



WHITE PAPER

# Get Paid Faster: Automating Receivables Collection with Dunning in ERPNext

How ERPNext turns overdue invoices into a structured, escalating collection process — reminders, interest, fees and letters, all from the same ledger.

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For finance & credit-control leaders · 8 min read

## EXECUTIVE SUMMARY

Most Indian SMEs don't have a profit problem — they have a cash-timing problem. The sale is made, the invoice is raised, and then the money sits in someone else's account for 60, 90, sometimes 120 days. Collections happen by memory and relationship: a WhatsApp here, a phone call there, an awkward silence until quarter-end. This paper explains how ERPNext's Dunning feature replaces that with a structured, repeatable process. A Dunning document is raised against a customer's overdue sales invoices; a Dunning Type sets the level of the reminder — how firmly it's worded, whether interest applies, whether a fee is charged; and the letter text for each level can be printed or emailed on your letterhead. Interest is calculated automatically from the overdue days, the whole thing posts cleanly to your accounts when paid, and every reminder is tracked by status. The goal is simple: get paid faster, without your finance team living inside a spreadsheet of who-owes-what.

## The DSO problem Indian SMEs actually have

Ask any founder or finance head at an Indian SME where the business is tightest, and the answer is rarely margin — it's cash. You've done the work, raised a valid tax invoice, and now you're financing your customer's operations for the length of your payment terms and then some. Days Sales Outstanding — the average time it takes to convert a sale into cash in the bank — quietly stretches, and with it your working-capital gap. You end up borrowing, or delaying your own suppliers, to bridge money you've already earned.

The reason collections slip is almost never ill intent. It's that chasing payments is nobody's full-time job and everybody's afterthought. Reminders go out when someone remembers, worded however that person feels that day. There's no record of what was said, no escalation when a gentle nudge is ignored, and no consistency between one customer and the next. The squeaky-wheel customers who shout get chased; the quiet ones who simply don't pay drift further overdue. Late-payment interest that your terms technically allow is almost never actually charged, because working it out by hand for each invoice isn't worth the trouble. The result is a receivables ledger that ages badly and a finance team that fights the same fire every month-end.

- Cash, not profit, is the binding constraint — money you've earned sits in your customers' accounts.
- Collections are ad-hoc: reminders depend on someone remembering, and the wording changes every time.
- No escalation — a customer ignoring a polite nudge gets... another polite nudge, indefinitely.
- Interest your terms allow is rarely charged, because calculating it by hand per invoice isn't worth it.
- The quiet non-payers drift furthest overdue precisely because they never make noise.

## What dunning is

"Dunning" is simply the business term for the process of methodically communicating with customers to collect money they owe. It's the structured, escalating sequence of reminders — from a friendly first nudge to a firm final notice — that turns collection from an emotional, one-off act into a repeatable

process the whole finance team follows the same way.

ERPNext builds this in as a first-class accounting document. A Dunning is raised against a specific customer and lists their overdue sales invoices — only invoices that are submitted, have an outstanding balance and are actually overdue are eligible. Rather than you typing them in, ERPNext fetches those overdue payments for you, so the reminder is always tied to real, unpaid, past-due invoices in your ledger. Each Dunning carries the customer and company, the posting date, the overdue invoices with their due dates and outstanding amounts, the interest and fee, and the letter text that will be printed or emailed. It runs through clear statuses — Draft, Unresolved, Resolved and Cancelled — so at any moment you know which reminders are still chasing money and which have been paid.

- Dunning = the structured, escalating process of collecting overdue payments — not a single angry email.
- In ERPNext it's a proper submittable document raised against one customer.
- Only eligible invoices are pulled: submitted, with an outstanding balance, and genuinely overdue.
- ERPNext fetches the overdue payments for you — the reminder is always grounded in real ledger data.
- Statuses — Draft, Unresolved, Resolved, Cancelled — tell you what's still chasing money.

## How ERPNext dunning works: levels, interest, fees and letters

The mechanics sit in two doctypes working together. A Dunning Type is the reusable template for one level of escalation — you might set up a gentle first reminder, a firmer second, and a final notice. Each Dunning Type carries its own settings: a Dunning Fee (a flat administrative charge), a yearly Rate of Interest, the income account and cost centre the fee and interest post to, and — importantly — the Dunning Letter text. When you pick a Dunning Type on a Dunning document, those values flow through automatically, so every "second reminder" you ever send is consistent.

The interest isn't a guess. ERPNext takes the yearly rate, breaks it down to a daily figure, and multiplies it by each invoice's outstanding amount and its actual overdue days — the gap between the invoice's due date and the dunning's posting date. It sums the interest across all the overdue invoices, adds the flat dunning fee, and that total becomes the dunning amount; the grand total is the outstanding balance plus that dunning amount. Every overdue line also records its dunning level, so the document itself shows how far up the escalation ladder each invoice has climbed.

