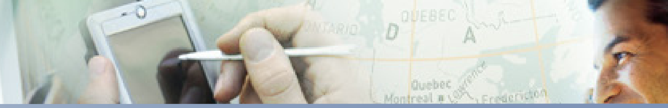

An effective resource for financial analysis

Accounts Receivable

Accountant Workbook

AR Module

Terms of Use

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Accounts Receivable Monthly Consultation

Accounts Receivable Discussion Points

Accounts Receivable adds only ONE thing to business operations – COST

The true cost of Accounts Receivable is seldom calculated and rarely known in a business. When fully calculated, these costs are typically large. A/R consulting is one area in which you can provide extremely high value to clients.

Obviously cash flow management is a huge priority for any organization. However, many business owners do not have a clearly defined cash flow strategy in place, nor do they have any idea of how to implement one. You are about to change that scenario for business clients by helping them implement best practice Accounts Receivable policies. (On another note, if you are carrying a large receivable, put your own company through this process.)

You are an accountant; while this type of information seems obvious to you, it is not as obvious to business owners. They simply do not know where to begin, what action steps to take or in what order. In many cases they are overwhelmed. Give them the assurance that you will guide them through a simple process over time with easy to implement action steps. You will immediately see them relax.

Emphasize in this month's consultation the TRUE COST of carrying Accounts Receivables; knowledge that is critical for efficient operations. Explain the main costs associated with A/R in language your client will understand:

- **Time Cost -** If you invested the amount of money you are carrying in receivables today and have carried over many years, projected out to a future point, what would your return on investment have been? Ask them to think about it. How many years have they carried a receivable? What was the average? What could they have done with that money instead or how much cash in interest could they have put in the bank?

- **Administrative Cost -** The cost associated with managing receivables including invoicing, etc.

- **Cost of Bad Debt -** Time and money spent trying to collect funds.

- **Morale Cost -** Nothing is more discouraging than working with a business that does not have necessary resources to grow or maintain status quo. This inevitably results in high labor turnover.

- **Predictability of Cash Flow -** Consistent collections are paramount in successful business planning and accurate "cash flow forecasting".

- **Financing -** The cost of credit to meet cash flow needs.

- **Opportunity Costs -** As discussed above.

Explain that slow paying customers result in drawing down cash reserves, increasing the amount of needed financing, additional allocation of labor and hard costs related to re-billing the client, etc. The more cash tied up in receivables, the less cash available for daily operations and the ability to take advantage of opportunities as they arise. For non-profits, slow collection of pledges and membership dues are very common. A good Accounts Receivable policy can mean the difference between staying in business and closing the doors.

BPA QuickTip:

At the beginning of this consultation ask, "Are there things you would like to do in the company, investments you would like to make etc., that your current cash flow is prohibiting you from doing?" Let me give you some examples - do you want to pay your employees more, give bonuses, invest in new equipment, put more money in marketing, develop a new product or service, etc.?" Make the questions relevant to the client. The lost opportunity costs are typically the biggest pain point related to a big A/R and they may not have thought about it. It is CRITICAL to identify these items as they are "emotional pain points" that get to the bottom of issues they are really hoping to solve. You MUST identify these to deliver high value to your client.

BPA WOW FACT:

According to the Harvard Business Review, here is an average of what receivables are costing a company:

- 30 day – 1.82 %
- 60 days – 9.20%
- 90 days – 17.74%
- 120 days – 26.71%

Letter to Clients - Send One Week Prior to Engagement

This letter assumes you have access to their books.

Dear {Client First Name},

I am looking forward to meeting with you next week and want to touch base on a few items. In this month's Business Performance Analysis consultation, our team will analyze your Accounts Receivables - a critical component of cash flow management, identify areas for improvement and create an action plan to improve your cash position. A major portion of our discussion this week, is the evaluation of the following three items:

1. Detailed Aging Report
2. Open Invoice Report
3. Your written collection policy if you have one in place

If you believe there is additional information we should be aware of prior to beginning our analysis, please let me know this week. We will review the information, formulate remedial steps and initialize an action plan for our discussion.

We sincerely look forward to being a part of your future growth.

Warm regards,

{First and Last Name}
{Company Name}
{Address}
{Phone}
{Email}

Letter to Clients - Send One Week Prior to Engagement

This letter assumes you do not have access to their books.

