

## Control your debt

There are basically two types of debt - debt that is from your debtors (amounts owing to you and debt that is from your creditors (that is, amounts you owe others). Here are a number of the things that should be considered, where debtors control is concerned:

- You need to decide that as soon as the agreed time for payment is passed, a reminder should be sent out to your debtors or a telephone call made. This can be a company policy, and stated in the business plan. With your main customers you may prefer to make a more tactful enquiry to discover whether the delay has been caused by a temporary setback or is merely an oversight on their part. Regardless of how you follow the matter up, prompt collection is important, so it is an area that should be looked at and carefully controlled by the business owner.
- Also where clients have accounts that have been overdue for longer periods, then it is recommended that you have a closer look at why the payment has not been made to you. Try to distinguish those who want to pay, but have had a temporary setback; those who want to pay, but who never will be able to pay; those who are dissatisfied with the products sent and therefore are not prepared to pay; and those who have no intention of paying whatsoever.

The collection procedures should be part of your control system and followed properly will make a big difference to the liquidity situation of the business. Where the debt is an amount owing to creditors, you can help your cash situation by doing the following:

- List all the creditors in the order in which they are to be paid, starting with the most urgent at the top and working down.
- Ask suppliers for good credit terms so that you can obtain thirty, sixty or ninety days before payment, which will allow you to get your cash in before that time.
- Seek discounts from your suppliers if you are able to make payments earlier than when they are normally due.
- You always should keep an eye on the payment of creditors because proper control and managing of this area can make a big difference to the pressures that are brought on to the business and the preservation of the business' working capital.

### Further information

The following fact sheets provide further information on these issues:

- Accounting records you should keep
- Cash flows
- Risk management