



RECEIVABLES MANAGEMENT IN TIMES OF CRISIS

Managing Liquidity - Reporting Requirements

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Old hat? Everything already said? Maybe. So what?!

In times of crisis, liquidity management becomes much more important for companies. An essential point of liquidity management is receivables management, so I would like to take a closer look at this topic here from the DDIM specialist group Finance due to current events.

What information is needed and in which form?

1) The base provides the open item list of all open items. These are composed as follows

Normal general ledger accounting:

- Invoices
- Credit notes
- Differences from payment transactions

Special General Ledger Accounting:

- Advance payments received:
Liabilities from advance payments received: Often used in plant construction and mostly project-related. The customer makes the down payment so that his supplier does not have to make too much advance payment financially.
- Discount claims:
Provision for discount agreements with customers: Usually linked to purchase quantities. With each outgoing invoice, a provision for existing discount agreements must be posted in the background for the customer.
- Accruals and deferrals of receivables:
Calculatory requirement from the project area: Income and expenses of a (service) period must match. If, for example, a service was rendered for the month of April, but it could not yet be invoiced (which





can happen for a variety of reasons in a variety of industries), it must be checked for this service: Were all related costs booked? Which sales revenues belong to it? According to the answers, not only the provision for the unbooked costs must be booked, but also the receivables for the calculated sales revenues may be booked (of course on separate accrual accounts).

- Avals:
- Guarantee obligations (off-balance sheet): Guarantees are cash and belong in regular monitoring
- Specific bad debt allowance:
Balance sheet provisioning: It is good standard practice in most groups: there are fixed rules according to which the overdue items are value-adjusted. These rules are applied through automated booking processes and, properly set, provide a representation of the development of customers' payment behaviour over time.

2) If you call an "open item" a record, what are the minimum data fields this record must contain?

- Company code
- Customer account number
- Document number
- Posting date
- Document date
- Due date
- Debit/Credit Indicator
- Document type (for identification invoice / credit note etc.)
- General ledger account assignment
- Amount in local currency
- Amount in foreign currency
- Document text

3) For reporting, in the simplest case the open item list is analysed with the classic structure of due dates. (0 – 30 – 60 – 90 – 120 etc days overdue)

We refer to the new list here as the "ODA" list (ODA = Over Due All open items).

If this "ODA" list is structured in 2 levels - level 1 with all voucher lines, level 2 condensed per debtor account number - a quick overview results.

4) Comparison of cut-off dates: The comparison of the "ODA" lists, e.g. as of 30.04. to 31.03., provides the input for monitoring the customers: How is the payment behaviour of which customers changing and since when? Do we know, why?

5) Addition of additional information/fields to the "ODA" list. Interesting for all sectors:

- Customer name (just the pure account number is not helpful)
- Postcode / City / Country
- Responsible sales representative (name and telephone number, if applicable)
- Branch of the customer
- Ownership structure, e.g. group membership

Interesting for companies with project organisation (e.g. plant construction):

- Project number
- Project title
- Projektstart
- Projektend

6) Report creation: Development and design via Excel, then programming by IT. As soon as more than five people are involved in accounts receivable management, it is advisable to provide them centrally instead of





time-consuming manual creation and dispatch by e-mail. The central “ODA” list should allow for appropriate selection of the above fields when the list is called up.

7) Adjustment of invoicing: What are the levers?

- Invoice frequency: Instead of every 4 weeks, write invoices once a week.
- Agree payment plan (even small amounts help)
- Advance payment
- Prepayment

In many companies, it will be possible to fill the role of a more comprehensive receivables management internally. But there will also be companies for which the focus on receivables in the depth currently required is new or in which no experienced person is available for this task. Here, a company can effectively remedy the situation by using an interim manager.

Interim managers are experienced in quickly familiarising themselves with a company's processes and significantly improving relevant key performance indicators (KPIs) in the receivables area.

Many interim managers are members of the leading German association, the Dachgesellschaft Deutsches Interim Management e.V. (DDIM). Further information is available at www.ddim.de.

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