

## Collecting Your Accounts Receivable

-by K. Breuker



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### Changes in 2005:

**H&S** FUTA deposit requirement changed from \$100 to \$500.

**H&S** Look for new 941 forms the 1st Quarter of 2005



Have you set up your tax appointment yet?

Making the sale is very important, but collecting the money for that sale is even more important. It does not do any good to sell a product or service if you don't collect the cash. In fact, you can ruin a business really fast if you neglect the step of making sure you are collecting for your sales.

Here are some helpful hints to manage your accounts receivable and prevent problems:

#### Develop a credit policy

- ✓ Make sure your customers clearly understand payment terms; if necessary, put them in writing.
- ✓ Consider the type of credit you'll extend - checks, credit card, or trade.
- ✓ Set terms for your credit customers - 30 days is most common.
- ✓ Set credit limits that you will extend and to whom you will extend credit.



#### Send out invoices promptly

- ✓ Make sure your invoices are clear and businesslike: include all relevant information - not just on the sale item - such as price, product description, date of sale and product or service codes, and particularly the date by which you expect payment.

#### Send monthly statements to all customers with outstanding balances

#### Establish a system for tracking your accounts receivable

- ✓ You might want to use a software package so that you have daily access to information on debts.
- ✓ You should have an Accounts Receivable Aging Report. It can be very useful in identifying potential cash flow problems and problem debtors.

#### Create a collection process

Take action on accounts immediately when they go past the due date.

Start with polite reminders, escalating to a phone call or a visit if the account is not settled.

A collection schedule could look something like this:

1. Invoice
2. First reminder - notice by mail
3. Second reminder - phone call or visit
4. Third reminder & you may want to stop supplies/service
5. Final decision
6. Take action
  - Small claims court
  - Collection agency
  - Lawyer
7. Final resort
  - Write off as bad debt

#### Other Ideas

- ✓ "Thank you for being a good payer" sticker for invoices
- ✓ Make paying you easy - offer a range of payment options (cash, check, credit card)
- ✓ Offer discount for payment before due date

You can make a difference in the amount of time it takes customers to pay you, and you can adopt strategies that will have a beneficial effect on your cash flow situation. Start by ensuring that your invoices are clear, so you can promote healthy payment habits. Show that you take late payment seriously by being systematic, firm and persistent. This is a critical aspect of your business that you can't afford to ignore.

## Fraud—Is Your Company At Risk?

We've all seen the stories on the front page of the newspapers: "Local Bookkeeper Steals \$50K From Employer" or "Trusted Secretary Embezzles \$100,000 From Church." Most small business owners would find this shocking, but probably think it could never happen to them. Unfortunately, small businesses have every reason to worry about fraud according to the "2002



By Heidi Sytsema

Report to the Nation on Occupational Fraud and Abuse" issued by the Association of Certified Fraud Examiners (ACFE). Based on data compiled from nearly 1,000 fraud cases, the ACFE report found that companies with fewer than 100 employees actually suffer larger median losses per employee than the largest companies with over 10,000 employees, making them *over a hundred times more vulnerable to fraud*.

While business fraud can take many forms, the most dangerous enemy to small businesses is asset misappropriation. Commonly thought of as internal theft or employee fraud, asset misappropriation can be accomplished by embezzling receipts, stealing or misusing assets such as inventory, or causing a company to pay for goods or services that were never received. Approximately eighty-five percent of frauds fall into this category, and the median cost of the fraud is \$80,000. Clearly, a loss of this amount could be catastrophic for many small businesses.

So what's a business owner to do? Start by being aware of the ingredients that are necessary for fraud to occur: motive and opportunity. Employees who steal often have personal life circumstances that provide them with a motive and a business environment that provides them with the opportunity. Surprisingly, employees who steal do not generally have a track record of theft—only about seven percent have been convicted of a previous crime. Many times they have been trusted employees who have experienced a challenge in their personal lives such as divorce, substance abuse, personal debt or credit problems. These employees often start out by "borrowing" money with the full intent of paying it back until a need for more cash arises. If they weren't caught the first time it becomes easier and easier to repeat the pattern. Another common motivator for theft is a feeling of being short-changed by the company. Perhaps these employees feel they're being treated unfairly or that they're underpaid, and they can then justify taking "wages" out in other ways. Sometimes these employees will appear to be very dedicated—they come in early and stay late, they don't take vacation or sick time, they take on additional duties, etc. But in these cases the "dedication" stems from a fear of someone else doing their job and accidentally uncovering their schemes.

