

An effective resource for financial analysis

Accounts Receivable

Client Workbook



AR Module

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Cover Letter

Welcome,

Starting today, you will embark on a journey of taking small and easy to implement action steps that can have a dramatic impact on your company's performance and bottom line. Business owners often convince themselves that change is only meaningful if a large and visible outcome is associated with the change. We often put unnecessary pressure on ourselves to make earth-shattering improvements and set unrealistic goals and expectations. Consequently we set ourselves up to fail by grossly underestimating the value of making small yet wise decisions on a daily basis. The aggregation of marginal gains, such as a 1 to 3 percent improvement in all areas of your business, would add up to remarkable improvement.

Case in point, if you shorten your accounts receivable cycle, cut expenses, and increase sales in increments of only 1% on a regular basis, it will not seem notable. However, I can assure you it is very meaningful to your business, especially in the long run. This quote eloquently conveys my point:

“ *Success is a few simple disciplines, practiced every day; while failure is simply a few errors in judgment repeated every day.* ”
- Jim Rohn, American Entrepreneur

Our team has designed a system that is “doable” in the sense that you can implement small action steps on a consistent basis for outstanding results. Employees have a strong tendency to improve whatever is being measured. We will measure your results on a regular basis and discuss their meaning with you in our monthly consultation. This month we will focus on your Accounts Receivable, which significantly impacts cash flow and also your ability to meet your current and future cash needs, take advantage of opportunities as they arise, obtain financing and far more. Cash flow is the main engine that drives a business and delinquent accounts can bring companies to a halt.

Please follow the guidelines laid out in the workbook and do not hesitate to contact us with questions or concerns.

Sincerely,

Accounts Receivable Analysis

Managing cash flow is critical for small business survival. You will find the results of our initial analysis of your Accounts Receivable below. The longer a bill is owed, the smaller the chance of collecting the full amount. The probability of collection will vary, but on the next page, I have calculated your probability of collecting money owed to your com-

pany using national averages, to give you an idea of what you can expect to likely recover on older accounts. While this will not reflect your exact results, it will give you a ballpark figure and a better handle on your ability to meet future and long term cash needs. Do not be discouraged if the numbers alarm you. This is step one to improving your results.

A/R Account Totals

Account Age	Amount Outstanding	Probability of Collection
Current	\$	%
Past 30 days	\$	%
Past 60 days	\$	%
Past 90 days	\$	%
Past 120 days	\$	%
Past 365 days	\$	%
TOTAL	\$	%

Key Performance Indicators

The following ratios give us a baseline from which we can improve. What gets measured gets managed and with small action steps you can count on these numbers to consistently improve. We will track additional ratios in the future, but this is a good starting point for month one.

Percentage of Invoices Paid on Time

Percentage of Dollar Amount Paid on Time

Average Time to Payment

(The Average Time to Payment is the average number of days a customer invoice is outstanding before it is collected.)

Percentage of Bad Debt

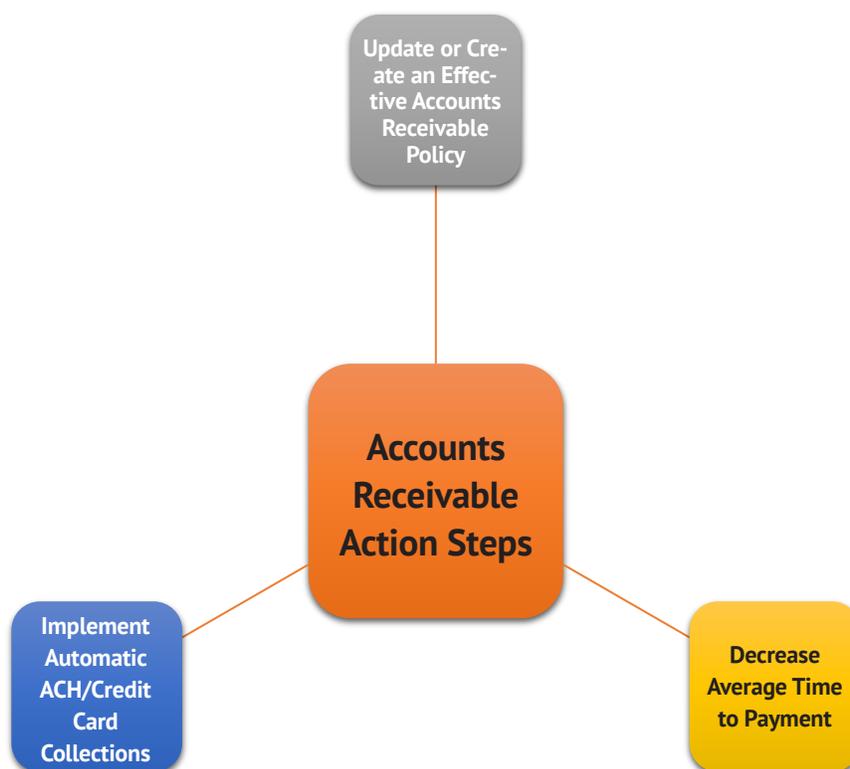
(This calculation takes the amount of debt you have had to write-off divided by the total sales revenue. We like to track this percentage as we can quickly adjust to increases or decreases in uncollected invoices.)

