

## How to Get Paid on Time

With the current economic conditions, the collection of accounts receivables is becoming more and more of a challenge. Strengthening your collection procedures may allow you to improve collection rates and shorten the aging days of your accounts receivables.

The following suggestions will help your business improve its cash flow and tighten up its credit and collections policies. Some of the tips discussed here may not be suitable for every business, but can serve as general guidelines to give your company more financial stability.

**Define Your Policy.** Define and stick to concrete credit guidelines. Your sales force should not sell to customers who are not credit-worthy, or who have become delinquent. You should also clearly delineate what leeway sales people have to vary from these guidelines in attempting to attract customers.

**Tip:** You should have a system of controls for checking out a potential customer's credit, and it should be used before an order is shipped. Further, there should be clear communication between the accounting department and the sales department as to current customers who become delinquent.

**Clearly Explain Your Payment Policy.** Invoices should contain clear written information about how much time customers have to pay, and what will happen if they exceed those limits.

**Tip:** Make sure invoices include a telephone number, email and website address so customers can contact you with billing questions. Also include a pre-addressed envelope.

**Tip:** The faster invoices are sent, the faster you receive payment. For most businesses, it's best to send an invoice with a shipment, rather than afterward in a separate mailing.

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**Follow Through on Your Stated Terms.** If your policy stipulates that late payers will go into collection after 60 days, then you must stick to that policy. A member of your staff (but not a salesperson) should call all late payers and politely request payment. Accounts of those who exceed your payment deadlines should be penalized and/or sent into collection, if that is your stated policy.

**Train Staff Appropriately.** The person you designate to make calls to delinquent customers must be apprised of the seriousness and professionalism required for the task. Here is a suggested routine for calls to delinquent payers:

- Become familiar with the account's history and any past and present invoices.
- Call the customer and ask to speak with whoever has the authority to make the payment.
- Demand payment in plain, non-apologetic terms.
- If the customer offers payment, ask for specific dates and terms. If no payment is offered, tell the customer what the consequences will be.
- Take notes on the conversation.
- Make a follow-up call if no payment is received and refer to the notes taken as to any promised payments.
- Refunds. You probably wince at the word. Some - like customer refunds for returns -- are fairly uncomplicated. Others, not so much. You may find yourself unable to balance your accounts receivable.

There are numerous scenarios that necessitate the use of credit memos, including overpayment, order cancellations and bad debt write-off. It's critical that these are entered correctly. If they aren't, you may lose a lot of the time that bookkeeping programs helped you save as you try to chase down a few dollars.

### **Sending money back**

Let's say a customer pays for an order but cancels before it ships. You could:

- Apply the balance to an existing invoice
- Keep it as an available credit
- Issue a refund

### **Another use**

You can also use credit memos to write off bad debt if you are using the accrual method of accounting.

If you don't already have a Bad Debt item in your item list, set up a new item as an Other Charge. Name it "Bad Debt" and match it to the correct account.

### **Make refunds make sense**

It seemed easier in the days when you just wrote a check for a refund or made an entry in a paper ledger, didn't it?

We'll be glad to help you make sure that this sometimes complex task is done right from the start.