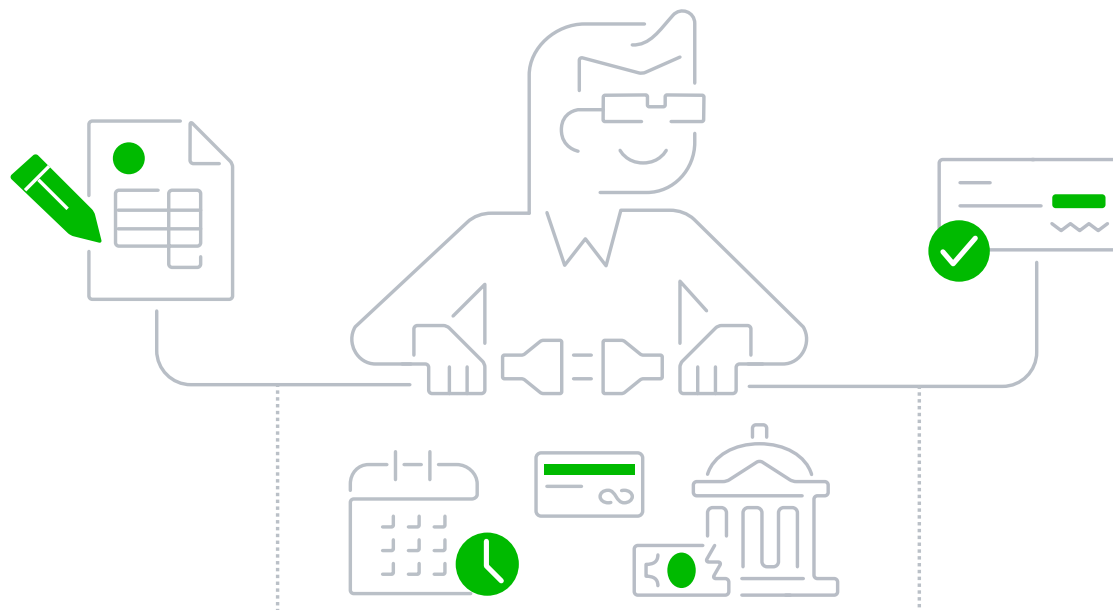
# Invoicing and Cash Flow

If everything goes according to plan, your clients will pay on time and in full, but even if they do there are still a few kinks involved with invoicing. Remember, you'll likely have payment terms of net-30, net-60 or net-90 days, meaning it could be up to three months until you see the money you just invoiced that client for.

How will you cover your expenses in the meantime?

## Mind the Gap

The gap between issuing an invoice and receiving payment for it is why most small business owners have a business line of credit, a business credit card, or both.



Until you begin making enough to build up a bit of a cushion to get you through, you may find yourself relying on credit to tide you over. This isn't a bad strategy, as long as you don't rack up interest charges or spend beyond your means. Using accounting software like QuickBooks can help keep you on budget even when you don't actually have the cash yet, by showing you how much money you have coming to you and when.

Another option for those looking to bridge the gap is invoice factoring. This basically involves a third-party company “buying” your account receivables for anywhere between 75-90% of their value. This means that you can use the invoice amount without waiting to get paid for it and when your client does pay the invoice, you collect the remaining 10-25% from the factoring company, minus their fee.

## **Paying Yourself**

When you’re self-employed, it can be tempting to transfer all of the profit from your business into your own checking account. After all, you are the business, don’t you deserve it? And with all of the stress of entrepreneurship, paying yourself as much as possible seems like a fair trade off.

The problem with this is that not only do you leave your business vulnerable without funds to cover any invoice gaps as discussed above, but it can also have unpleasant tax implications. If you’re a C-corporation, for example, your business will get taxed when it earns the money and you’ll get taxed on it when you take it out of the business as income. Why give more money to the IRS if you don’t have to?

Most tax professionals advise paying yourself either a percentage of each invoice or a biweekly salary comparable to what your position would be worth if you were working for someone else (if you can afford it, that is).

There are many advantages to paying yourself in a predictable way like this:

- It’ll be easier to budget both personally and professionally.
- You’ll avoid feast-or-famine situations where you pay yourself thousands of dollars one month and next to nothing a few months later.
- It leaves money in your business accounts for unforeseen expenses and to invest in growing your business.
- It’s easier to create business forecasts and get a clear picture of your current operating costs.

Invoicing doesn’t have to be complicated. Use QuickBooks to manage the entire process and get paid fast.



## The Problem with Using Excel to Manage Invoices

Excel is a fantastic tool, but it's just not the right choice for every job. Using Excel to manage your business invoices, in particular, is a little like using a butter knife to chop vegetables. It'll get the job done, sure, but it'll also end up taking far longer than it needs to and will likely make a bit of a mess in the process.

