

10 golden rules for improving Cash flow and reducing bad debts



The damage caused to your business from incurring bad debts can be considerable. Generally the cost of a single debt is equal to the net profits of a further 15 sales. By imposing some discipline at the beginning of the sales cycle and monitoring the situation through to the end of the cycle, businesses should be able to secure a smooth collection of debts, improve cash flow and avoid compromising the relationship they have with your customers.

1. The credit control procedure should be such that the goods cannot be dispatched unless the credit control department has positively confirmed that the sale should proceed. Up to date information must be readily available and this will often require a good computerised management information system.



2. Invoicing must be done at the earliest opportunity. Remember that a customer will rarely pay an invoice, before it has been received!

3. To reduce the potential for disputes and delays, ensure that the customer has all the necessary documentation and evidence of delivery to allow the invoice to be authorised for payment.

4. Understanding your customers' systems can greatly assist your cash collection. For example, ensure your statement is received by them in time for their monthly payment run.

5. Take up references as a matter of course. Customers must be given a realistic credit limit, which should only be increased after receiving good credit references and by reviewing their payment history with you. Be prepared to reduce a credit limit if necessary.

6. When you open a new account, obtain confirmation that your customer has received and understood your terms of business and payment requirements.



7. The chasing of customers should start with telephone contact before the due date to ensure all is well and there are no reasons why the invoice will not be paid on time. The first contact should not be when they fall in the 3 months' column on an aged debt report.

8. Inducements to improve cash inflow are sometimes appropriate. You can offer discounts for early settlement/and or interest surcharges for late payers. Adjustments to your printed terms of trade may be needed to cover these items.

9. If your business needs cash before your customer is willing or able to deliver his payment, then factoring and invoice discounting should be considered.

10. Stop work when credit limits are breached.



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