The ultimate guide to accounts receivable

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Contents

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The ultimate guide to accounts receivable

82% of businesses suffer from poor cash flow (U.S. Bank). This puts smaller businesses at risk of insolvency and hinders larger businesses in forecasting and planning for the future. A large factor in this is late and inconsistent customer payments. As most finance professionals with experience in accounts receivable will know, late payments are a problem for the majority of businesses selling on payment terms. In fact, in the average month, 48% of all invoices are paid late (Xero). More recent research shows this issue is becoming even more prevalent, with the CPA noting a 209% increase in overdue invoices since the the world health organisation declared the pandemic (CPA, 2020).

This guide will help you optimise your accounts receivable processes, and put an end to those late and inconsistent customer payments!

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Overview of the accounts receivable process

Your receivables process shouldn't begin once an invoice becomes overdue. World- class accounts receivable begins from the very first contact you have with a customer.

Some businesses differ slightly, but here's an overview of the general AR process:

- Develop a clear, internal accounts receivable **procedure**
- Understand your new **customer**
- **Credit check** your new customer
- Mutually **agree terms** with your customer before delivering goods or services
- Issue the invoice **immediately** after delivery of goods or services
- Politely chase your customer **before** the invoice is due to ensure they're on track for payment
- Continue politely and persistently chasing your customer for payment if they **haven't paid** by the due date
- *Optional* - for truly troublesome customers, go 'nuclear'
- **Thank** your customer for payment as soon as possible after receiving it

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4 cornerstones of your AR procedure

The first step of building an effective AR process is formalising a clear, internal credit control procedure. Here are the 4 most important cornerstones every credit control or ‘accounts receivable’ procedure needs.

1. Schedule invoice chasing time every week

- Book the time out in your calendar in advance. Never cancel it, never miss it. accounts receivable is classically a non-urgent task (until it’s too late), meaning it will easily fall by the wayside of other tasks.
- Alternatively, save time every week by using an automated accounts receivable management software like Chaser, to take care of chasing for you. See an example of one business that saved over 15 hours per week with accounts receivable automation here.

2. Maintain invoice communications histories

- Log all communications with every customer about every invoice. Emails, phone calls, letters, meetings - log it all. Always include:
  - Invoice reference number
  - Date & time
  - Parties involved and their contact details
  - Communication medium and content
- This will ensure you always have the full picture when you chase your customers, leaving them no room for unjustified excuses to delay payment. Don’t just capture data in any old Word doc or Excel spread- sheet and trust you’ll find it later. Proactively plan your data storage to be easily navigable and searchable.
- Conducting accounts receivable via multiple individual, or shared, email inboxes will be difficult. Businesses on a shoestring budget can try Google Sheets. However, using an accounts receivable software can make this process more effective and efficient. Chaser automatically consolidates this data for you, providing an always up to date ‘CRM’-style view of all your receivables communications in one centralised location.

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4 cornerstones of your AR procedure

3. Regularly assess problem invoices

- For larger businesses, this may mean holding credit control meetings. For smaller businesses, this should be covered in regular finance meetings. Always complete bank reconciliation on the day of the meeting to ensure you're working with the most accurate and up to date info.
- Bring to the meeting: invoices arranged from longest and monetarily largest overdue, communications histories of these invoices, and the customers' past payment trends.
- Decide and assign crystal clear next actions on how to ensure payment is made on these invoices. To best keep on top of invoices before they become really problematic, ensure you have these meetings be- tween weekly and fortnightly.

4. Inform the business of bad payers

- If assessing problem invoices reveals customers with poor payment trends, let other departments in your business who have touch points with them know. This may be sales reps or account managers. This will empower them to leverage their relationship with the customer to ensure overdue invoices are paid.

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4 questions you must ask new customers

To conduct world-class accounts receivable, you need to be empowered with knowledge about your customer. Here are the 4 questions you must ask your customer ASAP to ensure you make any future invoice chasing as effective and efficient as possible.

1. What information do you need to make payment?

- Not every customer is the same. Don't treat them the same. Always ask what info they need to be able to make payment on invoices. If you need more information on meeting your customer's different payment needs, you can use our guide on offering flexible payment arrangements.
- A classic example of a requirement by some companies and not others is the approval of a purchase order. More often seen in larger companies, purchase orders can get "stuck" in processing and still be awaiting approval when the invoice due date rolls around. If this ever happens to you, don't expect to be paid until they've approved it.
- Avoid issues like this by always asking for your customers' requirements to be able to make payment upfront.

