Any business owner knows this all important rule – a sale isn’t a sale until the cash is in your bank account.

Collecting accounts receivable may not be the most pleasant task when running a business, but it’s one of the most important. Not having enough operating cash when you need it will undoubtedly affect the bottom line of your business, and if cash flow is poorly managed it can even put your business at risk.

Here are some helpful tips to stay on top of your accounts receivable and improve your credit to cash results:

1) Send out bills promptly. Your best chance to get paid is in the first 30 days. Outline the agreed terms of payment (this should be agreed upon at the time of sale) and indicate interest will be charged on late payments.  
2) Make sure invoices are accurate and provide correct mailing addresses and contact information since errors provide an excuse for not paying.  
3) Make it easy for your customers to pay you by offering all standard payment options – credit card, cheque or direct deposit into your bank account.  
4) Establish a schedule for collection for each account. Don’t wait until an invoice is past due before taking action.  
5) Call right away when an account reaches its due date for payment. Don’t rely on letters, faxes and emails that can be easily ignored.  
6) Attitude counts. As it can be uncomfortable asking customers for money have a trained accounts receivable manager with client-friendly skills make the calls. Treat them as customer services calls, not collection calls, as you don’t want to loose your customers.  
7) Develop long-term business relationships with your customers. They will be less likely to delay payment if you are on friendly terms.  
8) Be flexible but firm. If necessary work with your customers to establish a repayment schedule but be firm in holding your customers accountable to meet their financial obligation.  
9) Be persistent. Often a customer will pay the invoice for no other reason than to stop receiving your calls and reminders.  
10) No matter how diligent you are about your collection process, there will always be some customers who will not pay you. In the same way people can buy insurance to protect themselves from job loss or disability, companies can buy credit protection with Veri-Cheque’s Accounts Receivable Guarantee program to protect your business from financial risk when customers are unable to pay you for goods and services they purchased. Under this program, Veri-Cheque pays you for any past due invoices including bankruptcies. In addition, Veri-Cheque offers a Cheque Guarantee program, where you receive payment for any returned guaranteed cheques on authorized C.O.D. orders.

As a credit authority to businesses, Veri-Cheque’s Credit Protection and Cheque Guarantee Programs allow companies to safeguard their commercial accounts receivable against unexpected financial losses. Companies are guaranteed payment for goods sold to customers anywhere in Canada and can even extend higher credit limits to their customers, thus reducing the chance of nonpayment, in effect allowing them to grow their sales risk-free.

Our company’s credit managers work with each company to better manage their business and increase profits. We assume the risk of nonpayment and eliminate the need for expensive debt collection services. Give us a call at 800-268-3284 and we would be happy to discuss your business’ credit protection needs.

13 Strategies to Speed up Collections

With the end of the year fast approaching, companies are eager to get their accounts receivable up to date. Most companies wait until an invoice is past due before taking action. But why not be proactive?

The following strategies can be used to get accounts paid before they are due and speed up the collection process.

