WHITE PAPER

Working Capital, Unlocked: Invoice & Bill Discounting in ERPNext

How ERPNext turns unpaid sales invoices into short-term finance — and keeps the loan, the bank charges and the settlement honest in your books.

For CFOs & finance leaders · 8 min read

EXECUTIVE SUMMARY

Growing businesses rarely fail for lack of profit — they fail for lack of cash. The money is sitting in unpaid invoices while payroll, suppliers and GST fall due now. Invoice and bill discounting closes that gap: a bank or financier advances cash against invoices your customers haven't paid yet, and you repay when they do. This paper explains what discounting actually is, how ERPNext models it as a first-class accounting document — raising the finance against specific Sales Invoices, booking the short-term loan, splitting off the bank charges, and moving the receivable through its own set of accounts as the facility disburses and settles. It draws the line on what the software does and doesn't do, and where the discipline (and an experienced partner) earns its keep.

The working-capital squeeze for Indian SMEs

Almost every growing Indian business runs into the same wall. You've done the work, raised the invoice, and now you wait — 30, 60, sometimes 90 days — for the customer to pay. Meanwhile payroll doesn't wait, your own suppliers don't wait, and GST is payable on the invoice whether or not the cash has arrived. Growth makes it worse, not better: the faster you sell, the more cash is locked up in receivables you can't spend.

The usual answers are blunt. Chase harder and you strain the customer relationships you depend on. Take an overdraft or term loan and you add fixed debt that isn't tied to any particular sale. What many finance teams miss is that the receivables themselves are an asset you can finance directly — turning a specific unpaid invoice into cash today, without waiting for the customer and without a general-purpose loan sitting on the books.

- Long payment cycles — cash is locked in receivables for weeks while costs fall due immediately.
- GST is due on the invoice, not on collection — so tax can go out before the money comes in.
- Growth widens the gap — more sales means more cash tied up in unpaid invoices at any moment.
- Blunt alternatives — chasing customers strains relationships; general loans add untied fixed debt.

What invoice and bill discounting actually is

Invoice discounting is short-term finance raised against unpaid invoices. A bank or financier advances you a large part of an invoice's value up front; when your customer pays, the advance is settled. You get cash now instead of at the end of the credit period, and the charge for that — the financier's fee, effectively interest for the days involved — is the cost of the facility. Crucially, in the common form modelled here, the arrangement is with recourse: the receivable stays yours and you carry the risk if the customer doesn't pay, which is different from factoring, where the receivable is sold outright.

"Bill discounting" is the same idea framed around trade bills — a bill of exchange your customer has accepted, discounted with the bank before its due date. In practice the finance mechanics and the accounting are the same: an advance today, a charge for the time, and a settlement when the underlying invoice or bill matures. In India this now runs through several channels — traditional bank lines, NBFCs, and the RBI-regulated TReDS platforms (such as RXIL, M1xchange and Invoicemart) built specifically to discount MSME receivables. Whichever channel you use, the accounting your ERP has to get right is identical: a loan raised, a charge taken, and a receivable that moves rather than vanishes.

- Advance now, settle later — cash against an unpaid invoice, repaid when the customer pays.
- The cost is the charge — the financier's fee for the days of finance, booked separately.
- Usually with recourse — the receivable stays on your books; you bear the default risk (unlike factoring).
- Many channels, one accounting — banks, NBFCs or TReDS all need the same loan-charge-settlement treatment.

How ERPNext models invoice discounting

ERPNext treats discounting as a proper accounting document, not a manual journal you hand-craft each time. The Invoice Discounting record (in the Accounts module) starts from the invoices themselves: you pull in submitted Sales Invoices that still have an outstanding balance — a built-in 'Get Invoices' filter lists only invoices that are unpaid and not already discounted, so you can't accidentally finance the same invoice twice. Each selected invoice becomes a line carrying its customer, date, outstanding amount and receivable account, and the document totals them into the amount being financed.

Around that sit the facility terms and the accounts the entries will hit. You set a posting date, a loan start date and a loan period in days — ERPNext derives the loan end date from these. You enter the bank charges for the facility, and you nominate the ledger accounts it will use: a short-term loan account (the liability you owe the financier), the bank account the cash lands in, a bank charges account for the fee, and three receivable accounts that let the discounted invoices be tracked separately from ordinary debtors. The document then moves through explicit statuses — Draft, Sanctioned, Disbursed, Settled — so the state of every facility is a fact in the system, not a note in someone's head.

- Built on real Sales Invoices — only submitted, still-outstanding, not-already-discounted invoices can be pulled in.
- Facility terms captured — posting date, loan start date, loan period in days, and a derived loan end date.
- Named accounts, not guesswork — short-term loan (liability), bank, bank-charges, and three receivable accounts.
- Status lifecycle — Draft -> Sanctioned -> Disbursed -> Settled makes every facility's state unambiguous.