2. Who should I speak to in order to settle payment on this invoice?

- Someone in your customer's organisation will be responsible for making payment on your invoice. It might not necessarily be the person you think it is, or even the person you've dealt with previously.
- Always ask this question before undertaking any work or delivering any goods. Otherwise you'll waste your time chasing the wrong person, and irritate your customer doing so.

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4 questions you must ask new customers

3. When you do make your payment runs?

- It's not unusual for Accounts Payable to make their payments in batches. A typical example is batching up invoices due to be paid until the end of the month.
- While this doesn't give them licence to justify paying you past the invoice due date, knowing their payment behaviour is valuable knowledge. It can enable you to align your invoice chasing with when they are used to making payments. If you do have to chase a customer about an overdue invoice, knowing their payment runs can make the difference between getting paid soon and having the situation potentially drag out for another four weeks.

4. What are your business details for invoicing purposes?

- If you accidentally put the wrong information about your customer on an invoice, it gives them reason to delay payment. Make sure you haven't misunderstood any details about their business by asking this question, and running through their details with them.
- Common details always worth double-checking are their legal business name (it may differ from their brand name) and their address for invoicing (it may differ from the address you know).

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Conducting a credit check

Know their limits

Very few organisations or institutions are required to report to credit agencies. Very rarely will a credit check fully and accurately represent the company in question.

Some legal matters such as CCJs may show, but even businesses with “clean” records can still be difficult customers to deal with. And for really new businesses, credit checks won’t show any- thing and don’t provide value at all.

Don’t fall foul of thinking a credit check is the be all and end all of assessing potential customers.

When to conduct

Conduct a credit check if the industry you operate in is known to have “dodgy” companies. Or if your potential customer is a total unknown whose reputation you can’t source anywhere.

You can see more guidance on when and how to conduct credit checks within your credit control process in our ‘Essential Guide to Collections for Credit Controllers’.

You may be required to conduct

If your business insures its debt, for example, conducting a credit check on every new customer may be a mandatory requirement.

Use a credit application form

This ensures you’re getting all the data you need to perform a credit check, from the source. Make sure you include a clause to confirm your potential customer is consenting to you performing the check.

Red flags

- Always look at the recommended credit limit from your credit check and see if it aligns with what you’d usually assign customers
- Check there are no discrepancies in the info they gave you
- Look for legal issues such as director disqualifications and CCJs
- Performance / net worth is in decline
- Watch out for companies that have gone into liquidation then come back trading under another name

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Conducting a credit check

Don't be afraid to go pro forma

If your potential new customer is showing any red flags, ask them to pay up front for a few sales so you can judge their potential for a line of credit in future.

Ask for trading referees

While you're issuing a credit application form, ask your potential new customer to put you in contact with some past or existing suppliers. Preferably get someone in the same or similar industry to your business.

Ask the supplier:

- How long the customer has had an account with them
- Their credit limit
- How often they pay late and by how long

Send a welcome letter

Once you've opened their credit account, it's good practice to email your new customer letting them know. This should include:

- Terms
- Email addresses you'll send invoices and re- lated communications to
- Your payment details
- Who to contact at your business if any queries arise

What you need in your sales terms

Before you agree to undertake any work with your customer, or deliver them any goods, you need to agree to sales terms. These protect your business from unnecessary disputes by clearly defining the scope of the transaction between you and your customer. To enable you to conduct world-class credit control, always include these five things in your sales terms.

What the work is and how long it will take

Or what the goods are, if you're not delivering services. Your customer needs to know exactly what they're paying you for.

Cost to your customer

Perhaps an obvious one. Your customer needs to know what they're paying you.

When you invoice

You should be doing this as soon as goods or services have been delivered. But you should also document this in your sales terms as evidence the customer was informed.

When payment is due

You should be doing this as soon as goods or services have been delivered. But you should also document this in your sales terms as evidence the customer was informed.

What you'll do in event of late payment

As a method of preparing your customer for your accounts receivable process. If you make this clear, they won't justifiably be able to attack back when you chase them for payment. They may also be more inclined to pay you on time in the first place, because you'll appear competent. When deciding what actions to take in the event of late payment, you can view useful suggestions in our 'What to do when customers aren't paying' guide.

Make sure customers sign these terms before you begin work.

Whether physically or digitally, getting your sales terms signed before commencing work for your customer is key. This way they will have no justifiable grounds to challenge them, saving you a lot of potential future headaches.

