

Improving Your Accounts

Receivable Process

Tracking receivables is an essential part of managing your company's cash flow. Without a steady cash flow, many small businesses tend to borrow more and more money to meet their working-capital needs. Eventually it catches up. Lack of working capital is the principal reason small businesses fail.

How companies manage accounts receivable differs, but accounts receivable processes generally allow you do three things:

- Record your daily sales and receipts.
- Generate customer invoices and monthly statements.
- Track customers' current and past-due balances.

When you set up your accounts receivable process, don't ignore these important issues:

Accounting software. Software can simplify the receivables process and provide you with additional forecasting, invoicing and tracking tools. Many small companies, especially ones with large amounts of receivables, use programs such as QuickBooks, CheckMark MultiLedger and M.Y.O.B. Accounting to handle their accounts receivable and other accounting needs.

Credit policies. Establish a stringent credit policy and adhere to it. Define under what conditions you will extend credit, how much credit you'll extend, and to whom. Decide whether to accept checks and credit cards, how you will investigate new customers before extending credit, if you will require your customers to pay deposits before delivering goods or services and if you will charge interest on late accounts.

Billing policies. Typically, the faster you bill, the faster you'll get paid. Decide when you will invoice, and communicate your billing terms to customers to prevent discrepancies about when bills are due. If you want customers to pay early, consider giving discounts of up to 2 percent to clients who remit payment within 10 days.

Agging accounts. Review your customers' accounts monthly and categorize receivables as current, 30, 60, or 90 days or more past due. This will help you identify delinquent accounts and take necessary actions. For example, you might want to hold off on a shipment to a customer who has a bill 90 days past due.

Monthly statements. Be proactive by sending monthly statements to your customers. Not only do they serve as reminders to customers who are late with payments, but they also provide documentation in case an account goes into collections.

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