The wording lives in the Dunning Letter text, which is held per language on the Dunning Type — a Body Text and a Closing Text for each language you operate in. The text supports templating, so you can drop in the invoice number, the outstanding amount, the due date and other fields automatically. On the Dunning document itself you choose the print language and a letter head, so the reminder comes out on your company's branded stationery — and because ERPNext can email documents, the same dunning notice can be sent straight to the customer's contact rather than printed and posted.

- Dunning Type = one reusable escalation level: its fee, yearly interest rate, accounts, and letter text.
- Pick a type on the Dunning and its fee, interest rate and letter text flow through automatically.
- Interest is computed, not estimated — yearly rate -> daily rate × outstanding × actual overdue days.
- Dunning amount = total interest + flat dunning fee; grand total = outstanding + dunning amount.

- Each overdue invoice records its dunning level, so escalation is visible on the document.
- Letter text (Body + Closing) is held per language with templating for invoice no., amount and due date.
- Choose a print language and letter head — then print, or email the notice straight to the customer.

## A dunning escalation ladder in ERPNext

1

### **First reminder (friendly)**

warm wording, no fee, no interest; a gentle nudge that the invoice is past its due date. Most late payments are honest oversights.

2

### **Second reminder (firm)**

firmer letter text, sent after a further period, applying the yearly interest your terms allow on each overdue invoice.

3

### **Final notice**

firmly worded, carrying both interest and a flat dunning fee, making the consequences of continued non-payment explicit.

4

### **Payment & resolution**

a Payment Entry from the Dunning books the fee and interest to your income account and marks the dunning Resolved automatically.



• Unresolved

Resolve

Create



Cancel

Assigned To



Attachments

Attach File +

Shared With



Tags

Add a tag ...

0 · 0 FOLLOW

You edited this 18 minutes ago

You created this 42 minutes ago

Customer \*

Company \*

Date \*

Posting Time

Status

### Currency

Currency

Conversion Rate

### Address and Contact ▾

Dunning Type

Rate of Interest (%) Yearly

### Overdue Payments

<input type="checkbox"/> No.	Sales Invoice	Dunning Level	Overdue Days	Outstanding	Interest	
<input type="checkbox"/> 1	R-2021-156	2	7	€ 11.424,00	€ 17,53	

Total Interest

Dunning Amount

Dunning Fee

Dunning Amount (Company Currency)

Total Outstanding

Grand Total

### Printing Settings ^

Print Language

Letter Head

Body Text

Closing Text

*A Dunning document in ERPNext — the overdue invoices are fetched in, with each line's dunning level, overdue days and computed interest, rolling up to the dunning amount and grand total.*

## Building a polite-but-firm escalation ladder

The power of dunning isn't any single reminder — it's the ladder. Because each Dunning Type is a template, you can design a sequence that stays professional while getting progressively firmer, and then apply it identically to every customer. A first level might be a warm, no-fee, no-interest "just a friendly reminder that invoice X was due" — the wording matters here, because most late payments are oversights and you don't want to sour a good relationship over a genuine slip. A second level, sent after a further period, can adopt firmer language and begin applying the interest your terms allow. A final level can be firmly worded, carry both interest and a dunning fee, and make the consequences of continued non-payment explicit.

Because the interest, fee and accounts are baked into each Dunning Type, your team doesn't make those judgement calls invoice by invoice — they just raise the right level. That does two valuable things. It removes the emotion and inconsistency from collections: the same customer situation always gets the same, pre-agreed response, so no one has to decide how hard to push. And it makes late-payment interest something you actually charge, consistently and defensibly, rather than a clause in your terms you never enforce. The tone stays yours — you write the letter text — but the process stops depending on who's chasing and what mood they're in.

- Design the ladder once as a set of Dunning Types — e.g. friendly reminder -> firm reminder -> final notice.
- Early levels: warm wording, no fee, no interest — most late payments are honest oversights.
- Later levels: firmer wording, interest applied, and a dunning fee on the final notice.
- Consistency by design — the same overdue situation always triggers the same pre-agreed response.
- You finally charge the late-payment interest your terms allow, consistently and on the record.
- The tone stays yours; only the guesswork and inconsistency are removed.

E > Accounting > Dunning Type > First Dunning

Search or type a command (Ctrl + G) | Help | A

### First Dunning

Assigned To: +

Attachments: Attach File +

Shared With: +

Tags: Add a tag ...

0 · 0 FOLLOW

You edited this just now

You created this 5 days ago

Is Default

Dunning Fee: 0,00 | Rate of Interest (%) Yearly: 0,00

#### Dunning Letter

This section allows the user to set the Body and Closing text of the Dunning Letter for the Dunning Type based on language, which can be used in Print.

<input type="checkbox"/> No.	Language	Body Text	Closing Text	
<input type="checkbox"/> 1	en	Hi	Thanks	<a href="#">Edit</a>

[Add Row](#)

A Dunning Type sets one escalation level — its dunning fee, yearly interest rate, and the per-language letter body and closing text that will be printed or emailed.

