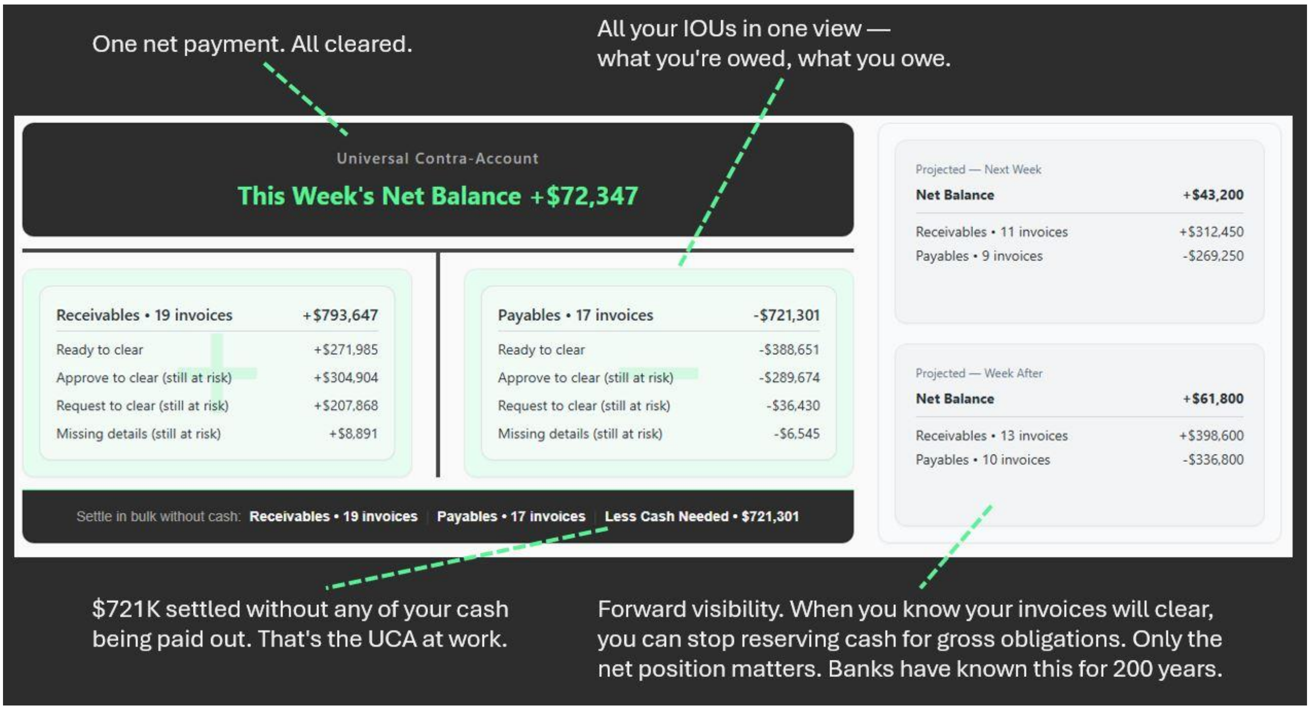
Clearitt

UCA Accounting Guide

Accrual Accounting for Invoice Settlement Using a Universal Contra-Account



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1. Introduction

This guide explains the accounting treatment of invoice settlement under two models:

1. Traditional cash-based settlement
2. Settlement via a Universal Contra-Account (UCA)

In both cases, revenue and expenses are recognised on an accrual basis.

The accounting treatment at the point of invoice is unchanged.

The difference lies in how receivables and payables are **netted and settled**.

You already know how contra-accounts are used to settle mutual balances — if you owe $X and are owed $Y, both obligations are settled, with only the difference transferred in cash.

The Universal Contra-Account applies this same principle across all receivables and payables, which are netted in aggregate and settled in full, with only the net position transferred in cash.

This approach is consistent with established financial practice:

- Businesses use bilateral contra arrangements to settle mutual balances
- Financial systems use multilateral netting to reduce large volumes of obligations to a net position (banks, stock exchanges, telecoms)

The Universal Contra-Account applies these same principles to day-to-day invoice settlement.