The accounting: disbursement, charges and settlement

This is where ERPNext earns its place, because discounting done by hand is where the books quietly go wrong. When you submit the document it is Sanctioned, and ERPNext moves the outstanding value of each invoice out of ordinary debtors into a dedicated 'accounts receivable credit' account — isolating the invoices that are now under a discounting arrangement so your normal receivables still reflect only invoices you're collecting yourself.

When the bank releases the money, you click 'Disburse Loan' and ERPNext generates the disbursement journal entry for you: your bank account is debited with the cash actually received (the financed amount less the bank charges), the bank charges account is debited with the fee, and the short-term loan account is credited with the full financed amount — the liability you now owe. At the same time each invoice's receivable is moved into an 'accounts receivable discounted' account, so anyone can see at a glance which invoices are financed and still live. Submitting that entry flips the status to Disbursed.

At the end, you click 'Close Loan' and ERPNext produces the settlement entry: the short-term loan is debited and the bank credited, clearing the liability as you repay. If you settle before the loan period is up and some invoices are still unpaid, ERPNext shifts those from the 'discounted' account into an 'accounts receivable unpaid' account — and a scheduled job does the same automatically for any facility whose period lapses with invoices still open, so discounted-but-unpaid invoices are always traceable rather than lost. The facility is then Settled.

- On Sanction — each invoice's balance moves out of ordinary debtors into a dedicated receivable-credit account.
- On Disburse — bank debited with cash received (financed amount less charges), charges booked, short-term loan credited.
- Receivable follows the invoice — moved into an 'accounts receivable discounted' account while the finance is live.
- On Settle — short-term loan debited and bank credited to clear the liability as you repay the financier.
- Unpaid at term — a scheduled job shifts still-open invoices to an 'accounts receivable unpaid' account, keeping them traceable.

The invoice-discounting lifecycle in ERPNext

1. **Select invoices**
   pull submitted, still-outstanding Sales Invoices into the Invoice Discounting document; set the loan period and bank charges.
2. **Sanction**
   on submit, each invoice's balance moves from ordinary debtors into a dedicated receivable-credit account.
3. **Disburse**
   'Disburse Loan' books the cash received (financed amount less charges), the bank charges, and the short-term loan you now owe; receivables move to a 'discounted' account.
4. **Track**
   the facility sits as a real liability; discounted invoices are visible in their own account while the finance is live.
5. **Settle**
   'Close Loan' debits the short-term loan and credits the bank to clear the liability as you repay the financier.