Dear {Client First Name},

I am looking forward to meeting with you next week and want to touch base on a few items. In this month's Business Performance Analysis consultation, we will analyze your Accounts Receivables - a critical component of cash flow management, identify areas for improvement and create an action plan to improve your cash position. What I need from you is the following:

1. Detailed Aging Report
2. Open Invoice Report
3. Written collection policy if you have one in place

I would appreciate your sending these items to me by the end of this week so our team will have time to review the information, formulate remedial steps and initialize an action plan for our discussion. Most of our clients find it easier to have us set up their accounting software up on a remote server (very cost-effective and secure) so we can access the reports without having to send a request. Let me know if you have an interest in discussing this with our team.

We sincerely look forward to being a part of your future growth.

Warm regards,

{First and Last Name}
{Company Name}
{Address}
{Phone}
{Email}

Accounts Receivable Client Interview

This interview assumes you have access to the client's books and are doing their monthly bookkeeping/accounting. Prior to meeting review your client's:

Accounts Receivable Client Interview

We are here to help you improve cash flow and best practice Accounts Receivable management is a big part of that process. The following questions will help us understand your current Accounts Receivable practices, give us the ability to analyze policies or lack thereof, make recommendations on remedial steps and provide an action plan to improve cash flow in your business. If you do not know the answer to a question, no problem, just leave it blank.

Date: __/__/____
Client Name: ____
Interviewee: ____
Interviewer: ____

1. Do you have a clearly defined Accounts Receivable policy and written processes and procedures in place?
____

2. If so, do you precisely implement your policy?
____

3. If not, do you believe implementing or improving your collections policy would be helpful? Please explain:
____
____
____
____

4. What do you consider to be your 3 biggest challenges with Accounts Receivable management?
A. ____
B. ____
C. ____

5. What do you do well regarding Accounts Receivable management?
A.____
B.____
C.____

6. Do you have a policy for extending credit?
____

7. If so, please detail your policy: ____
____
____
____
____

8. Do you believe it is necessary to carry receivables in your business?
____

9. If so, why? ____
____
____

10. If not, why? ____
____

Accounts Receivable Key Performance Indicators (KPIs) and Key Ratios

Accounts Receivable Key Performance Indicators and Key Ratios are helpful tools in estimating business performance, developing collection and credit plans, and planning strategic and operational goals. "Remember" that Key Performance Indicators and Key Ratios vary between industries and companies and depend on the company's priorities or performance criteria.

Help your client establish their strategic and operational goals for Accounts Receivable. Analyze existing A/R data to help them find areas to target for improvement. Then select the Key Performance Indicators and Key Ratios which best indicate those goals. Demonstrate to your client how the KPIs and Key Ratios are calculated. Finally, explain how each KPI and Key Ratio can be used as a tool to measure their financial health, improve Accounts Receivable efficiency, improve Accounts Receivable collections and help them reach their goals.

Key Performance Indicators

It is essential that a business understands the importance of Accounts Receivable Key Performance Indicators. In addition to helping them gain efficiencies in the Accounts Receivable process, these indicators can help client reduce the amount of time it takes to collect money that is owed to them. By regularly tracking these indicators, you will be able to see how the overall performance changes over time as well as identify areas for improvement. For example, if you notice that the percentage of bad debt has increased, you can investigate why this is occurring and take steps to reduce the amount of bad debt.

Businesses use Accounts Receivable Key Performance Indicators to target many areas for improvement. Some popular goals among A/R departments include:

- 01 Reduction of average A/R outstanding
- 02 Reduction of bad debt
- 03 Reduction of days sales outstanding
- 04 Reduction in billing errors

The following Accounts Receivable key metrics are especially useful in determining the A/R department's overall performance:

• DSO (Days Sales Outstanding):

This is the measure of the number of days, on average, that a business takes to collect money after the sale. When the DSO is low, the business takes fewer days to collect receivables. When the DSO is high, the business is selling to their customers on credit and taking a longer time to collect.

Calculation: DSO = (Accounts Receivable / Total Credit Sales) x Number of Days

• CCC (Cash Conversion Cycle):

This is one measure of management effectiveness. It expresses the number of days it takes for a business to convert resources into cash flow. The Cash Conversion Cycle attempts to measure the amount of time each dollar is tied up in production and sales before it is converted into cash when it is sold to customers. This metric looks at several factors: the time it takes to sell inventory, the time it takes to collect accounts receivables, and the amount of time the business has to pay its bills before penalties.