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Invoicing best practice

An invoice is a key piece of communication between a seller and a buyer. By design it should be unambiguous. To ensure your customers are never left wondering (and potentially withholding payment because of it), never forget these pieces of information on your invoices.

Payment methods you accept

Your customer needs to be able to pay you. Make it clear which methods they are able to pay you by. If you accept cheques, you should make it clear on the invoice the address and addressee of the cheque. If you need more info on different payment methods, and meeting your customer's varying payment needs, see our free guide to flexible payment arrangements here.

Payment details

Your business bank account details. Remember, if you're ever changing banks and need to accept payment, you need to do one of two things. Either set up a transitional arrange with your bank to ensure you can receive payment while changing. Or update your outstanding invoices and reissue them to customers to ensure they're sending payment to the correct account.

International bank details

Include these if necessary. It's worth noting that just because you're trading with a domestic company, you might not necessarily need to invoice a domestic company. It's not unheard of for foreign parent companies to pay the invoices of their subsidiaries.

Payment terms

So your customer knows how long they have to make payment.

Invoicing best practice

Invoice date

A critical reference point. Your payment terms run relative to this date. Together they tell your customer exactly when he or she will have to pay the invoice.

Your VAT or sales tax number

Check your local government guidance, if you're a VAT-registered business in the UK, it is a legal requirement to include this.

Description of goods or services

So your customer knows what they're paying you for. Be sure to include unit costs and quantities if applicable.

Purchase order number

If your customer requires this. This is more typical of larger companies with multiple departments, as a way of controlling budgets. If your customer uses purchase orders, it's extremely unlikely you will be paid if you don't include the PO number on your invoice.

Always ensure you issue invoices ASAP

You need to issue the invoice to your customer the instant goods or services are delivered.
The longer you wait, the less chance you have of getting paid on time.

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Payment reminder emails

After you've issued an invoice to your customer, you enter a new stage of the accounts receivable process. In this stage you'll be following up with your customer via email and phone (for more guidance on accounts receivable phone calls, see our 6 best practice scripts in this blog) to chase payment. Let's take a look at the elements that make up an email chaser.

In the subject line

- Include your business name and the invoice reference number. This lets your customer instantly know who and what they're dealing with, right from their inbox.

In the body text

- Include the invoice amount owed, so your customer knows exactly what you're asking for.
- The invoice due date so your customer knows exactly by when he or she has to (or had to) act.
- If the invoice is overdue, also include the number of overdue days. This demonstrates to your customer that they've breached their agreement with you, without having to explicitly state so. This softer approach ensures they don't immediately go on the defensive, which will make them less inclined to play ball with you and pay the invoice in a timely manner.
- With Chaser, you can automatically pull personalised data, like overdue days, into all of your payment reminder emails. See how Marketing Agency Wolfgang Digital was able to save time with automated AR, whilst keeping the personal touch in all their payment reminders.

Attached to the email

- Include a copy invoice, so your customer always has the info they need to act on. Without this, you risk being fed the excuse "I can't pay this because we never received the invoice."

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Payment reminder emails

Differences between before due and overdue invoice chasers

- Subtle changes in wording can be employed to increase urgency the more overdue an invoice becomes.
- Employing this well is a subtle art. Too harsh and you'll damage the customer relationship, hurting your chances of getting paid on time in future (and potentially risking future business with the customer). Too soft and they won't feel the urgency to pay.
- We've shared our own best practice payment reminder templates for before due (within 7 days), early overdue (within 3 weeks), medium overdue (3-5 weeks), and late overdue (5+ weeks). You may wish to use these as templates for your own accounts receivable emails.