While you as a business owner can't always control the factors that motivate employees to steal, you can reduce their opportuni-

ties to steal by creating the right business environment. Following are some practical steps you can take to reduce the risk of fraud in your business:

- Create a perception of supervision. Classic criminology theory suggests that a person is less likely to commit a crime as the risk of being caught increases. If employees believe that their work is being reviewed by someone, they would perceive a greater risk of being caught, and therefore would be less likely to attempt fraud in the first place. Simply opening the envelopes containing bank statements or invoices before handing them to employees creates the perception that you're reviewing the information (whether you actually read them or not).
- Implement basic accounting controls. Do you have one employee who writes and signs checks in addition to reconciling the bank statement and keeping the books? While this is quite common in small businesses, it does provide an ideal opportunity for theft if someone has a motive. Whenever possible, it's best to divide the responsibility for the "safeguarding" or physical possession of assets from the record-keeping relating to those assets. The segregation of these duties would help prevent an employee from walking off with cash, customer payments, or inventory and being able to make the necessary accounting entries to cover it up.
- Involve H&S. If you can't segregate duties in your "one-person accounting department," you can minimize risk by maintaining an active knowledge of the financial records and by involving an outside CPA in the financial reporting process. Many of our clients have their bank statements sent directly to our offices where we reconcile the accounts for them. Having your CPA closely involved can enhance the perception of supervision as well as help identify any irregularities that might occur.



*"The most dangerous form of fraud to small businesses is asset misappropriation."*

- Require employees to take vacation and have someone else perform their duties while they're gone. In addition to being a deterrent to fraud, it can also be a time when abnormalities are detected if there is indeed fraudulent activity.
- Make sure you have an appropriate system of authorization and approval of transactions in place. And follow that up by making sure there are appropriate physical safeguards over cash, inventory, etc. Limit access by using computer passwords and locking doors and file cabinets.
- Screen job applicants carefully. While only about seven percent of employees have a history of workplace fraud and theft, these employees are drawn to small businesses. They know that small businesses often do not invest time or money into checking references or criminal records or require drug or psychological testing that might bring their past to light.
- Recognize the financial indicators of fraud: rising expenses and/or declining revenue, large unexplained reconciling items

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## The E-Myth Revisited - Why Most Small Businesses Don't Work and What To Do About It

-by D. Paris

Do you feel exhausted at the end of the day? Do you think longingly about those far-gone days when you were excited about your business and loved going to work each day? Are you frustrated, knowing that you want your business to grow but not knowing quite how to get there? Are you thinking about starting a new business, do you own a small business, do you manage a small business? If you answered yes to any of these questions, then this is the book to read!

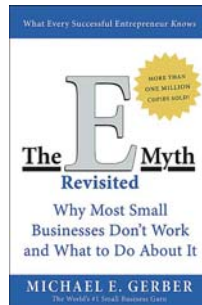
Written with almost religious zeal, Michael Gerber presents his theories about why so many small businesses fail (about 80% within the first five years) and how to avoid their fate. He bases his book on four main ideas and illustrates them via a fictional conversation with a pie shop entrepreneur.

The first idea, which he calls the E Myth, is that entrepreneurs start small businesses in order to make a profit. Simply not so, says Mr. Gerber. Think about it... why did you start your business? Sure, you wanted to make money, but wasn't there another, more compelling reason? After all, if all you wanted to do was make money, you could have gone out and gotten a job working for someone else in an established business.

