

# Accounts receivable kpis and dashboards conduent

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Understanding Accounts Receivable KPIs and Dashboards\*\*

### What are KPIs and Dashboards?

Key Performance Indicators (KPIs) are quantifiable measurements that track the performance of a specific business objective or task. Dashboards are visual representations of these KPIs, providing a comprehensive overview of progress towards achieving goals.

### KPIs of Accounts Receivables

- **Average Days Sales Outstanding (DSO):** The average time taken for customers to pay their invoices.
- **Accounts Receivable Turnover:** The number of times accounts receivable are collected and replaced within a year.
- **Bad Debt Expense:** The amount of unpaid customer invoices that have been written off as uncollectible.

### Measuring Accounts Receivable Success

- **Monitor KPIs regularly:** Track KPIs to identify trends and areas for improvement.
- **Compare against industry benchmarks:** Benchmark performance against similar businesses to gauge effectiveness.

- **Set targets:** Establish performance goals based on KPIs and strive to achieve them.

## KPIs and Dashboards in Financial Condition Analysis

- **Assess liquidity:** KPIs like DSO and Inventory Turnover provide insights into the company's ability to generate cash.
- **Estimate future cash flow:** Dashboards can project future cash inflows and outflows based on historical data.
- **Identify financial risks:** KPIs can highlight potential issues, such as high bad debt expenses or extended payment terms.

## The 10 Rule for Accounts Receivable

This rule states that businesses should focus on collecting payments within 10 days of the invoice date to maintain a healthy AR balance.

## Three Key Indicators in Receivables

- **Days Sales Outstanding (DSO)**
- **Accounts Receivable Turnover**
- **Bad Debt Expense**

## Building KPI Dashboards

- **Identify relevant KPIs:** Determine the key performance indicators that align with business objectives.
- **Gather data:** Collect historical data from systems such as accounting software and CRM.
- **Create visual representations:** Use charts, graphs, and gauges to present KPIs in an easily digestible manner.

## Standard KPI Dashboard

- **Financial Metrics:** AR Turnover, DSO, Bad Debt Expense
- **Operational Metrics:** Order-to-Cash Cycle, Customer Satisfaction

- **Predicted Metrics:** Projected Cash Flow, Future AR Collections

### Preparing KPI Dashboard in Excel

- **Use Excel's Formulae:** Utilize functions such as AVERAGE, COUNTIF, and SUMIF to calculate KPIs.
- **Create Visuals:** Use Excel's charting tools to create graphs and charts representing KPI data.
- **Use Conditional Formatting:** Apply conditional formatting rules to highlight variations in KPIs.

### Monitoring Accounts Receivable

- **Review AR aging reports:** Track overdue and delinquent invoices to identify potential problems.
- **Communicate with customers:** Contact customers who have outstanding invoices to resolve issues and expedite payments.
- **Automate reminder processes:** Set up automated reminders and notifications to prompt customers for payments.

### Optimizing Accounts Receivable

- **Offer incentives for early payment:** Consider discounts or bonuses for prompt payment.
- **Centralize invoice processing:** Streamline the invoice process to reduce delays.
- **Implement credit checks:** Screen new customers to minimize the risk of bad debt.
- **Monitor payment patterns:** Identify customers with a history of late or missed payments.

### Measuring Accounts Receivable

- **Calculate DSO:**  $(AR / Sales) * 365$
- **Calculate AR Turnover:**  $(Sales / AR)$

- **Calculate Bad Debt Expense:** (Allowance for Bad Debts / Net Sales)

### Calculating KPI

- **Determine the KPI:** Identify the specific performance indicator to be measured.
- **Gather data:** Collect relevant data from various sources.
- **Apply formula:** Use appropriate formulas or equations to calculate the KPI.

### Best Way to Display KPIs

- **Visualize trends:** Use charts or graphs to display KPIs over time.
- **Use color-coding:** Highlight positive or negative trends using different colors.
- **Simplify presentation:** Present KPIs in an easy-to-understand and accessible manner.

### Most Common KPI

- Net Profit Margin
- Customer Churn Rate
- Employee Turnover Rate

### The 80/20 Rule in Accounts Receivable

This rule states that 80% of a company's AR is typically collected from 20% of its customers.

### GAAP for Accounts Receivable

Generally Accepted Accounting Principles (GAAP) require businesses to account for AR at its net realizable value, considering potential deductions for bad debts.

### Good AR to AP Ratio

A ratio of 1:1 indicates that a company's AR is equal to its accounts payable (AP). A higher AR to AP ratio may indicate a risk of cash flow issues.

## Best KPI for Accounts Receivable

DSO is considered a key performance indicator for accounts receivable, as it measures the efficiency of the collections process.

## KPI AR Turnover

Accounts Receivable Turnover measures the number of times AR is collected and replaced within a year, indicating the overall efficiency of the AR management process.

## Good AR Turnover Ratio

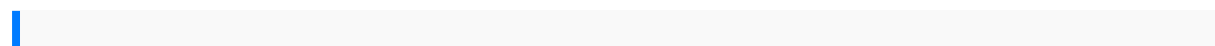
A high AR turnover ratio (generally above 1) indicates that a company is effectively managing its AR and collecting payments promptly.

## Key Ratios for Accounts Receivable

- **AR Turnover Ratio:**  $(\text{Sales} / \text{AR})$
- **DSO:**  $(\text{AR} / \text{Sales}) * 365$
- **Bad Debt Expense Ratio:**  $(\text{Allowance for Bad Debts} / \text{Net Sales})$

## Monitoring Accounts Receivable Effectively

- Regularly review AR aging reports.
- Communicate with customers proactively.
- Leverage technology for automation.
- Set clear payment terms and expectations.
- \*\*Monitor payment patterns and identify potential risks.



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