



Local Accounts Receivable and Billing Procedures

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During these tough economic times maintaining positive cash flow is one of the most important tasks that management deals with on a daily basis. It seems one of the most common complaints we have heard from Contractors in the past year has been the slowing of payments received from Customers. Whether it is the \$1,000 owed on a small job or a much larger amount from a monthly pay request, some Customers are looking for any reason to delay payment of your Billings.

In order to combat the slowing of payments, Large & Gilbert recommends implementing and maintaining Proper Accounts Receivable and Billing Procedures. Having a written policy on A/R and Billings is very important to all Construction Contractors, especially during this tough economic climate. Establishing procedures like the suggestions and recommendations that are listed below can help Contractors maintain positive cash flow, speed collections, and help keep their jobs progressing on schedule.

1. Billing Procedures

- a. Company personnel responsible for billing a job should initiate the monthly pay requests depending on the job's bill date
 - i. Typically on larger jobs we recommend that the project manager or other personnel directly involved with the job handle the billing so that everything completed during the month is billed or projected properly.
 - ii. We also recommend that after the bill is sent to a Customer (immediately if faxed or within 2-3 days if mailed) that your personnel make a follow up call with the Customer. This ensures that all necessary documents (lien waivers, etc.) have been received and that nothing is missing that will hold up the payment process.
- b. Small Job/Service Work Billing Procedures

- i. We recommend using a pre-numbered invoice system in which all invoices generated can be accounted for, including voided invoices.
- ii. Accounts Receivable personnel should bill the job as soon as possible once the work is complete and all invoices are received pertaining to the job. This will help ensure prompt payment for work completed and that nothing is left off the bill.

2. Entry into Accounting System

- a. Invoices should be entered into the accounting system as soon as possible after the Accounts Receivable Personnel receives the invoice (if the invoice is not generated through the accounting system).
- b. Any changes to Billings after they have been recorded should always be approved by the appropriate personnel (owner, project manager, etc.).
- c. At least monthly the Controller or Bookkeeper of your Company should reconcile your Detail Aged Accounts Receivable Report to your Company's General Ledger to ensure accuracy.

3. Filing of Invoices

- a. Once input into your Accounting System we recommend a standard filing system for invoices in order to allow for efficient retrieval of billings when needed.
 - i. For Progress Billings on Jobs we recommend filing the invoices in a specific job billing file or section of the job files.
 - ii. For Small Job/Service Work Billings we recommend filing the invoices by the Customer's Name.

4. Review and Analyze Accounts Receivable Reports

- a. Management should examine an Aged Accounts Receivable report on a weekly basis
 - i. We recommend that if your accounting system allows that you print the Aged Receivable Report based on the "due date" of the invoice rather than the "invoice date"
 - 1. This allows for more accurate analysis of the report (anything not in the current column is past due).
 - ii. When examining the report, Management will want to mark Accounts Receivable that are past due and designate who should make Collection Calls to your Customers.
- b. Management may also want to examine a Collections Report weekly which shows all Accounts Receivable Collected during the week and when it was deposited into the bank to verify cash receipts.

5. Collection Calls

- a. Collection calls should be made as necessary on Accounts Receivable that are past their due date or coming up on their due date.

- i. For smaller Receivables the Accounts Receivable department can call and speak to the Accounts Payable Department of your Customer to follow up regarding payment.
 - ii. With larger amounts it is often a good idea for the Project Manager on the Job or the Owner of the Company to follow up with the Customer.
- b. We recommend that good notes are made in the Customer file (either a computer record or on paper) regarding what the Customer said about the status of the payment in case follow up calls are necessary.
- c. Write-offs to Bad Debt should always be approved by the Owner of the Company before being recorded.
 - i. We also recommend Owners examine Bad Debt account detail reports whenever write offs show up on monthly financial statements.

6. Recording Cash Receipts

- a. We recommend that the person who opens checks received in the mail and prepares the deposit ticket is someone different than your Accounts Receivable personnel.
 - i. Also, we recommend that the person who reconciles your bank account is someone other than the person who makes the deposit with the bank.
- b. Cash Received should be recorded timely into your accounting software by your Accounts Receivable Clerk. This will allow Cash Flow Decisions to be made promptly and accurately.

The Implementation of proper Accounts Receivable and Billing Procedures like the ones listed above can allow for a company to be much more efficient and accurate with their Cash Flow. Every company is very different in size and structure. So what works at one office may not necessarily work at your office.

Should you need any help with implementing or setting up Account Receivable and Billing procedures, or any other Internal Control Procedures, Large & Gilbert would be happy to assist you with the proper setup and implementation.

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