The main issue with using Excel for invoicing is that it doesn't allow you to automate many key invoice components: the invoice number, line items and project codes, tax calculations, totals, and even client information. Instead, you have to enter this information manually or create formulas allowing Excel to do so. This opens the door to human errors like duplicate invoice numbers, fudged formulas, or forgetting to apply taxes entirely.

Excel also doesn't allow you to reconcile your books, meaning

you have to set aside time each month to do so. Even keeping track of invoices becomes a challenging game of creating folders and subfolders based on client name and date, and then going through each one to total them at year's end.

Finally, Excel limits your payment options. Clients lose out on the option to pay directly from the invoice itself, and making the payment process easier for clients means you're more likely to get paid on time, every time.

While Excel definitely has its place, save the butter knife for its intended purpose and choose a sharper tool to create and track your invoices. Your business deserves it.





## How to Bill Clients for Time and Mileage

If you bill your clients for your time and expenses, it's important that you have an accurate system for keeping track of them. Here's the best way to track each one.

### Time

Measuring the time you spend working for a client is vital to billing, not only to ensure that you don't inadvertently overcharge a customer for time you weren't working, but also so you get paid for every minute you were.

There are several great [time tracking apps](#) out there that can send information directly to QuickBooks, including TSheets, Time Tracker, and BigTime. Take advantage of free trial periods to see if the app works for you and your business, and then take advantage of their ability to play nice with QuickBooks to easily track and bill hours.

### Mileage

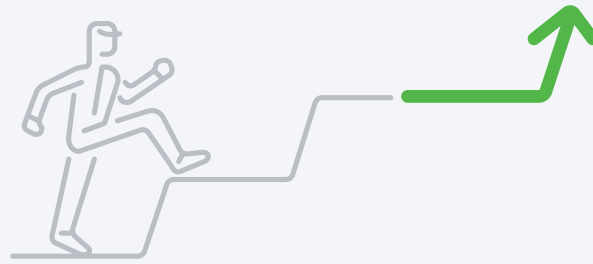
We're a long way from the days when mileage was logged by keeping a little notebook in the car and scribbling down the odometer reading before and after driving to a work destination. Now, our smartphones can do the work for us by using GPS tracking.



QuickBooks Self-Employed can automatically track your mileage with the tap of a finger. Simply open up the app on your smartphone or mobile device, and tap "Miles" at the bottom of the screen or in the menu. Then just turn the toggle on to enable automatic mileage tracking. The app will track all trips you make and you can categorize each one as a business expense or not just as you do with bank transactions.

## Invoicing Pro Tips

If you're using QuickBooks to power your small business, there are a few tricks you can master that will help take your business to the next level.



Class and location tracking is one option –it works by allowing you to run reports isolating the income and expenses of various aspect of your business. You get a more precise picture of what areas of your business are most profitable, which locations are outperforming, or even what areas of your business might need some extra attention.

Here's how it works:

## Location Tracking

Location tracking is used to differentiate between different physical locations of your business, or even just different aspects of your business like retail sales versus service and installation.

Sam, the home inspector, uses Location Tracking to differentiate between clients who find him via realtor referrals, those who contact him after seeing an ad, and those who contact him via word of mouth. Doing so allows him to run reports detailing how much business each method brings in and he uses that information to determine where to best allocate his advertising dollars.

If he discovers that he gets two times as much business from realtor referrals as he does through advertising, Sam could choose to devote more time where it's most effective, cultivating realtor relationships or he could improve his advertising campaigns to make them more effective.

## Class Tracking

Classes tend to be subsections of Locations and they allow you to track a different class for each line item.

So within each Location Tracking category, Sam adds separate classes for Home Inspections and Additional Testing. This allows Sam to further break down the income coming into his business.

By doing so he may figure out that while word of mouth referrals bring in fewer clients overall, those clients tend to have larger homes and are far more likely to add on additional services—both of which mean bigger paychecks for Sam. This kind of information can be immensely helpful in figuring out the most efficient way to grow your business.

For complete instructions on how to enable Class and Location tracking, see our tutorial [here](#).

## **Track Billable Expenses**

You can't get paid for your business expenses if you aren't tracking them properly and charging them to the appropriate clients. Fortunately, with QuickBooks it's simple to do both.

Within the Banking page of your QuickBooks account you can easily label expenses, categorize them (as Administrative Costs, Meals and Entertainment, or Travel, for example) and also assign these expense to specific clients. To do so, just click on the relevant transaction, fill out the details and check the "Billable" box, and select a pre-existing client or enter a new one.

The next time you create an invoice for this particular client, all applicable billable expenses will show up on the invoice page where you can add them to the invoice

## **Take Invoicing Off Your To-Do List**

It can feel like there are dozens of things to remember when creating client invoices, but with good accounting software you'll be able to automate most of the things we've discussed.

Once you've completed the initial setup process you'll be able to easily track mileage and expenses, issue invoices, take payments, and chase down outstanding accounts—all with the the click of a button.

What could be easier than that?