



## Office Procedures Assessment Tool for Managing a Debtor's Ledger

This assessment tool is designed for you to assess your systems and procedures in your business that specifically relate to the successful management of the debtor's ledger and the reducing risk of uncontrollable customer debt.

Each topic has a series of questions and additional information. At the end you will find a summary in questionnaire format and a table showing what is taught in the Debtor's Ledger Management course and the Debt Collection course.

### **The topics covered:**

#### **Cost of Running a Debtor's Ledger**

- Terms of Trade
- Customer Credit
- Credit Limits
- Complaints

#### **Office Procedures**

- Currency of the Ledger
- Condition of the Ledger
- Reports
- Overdue Actions
- Debt Collection

#### **Debtor's Ledger/Credit Manager and Staff**

- Staff Training
- Meetings

#### **Policies and Procedures**

#### **Government Laws and Regulations**

### **Cost of Running a Debtor's Ledger**

1. Do you know how much it costs in labour and interest to run your debtor's ledger?
2. Do you know what it costs you to write an invoice off?
3. Do you know what sales you have to generate to break even after writing off an invoice?

Many business owners do not realise the hidden costs of carrying customer debt. If customer payments have not been deposited in your bank, then you may need to finance the bills and loans you need to pay. That finance will cost you money if it is interest on a loan; or interest on a credit card because you cannot get finance. You will also get an interest cost if you have enough funds to pay your bills for a similar reason. You will not earn interest on money owing to you as you would if those customer payments were in your bank. You may try to charge interest on overdue accounts, but if the customer is not paying you in the first place this not going offset the interest cost.

*The Debtor's Ledger Management course explains exactly what it will cost and demonstrates in a spreadsheet that you could create for your own business. The Debt collection illustrates the cost of interest when payments are not collected.*

If you have a difficult customer the cost in labour may use all the profit of one invoice. For example, if you have a \$550 invoice and the profit on this invoice is \$50, it will only take a few employee hours to use up all the profit.

*The Debtor's Ledger Management course explains all the tasks needed set up a customer account, meetings to monitor the overdue customers and the debt collections activities required to chase outstanding customer debt.*

Many business owners do not realise the costs associated in writing off a sale and that you can end up donating goods and services to the customer because you still have to pay for the cost of goods used on the job or in the service.

The sales you need to generate after the write off just to break even, is often not talked about and neither is the formula to calculate the sales needed.

*The Debtor's Ledger Management course explains what the costs are, the sales needed to generated to break even and how to calculate the sales for your business.*

## **Terms of Trade**

4. Do you advise the customer of your terms at the point of quote or sale?
5. Are your terms of trade for that customer on their invoice?
6. Do you ask for a deposit before starting the job/service?
7. Do you ask for COD (cash on deliver) or POD (payment on completion) at point of sale?
8. Do you give credit by default? (The customer does not request credit; you just give it)

If you do not advise your customer of your terms of trade up front - then your customer will decide when they will pay you. The customer needs to know you are serious about the credit you give them.

There is a window of opportunity at the point of sale when the customer is keen to purchase and you will have more success in your negotiation. So many business owners say nothing or they will tell the customer the price but not say when they will invoice or when they wish to be paid.

*The Debtor's Ledger Management course gives several case studies and demonstrates some methods of negotiation so you can assess the customer at the point sale of whether they can pay your account. The course also talks about ways of avoiding giving credit by default.*

## **Customer Credit**

9. Do you issue credit applications?
10. Do you ensure the customer has completed all the questions satisfactorily?
11. Do you phone the referees and record their responses?
12. Do you send out a letter of account approval or decline with your terms & conditions?

Giving credit is a privilege given by business owners and should only be given to creditworthy customers. Many business people get so excited to make a sale that they extend credit to anyone who walks in the door. Some salespeople do not ensure they get quality customers – the ones who pay. It's not the sale that counts – it's the paid sale.

Sending a letter of account approval is good business practice and reminds the customer of your terms of trade.

*The Debtor's Ledger Management course includes case studies to illustrate how not to give credit by default (the customer has not asked for credit – it is just given to them). The course also contains customer application, referee questionnaire and other templates to assist you to assess your customer for creditworthiness.*

## **Credit Limits**

13. Do you give your customers a credit limit?
14. Do you place the customer account on hold if they exceed their limit?
15. Do you contact the customer advising them that their account has exceeded the limit and to reduce it immediately?

Giving a new customer a credit limit – not necessarily what they want, but what you are prepared to give them – is good business sense. A new customer needs to prove to you that they are creditworthy and will pay on time. You do not do your customer nor yourself a favour by continually giving credit if they do not pay.