Calculation: Cash Conversion Cycle = Days Inventory is Outstanding + Days Sales are Outstanding + Days Payables are Outstanding

• Average Terms Based on Customer Payment Patterns:

This metric expresses the best possible account receivable level. It should be used with the DSO. The closer the Average Terms Based on Customer Payment Patterns is to the DSO, the closer the business' accounts receivables are to the optimal level.

Calculation: Current A/R x the Number of Days in the Period Analyzed / Credit Sales For The Period Analyzed

• Average Days Delinquent:

This indicator measures the average time from the due date on the invoice to the date the invoice is paid.

Calculation: Average Days Delinquent = DSO – Average Terms Based On Customer Payment Patterns

• Percentage of Overdue Invoices:

This measures the percentage of invoices that are overdue. Keeping this percentage low is important to the business' cash flow. The percentage of overdue invoices should be frequently monitored.

• Percentage of Bad Debt:

This measures the total percent of bad debt in relation to the total invoiced revenue. You want to keep this percent as low as possible. If this measure increases over time, look into your accounts receivable practices such as the amount of time you wait before sending accounts to a collection agency, customer credit check policy and measures taken when accounts are past due.

• Cost Per A/R Invoice:

This is the average processing cost for each accounts receivable invoice. The business should make reducing the cost per invoice a goal.

• Net Collection Rate:

This Key Performance Indicator measures the amount of each dollar sent to collection and lets you know, on average, how much is actually collected. If this rate is low, consider changing the collection agency you are working with or changing your policy about how long to wait before accounts are sent to collection.

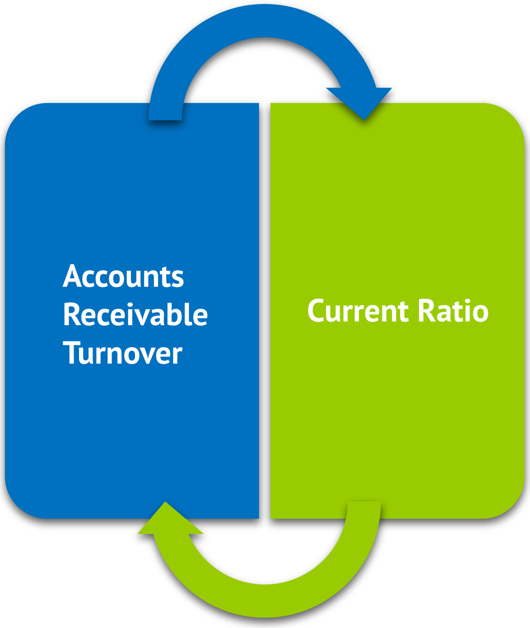
• Percentage of Billing Errors:

A high percentage of billing errors is an indication of an inefficient process, lack of control and other weaknesses in the Accounts Receivable process. This issue needs to be looked into immediately and proper internal controls need to be put in place. Billing errors will increase the time it takes to collect on accounts and cause customer satisfaction issues.

• Accounts Receivable by Department/Product/Region:

This Key Performance Indicator will show you a breakdown of your A/R by category. It is helpful because it will indicate where your Accounts Receivables are from.

Ratios:



• Accounts Receivable Turnover:

The Accounts Receivable Turnover is a Key Ratio that measures the rate a business collects on its outstanding accounts. The problem with allowing customers to have a large bill is that you are essentially offering them a loan, interest-free. It is essential to monitor this ratio frequently to make sure accounts receivable is being collected in a timely manner. In addition, this measure is an important piece to understanding the cash flow process.

• Current Ratio:

Although the current ratio is a company's ability to pay all financial obligations within a period of one year, it also indicates the efficiency of the operating cycle. This ratio will help you understand if the company is able to constantly generate revenue and collect on accounts receivable in a timely manner. This ratio accounts for all current assets, including accounts receivable, and all current liabilities, including accounts payable. In general, a ratio that is between 1.5 and 3.0 and is stable in the long-term indicates a strong financial performance.

If the current ratio is less than 1.0, it indicates that a business would not be able to meet all financial obligations if they were due at the same time. Although this is not good, it is not uncommon for businesses to operate for short periods of time in the red, especially when the business is accumulating debt to fund growth.

If the current ratio is more than 3.0, your business may be holding a large amount of cash that could be invested back into the business.