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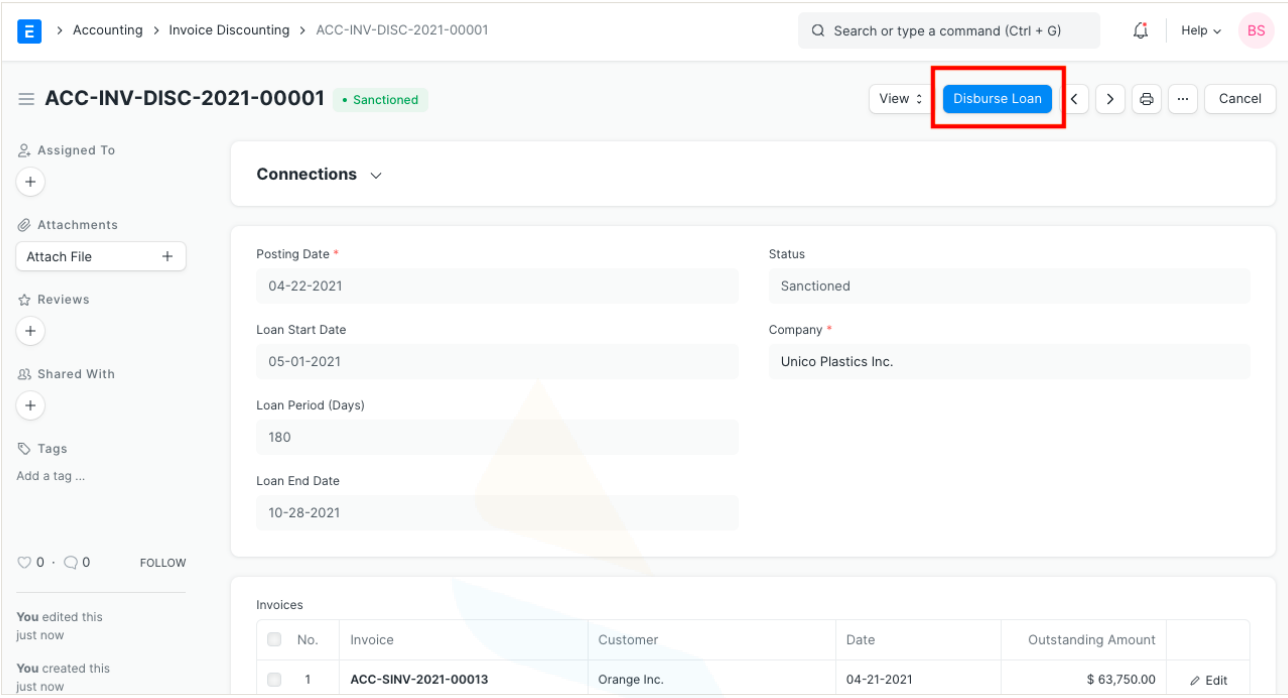
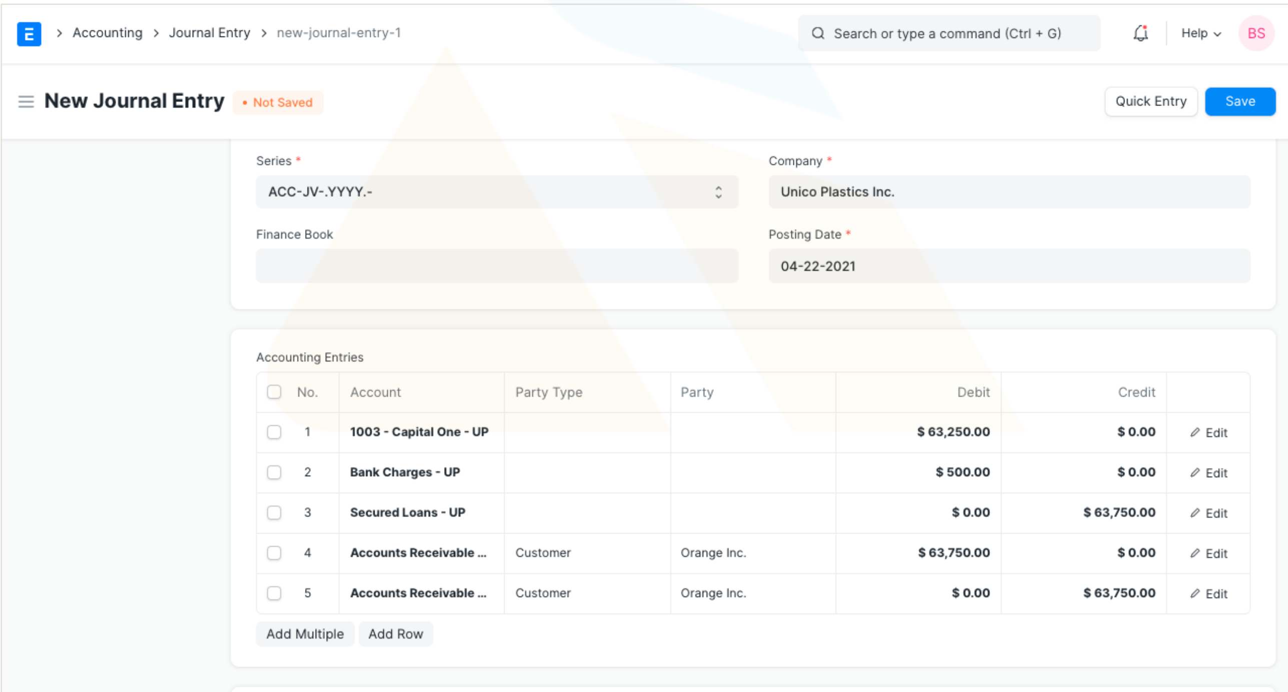
Unpaid safeguard
invoices still open at the end of the loan period are shifted to an 'accounts receivable unpaid' account, automatically, so nothing is lost.



An Invoice Discounting facility in ERPNext, Sanctioned and ready to disburse — the loan period, derived end date, and the unpaid Sales Invoices being financed.



The disbursement journal ERPNext generates: bank debited with the cash received, bank charges booked, the short-term loan credited, and the receivable moved to its discounted account.

Managing the facility and the risk

The model is clean, but a discounting facility is still debt, and it repays attention. Because ERPNext keeps the short-term loan as a real liability and the receivables in their own accounts, your balance sheet tells the truth throughout — the cash you drew is matched by a loan you owe, and the underlying invoices are visibly still yours to collect. That's exactly what a CFO wants to see: discounting shown as financing, not disguised as a sale.