*The Debtor's Ledger Management course explains why you need to establish a credit limit and what to do if the customer exceeds that limit.*

## **Complaints**

16. Do you have a complaints policy?
17. Do you act on complaints immediately?
18. Do you have any complaints or disputes outstanding?
19. Have they been outstanding more than a month?

The ACCC debt collection guidelines require businesses to have a complaints policy in place. Complaints need to be addressed quickly and in a professional and systematic manner.

A lot of businesses put their complaints in the too hard basket. A customer can hold up the payment of an invoice until the complaints has been resolved and a court will not deal with an outstanding debt that has an unresolved complaint.

A business owner's ability to effectively deal with a customer complaint provides a great opportunity to turn dissatisfied customers into active promoters of the business.

*The Debtor's Ledger Management course explains why a business needs a complaints policy with associated procedures.*

## **Office Procedures**

20. Do your invoices display payment options, bank details, terms of payment, due date and contact details?
21. Are these options printed in large type so the customer will see them immediately?
22. Do you ask for order numbers?
23. Do you keep a list of the customer's personnel authorised to place orders?
24. Do you invoice your customer as soon as possible after the job/service has been completed?
25. Do you enter payments on day of receipt?
26. Do you check your bank daily for payments?

Keeping the transaction in your debtor's ledger up to date at all times is crucial to effective ledger management. There is nothing more embarrassing than for a customer to phone you to ask what is outstanding on their account and you have credit notes and receipts missing. Making sure your invoices are formatted so all contact details and terms of payment are readable and can be located easily will make it easier for your customer to process your invoice.

Being aware of your customer procedures in processing their invoices, particularly if you are dealing with a big company, can mean that your invoice will be more likely to go through their system without a glitch.

*The Debtor's Ledger Management course explains step by step procedures so you have all the information on your invoice and a strategy to keep your ledger up to date at all times. There is a template that you can send to your customer to find out more information about their invoice processing procedures.*

## **Currency of the Ledger**

27. Can you print an up-to-date list of debtors at any time?
28. Are all the customer details up to date? i.e. Name, address, contact details?
29. Are all the transactions up to date in your ledger? Invoices, credits, payments?
30. Do you enter invoices and payments contemporaneously (ASAP)?

The currency of the ledger leads on to the next topic of The Condition of the Ledger. Not only do the transactions need to be up to date but so does the customer information – particularly the contact details. Being able to directly contact the person who issues the payments can save you a lot of time in phone calls.

*The Debtor's Ledger Management course explains procedures to make sure your ledger is up to date with the required information to make your ledger efficient.*

## **Condition of the Ledger**

31. Are any of your outstanding invoices more than 14 days overdue?
32. Have you tried negotiating payment agreements?
33. Do you have a strategy for reducing the current customer debt?

This topic is part of the assessment of your current ledger and the strategy to reduce the current customer debt.

*The Debtor's Ledger Management course gives you a step by step strategy to reduce the customer debt in your current ledger. Most business owners just keep phoning the outstanding debtor or take legal action. Having a specific strategy to deal with the problem puts the business owner in control of the situation. It may or may not help with getting the customer to pay but it will assist in assessing the customer and deciding what to do so you can clear the ledger of the debt.*

## **Reports**

34. Do you print your accounts receivable reports at least weekly?
35. Are these reports detailed? Invoice numbers, due dates, contact person?
36. Do you file these reports for future reference?

Monitoring the ledger consistently is very important in order to keep control of any customer who does not pay by due date.

*The Debtor's Ledger Management course discusses various reports the business owner can print and prepare. An example of an ageing detailed debtor's report is illustrated with all the customer, ageing and invoice details required.*

## **Overdue Actions**

37. Do you place the customer's account on stop credit when invoices become overdue?
38. Do you send out letters of reminder or final notice?
39. Do you have an overdue actions strategy?

Placing a customer's account on stop credit should be a policy of the business and should apply to all customers. Even a long standing customer can have cash flow problems – especially these days where the economy is so unpredictable.

*The Debtor's Ledger Management course explains a step by step Overdue Invoice Strategy which includes what to do when the customer invoice becomes overdue. This includes the actions if the account is overdue or the account has exceeded the credit limit.*

## **Debt Collection**

40. Do you phone customers for overdue invoices once or twice a week?
41. Do you have a schedule of debt collection actions?
42. Do you have difficulty asking for payments? Do you know what to say?
43. Do you keep a diary of conversations and correspondence with the customer?
44. Do you have a set of reminder and debt collection letters?
45. Can you identify a delinquent debtor?
46. Do you have an on-going strategy to manage the debt collection processes?
47. Are you aware of the provisions of your local debt collector's laws and regulations?

