

BANKS

GROUP

The Right Approach to Debtor Management



Debtor management process

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Debt Collection Process

Purpose

Good debtors control ensures client debt is maintained in a responsible manner and their debts are within the credit terms and conditions. Also, this will assist the Company in meeting its own cash flow projections. Below is an example of a debtor collection process/management.

The person responsible for this process is:	Accounts Receivable Accountant
This process is necessary:	Weekly, and each time a debtor falls outside the terms and conditions of their credit terms
Other relevant documents	<ul style="list-style-type: none"> § Client's Credit Application Form § Relevant Credit History § Debtor Cover Sheet § Debt Collection Letter 1 § Debt Collection Letter 2 § Debt Collection Letter 3

Procedure

	1. Every job must have a letter of engagement issued or a purchase order. This will detail the work to be undertaken, the expected cost and payment terms and conditions.
	2. At the time of a job, an invoice is raised.
	3. This invoice accompanies services to the client.
	4. On a regular basis, but at least fortnightly; an account statement is to be sent to the client.
Day 0	5. An aged debtors report is to be produced on a regular basis but at least monthly by the Accounts Receivable Accountant.
	6. From the aged debtors report, clients outside their payment terms and conditions are highlighted.
	7. The Accounts Receivable Accountant is to identify debtors outside their credit terms.
Day 5	8. Each Account Manager is to receive an aged debtors list highlighting their clients outside payment terms. This is to be done within 5 days of the report being produced.

	9. The Accounts Receivable Accountant or Accountant is to create a Debtors Cover Sheet for each client file.
Day 7	10. Within seven (7) days of the aged debtors report being produced, Accounts Payable must clarify the position about each clients' credit terms, highlighting the payment terms and conditions in the letter of engagement. This is a verbal reminder (see Phone Script).
Day 14	11. Where the verbal reminder does not result in payment within seven (7) days of the phone call, a gentle reminder notice (Letter 1) is to be sent immediately. This will prompt the client that their account has not been paid and is outside the credit terms and conditions.
Day 21	12. If the account is not paid within seven (7) days of Letter 1 being sent, a further follow-up notice (Letter 2) is to be issued immediately.
Day 25	13. A phone call from the Accounts Receivable Accountant to find out if the debtor intends to pay is to be made on the 4 th day after Letter 2 has been sent.
	14. This will allow the 2 nd letter to arrive first.
Day 28	15. If the account is still not paid within seven (7) days of Letter 2, all current work on the client's account must cease. The Accounts Receivable Accountant is to contact the client, advise of the cessation of work and discuss the future arrangements.
Day 35	16. If another seven (7) days pass and the account is still not paid, a notice (Letter 3) is to be sent immediately, advising the client that the Debt Collection Agency will be engaged unless payment is made within seven (7) days. Letter 3 is to be signed by the Director.
Day 42	17. If the account is still outstanding after seven (7) days, the Debt Collection Agency is engaged
	18. Where the client subsequently seeks to engage the Company to do any further work, the Managing Partner is to decide if such work will be done and on what terms and conditions.

Example – debt collection coversheet

Client Name: _____

Contact Name: _____

Phone details: _____

Amount Outstanding: _____

Date Due: _____

Terms and Conditions: _____

<i>Invoice Records</i>		
<u>Invoice Number</u>	<u>Invoice Date</u>	<u>Invoice Amount</u>

Date	Contact Name	Days Overdue	Action to be Taken	Result
		0 days	Account Noted	
		7 days	Gentle reminder	
		14 Days	Reminder Notice pay within 7 days	
		21 Days	Follow up Reminder Notice	
		25 days	Phone Call to follow up Reminder Notice	
		28 days	Cease work on account. Follow up phone call.	
		35 days	Notice that debt collectors will be called	
		42 days	Debt Collectors called.	

Example – debt collection letter 1

27 November 2003

[Name]
[Company]
[Address1]
[Address2]
[Suburb] [State] [Post Code]

Dear [First Name],

RE: OUTSTANDING FEES - \$[Amount]

A recent review of our accounts has revealed that the above balance remains outstanding. We have attached a copy of the invoice(s).