I believe a reasonable goal in month one is to improve these figures by 1 to 3%. On the next page we have listed simple action steps to take this month that will begin to improve your numbers. Our team will run them again in 30 days and review them with you at the beginning of next month's meeting.



Accounts Receivable Action Steps

Delinquent accounts, if permitted to age, can wreak havoc on your business. Take these few small action steps for significant impact. It is critical to assign someone who will be responsible for each action step and also a due date.



Update or Create an Effective Accounts Receivable Policy

(See suggestions and sample)

Assigned to: _____

Due date: __/__/__

Decrease Average Time to Payment

In other words, let's work to shorten the average collection period in your business by ___ days this month. It is critical to assign tasks, deadlines, etc.

Catch up all billing that has not gone out the door

Assigned to: _____

Due date: __/__/__

Make collection calls and send letter to all accounts over 45 days old

Assigned to: _____

Due date: __/__/__

Send collection letter to all accounts over 30 days old

(See sample collections letter)

Assigned to: _____

Due date: __/__/__

Identify a collection agency if you do not have one

Assigned to: _____

Due date: __/__/__

Implement automatic ACH or credit card collections

Assigned to: _____

Due date: __/__/__

Make a decision on whether extending credit to future clients is necessary to fuel growth.

Business Performance Quick Tip

The Commercial Collection Agency Association handles about 80% of U.S. collection claims. Based on a survey of members, the probability of full collection on a delinquent account drops drastically with the length of delinquency. For example, the probability of collection drops to:

- 89.9% after 1 month of delinquency
- 81.3% after 2 months of delinquency
- 69% after 3 months of delinquency
- 52.1% after 6 months of delinquency
- 22.8% after 12 months of delinquency