Being consistent and persistent the ledger should be easily controlled. Having an Overdue Invoice Strategy to schedule when to make phone calls, send letters or emails out saves time puts you in control. All business owners and their employees should be aware of the ACCC debt collection guidelines. These regulations do not apply just to debt collectors but to anyone giving credit to a customer.

*The Debtor's Ledger Management course explains a step by step strategy to deal with overdue invoices, discusses ways for keeping records of correspondence and phone calls, lists all the activities you need for successful debt collection and advice about delinquent debtors and customers with cash flow problems. The course all includes templates of collection letters, payment agreement and a phone call script to give the caller confidence and the questions to ask in order to get paid.*

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*A Debt Collection course is available for business owners who only wish to have the skills and templates required for debt collection alone.*

*The desired outcome of the ledger management is to reduce the risk of customer debt getting out of control. Debt collecting activities alone will not protect or reduce the risk for a business, of uncontrollable customer debt.*

## **Debtor's Ledger/Credit Manager and Staff**

48. Do you have one person managing the debtor's ledger?
49. Do you have another person to take over if the ledger manager is absent – to maintain consistency?
50. Are your accounts employees trained in debtor ledger management?

Appointing one person to be the ledger manager ensures consistency in the management of the debtor's ledger. If several people are contacting customers, then follow up calls will not be made. A complaint could be missed and an invoice could go unpaid until it is too old and has to be written off.

*The Debtor's Ledger Management course discusses various reports the business owner can print and prepare. An example of an ageing detailed debtor's report is illustrated with all the customer, ageing and invoice details required.*

## **Staff Training**

51. Do you train your employees in debt collection procedures?
52. Do you train your employees in your policies and procedures?
53. If you engage contractors to phone your debtors do you make sure they know your policies and procedures?
54. Are your employees (and contractors) up to date on the debt collection laws regarding their behaviour towards a debtor.

Untrained employees phoning customers for overdue payments will not improve your rate of customer debt recovery as they do not have skills in debt collection, customer negotiation and interpersonal skills to deal with customer excuses. If staff are not trained in the policies and procedures of the business relating to the debtor's ledger management they may make decisions that are not in line with the views of the business owners.

*The Debtor's Ledger Management course discusses the importance of training your employees in your policies and procedures and lists other essential skills needed to successfully manage the debtor's ledger.*

## **Meetings**

55. Do you hold weekly meetings to monitor the debt collection processes?

56. Do you have an agenda for the meetings?

Weekly meetings are essential to manage an effective debtor's ledger to monitor the activities of customer payments and your employees so you know everything is done to reduce the risk of customer debt getting out of control.

*The Debtor's Ledger Management course explains in detail what should go in the agenda and the sorts of reports that are useful to the business, such as the number of complaints and how long they take to be resolved. The reports and monitoring can lead to identifying business weaknesses which need improvement.*

## **Policies and Procedures**

57. Do you have policies and/or procedures covering:

- a. The Management of the Debtor's Ledger
- b. Complaints
- c. Customer Credit
- d. Terms of Trade

Policies and procedures can keep all the management and staff on the same page.

Policies and Procedures are the strategic link between the business vision, and its day-to-day operations. Well-written business policies and procedures allow employees to clearly understand their roles and responsibilities within predefined limits. Basically, policies and procedures allow management to guide operations without constant management intervention. And constant intervention equates to increase operating expenses that ultimately detract from your business's profitability.

*The Debtor's Ledger Management course explains why you need each policy plus an extra policy – the Credit Policy and Management Plan. This extra policy is the overall strategy that encompasses all the relevant policies required to manage the cash flow. It is a good addition to your business and marketing plan.*

*This course does not explain in detail how to write these policies. You will find a course in Policies and Procedures on the Biz Skills website*

## **Government Laws and Regulations**

58. Are you aware of the laws that govern or regulate your behaviour towards a debtor?

59. Have you tried to source these documents?

60. If you have the laws and regulations, have you made sure your employees and contractors are knowledgeable and abide by them?

61. Are you fully aware of the privacy laws and the security you should provide for a customer's information and details?



The ACCC has issued the Debt Collection Guidelines which are not just for debt collectors but anyone who gives credit to a customer. This includes all small business owners who give credit.

Business owners and their employees should read the document as a business owner is responsible for the behaviour of their employees towards a debtor.

*Biz Skills has links to the ACCC websites where the guidelines can be downloaded.*