Accounts Receivable Health Checklist

Managing accounts receivable (AR) effectively is crucial for the financial health and growth of any service business. Proper AR management ensures timely payments, improves cash flow, and strengthens relationships with clients and customers.

To help you stay on top of your AR processes, we've created a comprehensive checklist that covers key areas of AR management. This one-pager is designed to guide you through best practices for managing payment policies, incentivizing prompt payments, and streamlining your invoicing processes.

Use this checklist to:

- Clearly communicate payment terms and policies.
- Establish incentives for prompt payments.
- Implement tiered payment policies based on client behaviour and size.
- Simplify and automate your invoicing and payment processes.
- Regularly review and manage your accounts receivable.

By following this checklist, you can optimize your accounts receivable practices, enhance your business relationships, and ensure a smoother cash flow.

Payment Policy Review

- [ ] Are payment terms clearly communicated before engagement?
- [ ] Do contracts and invoices clearly state payment deadlines and accepted methods?
- [ ] Are the consequences of late payments explicitly outlined?
- [ ] Does the payment policy use engaging language for clients and customers?

Incentives for Prompt Payment

- [ ] Is there a system in place to reward early payments (e.g., discounts or value-added services)?
- [ ] Are payment incentives aligned with our pricing strategy and backed by financial analysis?

Tiered Payment Policies

- [ ] Have we segmented clients or customers based on payment behaviour and business size?
- [ ] Are payment terms tailored appropriately for different segments?
- [ ] Is there a management approval process for deviations from standard payment terms?

Simplification of Payments

- [ ] Are multiple payment methods offered to accommodate customer preferences?
- [ ] Is there an option for pre-authorized debits for recurring payments?
- [ ] Are payment links embedded directly in digital invoices?

Automation of Invoice Delivery

- [ ] Are invoices automatically generated and sent by accounting software?
- [ ] Is there integration between billing systems and CRM or document management systems?

Integration with Client Accounting Systems

- [ ] Does the invoicing system integrate seamlessly with major accounting software used by clients?
- [ ] Are there mechanisms to ensure invoices are automatically imported into client systems?

Regular AR Reviews

- [ ] Is there a scheduled weekly review of AR led by senior leadership?
- [ ] Are outstanding invoices categorized by risk level (green, yellow, red)?
- [ ] Are there clear procedures for addressing invoices in each risk category?

Use of Escrow Services for Risk Management

- [ ] Are escrow services used for large or high-risk projects?
- [ ] Is there a standardized process for setting up and managing escrow agreements?

Assessment of Client Creditworthiness

- [ ] Are financial checks (e.g., credit scores, financial statements) conducted for new clients?
- [ ] Is there a process for evaluating non-traditional indicators of creditworthiness (e.g., online presence)?

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