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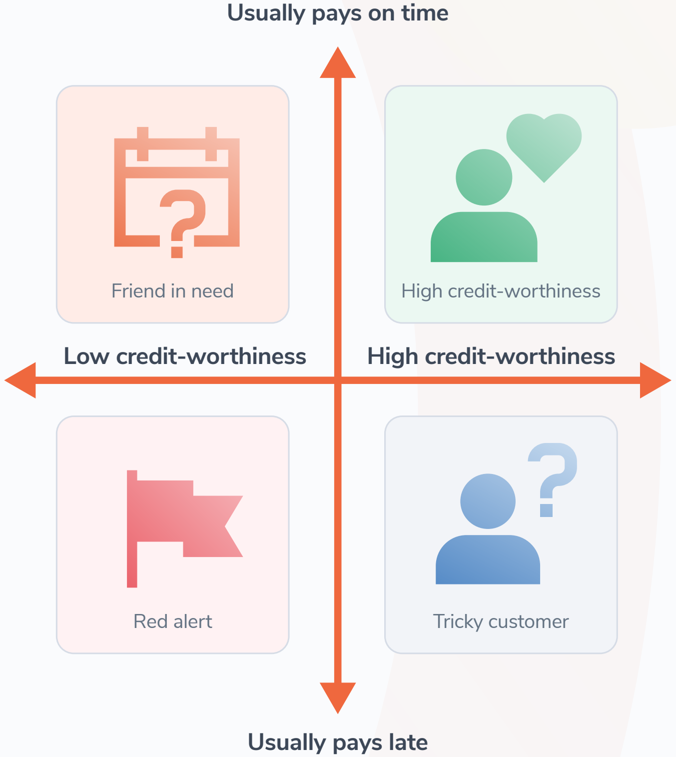
Distinguishing good and bad payers

You may have a gut feel for which of your customers' are good payers and which are bad payers. But there is an effective rubric by which you can categorise them as such. With 2 measures - how often they pay on time, and how credit worthy* they are - you can categorise your customers into 4 types:



Good customers

- They usually pay on time, are responsive to chasers, and there is usually an element of inter-business friendship between yours and theirs.

Tricky customers

- What you may instinctively label "bad customers." They'll always pay, but usually late. They're largely unresponsive to chasers or don't follow through on their promises.

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Distinguishing good and bad payers

Friends in need

- Usually former good customers that start to pose a solvency risk. Make up a very small percentage of most business' customer bases. Keep an eye on their payment trends and reconsider selling to them on payment terms.

Red alerts

- Usually former tricky customers that start to pose a solvency risk. Make up a very small percentage of most business' customer bases. Keep an eye on their payment trends and reconsider selling to them on payment terms.

*On credit-worthiness:

- This represents your customer's ability to repay debt. It reflects in the amount of credit which you can be confident in providing them.
- Receiving payment from a highly credit-worthy client is a case of when, not if - even if they're late paying you, you can be confident they will pay.
- Receiving payment from a low cred- it-worthy client is a case of if, not when - you can't be confident this customer will pay you.

World-class AR recognises the differences between good customers and tricky customers when it comes to credit control. And tailors their approach to each of the two, to maximise results.

If you're having trouble distinguishing good and bad customers at your business, you can read our full blog on the topic What Actually Makes Customers 'Good' Or 'Bad'? here.

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How frequently to chase customer payments

You're invoicing ASAP. Now maximise your chances of getting paid on time by chasing at the best times. Chiefly, chasing frequency depends on your payment terms and when you issue the invoice.

Leverage their payment run

- Use your knowledge of your customers' payment runs to your advantage. Send a chaser immediately before their next one to maximise your chance of timely payment.

Before an invoice is due

- 14 day terms (or less): Chasing before due comes across as hounding. Don't do it.
- > 14 day terms: Chase within 7 days of due date.
- > 14 day terms (but you issue the invoice < 14 days before due date): Chasing before due comes across as hounding. Don't do it.

When an invoice is overdue

- Every 2 weeks: Chase at least once. This projects competence and ensures you get paid sooner.
- Every week: Never chase more than once. Your customer will feel harassed.
- After 6 chasers without receiving payment: This is extremely poor payment behaviour on behalf of your customer. Chase more frequently than once per week.

For guidance on chasing best practice in times of uncertainty, for example when chasing up payments from customers whose businesses are at risk of insolvency, see our Chasing in Uncertain Times templates and our guidance on how to recession-proof your receivables.

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Escalating your invoice chasing

There will always be businesses that have poor payment culture. Sod's law says one or more of these businesses will end up a customer of yours. Escalating your invoice chasing ups the ante on these kinds of customers, making your chasing more effective. All to improve your chances of getting paid.

What is escalation?

- Changing the tone
- Changing the sender
- Changing the recipient

Escalation for different customers

For many businesses, some customer relationships are better than others! You may want to chase long-term clients, or consistently good payers in a different manner to those that are consistently late-paying. For this reason, we've also split our escalation guidance for both your good and tricky customers.