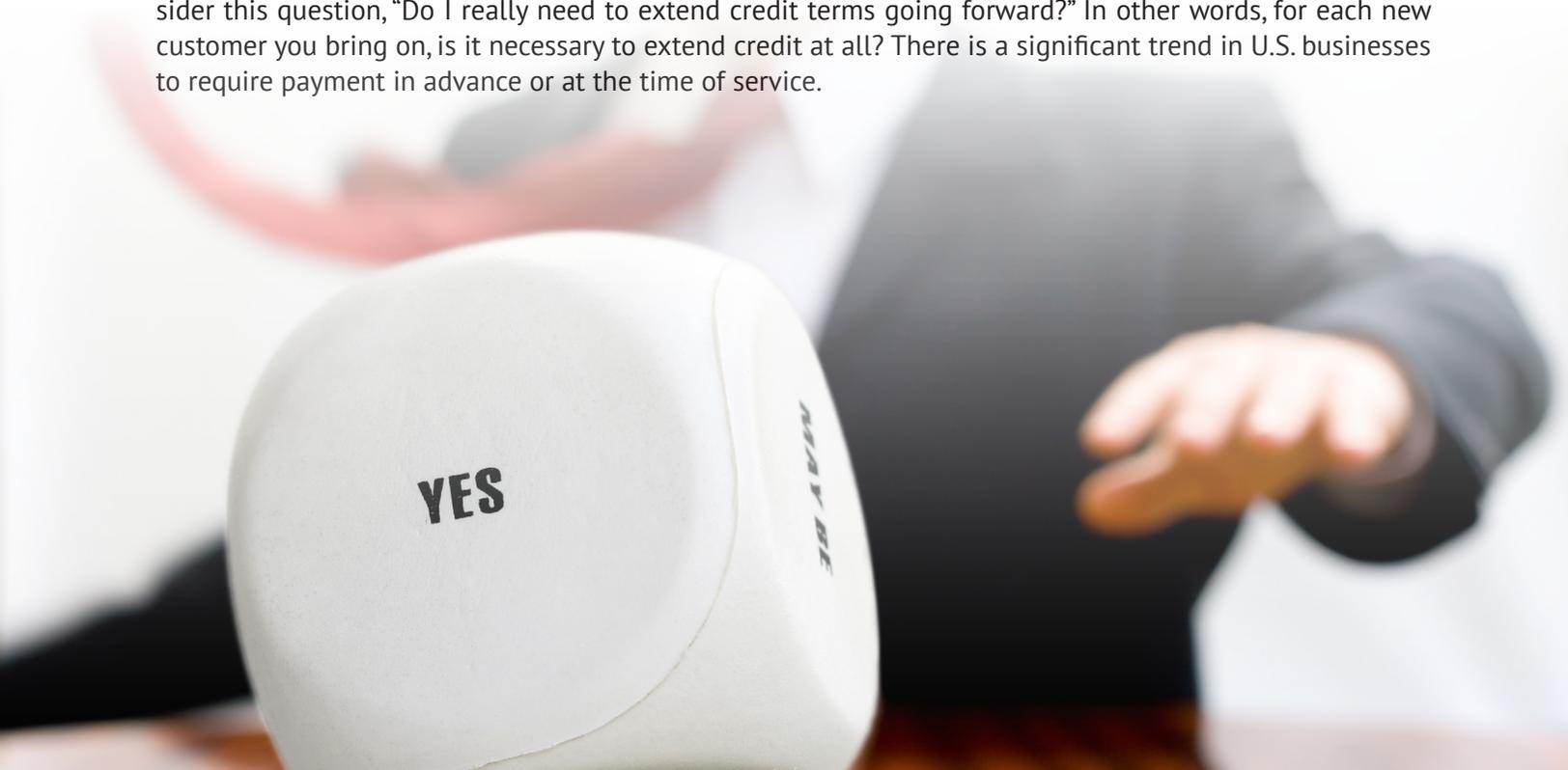
Ideas for Creating

An Effective Credit & Collection Policy

When it comes to shortening your Accounts Receivable (A/R) cycle to improve your cash position, the critical first step is to review and update, or create an effective Accounts Receivable policy that is strictly enforced in your business. In addition to improving cash flow, there are other considerations to be taken into account. When you allow a client to become past due or owe you significant amounts of money, it affects your relationship. They try to avoid you, will not do additional business with you until they catch up their bill, if ever, and are uncomfortable when they see you out and about in the community. It puts a tremendous strain on the relationship. When you allow clients to become delinquent, they control your cash flow and could jeopardize your business.

I have shared some ideas below on how to implement an effective A/R policy. I have also included a sample policy to use as a guideline. Implementing standard processes and procedures throughout your company will improve company performance and send more to your bottom line.

Strategic cash flow management is an essential component of success. It may also be time for you to consider this question, “Do I really need to extend credit terms going forward?” In other words, for each new customer you bring on, is it necessary to extend credit at all? There is a significant trend in U.S. businesses to require payment in advance or at the time of service.

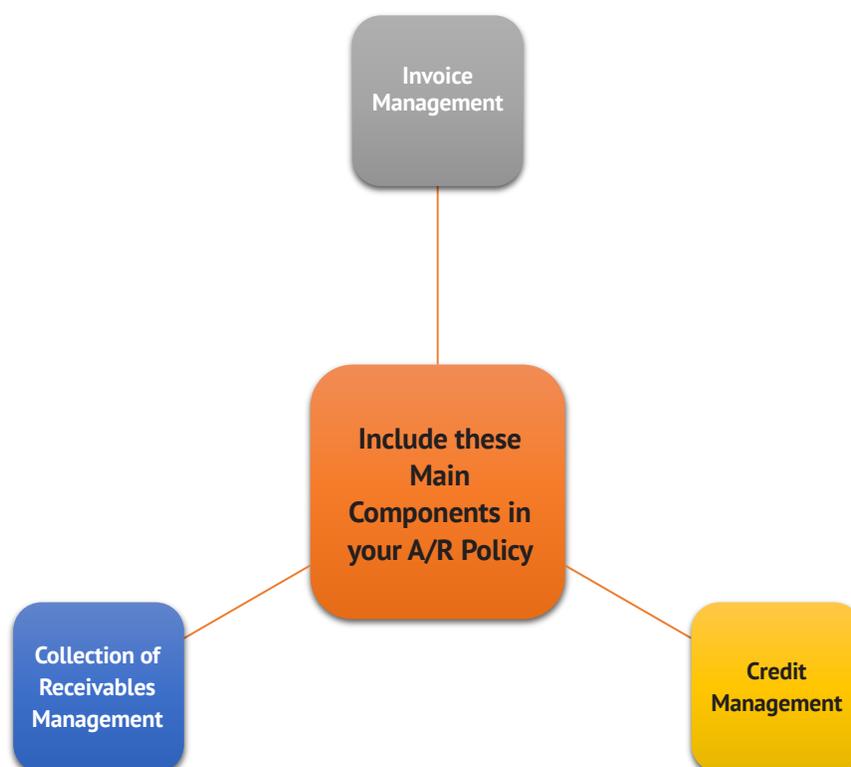


What is an Account Receivable Policy and Why do We Need One?