The second idea revolves around the concepts used by franchisers and how they are changing the way the world does business. It is compellingly illustrated using the case of the world's most successful franchiser, McDonald's. My personal favorite is the concept of selling your business, not your product. More clearly stated, successful entrepreneurs sell the whole experi-

ence of purchasing, not just the product. (Think about why you choose a luxury hotel over a Motel 6 for a romantic getaway.)

The third idea, and this is the really exciting part of the book, explains Gerber's Business Development Process. Here is the framework to use to help your business grow. Some of the concepts seem so obvious, yet they are so often overlooked by overworked entrepreneurs. These are the tools Gerber provides to avoid stagnation and ultimate failure of your business.



Gerber's fourth idea is that the Business Development Plan can be applied to every small business, retail, manufacturing, construction...

You may find, as I did, that the first section of the book illustrating the concept of the E Myth is somewhat tedious, but stick with it and continue reading! It serves an important base for an exciting framework of immediately usable ideas. By the end of the book, I was on fire to put to work many of the concepts I had learned both in my own work and in the businesses of my clients.

## Fraud...

Continued from page 2

on bank reconciliations, abnormally high inventory shrinkage, payments to unfamiliar vendors, employees, or other payees, and excessive customer complaints about account balances can point to irregularities or fraud.

- Be cautious with your trust. One of the best qualities of a small business is that it's a very trusting environment, almost family-like. Most of the time the trust you place in your employees and coworkers is well-founded, but be aware that no business is immune to fraud.

Top management sets the tone for the rest of the company, so make sure your employees understand that you expect and respect honesty and ethical behavior. Treat your employees fairly, compensate them fairly, and keep the lines of communication open. By creating the right environment and being aware of some of the red flags of fraud, you can reduce the risk of it happening to you.

## Special Interest Section



New Team Member

H&S Companies recently saw an addition to the family of Rick and Lisa Hansen. Ryan James was born September 23, 2004. Rick is thankful that Ryan is finally sleeping through the night. (Good job Ryan, just in time for tax season.) Congratulations Rick & Lisa!

## For Our Clients - Helpful Information on Client Bookkeeping Solution

The end of the year is fast approaching. Wait a minute..... It's HERE! What better way to start the new year than by simplifying your day to day bookkeeping needs with Client Bookkeeping Solution? CBS is uniquely designed to do just that. It will also enhance your productivity and allow you to concentrate more on successfully managing your business.



By  
Melissa Gregory

ter way to start the new year than by simplifying your day to day bookkeeping needs with Client Bookkeeping Solution? CBS is uniquely designed to do just that. It will also enhance your productivity and allow you to concentrate more on successfully managing your business.

### With CBS you will:

- Spend less time on accounting and more time on running your business
- Be able to rely on us for support. We install, train and support CBS.

**CBS has four separate modules that can be purchased all at once or just as you need them.**

- CBS Checkwriter gives you the abil-

ity to maintain constant, up to the minute views of your checkbook balance by recording all account activity quickly and easily including bank deposits, checks, bank debits and credits, and transfers. Checks can be printed professionally or entered in from your hand-written check register.

- CBS Paycheck makes it easy for you to process payroll by automatically calculating gross pay and deductions just from your entry of hours worked. Then you just click the print button to print the check with a detailed stub of earnings and deductions.
- CBS Accounts Payable allows you to record payables, track cash requirements, and produce aging reports and easily trace checks to payables with a single mouse click. This is essential for the successful management of your business.
- CBS Accounts Receivable enables you to automate your invoicing and statement processes to promote timely collections of receivables. You can generate an aging report to determine your current receivable status at any given time.

(Refer to Kari's article on page 1.)

### How Client Bookkeeping Solution Works



#### At Your Office

- ✓ You write checks and record day to day transactions. Attach "Note to Accountant" if you have any questions
- ✓ At the end of each processing period, you export your data to us online, via email, or on a diskette.

#### At Our Office

- ✓ We retrieve your data and transfer it directly into our system, therefore eliminating errors.
- ✓ We review your notes, answer your questions, and ensure all transactions are coded correctly.
- ✓ We prepare your company's financial statements, offer analysis and advice and deliver the statements to you.



**H&S Companies can get you on your way! Call us today for more information.**

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