How to escalate your invoice chasing

Good customers

- Tone of escalation: could be described as light, warm, nudge, inquiry, a request for update.
- Escalated sender: someone in your business that has the best relationship with the customer.
- When to first escalate: 4 weeks past invoice due date or after 3 post-due-date chasers - whichever comes first.
- Remember the relationship: always assume a good reason if they've missed a due date. You want to maintain a positive relationship.

Tricky customers

- Remember the relationship: or lack thereof. As they often pay invoices late, a positive relationship doesn't exist.
- Escalation: should come much earlier in your chasing process than for good customers.
- Tone of escalation: could be described as firm, touch, detailed, clinical, to the point.
- Escalated sender: someone in your business that has the greatest job title weight and weakest relationship with the customer (e.g. Finance Director).
- When to escalate: no earlier than 2 weeks past the invoice due date.

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Escalating your invoice chasing

‘Nuclear’ options for escalating your invoice chasing

For your tricky customers, as a last resort if all other chasing options above have failed, you have the “nuclear” options. Named such because they severely and (potentially) irreparably damage the relationship with your customer.

From least to most damaging, they are:

- Using a debt collection agency
- Charging late payment penalties and interest
- Legal proceedings

Below is a quick reference summary of each escalation option, to take into account before enacting any of them:

Debt collection agencies

No win, no fee policies

It’s possible to get debt recovery agencies that don’t charge you unless they get your invoices paid.

Separation from blame

Using an agency can allow for tough (but fair) credit control practices, without any “blame” falling onto you and your business personally.

Know their process

Know exactly what an agency will do before you go with them. Ensure it’s acceptable by your company’s standards.

Check their reputability

Debt collection is traditionally full of dodgy dealers. Look at online reviews, and be wary of suspicious fees, CCJs, or lack of licensing.

For more guidance on all things debt collection, see our ultimate guide to debt recovery.

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Escalating your invoice chasing

Late payment penalties and interest

- If the customer relationship is irreparably destroyed, or they're going into administration, it can be worth charging penalties and interest. However, you could earn many multiples of this with future business, if the relationship can be repaired.
- UK government guidelines: https://www.gov.uk/late-commercial-payments-interest-debt-recovery
- During times of uncertainty, such as recession or when dealing with customers in struggling industries. Where appropriate, and in particular for any high risk customers you choose to take on, we recommend including the ability to charge late payment fees and interest on their invoices within contracts. You can see more guidance on adapting your accounts receivables procedures in times of our uncertainty in our free guide.

Legal proceedings

- Be aware of all involved costs, as you don't want to be hit with hidden and unexpected fees. Ensure your chosen legal provider, or business debt recovery service that offers legal proceedings can give you a clear, transparent pricing breakdown upfront.

Deliver all options via paper letter

The traditional, formal nature gives it appropriate significance.

- Include high-level chase history, including dates, mediums, promised payment dates.
- Explain that you've exhausted your internal processes / procedures to get this paid.
- Offer a final payment date (usually 7-10 days from letter date) and mention the nuclear option you'll be taking if it's missed.
- After posting the letter, immediately email a copy to your customer to speed up their inform and prevent them from claiming it never arrived.

Know your market

If it's highly competitive, and your customer's cost of switching to your competitor is low, you're much more likely to lose them after enacting a nuclear option.

Promised payment dates

Although a customer might miss making a payment by the invoice due date, they may have good reason and instead provide you a promised payment date. Here’s how to adjust your accounts receivable practices when that happens.

World-class accounts receivable operates on a basis of mutual respect between you and your customer. If an invoice payment date is promised, note it down, alongside:

- Who promised it
- Medium they promised it via
- Date and time

And cease all chasing until their promised invoice payment date. If your customer misses this date, you will have even more licence to more severely chase them up. With Chaser, when a customer promises a new payment date, our ‘Expected payment date’ feature automatically pauses all payment reminders until that date has passed.

It must be a specific and reasonable date, however. “During our next payment run”, “in 6 months’ time”, or similar promises should not be accepted.

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Accounts receivable phone calls

At Chaser, we've seen that 80% of unpaid invoices can be successfully collected through email chasing alone. However, there can be up to 20% which require credit control phone calls.

When to make a phone call

Phone calls are valuable in a variety of situations. They suit some customers better than others. But here are three situations in which you should always make a phone call:

- No response at all: after 3 payment reminders
- No favourable response: after 3 payment reminders
- To impose realism: for example, when threatening legal action

When dealing with very large customers, you may find making phone calls is something you do much further into the accounts receivable process compared to smaller customers. This is because it is often very difficult to get ahold of accounts staff in businesses of this size.