1. **Update your A/R management software.**Ineffective systems not only slow the process down but fail to provide the intelligence required to improve your credit to cash results.
2. **Reevaluate your lockbox placement.** If you use one or more lockboxes, do a study to determine if they are placed in the optimum location for collections. Lockbox studies should be done periodically, and lockbox business should not be automatically given to a local bank. Depending on the amount of business going through your lockbox, more than one location may be desirable.
3. **Review your policy regarding billing dates and procedures.** Make sure invoices are mailed on a regularly scheduled basis and that they include all necessary information. Include your payment terms and any past due interest charged on the invoice itself.
   * Some companies have speeded up collections simply by changing their billing cycle from twice-a-month to once-a-week. Another idea is to invoice early in the month. Many companies do a once-a-month check run and, if your invoice happens to miss their monthly run, you'll have to wait another 30 days to get paid.
4. **Review the technology your company is utilizing to interact with customers.**Are you using e-mail, imaging, EDI, faxes, voice mail, electronic bill presentment and payment? While all might not be appropriate for your organization, using one or more might speed things up.
5. **Discuss your terms with your buyer at the time of sale.**Make sure they are agreeable. Also, discuss the best way of getting paid before you ship or begin work. Will it speed up payment if you send the invoice to the actual buyer rather than the Accounts Payable department? Who has to authorize it?
6. **Make it easy for the customer to pay you.**This may seem like common sense, but it's an element that is often overlooked. Offer all standard payment options. Ensure that your invoices have the correct contact information and postal address for remittance. Include a payment envelope with the correct remittance address. Use invoices that make it easy for the customer to remit, as well as easy for them to keep a record of the invoice and payment.
7. **Review your experience with the late paying customer.**Has this customer been a consistently late payer? Does he wait until you call, or even place with a collection agency, before paying you? Has anything changed with the customer? Knowing how your customer responds and what he needs to get him into payment mode can give you the edge in keeping his account current.
   * If you aren’t already a member, join a credit group. This will provide you with the relevant, current information you need to stay on top of your accounts. [Click here](http://www.abc-amega.com/credit-group-management) for information on ABC-Amega's Credit Services.
8. **Review your company’s overall procedures to see if you can determine why payments are late.** Are there any procedures that you can tighten up to in order to speed up payments? For instance:
   * Are shipments accurate? Were delivery and quality promises kept by your firm?
   * Are your salespeople making promises your company isn’t able to keep?
   * Are invoices being sent timely? Are they accurate? Do they include all necessary information, including a phone number for billing inquiries? Were they sent to the correct address and attention?
   * Are follow-up contacts being made on a regularly scheduled basis?
   * Are you placing with collection professionals on a timely basis?
9. **Develop a specific collection plan and stick to it.** For instance:
   * Call 7-10 days prior to the due date to ensure the products/services were received timely, there are no disputes, and the customer plans to pay (and when).
   * Call within a week after payment is due to find out what is delaying the payment, and to get a payment commitment from the customer.
   * If the customer reneges on their payment promise, contact them again until payment is received. If it's not received within 90 days after the due date, hand off the account to the professionals.
   * If possible, and especially for larger past due balances, don’t rely on letters, faxes or emails, which can be easily ignored or “lost” in transit. Make a phone call.
     + **Very important –** record any promises made by the customer, including the date they were made and the date payment was promised. Saying to a customer, “When we spoke on Monday, May 25th, you promised payment by Friday, May 29th”, puts the debtor on the spot – much more so than a vague recollection of the conversation.  If you can’t manage to stay with a collection schedule in-house, consider outsourcing to a first-party collections outsourcing firm.
10. **Create “collection specialists” within your credit department and provide some collector training.** If everyone in the department has multiple responsibilities, you can be sure that collecting will be the last thing they do. Why? Because it’s uncomfortable asking for money from customers.
11. **Recruit branch managers and sales people to help in the collection effort.** In many cases, these are the people closest to the customer with the greatest ability to impact the collection cycle.
12. **After a reasonable period of time (say, 30 days) contact the person that directly purchased from or hired you.** Send them a copy of the invoice. If you are supplying to a medium to large business, it’s likely the person who bought your product or service has nothing to do with Accounts Payable. However, they’re usually happy to help, especially if the product or service was “as promised”.
13. **Develop a personal relationship with the Accounts Payable managers at your largest customers.**If more than one person handles your account, always ask for the same person and attempt to develop rapport with that individual.

By taking some steps to improve your billing and collections process, you can go a long way toward getting your sales finalized sooner and more efficiently. Going proactive on this is like money in the bank.

# The Reasons for Changes in Accounts Receivable Turnover

by Jeffrey Joyner



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Small and large businesses alike can analyze various ratios to determine how well they are controlling expenses and maintaining adequate cash flows. One analysis that might be valuable for owners of small businesses is a study of their accounts receivable turnover. Changes in this number can reflect problems within the company itself or issues that relate to the overall economy. However, certain changes might also indicate positive signs for your company.

## Calculating Accounts Receivable Turnover

To calculate your accounts receivable turnover ratio, divide your net sales by your average gross receivables. To calculate your accounts receivable turnover in days, divide your annual net sales by 365, then divide your average gross receivables by the result. To find your average gross receivables, add your accounts receivable at the beginning of the year to your accounts receivable at the end of the current accounting period and divide that sum by two.

## Changes in Accounts Receivable Turnover Ratio

If your turnover ratio is decreasing, this means that your average collections are taking longer. The reverse is true if you turnover in days is decreasing; this means that your average collection period is decreasing also.

## Causes of Changes to Accounts Receivable Turnovers

If the turnover ratio is decreasing, or the turnover in days is increasing, the problem might indicate a downturn in the economy or in a particular industry. Companies that are having cash flow problems tend to remit payments later than those with an adequate cash flow. The danger for your company is that if your customers do not remit on time, you may have trouble paying your vendors on time. The problem may also be caused by a difference between your terms and the industry standard. As an example, if most companies in the industry offer customers the ability to pay invoices in 45 days, your customers may fail to respect that your terms allow only 20 days to remit payment. If your company lessens its efforts to collect past-due accounts, you should also see the results in your accounts receivable turnover rates. You might want to review your credit policies; if you have begun accepting accounts that are not as credit-worthy as previous clients were, you might see a negative impact on your turnover rates. If your turnover ratio is increasing, or the turnover in days is increasing, conditions should reflect the opposite as well. In other words, the economy or industry should be strong, your customers should not be experiencing cash flow problems and your terms should reflect the industry standards. You normally have adequate credit policies and are doing an adequate job of collecting from slow-paying accounts.

