

BOOKKEEPING TIPS

The twice monthly e-letter
for professional bookkeepers

The American Institute of Professional Bookkeepers

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How to tell who will pay

Ever been asked to "give ABC Co. a buzz and find out where the check is" or "tell them unless we get a check, they'll be hearing from our lawyer"? The best way to avoid payment problems is to avoid problem customers. Here are some tips:

- The most powerful predictor of payment performance is payment record (current and past), so check new prospects' references.
- Credit ratings based on financial strength have no bearing on future payment performance. Another reason why you need to check references.
- Revenue is not a good indication of good payment performance.
- The greater the firm's net worth (total assets less liabilities) and time in business, the more likely it is to pay. Building real net worth takes years.
- Most businesses fail in the early years, so the longer a firm is in business; the more confident you can be of receiving timely payments.
- The higher the percentage of accounts a customer has paid within 90 days, the greater the likelihood you will receive prompt payment.
- A predictor of future poor payment is the number of accounts past due 90 or more days.
- A customer's or prospect's prior bankruptcies and tax liens may signal that you will have great difficulty getting paid.

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