Accounts Receivable Assessment

Date: __/__/___

Client Name: ______________________________________

Interviewee: ______________________________________

Interviewer: ______________________________________

1. Review Credit Policy and Terms (e.g., due dates, early payment discounts, collection procedures, credit standards, interest payment on delinquent payments, etc.)

Comments: ______________________________________

____

____

____

2. Key Performance Indicators/Ratios:

a. Accounts Receivable as a Percentage of Sales = ____%

b. Average Sales per Day = $____.00

c. Days Sales Outstanding (Accounts Receivable Turnover) = ____Days

d. Cash Conversion Cycle = ____ Days

e. Average Days Delinquent = ____ Days

f. Percentage of Overdue Invoices = ____%

g. Percentage of Bad Debt = ____%

h. Cost per Invoice = $ ____.__

i. Net Collection Rate = ____%

j. Percentage of Billing Errors = ____%

k. A/R by Department/Product/Region

i. ______________________________________ = $____.__

ii. ______________________________________ = $____.__

iii. ______________________________________ = $____.__

iv. ______________________________________ = $____.__

v. ______________________________________ = $____.__

l. Current Ratio = ___.__

Explain to the client by looking at ratios, negative and positive trends in accounts receivable can be noted.

Notes: ______________________________________

____

____

Accounts Receivable Action Plan

Accounts Receivable Assessment

Date: __/__/___
Client Name: ______________________________________
Interviewee: ______________________________________
Interviewer: ______________________________________

Accounts Receivable Analysis Conclusion:

____
____
____
____

Remedial Action Steps

Step One:

____
____
____
____

Step Two:

____
____
____
____

Step Three:

____
____
____
____

Accounts Receivable Follow-up One

Your client should receive two follow-up letters or emails after each monthly engagement. (Baby boomers send a hand addressed letter, young entrepreneurs send an email.) The first one is to thank them for their time and to summarize your discussions. The second is to follow-up with their progress and to inquire if they need additional assistance from your firm. This should be sent the day of, or day after your monthly Business Performance Analysis meeting.

Dear {Client First Name},

Thank you for your time today. I sincerely appreciate the opportunity to be involved in your efforts to improve company performance and have no doubt you will be very successful. I have included a summary of our discussion below.

Summary:

- A/R Analysis Conclusion
- Initial Remedial Action Steps
- Goals (establish clearly defined time frame)

As we discussed, it is wise to implement the use of technology in your collections process and I have highlighted the tools I believe would be appropriate for your business in the Resource Section in the back on your Client Workbook.

Please do not hesitate to contact me with additional questions or concerns.

Warm Regards,

{First and Last Name}
{Company Name}
{Address}
{Phone}
{Email}

Accounts Receivable Follow-up Two with Client

Follow-up Two should be sent 10 days following your Business Performance Analysis engagement, to help your client stay on track and to inquire if they need additional assistance from your firm. (Baby boomers send a letter, young entrepreneurs send an email.)

Dear {Client First Name},

I wanted to touch base and check on your progress with this month's Accounts Receivable action steps. Small steps over time can produce dramatic results in regards to your overall company performance. Our team is available to provide additional guidance if you have questions, unanticipated challenges, or lack the time to complete the steps. We can also oversee the process of implementing key tools to help shorten your Accounts Receivable cycle.

I look forward to our meeting next month and continuing our progress toward wealth and prosperity.

Sincerely,

{First and Last Name}
{Company Name}
{Address}
{Phone}
{Email}

15 Accounts Receivable Best Practices

Note: This section is also included in the client workbook, but we have included it here for quick reference prior to your monthly consultation.

Accounts Receivable plays a vital role in a company's overall financial health. One of the greatest threats a business can face is a cash-flow crisis, as the result of inadequate Accounts Receivable practices. Implementing Accounts Receivable best practices can lead to a significant financial gain, support cash flow requirements and expand working capital. When you have fewer outstanding balances, you will have fewer write-offs for bad-debt and enhanced overall profitability. Evaluating and improving your Accounts Receivable procedures will make your company more efficient.

1. Timely Invoicing

Sending invoices to your customers in a timely manner is essential in expediting payments. Many customers pay their invoices late customarily; however, invoicing timely can encourage them to pay quicker. The process of billing your customers is an important one and should be given priority. Invoicing customers should not be put on hold until someone has time. Additionally, invoices need to be mailed and/or emailed as soon as they are prepared. Do not pass the job to the receptionist to do when he/she can get around to the task.

