

HOW TO REDUCE THE RISK OF BAD DEBTS

It is a fact of life that, especially when the economic situation worsens, the number of people owing you money increases. This obviously has an effect on your own cash flow situation and could subject you to pressure from your own creditors.

Here are seven practical tips to help you reduce the risk of bad debts.

1. The most obvious of these is simply to **insist on cash for every purchase**. However, this is not always possible or practicable, especially when you are supplying some form of service rather than selling goods.
2. **Have appropriate documentation** – e.g. credit applications, quotations, purchase orders, terms of trade in place, and ensure that they are as watertight as possible.
3. **Always obtain references** from other businesses that have had dealings with the customer. Sometimes these references are as instructive in what they don't say as what they do, which could warn you that the customer may not be a good risk.
4. **A realistic credit limit should always be imposed and monitored**. Do not follow the banks, whose response to a customer exceeding his or her credit card limit is usually to increase the limit, without wondering if there is an underlying problem.
5. **If the customer stops making regular payments, or starts making excuses for non – payment**, this is often a sign that they are in financial difficulties. Do not extend further credit in the hope they will ultimately pay. If this happens, **insist that all future purchases are paid for in cash at the time of sale**.
6. **If the customer is a company, you should obtain a guarantee of the company's liability from the directors and/or shareholders of the company**. The guarantee must be in writing, and signed by the guarantors.
7. **Include a property charging clause in your terms and conditions**. This clause creates an equitable mortgage over any real property owned by either the company or the guarantors. It may be possible to apply to the court for an Order that the property be sold, and your debt paid from the proceeds. If the customer is acting in the capacity of a trustee, the clause should state that it extends to all property held by the customer either as trustee or in his/ her or its own name.

We can review all of your documents including your terms and conditions and reword them so that you have the best protection possible from bad debts.

Please contact us on 07 3849 6263 or at reception@oneillslawyers.com.au for further assistance.