

The Siburg Company, LLC

Accounts Receivable

Unsecured Loans by a Company

By

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Account Receivable Topics

- Defining accounts receivable - trade and other receivables
- Receivables classifications
- Managing accounts receivables
- Receivables collections and DSO
- Bad debt and allowances
- Other Receivables

What Are Accounts Receivable?

- Sales to customers on account - trade accounts receivable
- Employee advances
- Loans to officers

Other Receivables

- Advances to subsidiaries
- Dividends and interest receivable
- Deposits
- Tax refunds
- Promissory notes
- Credits for returned, lost or damaged goods
- Investments

Receivables Classifications

- Short term receivables - will be turned into cash within a year or the operating cycle (i.e. accounts receivable -trade and short term advances)
- Long term receivables – cannot be turned into cash quickly; instead cash will be received at some date in the future or over a period of time (i.e. other receivables)

Accounts Receivable Becomes Cash

How Does Your Company Manage
Accounts Receivables?

Start With The Payer In Mind

- Customer contracts
 - Phone
 - Fax
 - E-mail address
- Customer terms
- Invoice form
- Packing slip with product shipments
- Proof of delivery for shipments

Beyond Just Billing The Customer

A Sale Is Only Complete
When It Has Been Paid
For!

Collecting Accounts Receivable

- Collection efforts are proactive vs. reactive
- Target collection efforts
- Call the customer
- Use new orders as leverage for payment
- Using collection agencies

What Makes A Good Collector

Collecting Money Is Like Charming A
Cobra Out Of A Basket Without Getting
Bitten!

Proactive Collections

- Credit applications with accounts payable and bank references
- Manage customer credit limits
- Strict use of customer terms
- COD for new or problem customers
- Manage the customer base

Customer Base

- Have a diversified customer base
 - Avoid customer concentrations
- Sell to a diverse set of industry segments
 - Avoid industry segment concentrations
- Work with good customers
 - They pay their bills within established terms
- Fire bad customers

Accounts Receivable Collections

- Accounts receivable collections is a daily activity!
- Customers pay companies that call on a regular basis
- The company, as a whole, needs to support accounts receivable collection efforts

Customer Invoice

- Customer invoice should contain:
 - Customer bill to and ship to information
 - Customer purchase order number
 - Credit terms
 - Invoice date
 - Product, units purchased and price
 - Sales tax payable
 - Total amount due
- Packing slip with order shipment

Days Sales Outstanding (DSO)

- DSO is a metric that measures how well a company is collecting accounts receivable
- A company's DSO should track to the industry average or better
- DSO is a mathematical equation that can be incorrectly interpreted, so you need to truly understand what affects the equation

DSO Formula

$$\text{A/R Turnover} = \frac{\text{Net Sales}}{\text{Avg. Trade Receivables (net)}}$$

$$= \frac{\$2,500,000}{\frac{\$475,000 + \$525,000}{2}}$$

$$= 5.00 \text{ (divide into 365 to get days)}$$

$$= 73.00 \text{ days}$$

$$\text{Industry Average} = 6.75 \text{ or } 54.07 \text{ days}$$

DSO Formula Analysis

- DSO is a metric that shows how quickly a company's invoice is turned into cash
- DSO is effected by sales cycles
 - Large sales months will push down DSO
 - Low sales months will push up DSO
- Quality of sales will have an impact on DSO
- Accounts receivable write-offs will effect DSO

Bad Debt

- Bad debt is an accounts receivable, trade or note, that is deemed to be uncollectable
- Bad debt can be the result of:
 - The accounts receivable age
 - Customer bankruptcy
 - Customer dispute
 - Economic conditions
- Bad debt needs to be reserved in the period the company determines the receivable uncollectable

How To Handle Bad Debt

- Bad debt due to a customer going bankrupt should be written off immediately
- Bad debt accounts should be turned over to a collection agency for continued collection effort on the account
- Bad debt accounts are not customers!

Accounting for Returns And Allowances

- Returns and allowances are generally expressed as a percent of sales on account, for the current period
- Returns and allowances percent is based on:
 - Previous sales experience
 - Inventory with right of return
 - Economic conditions

Employee Advances

A Nice Idea, But Your
Company Is Not A
Bank!

Types Of Employee Advances

- Payroll advances
- Travel advances
- Company credit cards

Payroll Advances

- Payroll advances positively re-enforce negative behavior
- If your company gives payroll advances, make the employee sign a loan agreement with the repayment date and method of repayment stated

Travel Advances

- If an employee cannot afford to pay their out-of-pocket expenses, then the employee should not be traveling
- If your company gives travel advances, make the employee sign a loan agreement with the repayment date and method of repayment stated

Company Credit Cards

- The company policy should be that an employee will be reimbursed for one credit card annual service fee
- All credit card purchases made by an employee will be submitted for reimbursement through the expense report process

Other Types Of Receivables

- Other receivables such as officer loans, deposit, tax returns, advances to subsidiaries and promissory notes are generally of a long term nature and are limited in ability to be collected quickly
- Never count on other receivables to support current operating capital requirements

Questions and Comments?

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