LESSON THREE: MONITOR DEBTOR ACCOUNTS

# Receivables Analysis.

Review the aged debtor(trade receivables) analysis. Consider;

* Credit limit
	+ Have customers exceeded credit limit?
	+ Action=find out why? Communicate with sales
* Slow payers
	+ See £ in all columns, will pay but late.
	+ Action=letter stating terms, offer settlement discount
* Recent debts cleared, old debt outstanding.
	+ Dispute?
	+ Our error?
	+ Wrong account?
	+ Action=discuss to solve
* Old debt outstanding, no current trading.
	+ No longer trading?
	+ Action=investigate, potential bad debt write off
* Case study stuff
	+ Rumour of problem: contact immediately
	+ Friend of MD: go to MD

# Action.

* Send Statements
	+ Show balance owing
* Telephone Call
	+ Find ou if there is a query?
	+ State amount of debt, agree payment, be polite.
* Reminder letter
	+ State; amount outstanding, due date, polite
* Stop list
	+ Inform the customer first
* Final reminder letter
	+ Put on stop,
	+ Put debt in hands of a debt collection agency,
	+ Take to court.

# Irrecoverable and Doubtful debts

* Irrecoverable debt
	+ Almost certain the money won’t be received.
	+ Contact insurance if applicable.
	+ Action=write off ledger.
	+ No longer an asset, show as an expense
* Doubtful debt
	+ Some doubt over receipt of money.
	+ Make a provision for debt
	+ Adjust provision if necessary.

# External methods of debt collection

## Invoice discounting.

* Debts are purchased at a discount.
* The cost to the business is the cost of the discount.
* Amount is linked to debtor book.
* The cash is received up front so the advantage is improved cash flow.
* The business is responsible for collecting the debts

## Debt collection agencies.

* Paid by results
* May require a subscription.

## Factoring.

* Advanced a % of debt usually about 80%.
* Remainder – less a fee- is paid when the amounts are received by the factor.
* The factor can charge interest on overdue debts
* They may charge a fee
* Security = debtors
* The factor can administer the debtors book (receivables), that can make customers lose confidence.
* They can provide insurance against irrecoverable debts.
* If the factor bears the irrecoverable (bad) debt risk, this is known as ‘without recourse factoring’

## Debt Insurance (Credit Insurance).

* An insurance policy to cover the risk of bad debts.
* Whole turnover policy: receivables covered but only 80% would be paid out.
* Annual aggregate excess policy: receivables covered but there is an excess limit.
* Specific receivables’ policy: for a specific debt or customer.

# Class/ Homework

* Green Light: Assessing credit worthiness
* Learning Zone: all the indicator sheets