2. Reduce the Payment Terms

In the past, it was common for businesses to allow plenty of time to receive customers' payments due to mail delays for invoices and payment remittances. In the current day and age of electronic payments and email correspondences, businesses are reducing payment terms from "Net 30" to "Payment Due Upon Receipt". Customers who have had previous problems making payments on-time or new customers should pay "Cash-In-Advance".

3. Weekly Accounts Receivable Management

Each week, run an aged Accounts Receivable report using your accounting software. All accounts should be monitored. Follow up on customers that are due, if the invoices are large. Pay close attention to customers with balances that are more than 20 days old.

4. Keep Customer Records Up to Date

Although it seems obvious, it is very common for invoices not to get paid because the invoices were sent to an old address or a reminder call was made to the wrong phone number. It is very important that customer records be updated the moment you become aware of a change. You need to make sure that you can communicate with the customer at all times.

5. Provide Early Payment Discounts

Offering an early payment discount is a great incentive for customers to make a prompt payment. Offering a small discount can improve your cash flow without significantly decreasing the profit margin. When offering an early payment discount, make sure the customers are informed that the discount will only be honored if the payment is received by the discount date printed on the invoice.

6. Use Multiple Platforms to Send Invoices

In addition to mailing invoices to the customers' home or business, they should be sent to their email address and/or fax machine. This will ensure invoices are received immediately and without delays from the post office. Have customers confirm the email and/or fax number they would like the invoices to be sent to. Sending the invoice to multiple platforms will ensure they receive one or all of the invoice copies.

7. Accept Multiple Payment Methods

In addition to accepting payments by checks, many businesses are accepting various forms of payment including credit cards, debit cards, electronic funds transfers (EFT) and PayPal. Accepting increased payment methods not only makes it easier for customers to pay outstanding invoices, it speeds up the amount of time it takes for you to receive payment. Gone are the days when you had to wait for checks that could get lost in the mail.

8. Exceptional Customer Service

The truth is, customers are more willing to pay their outstanding balance on-time when they are completely satisfied. The company needs to ensure it is meeting all of its customers' needs by using a customer-focused approach. Additionally, respond promptly to all questions about invoices and account balances.

9. Professional and Personal Collection Management

When a customer is late paying an invoice, the personal touch of a phone call can do wonders. It is the quickest and cheapest way to resolve a past due issue. All contact with the customer must be handled professionally. Do not threaten the customer or treat them poorly. Once the customer sends a payment, you will get better future results if you call the customer when you have received the payment.

10. Maintain Accurate Collection Records

When a customer's account becomes past due, make sure to keep accurate records of all correspondence, follow-up calls, customer's responses and collection attempts. Set a reminder for all promised payment arrangements, so you can follow-up if a payment is not received. This information will prove to be extremely valuable when you need to follow-up with the customer.

11. Do Not Wait to Pursue Late Payments

The longer you wait to pursue a late payment, the harder that it will be to collect. Customers with past due balances should be contacted immediately.

12. Establish Collection Policies and Stick to Them

Before a customer is late paying, you should have a set of collection policies already in place. For example, you could call customers when they are 15 days late as a friendly reminder and to find out what is going on. A reminder letter could then be sent out when a customer is 20 days late. There should be several types of reminders for different situations and amount of time the account is past due. Set the timeframe for when a customer's account should be sent to a collection agency. Once you have your policies in place, make sure you stick to it for each and every customer.

13. Make Sure the Accounts Receivable Software is Up to Date

Your Accounts Receivable software should be up to date so it meets all of your business needs. If the system is lacking, find out if it can be updated. Do not be afraid to explore new software options if your current system is not meeting your needs.

14. Use a Collection Agency

Your Accounts Receivable process should include referring past due accounts to an external collection agency when the balances have not been paid in over 90 days. Make sure you have already exhausted all of your resources trying to collect the debt by calling the customer, sending reminders and a letter indicating the account will be sent to the collection agency if it is not paid by a certain date. Using a collection agency may involve considerable costs; however, they can be a great tool to collect bad debt. Make sure to do your due diligence on the collection agency before you hire them. Confirm the agency is licensed and you can trust them with your customers. We have included Collection Resources in the back of the workbook.

15. Put All Delinquent Accounts on a Credit Hold

Denial of your products or service is great leverage with a customer who has a past due account balance. If your customer needs something that you provide, withhold future services or products until their account is paid in full or until acceptable payments are made. In the future, consider requiring them to make payment upfront if this continues to be an issue.