The risk sits in the recourse. In the with-recourse form, if the customer doesn't pay, the exposure is still yours — which is why the 'accounts receivable unpaid' bucket matters. It's not an accounting nicety; it's your early-warning list of invoices you financed, drew cash against, and now still have to collect (or fund the repayment of yourself). Watching that account, keeping the short-term loan reconciled against what the financier's statement says, and being deliberate about which customers' invoices you discount, is the difference between discounting as a smart cash tool and discounting as a slow-motion problem.

- Honest balance sheet — cash drawn is matched by a short-term loan; receivables stay visible, not derecognised.
- Recourse means residual risk — with-recourse facilities leave customer default as your exposure.
- The 'unpaid' account is a watch-list — financed invoices still to collect, surfaced automatically at term.
- Reconcile the loan account — tie the short-term loan ledger to the financier's statement every period.

Good practice — and where to get help

Discounting works best when it's set up once, correctly, and run with a little discipline. Nominate the accounts deliberately — a distinct short-term loan liability, a bank charges account, and the three receivable accounts — so the reporting is meaningful rather than everything landing in a generic debtors line. Discount selectively, against reliable customers, so recourse risk stays low. Reconcile the short-term loan and the discounted/unpaid receivable accounts each period, and give someone ownership of the facility so nothing lapses unnoticed. And be clear-eyed about scope: ERPNext models the facility and its accounting faithfully, but it does not connect to your bank or a TReDS platform for you, and it captures the financier's charge as an amount you enter, not as a rate it computes — the finance terms are negotiated outside the system and recorded inside it.

As an official ERPNext partner working with Indian businesses, we set the Invoice Discounting accounts and workflow up to match how your facility actually works — mapped to the right ledgers, reconciled against the bank, and reported so your board sees financing as financing. If receivables finance is part of how you fund growth, getting the accounting right from the start is far cheaper than untangling a year of mislabelled cash and untraceable discounted invoices. Call, WhatsApp or email us for a no-obligation conversation about your setup.

- Set the accounts up deliberately — distinct loan, charges and receivable ledgers make the reporting mean something.
- Discount selectively — reliable customers keep recourse risk low.
- Reconcile every period — short-term loan and discounted/unpaid receivables tied back to the financier's statement.

- Know the boundary — ERPNext records the facility; it doesn't connect to the bank/TReDS or compute the rate for you.

KEY TAKEAWAYS

1. Invoice and bill discounting turns unpaid invoices into cash today — an advance from a bank, NBFC or TReDS platform, repaid when the customer pays.
2. ERPNext models it as a first-class Accounts document built on real, still-outstanding Sales Invoices, with a Draft -> Sanctioned -> Disbursed -> Settled lifecycle.
3. The accounting is generated for you: on disbursement the bank is debited with cash received, charges are booked separately, and the short-term loan liability is credited.
4. Receivables move rather than vanish — from ordinary debtors to a 'discounted' account, and to an 'unpaid' account if still open at term, so financed invoices stay traceable.
5. It's with-recourse financing: the risk and the reconciliation stay yours — ERPNext records the facility, but doesn't connect to the bank or compute the rate.

FAQ

What is the difference between invoice discounting and factoring in ERPNext?
Invoice discounting, as ERPNext models it, is financing with recourse: you borrow against unpaid Sales Invoices, the receivable stays on your books, and you carry the risk if the customer doesn't pay. Factoring sells the receivable outright to the financier. ERPNext's Invoice Discounting document keeps the invoices as your assets — moving them between dedicated receivable accounts — and books the advance as a short-term loan you owe, which is the with-recourse treatment.

Does ERPNext connect to TReDS platforms like RXIL or M1xchange?
No. ERPNext models the accounting of a discounting facility — the loan raised, the bank charges, and the receivable movements — regardless of the channel, but it does not integrate directly with TReDS platforms or your bank. You negotiate and transact the facility with the bank, NBFC or TReDS platform, then record it in ERPNext's Invoice Discounting document so the cash, the liability and the discounted invoices are accounted for correctly.

How does ERPNext account for the bank charges on a discounted invoice?
When the loan is disbursed, ERPNext debits your bank account with the cash actually received — the financed amount less the bank charges — debits a separate bank charges account with the fee, and credits the full financed amount to the short-term loan account. So the financier's charge is captured as a distinct expense, and the loan on your books reflects the gross amount you owe, not the net cash you received. You enter the charge as an amount; ERPNext does not compute it from a rate.

What happens if a discounted invoice isn't paid by the end of the loan period?
ERPNext keeps it traceable. If you close the loan early with invoices still open, or if the loan period lapses with invoices unpaid, the system shifts those invoices from the 'accounts receivable discounted' account into an 'accounts receivable unpaid' account — a scheduled job does this automatically for lapsed facilities. Because the financing is with recourse, those invoices remain your exposure to collect, and the unpaid account is effectively your watch-list of financed invoices that still haven't paid.

Talk to a real ERPNext expert.

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