We would appreciate your prompt settlement of this account. Please remit the above amount to us within seven (7) days.

If you are experiencing difficulties paying this account, please do not hesitate to contact our office so we can discuss alternative arrangements.

Yours sincerely

[Name]

Accounts Receivable Accountant

Phone:

Fax:

Example – debt collection letter 2

27 November 2003

[Name]
[Company]
[Address1]
[Address2]
[Suburb] [State] [Post Code]

Dear [First Name],

RE: OUTSTANDING FEES - \$[Amount]

Further to our letter on [INSERT DATE] we write to you again in relation to the above account. We note that this amount is still outstanding and is now [INSERT NO OF DAYS] days overdue.

[COMPANY NAME] has always had a policy to try and assist clients who are having difficulty meeting payments, but to do this we need your help. We need to hear from you so we can discuss some options and find a payment solution suitable to both of us.

If you are experiencing difficulties, we will try to help you. However, if you do not contact us, we will assume that you have just overlooked our account, and now having brought it to your attention, it will receive the prompt settlement that it requires.

Where full settlement or alternative arrangements are not made within seven (7) days of the date of this letter, we regret to advise that any current work on your account with us will cease immediately until payment is made.

Yours sincerely

[Name]

Accounts Receivable Accountant

Phone:

Fax:

Example – debt collection letter 3

27 November 2003

[Name]
[Company]
[Address1]
[Address2]
[Suburb] [State] [Post Code]

Dear [First Name],

RE: OUTSTANDING FEES - \$[Amount]

A recent audit of our outstanding debtors indicates that your account in the amount of [ENTER AMOUNT] is now [ENTER NO OF DAYS] overdue.

We have sent you several letters regarding your account, requesting your attention its overdue status. In these letters, we also requested that if you were, for some reason, having difficulties with payment, that you should contact us.

Our staff have tried to contact you by phone over the past number of weeks, without a successful resolution of this matter. In light of the above, we feel that we have no other option but to advise you that should we not receive full payment of this outstanding account within seven (7) days of the date of this letter, we will be handing your account over to our debt collection agency, to commence legal proceedings to recover these monies.

We now leave the outcome of this matter in your hands.

Yours sincerely

[Name]

DIRECTOR

Phone scripts

PURPOSE:

The phone scripts are used to assist with the collection of debts. The telephone is an effective tool to collect outstanding debtors.

The person responsible for this process is: Accounts Receivable Accountant

This process is necessary: To call clients who have not responded to letters asking for payment.

Other relevant documents § Debtor Cover Sheet

Procedure

1. All calls should be made with a firm but friendly tone. You want to help the client.
2. Plan your call. Know exactly what your goals are for each call. Ensure you have the appropriate information at your finger tips.
3. Do not ask for payment in the initial instance. Use the initial phone call to gauge the client's attitude and to understand whether non payment is a simple case of overlooking the invoice.
4. Advise the client that you haven't received their payment and you are checking to see if it is on its way.
5. If the client starts to argue, do not become argumentative. Remain calm at all times. If the client is disputing the invoice, ask them for details. If they say they have paid, ask them to provide cheque number and date of payment.
6. Use lines like –“Thank you for telling me that. We really need to sort this out. Leave it with me. I'll speak to my Manager and see what we can do”.
7. Set a time to call back – “Can I call you back this afternoon or is tomorrow morning better?”
8. Make a detailed record of all calls.

9. If you fail to get through to a client, ensure that you leave a detailed message – this will inform the client that you have attempted to contact them. Document the times and dates that you have called and who took the message.
10. When a promise of a payment is not met, a call to the person concerned using lines “When we were speaking the other day, you felt that you would be able to send a cheque for \$[xxx]. Can you advise if this payment has been sent and is on its way?”
11. If a promise of payment is made, thank the client and ask, “Today’s Thursday, do you think it’ll be here by Tuesday next week?”
12. Ensure the cover sheet is completed accurately for each call.