

Business Services - Starting a Business

Credit Management

In all businesses there is a risk that bad debts may occur, i.e. someone or some businesses fail to pay.

If you supply goods/services, you can minimise the likelihood of bad debts by taking the following actions:

- Avoid giving credit to unknown/new clients. Ask for a deposit to cover your costs/overheads or as an indication of the person's sincerity.
- If credit must be given, carry out a proper credit check* so that you are sure of your client's ability to pay. Ask them to complete a Credit Application Form which should clearly state your "terms and conditions of trade".
- Whenever you are asked to provide goods/services, prepare a written quotation specifying exactly what you will supply and when the work is to be done and when and how payment is to be made.
- Obtain a written acceptance of your quote.
- If you and your customer agree to a change in what you have undertaken to do, this should be regarded as though it were a new job for which a revised quotation and acceptance will be needed.
- Your terms and conditions of trade should appear on all your documentation and must include any premiums you may wish to charge for late payment, such as an interest charge.

Make sure you know who you are contracting with:

- Sole Trader/Proprietor;
- Partnership;
- Pty. Ltd. Company;
- Trust.

If a business owned by a sole trader or a partnership owes you money then the individual owners/partners are personally liable for the debt.

If a Pty Ltd Company owes money then you cannot normally recover the debt from the directors, primarily because a Pty Ltd Company is a separate legal entity which can incur its own debts.

When dealing with a Pty Ltd Company it is strongly recommended that you request the directors to personally guarantee the debts of their company. This should be one of your "terms and conditions".

Establish an accounting system which includes proper records of your debtors (people who owe you money). Some debtors work on the principle that if no one asks for payment they don't pay. You should therefore constantly review who owes, how much they owe and how overdue their outstanding accounts are.

Design a standard letter which can be given to all debtors reminding them of the amount due and the fact that they have exceeded the time agreed for payment. Encourage them to contact you if they are having difficulties with payment.

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If this polite but firm reminder does not work and if you have the time, it may be worth your while calling on your customer personally to ask for your money, otherwise a formal Letter of Demand should be sent which should include:

- The amount(s) due (enclose copies of invoices);
- The number of days overdue;
- An acceptable (to you) further period for full payment;
- Advice to the debtor that legal action will be taken if the debt is not paid by the date as set out in (c) above;

If this does not work and debt(s) remain unpaid, then you need to consider your next course of action.

If you have indicated court action and you don't go ahead, you may get a reputation as someone who will allow debtors to get away with not paying. However, before proceeding consider:

- The real chances of recovery;
- The time it may take you away from your business;
- The costs associated.

In some situations, it may be best for the matter to be handled by a lawyer but if you can retain control, then you can more easily back out at various stages of the procedure and you will not run as big a risk of incurring expenses which may be to no avail.

If you are owed money and the debt for any one transaction does not exceed \$3,000, this can usually be quickly and inexpensively resolved by the Small Disputes Division of the Local Court.

There are other options which may be appropriate; eg

- A mediated settlement
- Use of a debt collector; or
- If in doubt then a call to your solicitor

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