Scope of This Guide

This guide sets out the journal entries for:

- Invoice recognition (accrual basis)
- Settlement without UCA (per-invoice cash settlement)
- Settlement with UCA (netted settlement via a contra-account)

The objective is to show, at the ledger level, how netting simplifies settlement and reduces reconciliation requirements.

2. The Standard Flow (Without UCA)

The following reflects the typical accrual accounting treatment where invoices are settled individually via external payment methods.

While the accounting entries are standard, the settlement process introduces operational complexity.

2.1 Step 1 — Invoice Raised

Step	Debit	Credit
1. Invoice raised	Accounts Receivable (gross)	Revenue (gross)

Revenue is recognised at the full invoice amount, and a receivable is recorded.

2.2 Step 2 — Payment Received

Step	Debit	Credit
2. Payment received	Bank (net amount received)	Accounts Receivable (gross)
	Payment Processing Expense	

Cash is received net of fees, with the difference recognised as an expense.

2.3 Operational Consequences

Even though the accounting entries are straightforward, the settlement process introduces operational complexity.

1. Allocation is not deterministic

A bank receipt does not inherently identify the invoice it relates to.

Where multiple invoices exist or references are incomplete, allocation must be performed manually.

2. Bank and ledger do not align directly

The amount received does not equal the invoice amount.

Each receipt requires:

- identification of the relevant invoice
- recognition of fees

- clearing of the remaining balance

3. Settlement occurs at the invoice level

Each invoice is:

- settled individually
- processed individually
- reconciled individually

At scale, this results in:

- multiple cash transfers
- repeated reconciliation steps
- ongoing administrative effort

2.4 Summary

Without UCA

- Settlement occurs invoice by invoice
- Multiple cash transfers are required
- Bank activity must be reconciled to the ledger
- Fees are recorded per transaction

3. The UCA Flow

The Universal Contra-Account introduces a netting mechanism that allows receivables and payables to be settled in aggregate.

Only the net residual is settled in cash.

3.1 Ledger Setup (Universal Contra-Account)

Create a new account in the chart of accounts:

- **Account name:** Universal Contra-Account
- **Account type:** Current Asset (clearing account)

This account records all netting activity between Accounts Receivable and Accounts Payable.

The Universal Contra-Account may carry a **temporary credit balance** where payables exceed receivables.
This represents a net payable position and will be settled in cash.

Each netting entry is supported by a detailed invoice report from the Clearitt platform.

Invoices are included in netting only where both parties have agreed to settlement via the UCA.

3.2 Step 1 — Invoice Recognition

No change from standard accrual accounting.

Accounts Receivable:

- Debit Accounts Receivable
- Credit Revenue

Accounts Payable:

- Debit Expense / Purchases
- Credit Accounts Payable

3.3 Step 2 — Netting Event

At the end of each week, receivables and payables included in the cycle are netted in aggregate.

Invoices are included where both parties have agreed to settlement via the Universal Contra-Account.

The timing of invoice issuance and approval determines which weekly cycle an invoice is included in.

Entry 1 — Receivables netted:

- Debit Universal Contra-Account
- Credit Accounts Receivable (total)

Entry 2 — Payables netted:

- Debit Accounts Payable (total)
- Credit Universal Contra-Account

Result after Netting

The balance of the Universal Contra-Account represents the net position:

- **Debit balance → net receivable**
- **Credit balance → net payable**

At this point:

- All receivables are settled
- All payables are settled
- Only the net position remains

3.4 Step 3 — Settlement

Only the net balance is settled in cash.

If net receivable:

- Debit Bank
- Credit Universal Contra-Account

If net payable:

- Debit Universal Contra-Account
- Credit Bank

The account returns to zero after settlement.

3.5 Fully Netted Case (Unusual)

Where receivables equal payables:

- The Universal Contra-Account opens and closes at zero
- No cash transfer is required

All obligations are settled through netting.