Information to have ready before the call:

Ensure you have all these at hand (quite literally on your screen in front of you), before you dial:

- Invoice reference number
- Goods / services invoice is for
- Invoice issue date
- Number of days overdue
- Notes of communications had so far
- Who to talk to (otherwise ask for Accounts Payable)

While these 6 items are the necessary minimum, the more info you can have on hand, the better. You might get particularly feisty accounts payable staff challenging you on the wording of the sales terms, for example.

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Accounts receivable phone calls

Desired outcome

You need to achieve one of these two outcomes during your accounts receivable phone call, before you hang up:

- Promised payment date (ideally)
- Message passed on to responsible party (if the person who makes payment is unreachable - ensure they will contact you back with a promised payment date ASAP)

Always note down the name of who you speak to, the date and time of the call, and the agreed next actions (i.e. passing along your message to the responsible party). If another email chaser is necessary, refer to the specifics of this phone call in it.

For more guidance on accounts receivable phone calls, see our blog containing 6 best practice call scripts.

Thanking customers for payments

Whenever you receive payment from your customer, late or not, always send them a thank you message. Ideally within 24 hours to not diminish its effect. This goes a long way towards building a great customer relationship over time, helping you get paid sooner in future.

Thanking good customers

You already have a good working relationship with these customers. Show it. Remember, if you don't keep working at cultivating this great relationship, your good customers won't stay good forever.

Thanking tricky customers

Sure, they may have paid an invoice late. Again. Kill them with kindness. They'll be less inclined to let down a nice supplier with future late payments, compared to a supplier that doesn't show them basic human kind- ness.

If they don't have any further aged receivables with you, politely ask them how you could work better together in future to get paid on time. You may uncover new info to help tailor your chasing to better get paid on time in future.

If they do have further aged receivables with you, you may instead use the opportunity of a thank you to help chase these up. You may uncover new info to help tailor your chasing to better get paid on time in future.

You can see our best practice guidance on thanks for paying messages, including ready-made thank you templates to send to customers after payments.

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Thanking customers for payments

For customers on direct debit

You can leverage a thanks for paying message to offer it as a payment option to them. Compared to selling on payment terms, direct debit will bring you healthier cash flow from more consistent on-time payments. You'll also see time savings from reduced admin time, and happier customers as they no longer have as much payment admin to complete.

Direct debit does have its limitations, however. Your customer will make the switch only if the friction of paying invoices outweighs the cash flow flexibility they get by staying on payment terms. Our quick rules for direct debit suitability are:

1. Your customer is paying you on a regular, recurring basis (e.g. monthly).
2. Your customer is paying you in sub-$5,000 (or other currency equivalent) amounts at a time.

To help nudge them to switch, include on the end of your thanks for paying emails:

- That direct debit is an option for them
- How direct debit will benefit them
- The simple steps they can follow to switch to direct debit

To secure further sales

You can also use the opportunity provided by a thanks for paying message to secure further sales. If your customer has just had a positive buying experience from you, include a one-liner with a soft push towards further sales. Something like:

"If you'd like to reorder, please call **** **** **** or email *****@********.com."

We've created our own best practice templates for thanking customers for payments, you may wish to use these as templates for your own accounts receivable emails.

Thanks for paying messages don't just go a long way to build better customer relationships. By creating a moment in which your customer's defences are lowered, they can be strategically leveraged for specific purposes.

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Common accounts receivable problems and how to avoid them

Going easy on your customer

Always keep consistent to your chasing schedule. If you don't keep on top of your customer, they'll assume you'll go away and paying your invoices will drop in urgency for them.

Emails not being read

Ensure you're chasing the right person. Make a phone call and find out. If you're correct, ask them on the phone why they haven't been communicating with you.

Not being confident

Know your business. Be aware of your terms, policies, and rights. Keep all documentation up to date and accurate, and ensure all data processing and admin on your side is done correctly. No sloppiness can take place on your end. A customer that detects sloppiness or uncertainty in your approach will take advantage of it and turn it into an excuse not to pay. Be direct, unambiguous, and unwavering in your approach with your customers. Always be clear about what you will do, and follow through on what you say you will do.

Never picking up the phone

It's not just an important and powerful medium of chasing, it also helps build a better relationship with your customer. Speaking to you on the phone will make things "more real" for them than an email can. See our blog providing guidance and script templates for accounts receivables phone calls.