## Customer Satisfaction

Not all customers who are slow to pay do so because of financial issues. They might have received the wrong product, the shipment might have been damaged in shipment or the invoice might be incorrect. Your customer service department should be handling such issues in a timely manner. If customer service is not performing adequately, you might see this reflected in your accounts receivable turnover. If you seldom have issues of this nature, your turnover numbers will probably not be affected. However, a small company that makes frequent mistakes on shipments or prices will likely see changes in the turnover rates if it does not respond to the customers' issues in a timely and satisfactory manner.

# Accounts Receivable

Share[**55**](http://www.investinganswers.com/financial-dictionary/financial-statement-analysis/accounts-receivable-37)

## WHAT IT IS:

Accounts receivable is an important factor in a company's working capital. If it's too high, the company may be lax in collecting what's owed too it and may soon be struggling to find the [cash](http://www.investinganswers.com/node/5011) to pay the bills; if it's too low, the company may be unwisely harming customer relationships or not offering competitive payment [terms](http://www.investinganswers.com/node/5890). In general, accounts receivable leciels correspond to changes in [sales](http://www.investinganswers.com/node/5682) levels.

Companies can sometimes use their [receivables](http://www.investinganswers.com/node/5111) as [collateral](http://www.investinganswers.com/node/1034) for borrowing money. The level of accounts receivable also affects several important financial-performance measures, including working capital, days payable, the [current ratio](http://www.investinganswers.com/node/1095) and others.

It is important to note that uncollectible receivables do not qualify as assets (these uncollectible amounts are reclassified to the allowance for doubtful accounts, which is essentially a reduction in receivables); thus, companies usually allow only creditworthy customers to pay days, weeks or even months after they've received the company's services or goods. Sometimes companies sell their receivables for cents on the dollar to other companies that focus solely on collecting the owed amounts.

# The Top Ten Accounts Receivable Management Best Practices

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Managing cash flow properly is essential for any company or organization, and one common cause of business cash flow issues is poor management of accounts receivable. These days, too many business owners make the mistake of assuming that because a customer has bought a product or service from them, he or she will automatically pay for it. Unfortunately, an increasing number of retailers are discovering there are many customers who fail to pay in a timely manner, and often some who fail to pay at all. Slow payments will often cause business owners to have to use their cash reserves or increase their financing. An additional problem is that as unpaid accounts age, the chances of collecting the debts continues to diminish. The more cash a company ties up in receivables, the less is available to run the business. Therefore, a good understanding of [accounts receivable management best practices](https://mybillingtree.com/accounts_receivable_management) is essential to successfully running any business.

## Taking Steps to Deal with Debt

Here are 10 of the top accounts receivable management best practices to put in place for your business so you can limit bad debt.

* E-mailing invoices rather than mailing them – customers often claim they have failed to receive an invoice if it is sent by regular mail. E-mailing ensures you have proof of sending.
* Shorter payment terms – when paper checks and invoices were common, businesses often extended credit to their customers to allow for delays in the mail. However, these days, as Internet payments and e-mails are more commonplace, adopting a “payment due on receipt” strategy is a better option.
* Offering a variety of payment methods – by offering online [payment portals](https://mybillingtree.com/payment-solutions/payrazr-portfolio/payrazr-payment-portals/) that accept a variety of payment options via several channels, companies stand the best chance of receiving payment on time. Online portals are open 24/7 and offer a convenient option for all customers.
* Establishing a credit policy – for any company that is considering extending credit to its customers, performing a credit check is certainly worthwhile to assess the customer’s ability to pay.
* Regular review of accounts receivables – it is vital to track the aging of accounts receivables and follow up on all overdue accounts systematically after a certain number of days. Accounts receivable management best practices determine a report should be run every week to identify overdue accounts, and, especially, those older than 20 or 30 days.
* Follow up any unpaid invoice with a telephone call if a payment hasn’t been received after a certain time. E-mails and letters aren’t very effective since the customer is not actively engaged. Speaking directly to the customer is the best way to maintain a positive customer relationship and resolve the payment problem as quickly as possible.
* Maintain a record of collections – a log must be kept of any overdue account, including times and dates of all e-mails and phone calls and the customer’s response.
* Offering discounts for making payments early – customers are more likely to make an early payment to a company that offers them a discount for doing so.
* Using a factoring service – factoring services can improve your cash flow greatly, especially for companies with long collection cycles.
* Using a collections agency – companies that find they cannot collect their debts, even when they have followed all the above methods, should submit the overdue account to a collections agency. Although customers are unlikely to return after being pursued by a debt-collection firm, they are not the sort of customers you need anyway.