Your company's accounts receivable is considered a short term asset. Cash, Inventory and Accounts Receivable are some of the most important assets you have. The more predictable your A/R conversion to cash is, the better your cash flow. Current receivables are viewed more favorably by a loan officer than an A/R Aging full of past due invoices. A clearly defined Credit and Collections Policy is a repeatable, organized practice that allows a company to control risk when extending payment terms to customers. A sale that does not get paid is a loss, not a sale.

In addition to protecting your cash position, a pre-defined and enforced Accounts Receivable policy provides efficiency and stability to your business and allows consistency in customer care. Never forget, you can train your clients to be good clients and follow your requirements if they understand your policies and you do not make exceptions.

Include these Main Components in your A/R Policy:



1) Invoice Management:

A business can speed up collections by issuing invoices as soon as the sale is complete. Your policy must detail when the sales department reports sales and when the accounting department should issue the invoice. Procedures should detail what you want included on the sales report, how to prepare it and where, and to whom to send it. Your procedures should include details of:

- **Invoice preparation** – Who prepares the invoice? Who prepares invoices when that person is out sick or on vacation?
- **Verification** – Include a process for verifying the accuracy of the invoice
- **Data entry into your accounting system** – Who inputs the data into your system and when?
- **Invoice mailing or emailing** – Who sends the invoices and how are they sent? Direct mail, email, fax, etc.
:

2) Credit Management:

A business can speed up collections by issuing invoices as soon as the sale is complete. Your policy must detail when the sales department reports sales and when the accounting department should issue the invoice. Procedures should detail what you want included on the sales report, how to prepare it and where, and to whom to send it. Your procedures should include details of:

Customers who request Credit Terms should complete a Credit Application. It is easy to perform a credit check and we have listed a reliable and cost-effective resource in the back of the workbook as a reference.

Your company policy should specify:

- **Which customers can open accounts** – How is that determined?
- **Types of credit terms your company offers** - e.g., Cash on Delivery (COD), 2% Net 10, 1% Net 15, Net 30. Some companies only offer Net 10 and some require a deposit up front with the balance on terms.
- **Details of your credit approval process**
- **Credit application forms** – If you choose to extend 30 days terms to a new client, it is a good idea to let your new client know you have a credit approval process which requires the completion of a credit application. They will take paying you a lot more seriously.
- **Account maintenance procedures** - provide details on how to track payment performance and how and when to suspend credit when required.
 - 1) Include a declined credit card procedure – For example, do you want accounting to rerun the card in 3 days prior to calling?
 - 2) Include a bounced check procedure – For example, do you want accounting to rerun the check in 3 days prior to calling?

3) Collection of Receivables Management :

The final step in an effective Accounts Receivable Policy is to collect amounts due as quickly as possible. If you are in an industry where payment in 30 days is the standard, then offer discounts or incentives for early payment.

Your company policy should specify:

- Your payment terms, discounts and consequences/penalties for late payment
- Early payment incentives if any
- When reminders to clients with overdue balances should go out and the frequency
- At what point is the last collection call made prior to turning the account over to collections
- Process for turning over account to a collection agency

Process and procedures are always a work in progress. Complete your first draft this month; you can make changes at any time if additional methods of improving your Accounts Receivable procedures become clear.



Sample Collections Policy

The following pages contain a sample collection policy based on net 30 terms. Companies know that with the advantage of extending credit comes the possibility of Bad Debt. It is therefore imperative to routinely collect and prepare a plan of action to minimize Bad Debt.

In many cases, our clients are reluctant to send accounts to collections because they do not believe they have given their client ample opportunities to pay the debt. A good collections policy will eliminate this objection. As a fellow small business owner, I have learned first-hand that consistent implementation of a sound credit and collections policy will not only improve cash flow, but will also improve client relations. Once again, you can train your clients to be the “A Grade Client” they are capable of becoming.