Difficulty reaching Accounts Payable on the phone

They're being hounded for payment all the time, so it's no surprise they duck phone calls. They would be caught up in them all day. If you're always being dodged, however, demand you be put in touch with someone else involved with the invoice. It could be whoever signs it off or someone else in Accounts Payable. Find someone connected to the invoice somehow, and put responsibility on them to ensure it's paid.

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Common accounts receivable problems and how to avoid them

Not following up in writing

Whenever you have a non-written conversation with your customer, note down what was discussed, when, and the agreed next actions. Send them a summary of this in writing ASAP after the conversation. Otherwise, they may forget or even outright dispute what happened, leaving you back at square one.

Excuses from your customer... "I wasn't aware of the payment terms"

Avoided by preventative measures. Ensure your customer is physically or digitally signing terms before any works are undertaken or any goods delivered.

"We never received the invoice"

Clean, well-managed email inboxes are rare. It's all-too-easy for an emailed invoice to get lost (or, at least, for the customer to claim so). Avoid this excuse by attaching a copy invoice to every email payment reminder. Chaser's credit control software lets you automatically attach a copy of invoices and customer statements to every payment reminder, so your customers can never use this excuse again!

"You've got the wrong details on the invoice"

Including incorrect customer info on your invoices can be prevented by explicitly asking your customer for their details up front. If they ever change them without informing you, they are at fault. Let them know it.

"The right person didn't see the invoice"

Avoid this by getting your customer's explicit confirmation of the name and contact details of the person responsible for payment. If that person changes, and your customer doesn't inform you, they are at fault. But even if the "wrong" person does get your invoice, they need to take responsibility and pass it on to who makes payment. If you've made the best effort you could to get it to the right person, your customer cannot justifiably fault you.

"I need to speak to someone internally about this first, and they're away"

Ask for an explicit date from them as to when this person will be reachable. Agree a date after that on which you'll call back.

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Common accounts receivable problems and how to avoid them

"It's against our payment policy..."

Your customer's payment policy has no bearing on you unless you've explicitly agreed to it. Similarly, you should ensure your customer has agreed to your terms explicitly in writing - then they're bound by them. Be aware of all relevant terms and conditions; they might not all be located on the invoice. There may be a separate contract or SLA for the goods/services provided, whose terms apply. This same advice applies for the similar excuse "Sorry, you've missed our pay run."

"There were discrepancies in the service"

Some customers will cite issues as excuses to not pay. Check your terms, but in many cases as long as you have delivered the goods or services, they have to pay. This doesn't mean there won't have to be a query resolution process (where the buyer may be due compensation), but they can't delay payment of the invoice. For further guidance on dealing with invoice disputes, see our free guide to collections for credit controllers.

"I haven't been paid yet"

Your customer may tell you they can't pay you until they've been paid. Their cash flow issues aren't yours. Be firm but fair in your response. Inform them this is not acceptable and get a promised payment date. If they continue with this behaviour, reconsider selling on payment terms or keeping them as a customer at all.

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Glossary of terms in accounts receivable

Accounts receivable

The practice of ensuring a business' customers pay for goods or services in a reasonable time. Applies to businesses that sell on payment terms. Two terms often used interchangeably are credit control (more common in the UK) and debtor management (more common in Australia).

Payment terms

Part of the conditions of a sale. Specifies when and how the buyer must pay the seller the amount due. Commonly used to refer to the time period that payment is due, after the invoice is issued. 14 days, 30 days, and 60 days are typical examples.

Cash flow

A representation of the money going in and out of a business. Typically calculated over a month period, although because of this is subject to sea- sonal fluctuations. Without a positive cash flow, a business may be unable to pay its debts or invest in growth.

Turnover

Net sales generated by a business, without deducting any expenses. Represents the magnitude of business a company conducts.

Bank reconciliation

The process of matching your business' accounting records to the relevant bank statements. Used to determine the differences between them, and act accordingly off these results to ensure they match. Critical that it is done on a regular basis - at least monthly, but best empowers accounts receivable if done weekly. Some businesses may benefit from daily reconciliation.

Debtor days

The numbers of days' worth of turnover that a business is owed by customers, but has yet to receive. Calculated at any instant in time by dividing current debtors by turnover for the last year, multi- plied by 365 (days in the year). Although other time periods than year can be used, this is typical.

