Receivables

Managing & Improving The Way Your Customers Pay You

Black Friday is behind us and I've heard mixed sales reports compared to prior years. Regardless of your geographic location or segment of the music retail industry, most stores are having difficulty predicting their year-end sales for 2009. Some stores are finding it easier to strengthen their bottom line by controlling their expenses instead of trying to generate additional revenues. Whatever you do, attack profitability from all angles.

With that said, here's a few important points about managing your accounts receivable...

Receivable management is a powerful way to maintain, and even increase, cash flow by making sure customer debts to your store are collected on a timely basis. This is important for a few reasons:

1. First and foremost, managing and collecting receivables maintains the vital and timely flow of cash you need to pay your employees, inventory suppliers and other key vendors so they keep providing the products and services you need to run your business.

2. By tracking receivable payments, you keep tabs on your customers and become aware early on when there's a problem. Addressing delinquent account and contract receivables 60 to 90 days after their due may be 60 to 90 days too late. The longer you wait, the less likely receivables are collectible.

3. Accurately tracking your receivables allows you to more accurately report collectible A/R, bad debts and allowances for uncollectible accounts on your year-end financial statements and tax returns. This, in turn, allows you to both report a more accurate "bottom line" for the year and possibly minimize any resulting tax liabilities.

Some customers will always find an excuse for delinquent or non-payment. Remember they took on the responsibility and legal obligation to pay their debt to you when you sold or rented them your products. It is not your responsibility to "cover" for their inability to pay you timely. No matter how sensitive the topic, you should be proactive in communicating with your customers and remind them this is their responsibility - you held up your end of the bargain by delivering your product to them. By keeping in contact with your customer, you can typically turn "non-payers" into "slow-payers."

Consider this: Late fees charged for any overdue payment that's been delinquent for more than 10 days could significantly increase your bottom line. These fees often become a new revenue source. You *are* charging late fees, right?

It's important to get your **Accounts Receivable** list cleaned up for your year-end accounting. If there are monies that are in fact "uncollectible", you can write these off as a bad debt expense which lowers your tax liability. The only stipulation with the IRS is that you be able to demonstrate under audit that you've exhausted all collection measures, plan to take no further action to collect that debt, and have deemed it "worthless" by removing it from your A/R ledger.

Correcting your Accounts Receivable ledger is easy:

- Look at your aged receivable listing
- Determine which accounts are uncollectible
- Recognize the account as a "bad debt" - pay off the receivable by choosing "bad debt expense" as the payment method

* Note, rental receivables may require some extra steps, so please consult with your accountant to properly address uncollectible rental accounts.

It's always important to make the sale. But if you're extending in-house credit, it's the cash from that sale - not the A/R - that pays the bills and keeps the lights on!