A Step By Step Explanation Of The Account Receivable Process

Accounts receivable are the proceeds that the service provider will receive from its customer who bought these products or services on credit. This credit duration usually ranges for a short term, that is, around a few weeks or months.

Let us understand this terminology with the help of an example, suppose you are an owner of M/S ABC Pvt. Ltd., and you manufacture cardboard boxes. A customer gives you an order of 50 thousand cardboard boxes for Rs 25,000. You have generated the invoice and recorded the sale. However, your payment is expected to be credited in 15 days. This amount of Rs 25,000 becomes an accounts receivable amount. Once the payment has been made, you can deduct the amount from the accounts receivable section of your balance sheet and add it to the payment received section.

Accounts Receivable, also abbreviated as AR, is the amount of money that is due to customers for a purchase they made in credit. Companies record the accounts receivables in the balance sheet under the assets field. The company has to collect the receivables when they are settling their balance sheet.

Let's dive in to know more about the importance of accounts receivable systems and what elements contribute to a great AR process.

Importance of a streamlined accounts receivable system

A systematic AR process includes early/timely payments and minimised follow-ups for payment invoices issued to clients. This way, you can easily manage the balance sheet of the company. Accounts receivable, commonly known as AR, are important to manage if you are looking to streamline the payment process.

- Start with new customers. Once you have established a suitable AR process, begin with applying it to new customers. You can gradually inform the old clients about the accounts receivable and ask them to follow the same method.
- A systematic AR process guarantees a streamlined workflow, increases cash flow and allows your accounting department to be time-efficient.
- It provides real-time insights into your accounting system. If your AR process is not accurate, it will hinder the company's cash flow and account management.
- Once the account receivable process is focused on timely payments and clearing invoices, the AR/accounts team can easily focus on other aspects that require extra attention.
- The business also gains a better sense of its financial stability and liquidity. Working on real-time transactions and payments can help in maintaining a clear balance sheet in a timely manner.

An automated accounts receivable process can help to ensure that your business is profitable and has a smooth and consistent cash flow. In the event that you decide to automate the AR

process, you need to choose software that suits your business the best. Manually uploading everything to the software portal through excel sheets and documents can result in many errors and will be time-consuming. Software such as UniCommerce and eVanik can be your guide to managing the AR process without worrying about mistakes and errors.

What are the elements of a great AR process?

It is important for you to understand the elements of a great AR process and how you can turn your simple accounts receivable activities into an efficient system.

Setting up a strong invoice format

Nothing can go wrong if you have in place a well-established format for your invoices. Keep it straightforward, and make sure every detail is clearly mentioned. Your invoice is the most important document that is provided to the buyer in order to make payments for the services or products they have received. You must mention an expected date for payments and try to follow up in a manner that ensures that the payment is made on or before the due date. You must also include all the payment terms and conditions, as well as all the requisite information about your business, to enable the person clearing the invoice to do so without any confusion.

Each invoice should have a unique number to make tracking easier. If you are ever worried about reviewing an invoice or information, you just have to mention the invoice number and the details will be visible to you in your system. You can choose to proceed with either an electronic or paper invoice or send both.

For the sake of convenience, send an invoice as soon as the service is provided and mention the desired date for payments as well.

Creating a system that tracks invoices issued

Your bookkeeping and accounting work is not complete once you have sent out an invoice for payment. You must keep track of the invoices you have issued. Either use automated software or create a well-established system to track invoices. As mentioned earlier, every invoice must have its own unique code. So you can refer to this code for further use. This way, you can track the bills you have issued.

AR software can automatically inform you if your payment is not issued or there is no follow up. The software flags the pending transaction, and you can connect with the client to ask the reason for the delay or request them to make the due payment. You can also run regular reports for reconciliation if required.

Have an effective follow up with the client

Make sure you do not leave the invoice unattended in the software and remember to take follow-ups or necessary updates from your clients. Once you have shared the invoice with the customer, take a regular follow up until the payment is cleared. If you own a company or have an ecommerce business, it is important to understand that receiving payment is not the final step in the process. You have to keep in touch even after the payment has been made.

Sending a thank-you note and checking in if they are interested in further services or if they want to repeat the same purchase again. This way, you will not lose an established client and your account receivable process will start again in a systematic way.

Set up a reconciliation process if required

Once your process is completed by receiving payments and ensuring follow-ups with the client, you must start working on the reconciliation process. If you have a transaction issue or the payment is received twice, you may reconcile the process through automated software.

This reconciliation process is particularly important for eCommerce businesses, which have to deal with issues of refunds, platform fees/commissions, high volumes of transactions, and transactions from multiple channels.

If you are dependent on a manual accounts receivable process, it is crucial to building an excel sheet. This will keep all your AR information and records in the same place, and you will only have to ensure that the file is kept up to date. Setting up a reco process once a month is the best thing you can do for automated software and to avoid any blunders or calculation mistakes. Using the software is essential for eCommerce business. Read our blog on the subject here!

How do accounts receivable and accounts payable go hand in hand?

The process of accounts receivable and accounts payable can be perceived as two sides of the same coin. When a business provides a service or product to buyers and asks for the payment by sending the invoice, the business owner calls it an account receivable because they ought to receive the payment in the near future.

While the accounts payable is a liability that is due to a manufacturer or seller. The creditor or buyer order the services or goods without directly paying the amount upfront, this means that the goods or services are purchased on credit. This total amount is to be payable to the seller and is commonly known as account payable. To get a detailed insight into an account payable and its process, click here!

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Unique	A Step By Step Explanation Of The Account Receivable Process
Unique	Accounts receivable is the balance amount due on a business for proving products and services to...
Unique	But before we jump into the technicalities, let us understand the process in a simple way.
Unique	Suppose you and your friend are interested in going to a music concert and you bought two concer...