DvD (Days versus due date)

Similar to debtor days but accounts for the due dates of the invoices. This is because debtor days of 30, for example, could be good for a business that sells on 90 day payment terms but bad for a business that sells on 14 day terms. At the invoice level, DvD is a count of the number of days between invoice due date and payment date. At a customer level, DvD is an average of the invoice DvDs over a given time period.

Glossary of terms in accounts receivable

DSO (Days sales outstanding)

The average number of days that receivables remain outstanding before they're collected. Typi- cally calculated for all outstanding invoices at any point in time. Represents the effectiveness of a company's credit control.

Chasers

Email reminders sent to customers to chase up unpaid in-voices. The backbone of credit control, alongside phone calls. This often manual, time consuming process can be automated with accounts receivable software.

Invoice communication history

A log of all communications had between the seller and the buyer with respect to the payment of an invoice. Should capture dates, times, parties involved, contact details, communication medium, communication content, and invoice reference number. Used to empower accounts receivable and to rely upon as evidence if an unpaid invoice is escalated to legal action. Also referred to as an audit trail.

Accounts receivable software

Also referred to as 'debtor management systems' are a class of software designed to minimise the human resource required by businesses to administer credit control or accounts receivable, as well as reduce potential for human error. Typically automates the sending of chasers and automatically maintains audit trails of all invoice communications in one centralised location. Also provide insights to help businesses decide which customers to grant credit to and how best to chase up customers to pay their invoices.

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About Chaser

Would you like to save 15+ hours per week on your accounts receivable and get invoices paid 16 days sooner? Join thousands of businesses using Chaser to automate their accounts receivable processes.

It takes just 2 minutes to integrate Chaser with your accounting system and you can start chasing overdue invoices instantly. See how easy it is to save time and boost your cash flow with Chaser for free, for 14 days:

Get 14 days free

Contact us for more information about our pricing

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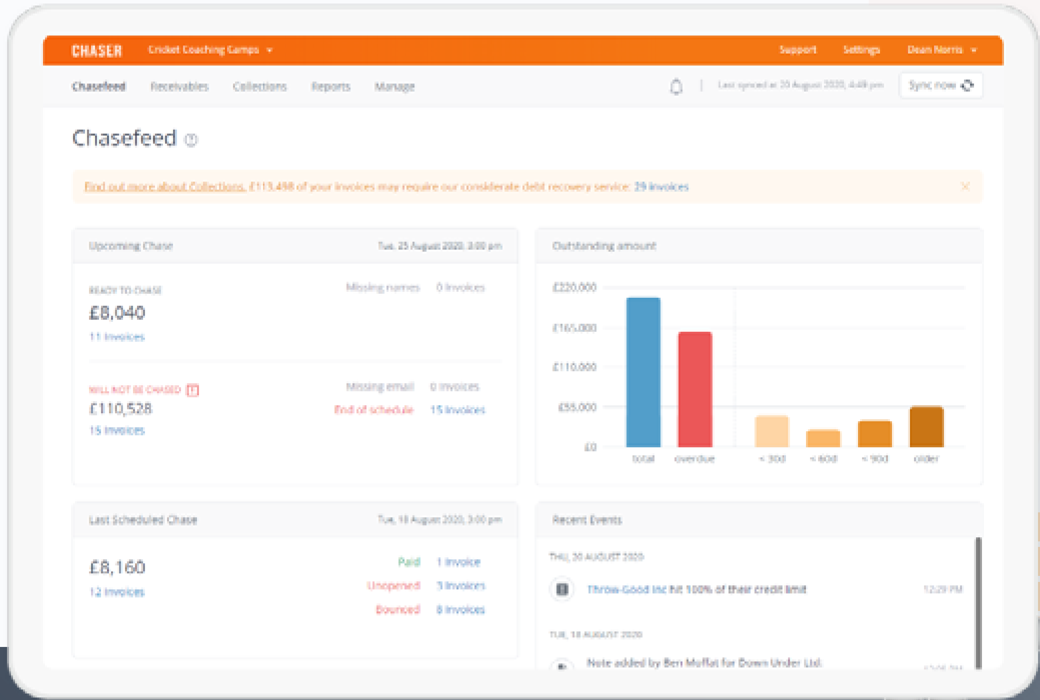

Ultimate guide to accounts receivable
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Further resources

Webinars

Get paid sooner by automating your accounts receivable processes

Transform your clients' credit control with Chaser

PDF guides

The essential guide to collections for credit controllers

8 most effective email templates to get invoices paid

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Sources

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