



# ESS AccountantsMinute

## Risk Management – Debtors

Hello, I'm Peter Towers, Managing Director of ESS BIZTOOLS. Welcome to Accountants Minute.

Accountants, small/medium enterprises need your assistance with risk management.

In big business, public companies the CEO traditionally turns to their Chief Financial Officer or company secretary for advice on risk areas within the business.

One of the biggest risk areas is Debtors. Debtors are a major risk for small/medium enterprises. Australia is lagging behind the World in terms of late payments, according to a recent report from the Small Business Ombudsman.

The Ombudsman called debtors management problems for SMEs the “silent killer of modern business”.

According to this World-wide report, the average debtors days outstanding in Australia is 26.4 days over the traditional trading terms of 30 days, obviously meaning, that debtors days outstanding were around 56.4 days. The total amount owing to small/medium enterprises in Australia by their debtors is \$26B, according to the Small Business and Family Enterprise Ombudsman.

SMEs spend at least 12 days per annum chasing debtors.

Debtors is a major risk area because obviously it flows into problems associated with cashflow within a business.

The questions I have got for you today are:

- Do you know what the debtors days outstanding are for each of your SME clients?
- Do you review them at least once a year, preferably more often, if you are preparing financial reports during the year?
- Have you reviewed the debtors' systems?
- Does your client have a formal process for a new customer to open a debtors' account, or are they just granted credit to whoever walks in?
- Do they have a system for checking the references?
- Once they have assessed the credit worthiness of this new customer, do they issue a “welcome to new customer” letter, which highlights the business' terms of trade and contains a Retention of Title agreement?
- Is the Retention of Title Agreement and the Terms of Trade Agreement signed by the new customer and returned to your client's business before any sales are made, so that your client is in position to decide whether to register that new customer on the Personal Property Securities Register or not? The system should be that these forms are asked to be signed, follow up to make sure they have been signed and then your client makes the decision whether to in effect “insure” that customer on the Personal Property Securities Register.
- Are your clients calculating debtors days' outstanding at the end of each month?
- Do your clients know how to do the calculation?
- Have you suggested that your clients could be using a Digital system to follow up outstanding debtors, to improve the cashflow of the business?

You will be in a position to highlight to your clients the benefits of you conducting a debtors review and one of the other big issues that you will then be able to assist your clients to avoid is any problems associated with liquidators issuing "Preferential Payment Claims" because if your client has registered that customer on the Personal Property Securities Register there is virtually no chance of a liquidator being able to successfully claim a Preferential Payment refund back to the secured creditor's benefit.

Have you thought about the cashflow improvements that you could help to achieve within your client's businesses. If credit sales are \$2M per annum and the debtors are the figure that the international organisation and the Small Business Ombudsman are claiming of 56.4 days that means the amount outstanding is around \$309,000 for that business. If the debtors' days outstanding could be reduced to 40 days this would mean that the debtors had then been reduced to \$219,000 being a cashflow improvement for the business of approximately \$90,000. The client would be very happy with that result and won't be very concerned that your fee has been \$3,000 or \$4,000 to affect a significant review of their debtors and fine tune their systems, so that they can reduce their debtors balances.

If they can get the debtors' days outstanding down to 35 days then the cashflow improvement will be in the vicinity of \$117,000 for a business selling \$2M per annum by credit.

This is one way that you can significantly assist with risk management strategies for your clients who are offering credit.

ESS BIZTOOLS contains a full product package on debtors' management and we have even produced a Debtors' Systems Manual comprising about 40 pages of information that you can then customise for your clients to use as their internal system and then the person who I feel very sorry for in most organisations, the person who is responsible for debtors, at least will have a written system to guide him/her in their daily activities.

Attached to this material is an article on Debtors' Management (BAS166).

If you would like any more details about the services that ESS BIZTOOLS can offer, please go to our website, [www.essbiztools.com.au](http://www.essbiztools.com.au) or if you are interested in an individual product subscription (i.e. Debtors' Management or SME Debtors Systems Manual) you can go to our other website – [www.essbasip.com.au](http://www.essbasip.com.au).

Have a wonderful day!

Peter Towers

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