3.6 Summary

Settlement is reduced to two steps:

1. Receivables and payables are netted in aggregate
2. Only the net residual is settled in cash

The Universal Contra-Account reflects the exact amount to be transferred in cash.

4. Side-by-Side Comparison

Step 1 — Recognition

Without UCA	With UCA
Standard accrual entries	No change

Step 2 — Netting / Processing

Without UCA	With UCA
No netting step	Receivables and payables netted in aggregate

Step 3 — Settlement

Without UCA	With UCA
Multiple cash transfers	Single net settlement
Per-invoice processing	Aggregate settlement

Resulting Differences

Without UCA	With UCA
Invoice-by-invoice settlement	Aggregate netting
Gross cash transfers	Net cash settlement
Reconciliation required	Minimal reconciliation
Fee adjustments required	No fee entries

5. Worked Example

A business may have many invoices on both sides within a weekly settlement period — receivables from multiple customers and payables to multiple suppliers — all of which are netted together in a single cycle, effectively combining bulk receivables and bulk payables into one net position.

For example:

- Total Accounts Receivable: $16,000
- Total Accounts Payable: $17,000

Step 1 — Recognition

Step	Debit	Credit
Receivables recognised	Accounts Receivable $16,000	Revenue $16,000
Payables recognised	Expense $17,000	Accounts Payable $17,000

Step 2 — Netting

At the end of the week, receivables and payables are netted in aggregate.

Step	Debit	Credit
Receivables netted	Universal Contra-Account $16,000	Accounts Receivable $16,000
Payables netted	Accounts Payable $17,000	Universal Contra-Account $17,000

Result After Netting

- Universal Contra-Account balance: **$1,000 credit**
- Net position: **$1,000 payable**

All receivables and payables are settled in full.
Only the net balance remains.

Step 3 — Settlement

Step	Debit	Credit
Net settlement	Universal Contra-Account $1,000	Bank $1,000

Final Outcome

- Total invoices: $33,000
- Settled through netting: $32,000
- Cash transfer: $1,000

6. Practical Implications of UCA Netting

The use of a Universal Contra-Account changes how settlement behaves in practice.

1. Single Net Settlement

Invoices are netted in aggregate.
Only the net amount is transferred in cash.

2. Net Position Visibility

The Universal Contra-Account balance represents the current net position.

At any point, it reflects the amount to be settled.

3. Reduced Cash Transfers

Where receivables and payables overlap, most obligations are settled through netting.

4. No Payment Fragmentation

Settlement no longer occurs invoice by invoice.

5. No Payment Processing Fees

No fee expense arises from UCA settlement.

6. Reduced Reconciliation Effort

Because settlement equals the net position, reconciliation is simplified.

7. Working Capital Efficiency

Only the net difference between receivables and payables requires cash.

8. Weekly Netting Cycle

Netting occurs once per week across all participating invoices.

As a result:

- invoices approved before the weekly cutoff are included in that cycle
- invoices approved after the cutoff are included in the following cycle

The timing of invoice issuance and approval therefore affects:

- when obligations are netted
- when cash is ultimately transferred

Businesses may manage timing to maximise the proportion of invoices included within the same netting cycle.

7. Estimated Impact

The impact of UCA netting depends on the extent to which a business's receivables and payables are processed through the network.

As counterparties participate, a greater proportion of invoices can be netted.

What Drives the Impact

- Participation of trading partners (like any contra-account)
- Overlap between receivables and payables during the week
- Volume of invoices processed

What This Means in Practice

As adoption increases:

- fewer individual cash transfers are required
- less manual processing is needed
- reliance on financing may reduce
- less capital is required to settle obligations

The impact scales with participation.

Calculate Your Own Estimate

A tailored estimate can be generated using:

https://clearitt.com/calculator/

The calculator allows you to input:

- receivables and payables
- labour time and cost
- financing costs

and produces an estimate of:

- labour savings
- financing cost reduction
- freed-up working capital
- total annual impact

Interpretation

The results reflect the mechanics in this guide:

- invoices are netted in aggregate
- only the net position is settled in cash
- administrative steps reduce as participation increases