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THE BUSINESS NEWSLETTER FROM AUSWILD & CO
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HOW SOUND IS YOUR CREDIT POLICY?

The last global financial crisis affected everybody – families and businesses. Not a day went by without some news of businesses forced to close their doors due to their financial woes. Many businesses around the country have been affected, either directly or indirectly by the collapse of some of these companies – some large household names and some smaller businesses like yours and ours.

You do not need a financial crisis to review your credit policies to ensure that you and your businesses are protected as much as possible. Businesses must now act faster and smarter to protect the monies owed to them – so, a sound credit policy must be high on the list of good business practices.

In this issue of *ausBIZ*, we take a look at some issues that business owners should keep in mind as they review their credit policies.

- ***Don't be so eager to sign on new customers that you neglect to check out their credit history.***

Take the time to check references and obtain a credit report to see how they have handled other financial transactions.

- ***Wherever possible demand directors' guarantees.***

Where this is not possible, make a calculated business decision on whether to extend credit.

- ***Establish collection policies and follow up promptly on delinquent accounts.***

The more overdue accounts become, the more likely they are to become uncollectable. That cuts into your profits!

- ***Consider changing your trading terms.***

There is no written rule that says that you must give your customers 30 days to pay their account. Why not change your terms to "Due and payable within 14 days or even 21 days"? Remember, if you are a monthly remitter for GST, your tax payment is due 21 days after the end of the month.

- ***Consider obtaining a standing order to have the account settled by credit card.***

Obtain a standing authority from your customers to have their account settled by credit card on the 21st day of the month. Not only do they have 21 days to pay their account, they could

end up with as many as a further 55 days interest free to settle the account. In addition, they could also end up earning frequent flyer points or reward points.

- ***Calculate what it costs you to carry credit for your customers.***

For example, if your business generates \$1,000 per day in credit sales, and it takes an average of 60 days to collect the debt, your cost of providing credit to your customers is \$6,000 per year. This assumes that your cost of borrowing is 10% interest per annum. By speeding up the average collection to 30 days, you cut your carrying costs by half.

- ***To speed collections, invoice customers when you ship the goods (or provide the service) – don't wait until the end of the month.***

Make sure your invoice clearly shows your payment terms, including penalties for late payment and the discount for prompt payment, if any.

- ***Be aware of the payment cycles for your industry.***

If contractors typically pay their bills by the 10th day of the month, make sure your invoices arrive in plenty of time for them to process your payment for that payment cycle.

Sound credit policies and adhering strictly to those policies will enhance the chances for business survival. Remember the saying – “A sale is not a sale until the money is in the bank”!

Call your Auswild Partner to review your policies or to help you set policies in place to help make your business more profitable.

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CONGRATULATIONS this month go to our own **Paterson** and wife **Jenny** as they welcomed a new addition to their family, a baby boy **Grayson Kai.....*****BIRTHDAY GREETINGS*** go to **Ken Cronin, Peter Lewin, Michael Bennett and Mark Townsend** who celebrate special birthdays this month. ***HAPPY BIRTHDAY*** to you all!