## Measuring the improvement in DSO

A collection process you can't see is a collection process you can't improve. Because every Dunning is a tracked document tied to real invoices, ERPNext turns chasing money into something measurable rather than anecdotal. You can see which invoices are overdue and by how many days, which customers sit at which dunning level, and which dunnings are still Unresolved versus Resolved. That's the raw material for managing receivables deliberately: spotting the accounts that habitually reach the final level, seeing whether reminders are actually shortening the gap to payment, and giving leadership an honest read on the ageing of the ledger.

When a customer does pay, the loop closes cleanly. From the Dunning you create a Payment Entry; the interest and fee are booked to the income account you configured, and the dunning is marked Resolved automatically — so your receivables and your revenue both reflect reality without a separate reconciliation. Over time, the discipline compounds: reminders go out on schedule instead of from memory, interest is charged consistently enough that chronic late-payers feel it, and the average time from invoice to cash starts to come down. We're deliberately not putting a number on that here — the improvement depends on your terms, your customers and how firmly you run the ladder — but the mechanism is sound: consistent, timely, escalating, measurable chasing is what pulls DSO down.

- Every Dunning is tracked and tied to real invoices — collections become measurable, not anecdotal.
- See overdue days, per-customer dunning levels, and Unresolved vs Resolved at a glance.
- Paid dunnings close cleanly: a Payment Entry books the fee/interest to income and marks it Resolved.

- No separate reconciliation — receivables and revenue reflect reality automatically.
- The compounding win: on-schedule, consistent, escalating chasing is what brings DSO down over time.

## Getting help setting it up

Dunning is one of those ERPNext features that's simple to demo and easy to get subtly wrong. The document flow is straightforward, but the value lives in the setup around it: designing an escalation ladder that fits how you actually treat customers, choosing an interest rate and fee that are defensible and consistent with your payment terms, writing letter text that's firm without being abrasive, wiring the fee and interest to the right income account and cost centre so the accounting is clean, and deciding how dunning fits your customers' payment terms and due-date logic so that "overdue" means exactly what you intend.

As an official ERPNext partner working with Indian SMEs, we set up dunning as part of a wider receivables and cash-flow discipline — the escalation levels, the letter templates on your letterhead, the accounting, and the reports that let finance actually watch DSO move. If slow collections are quietly financing your customers instead of your growth, this is one of the highest-return, lowest-drama things ERPNext can do for you — and it's worth setting up properly once rather than discovering the gaps a few overdue quarters in.

### KEY TAKEAWAYS

- 1 For most Indian SMEs cash timing, not profit, is the constraint — dunning is ERPNext's tool for pulling DSO down by chasing overdue receivables systematically.
- 2 A Dunning document fetches a customer's genuinely overdue sales invoices and turns collection into a tracked, repeatable process with clear statuses.
- 3 Dunning Types are reusable escalation levels — each with its own dunning fee, yearly interest rate, accounts and per-language letter text — so every reminder is consistent.
- 4 Interest is computed, not guessed: yearly rate broken to a daily rate, times each invoice's outstanding amount and actual overdue days; fee plus interest becomes the dunning amount.
- 5 Notices print on your letterhead or email straight to the customer, and a Payment Entry from the Dunning books the fee and interest to income and marks it Resolved automatically.

## FAQ

### What is dunning in ERPNext?

Dunning is ERPNext's built-in process for systematically collecting overdue payments. You raise a Dunning document against a customer; ERPNext fetches their overdue sales invoices (only submitted, past-due invoices with an outstanding balance), applies interest and an optional fee based on the Dunning Type you choose, and lets you print or email a reminder letter. It runs through Draft, Unresolved, Resolved and Cancelled statuses so you always know what's still chasing money.

### **Can ERPNext send escalating reminders — a first, second and final notice?**

Yes. You set up a Dunning Type for each level of escalation — for example a friendly first reminder with no fee, a firmer second with interest, and a final notice carrying both interest and a fee. Each type holds its own fee, yearly interest rate and letter text, so when you raise a Dunning at a given level, those settings flow through automatically and every reminder of that level is consistent across customers.

### **How does ERPNext calculate late-payment interest on overdue invoices?**

ERPNext takes the yearly Rate of Interest from the Dunning Type, converts it to a daily rate, and multiplies it by each overdue invoice's outstanding amount and its actual overdue days (the gap between the invoice's due date and the dunning's posting date). It sums the interest across all overdue invoices and adds the flat dunning fee to arrive at the dunning amount; the grand total is the outstanding balance plus that dunning amount.

### **What happens in ERPNext when the customer finally pays a dunning?**

From the Dunning document you create a Payment Entry. The interest and dunning fee are booked to the income account you configured on the Dunning Type, and the dunning is marked Resolved automatically — so your receivables and your revenue both reflect the payment without any separate reconciliation.

**Talk to a real ERPNext expert.**

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