GET GROWING FOR BUSINESS

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Conducting an Accounts Receivable Aging Analysis

STEP ONE:
Categorize all accounts receivables based on "Age". Most use the date of the Invoice as the reference point, while some use the date of shipment.

Aging from date of Invoice

Customer Name	Discount Period (if offered) 0-10 Days	11 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
A						
B						
C						
D						
E						
F						
G						
H						
I						
J						
Total by Category						

STEP TWO:
Identify all accounts that exceed the due date you have established for your customers. Review your collection follow-up notes to ensure follow-up policies are in place for each account dependant on how far past due they are. For example, you may establish that a notice would be mailed on the 31st day, a telephone call made by the 45th day, a registered notice would be issued on the 61st day and all further sales would be on a COD basis, and on the 90th day the account is turned over to a collection agency.

STEP THREE:
Calculate your *Days Receivable*
Days Receivable calculates how many days worth of sales are tied up in receivables in a given period. Consider calculating your Days receivable on a monthly basis. The resulting monthly data

will allow you to assess seasonal trends making future cash flow planning more accurate, or to identify variances which may reflect the need for increased focus on collection activities.

Days Receivable = Average Accounts Receivable / Sales Per Day

Average Accounts Receivable: While many business owners may choose to simply use the total receivables outstanding at the end of a given period (eg. The balance of your receivable listing as at the end of the Month of April) a more accurate number is the average of each days accounts receivable during the month if your accounting system provides this level of detail (eg. The sum of the balance of accounts receivable at the end of each day during the month of April, divided by the number of days in the April, 30)

Sales Per Day: Take the total sales for the period (eg. In the case of our example, the total of all sales in the month of April) divided by the total number of days in the period (eg. 30 days in the case of April)

STEP FOUR:
Using the Days Receivable Data to Manage Accounts Receivables and identify cash flow strategies.

When you calculate your Days Receivable on a Monthly basis, the resulting data will give you both point in time information (for a given month), and historical trending (compared to all other previous months).

For example, assume that you Average Accounts Receivable in April is $38,500 and your Average Days sales is $1,200. Calculate your Days Receivables as follows.

Days Receivable = $38,500 / $1,200
Days Receivable = 32 days

This tells you that 32 days worth of sales are outstanding as receivables waiting to be turned into cash you can use to fund cash flow needs. If your terms for customers states that accounts are "Net 30 days" you are doing pretty well. The average collection period for your receivable is very close to the 30 day terms you offer to customers.

If on the other hand you have $52,350 in outstanding receivables at the end of the May, your Days Receivable calculation will demonstrate a different picture.

Days Receivable = $52,350/ $1,200
Days Receivable = 44 days

This tells you that 44 days worth of sales are outstanding as receivables. Clearly this will have a negative affect on cash flow, as compared to 32 days in April.

When you have done these calculations each month you can look at the historical trends to help you identify whether you are dealing with a seasonal fluctuation or a deviation that could signal other factors that will need your attention. Consider the example below.

Days Receivables: Monthly Trend Report 2007, 2008, 2009

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2007	52	43	44	38	37	41	39	34	35	34	39	42
2008	57	55	42	39	45	54	52	45	39	32	41	40
2009	49	51	45	32	44							

When you review this type of historical trending for your business you would want to ask questions like:

1.) What is the reason for the higher receivable level through the May June period in 2008, and what was different that 2007?

2.) Are the same factors contributing to the 2008 build up and are there steps I can take to reduce receivable levels.

3.) If June 09 is similar to Jun 08, have I projected the cash flow impact of this trend and made appropriate arrangements to cover any cash flow shortfalls.

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