

# Tutorial

## Debtor Management

5

### Session Agenda

- Cost of Credit
- Terms of Engagement - Sian
- Overdue accounts strategy
- Example software tools
- Bad debt in NZ
- Case Study - Jo
- Q&A and session wrap-up



6

## Special Guests

Sian Wingate - Tradie Terms

Jo Jury - My Two Cents



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7

## Session goals

### 3 things you will learn

- Why cashflow is important
- What your credit policy and procedures should be
- How to incorporate Best Practice into managing your Receivables



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8

## Question!

Do you:

- A. Always get paid on time
- B. Occasionally have to chase slow payers
- C. Regularly have to monitor and follow-up on overdues
- D. Have real problems with several clients paying late or not at all!



9

## The REAL Cost of Credit



To establish the cost of unpaid accounts:

- Net profit (NP) as a % of sales
- Multiply by 52 (for weeks of the year)
- Div by rate of interest for borrowing (eg. Overdraft rate / current interest rate)
- Find out how many weeks until NP is lost

10

## The REAL Cost of Credit



### EXAMPLE:

- Net profit is 10% of sales
- \$500 sale > NP = \$50
- Interest on borrowing \$500 @ 10% = \$50 for the year
- After 12 months > NO PROFIT!
- NP as 5% of sales? After 6 months > no profit

11

## Question!

Do you:

- Have Terms of Engagement that were professionally prepared
- Have terms that you copied or created with AI
- Nothing in place - not needed as you have great clients who pay on time
- Nothing in place - and you have been caught out with bad debts



12

## Cashflow is King!

Good credit management will:

- Achieve maximum profit on each sale
- Obtain payment by the agreed due date
- Provide useful data on customer spending habits
- Create less financial stress



## Sian Wingate



**Tradie**  
**TERMS**

# Sian Wingate

## Terms of Engagement – Must Have vs Like-to-Have



*"I feel so much more professional. 2 shakes is working seamlessly now, and all our clients are clear on what is included in our fixed price packages"*

*Rachel Paterson, Conduit Bookkeeping Limited*

*"The way Sian explained how the terms link to our invoices to recover default interest has been essential".*

*Haley Reyners, My Two Cents Accounting*

*"I hadn't thought about reducing our risk by reconfirming scope in an email. The cover email you supplied alongside the terms of service make the outcomes clear for our clients. Thanks Sian!"*

*Leaine Jones, Jones Business Solutions*



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# Terms of Engagement

## Essential Features



- ✓ **Scope** – Inclusions and exclusions
- ✓ **Client Obligations** – Their Role
- ✓ **Payment Terms** – Packaged Services, Hourly Rate, Arrears or Advance, Instalments, One-Off Fees, Onboarding Fees
- ✓ **Non-Payment Remedies** – Suspend Services, Reduce Scope, Default Interest, Late Payment Fee
- ✓ **Recovery Process** – Credit Control contact, Referral to Debt Collector
- ✓ **Recovery Costs Rights** – Right to add on costs & expenses of collection agents or legal action

**1. Out of Scope Services** Any work or Services which are not taxation and compliance services are out-of-scope for the purposes of the annual fixed fee and will be chargeable at the Advisor's applicable standard rates for the scope services or subject to a quote.

**2. Services are Incremental** The Invoicing and compliance services are per throughout the tax year on an invoice basis, with monthly activities payable by the Advisor to complete & comply, file in readiness for the tax return financial statements preparer at the end of the applicable financial year.

**3. Non-Payment of Amounts Owed** Client does not pay an Amount Owed to the Advisor within 14 Business Days of the invoice date, the amount of the invoice becomes an Arrears Amount Owed.

**4. Default Interest** In the event of a Default Interest being applied for late payment, the Advisor shall have the right to apply default interest at the rate specified in the applicable terms of engagement.

**5. Debt Collection or Recovery Costs** If an Amount Owed is not paid by the Client within 14 Business Days of the invoice date, the Advisor shall have the right to apply default interest at the rate specified in the applicable terms of engagement.

**6. Internal Administration Fees** In the event the Advisor is obliged to perform any additional actions to recover any monies owed to the Client, it reserves the right to apply an internal administration fee of up to \$100 per invoice to be added to the invoice. This fee shall be applied to all invoices issued following the date of the first default interest being applied to an invoice. This fee shall be applied to all invoices issued following the date of the first default interest being applied to an invoice.

financial statements, it shall remain liable to pay the balance of the full annual fixed fee(s) for the current financial year, regardless of when the termination notice is supplied. The Advisor is under no obligation to refund any fees paid up to and including the date of termination or to apply any credit for the remainder of the current financial year.



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## Overdue Debtors Strategy

- Sound engagement procedures
- Develop procedures
- Regular debtor monitoring
- Decisive collection action
- Select software and tools (including the phone!)
- Team training
- Review and refine
- When to do a 'cease work'

## Software and other Tools





## Bad debt requirements

- The amount of time overdue
- Steps taken to collect
- Record of attempts to collect
  - Use software if possible
- Know debtor's financial position
- Official record – insolvency

**bad debt**

**Jo Jury**



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21

## **Think Debtor Management Is Just Phone Calls? Think Again!**

- ❖ Our Journey of change and impact, here is how it unfolded.
- ❖ Expanding our Service - are you missing the opportunity?
- ❖ **Coming Soon:** Ready to go beyond the basics? Our Debtor Management Course designed for bookkeepers is coming soon!



22

## Session wrap-up

### What you need to do

- Have effective terms
- Clearly document your procedures
- Select the right tools
- Monitor and review
- Be decisive with actions



## Questions!

What is your number one takeaway?

What is the one thing you can do right now?



## Get in touch

Thank you!



Leaine

+ 64 6 844 2742

**Smart Books**

PO Box 7349

Taradale

Napier 4171

New Zealand

[calendly.com/smartbookies/15-minute-chat-smart-bookie](https://calendly.com/smartbookies/15-minute-chat-smart-bookie)

[leaine@smartbookscourses.com](mailto:leaine@smartbookscourses.com)



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25

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27