Collection

Recommendations and Timeline Sample

Days Past Due	Action
Prior to Due Date	<p><i>Courtesy call</i> to customer to make sure merchandise was received as ordered (or service delivered as agreed) and a reminder of terms of sale.</p> <p>This is the most important call as it is a positive approach to confirm the merchandise (service) was received in satisfactory condition. The customer is not past due so the call is not uncomfortable.</p>
30 Days	<p><i>Send Collection Letter One</i> (see sample). Not only will this remind them of the balance owed, but will eliminate lost invoices from stalling payment.</p>
45 Days	<p><i>Collection Call Two</i> – Ensure there is no problem with payment being sent, seek a commitment for the timeframe in which it will be sent.</p> <p><i>Send Collection Letter Two</i> (see sample) if unable to reach the right person at the company or at 50 days, if they committed to send it, but it has not been received.</p>
60 Days	<p><i>Collection Call Three</i>– Attempt to come to a payment arrangement that will prevent the matter from being turned over to a collection agency.</p>
75 Days	<p><i>Send Collection Letter Three</i> with final demand (see sample) through certified mail.</p>
90 Days	<p>Turn over to a collection agency.</p>

Adjust the timeline as you see fit. The important thing is to have a policy in place that is consistently implemented. The collections process can be automated, including sending collection letters. Refer to the Resource Section for information on companies we trust that provide these types of solutions.

Collection Letter One Sample

Customer Name
Customer Contact
Customer Full Address

Today's Date

Dear {Customer Contact},

Thank you for your recent business. We value you as a client and look forward to being of further service to you in the future. This is just a friendly reminder that your account with us appears to be past due. Our records indicate you have a total outstanding balance of {\$ __. __} with the following invoice(s) overdue:

{List Invoices here with Invoice #, Invoice Date, Due Date, Amount and Description}

We are confident this was an oversight on your part and would appreciate you remitting the payment. Please do not hesitate to call if you have any questions or concerns about the balance due on your account. If you have already sent the payment, please disregard this reminder.

Thank you sincerely for your attention to this matter and once again, we appreciate your continued business!

Sincerely,

{Contact Person}
{Company Name}
{Company Telephone Number}
{Company Full Address}
{Company Email Address}

Collection Letter Two Sample

Customer Name
Customer Contact
Customer Full Address

Today's Date

Dear {Customer Contact},

Sixty days ago, our company shipped your product (or delivered a service) in good faith. Unfortunately, we have not received payment or notification of any problems or concerns with our product (service). The purpose of this letter is to notify you that due to non-payment, your credit account with our company has been put on hold until the balance has been satisfied or satisfactory repayment arrangements have been made. Our records indicate you have a total outstanding balance of {\$ __. __} with the following invoice(s) overdue:

{List Invoices here with Invoice #, Invoice Date, Due Date, Amount and Description}

Please call today to let us know the status of this payment or to address any questions you may have about the balance due on your account. If you have not yet remitted the payment in full, please call us to discuss your plans to settle the account. Our sincere hope is that this is simply a temporary delay that you will remedy. We do value our relationship and its continuation is our primary goal.

Thank you for your attention to this matter and your continued business!

Sincerely,

{Contact Person}
{Company Name}
{Company Telephone Number}
{Company Full Address}
{Company Email Address}

Phone Call Script Sample

You: Hello, this is Ann Smith from ABC Medical and I am calling regarding a past due invoice. Our records show Invoice 12345, Purchase Order ABC for \$250.00 is past due. Can you advise on the payment status please?

Client: We don't show that invoice in our system. Can you send us an invoice?

You: Yes, we would be happy to. Please note the invoice is past due. Would you be able to issue a check this week?

Client: Yes, possibly, but I will need to check with the owner.

You: Thank you. We appreciate that. May I call you back tomorrow to confirm, or can I send you an email? May I have your email address for our records?

Client: Sure. My email address is name@greatclient.com

You: Thank you very much. We appreciate your quick help!

Collection Letter Three Sample

Customer Name
Customer Contact
Customer Full Address

Today's Date

Dear {Customer Contact},

This is an important letter and requires your immediate attention.

Despite sending several reminders, we have received no response regarding your seriously past due account. We believe we have given you ample time to respond and have been patient with your account. Therefore, we have no other recourse than to write this bad debt off our books and turn it over to a collection agency. We sincerely hope you avoid this action by sending us a check today for the full amount due. If we do not receive payment within the next five days, we are going to take action.

You have a total outstanding balance of {\$.__} with the following invoice(s) overdue:

{List Invoices here with Invoice #, Invoice Date, Due Date, Amount and Description}

Our firm regrets having to take this action, but we deserve to be paid for the services (products) we have extended. We sincerely hope you will give this matter your serious consideration.

Sincerely,

{Contact Person}
{Company Name}
{Company Telephone Number}
{Company Full Address}
{Company Email Address}

15 Accounts Receivable Best Practices

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 it.

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 business' 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 licenced and you can trust them with your customers.

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.

