



Guide to Unclaimed Property Credit Balances and Credit Memorandum

Refer To [North Carolina General Statute §116B-53](#) - Presumptions of Abandonment

One area often overlooked by holders reporting unclaimed property is credit balances and credit memoranda. These can be in the form of consumer credits, patient credits, student credits, and other similar liabilities resulting from overpayments on a customer account.

Credit balances owed to a North Carolina business association – and due from another business association – are exempt from escheatment per [North Carolina General Statute §116B-54\(e\)](#).

Creation of Credit Balances

Credit balances occur as a result of:

- Duplicate payments
- Overpayments
- Pricing and receiving discrepancies – overcharges in invoices, undercharges on returns, billing errors
- Discounts and allowances – cash or volume discounts omitted or miscalculated, promotional or defective product allowances, opening unit allowances
- Freight allowances – a vendor agrees to prepay freight but inadvertently includes the charges on the customer's invoice; charges where freight is billed on returned or backordered merchandise
- Payment does not match an invoice
- Payment by one customer is mistakenly credited to the account of another customer

Examples of Credit Balances

When a customer returns merchandise, he/she is issued a credit for the returned goods. In those instances where a customer does not have an open account with the retailer a credit memo or refund slip may be issued, typically redeemable only for merchandise.

Mail order customers frequently overpay, often due to miscalculated shipping charges.

When a utility customer overpays a bill – or there is excess cash left over after the customer's deposit is applied towards the customer's final bill – the excess amount must be refunded to the customer or reported to the state one year after the amount becomes payable.

Small Balance Write-offs

Excluding business associations, there are no provisions under law that permit the write-off of small credit balances to income or other accounts, including the use of such balances to offset the accounts of other customers which may owe funds.

Considerations – Accounting Information Systems

Certain general ledger systems will carry a credit balance in a customer's account on an indefinite basis, while others will automatically trigger the issuance of refund checks. Still other general ledger systems will suppress mailings of monthly statements to customers who have credit balances.

How Credits are Identified

When reviewing an accounts receivable subsidiary ledger, a customer invoice, or aging list, credit balances can be identified as follows:

- Often a dash/minus sign (-) or "CR" is placed to the right of the figure in the "new balance" or "amount due" column; or
- The notation "This is a credit balance. Please do not pay." may be printed on the invoice.

Often merchants will send account statements featuring credit balances only for those months in which there has been some transactional activity in the customer's account.

Non-Escheatable Credit Balances

If any of the following can be established a customer credit would not constitute escheatable property:

- Credit is owed to another business entity [North Carolina General Statute §116B-54\(e\)](#)
- Credit was applied to an outstanding debit balance or to offset a previous bad debt write-off for the same customer up to the amount owed
- Documented accounting or clerical errors
- Owner contact

When to Escheat Credit Balances

Credit balance is considered unclaimed when there has not been any activity by the owner for one to five years.

Credit balances owed to a subscriber by a utility entity are considered abandoned property one year after the refund is payable, per North Carolina General Statute § 116B-53(c)(14).

Credit balances arising from retail business transactions are considered abandoned property three years after the obligation is incurred, per [North Carolina General Statute §116B-53\(c\)\(7\)](#).

Credit balances arising from all other transactions are considered abandoned five years after the owners right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs [North Carolina General Statute §116B-53\(c\)\(16\)](#).

Sampling

When the number of inactive credit balances is voluminous and it becomes impractical to review each account, unclaimed property auditors are permitted to provide a holder with a statistically valid, random sample to research. The resultant escheatable percentage, as determined by the sample, then would be applied to the total population in order to determine the amount presumed abandoned.