



INNOVATIVE ENTREPRENEURSHIP



Managing Debtors



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This factsheet explains what effect debtors have on a business, how you can minimise debtors and how to measure your business on how successful it is with credit control.

Like in many other countries, businesses in Northern Cyprus are beset by slow payments of invoices. Most businesses and Government would like to see this change, as it is a barrier for growth and can lead to a business failure. By reducing your debtors and the time it takes them to pay, can have a real positive effect on your businesses cash flow.

For many business owners chasing debt can be a problem as often they are frightened that they will upset customers and feel there is little they can do.

Listed below are some practical steps that can help you minimise your debtors and have effective credit control.

- Have the right attitude – ask early and ask often
- Make sure that payment terms are agreed in advance
- Do not underestimate the strength of your position
- Give credit control realistic status and priority
- Have well thought out credit policies
- Concentrate on the biggest and most worrying debts first
- Be efficient; send out invoices and statements promptly
- Deal with queries quickly and efficiently
- Make full use of telephone and calling face to face with debtor – this is often the most effective
- Use legal action if necessary

It is relatively simple to measure how successful your business is with credit control by calculating the average debtor days. Debtor days is a measure of how quickly a business gets paid. It's the average number of days taken for a business to collect a payment from its customers. It can be calculated by using the following formula;

$$\text{Debtor days} = \frac{\text{Trade Debtors}}{\text{Revenue (sales)}} \times 365$$





Among the factors to consider when interpreting debtor days are:

- The industry average debtor days needs to be taken into account. In some industries it is just assumed that the credit that can be taken is 45 days, or 60 days or whatever everyone else seems (or claims) to be taking
- A business can determine through its terms and conditions of sale how long customers are officially allowed to take
- Debtors days should be analysed regularly so a business can see if it is improving its credit control, or indeed getting worse.



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