

Bad debts are an unfortunate feature of doing business. A bad debt occurs when payment is not received for goods/services rendered. Debt recovery for business becomes a feature of financial management and business proprietors can consider instigating legal action for the recovery of the debt.

Note: Where the debt is for a large amount or complex issues are involved, the matter of debt recovery should be referred to a solicitor or debt collector as soon as possible.

Avoiding Bad Debts

- To minimise the incident of bad debts in your business, you should adopt a **credit policy**, which applies to all of your clients.
- Some of the following strategies as a part of a credit policy may be applicable to your business to help you reduce bad debts.

Credit Policy Suggestions for New Customers

- New customers should be required to provide applications for credit;
- At least three (3) references should be provided, two from other businesses and one from a bank and permission provided to undertake a credit check;
- If the new customer is a company, the director/s should provide a personal guarantee;
- Undertake a business names search to check registration details and ownership;
- Ascertain the details of any real property owned by any person taking responsibility for credit or a debt;
- Arrange for a commercial credit check; and
- If the new customer cannot provide a satisfactory credit record, get them to provide a guarantor who is financially sound.

Credit Policy Suggestions for Existing Customers

1. Ensure that you have adequate systems to highlight debtors that are overdue or exceed their limit;
2. Have a reminder strategy in place –
 - phone call
 - polite letter notifying credit has ceased and action that you may take if the account is not settled
 - finally a letter suggesting legal action will be taken;
 - visit customer to collect payment
3. Ensure agreements with customers are in writing and signed;
4. Agreements may include a retention clause so that ownership does not pass to the customer until payment is made;

5. Seek a deposit or progress payments if the work is to be carried out over a long period of time; and
6. Try to get pre-payments or progress payments to cover the cost of equipment, materials or labour.

Warning Signs for When a Debt Becomes a Bad Debt

- You continually receive promises to pay, with no action;
- You cannot contact the debtor;
- You receive continuous excuses for non payment;
- You are told the debtor has financial problems;
- You are offered less, or a percentage of the agreed amount; and
- You receive cheques which are then dishonoured.

Recovering a Bad Debt

If you are experiencing these situations with a debtor, you should take action immediately.

To recover a debt you may wish to take legal action, however, you should always weigh up the advantages and disadvantages of legal action for the recovery of bad debts.

Firstly, it may be beneficial to write a letter proposing legal action, or alternatively have a solicitor write one for you. If the amount of your bad debt is \$10 000 or less you may then choose to take legal action through the Small Claims Court. In some cases the small claims court can be effective, and is designed for you to be able to represent yourself. You should talk to your nearest Local Court Office.

For more information refer to other Fast Facts in this series or contact the Territory Business Centre on Tel: 1800 193 111 or visit the TBC website at www.tbc.nt.gov.au

For referral to talk to a solicitor contact:

Business Enterprise Centre (BEC)

PO Box 37192
Winnellie NT 0821

Ph: (08) 8922 9529
Fax: (08) 8922 9555
Toll Free: 1800 229 500
Website: www.becnt.com.au
Email: info@bec.com.au

Small Claim - To enquire about making a small claim contact your Local Court Office

Darwin: (08) 8999 6225
Katherine: (08) 8973 8956
Alice Springs: (08) 8951 5716
Tennant Creek: (08) 8962 4377

For more information refer to other Fast Facts in this series or contact the Territory Business Centre (TBC) on the numbers below or visit the TBC website.

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