

FAST FACTS 2: BAD DEBT

Bad debts are an unfortunate feature of doing business. A bad debt occurs when payment is not received within the terms of trade period for goods or 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 debt

- To minimise the incidence of bad debts in your business, you should adopt a **credit policy** that applies to all your clients.
- Some of the strategies below, as a part of a credit policy, may be applicable to your business to help you reduce bad debts.
- Build a strong sound business relationship over time with your customers to avoid being placed in this situation.

1. Credit policy for new customers

- New customers should be required to provide applications for credit
- At least three 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
- If the new customer cannot provide a satisfactory credit record, get them to provide a guarantor who is financially sound

2. Credit policy suggestions for existing customers

- Ensure that you have adequate systems to highlight debtors that are overdue or exceed their limit.
- Have a reminder strategy in place:
 - phone call
 - polite letter notifying that credit has ceased and the action that you may take if the account is not settled
 - finally a letter suggesting legal action
 - visit the customer to collect payment

FAST FACTS 2: BAD DEBT

- Ensure agreements with customers are in writing and signed
- Agreements may include a retention clause, so that ownership does not pass to the customer until payment is made
- Seek a deposit or progress payments if the work is to be carried out over a long period of time
- 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
- 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.

It may be beneficial to write a letter proposing legal action, or 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, this 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 a referral to talk to a solicitor, contact:

Business Enterprise Centre (BEC)

DARWIN

Office 35B, 12 Charlton Court

Winnellie NT 0820

T: (08) 8923 6100

TF: 1800 229 500

F: (08) 8923 6155

E: enquiries@becnt.com.au

W: www.becnt.com.au

ALICE SPRINGS

Field officer

T: (08) 8958 4185

M: 0427 970 529

F: (08) 8958 4183

E: bruce@becnt.com.au

FAST FACTS 2: BAD DEBT

Small Claims

To enquire about making a small claim, contact your local court office:

Darwin T: (08) 8999 6225

Katherine T: (08) 8973 8956

Alice Springs T: (08) 8951 5716

Tenant Creek T: (08) 8962 4377

For more information refer to other Fast Facts in this series or contact:

Territory Business Centre

Department of **Business and Employment**

Development House, 76 The Esplanade, DARWIN NT 0800

GPO Box 3200, DARWIN NT 0801

T: (08) 8982 1700

TF: 1800 193 111 (within Australia)

F: (08) 8982 1725

E: info.dberd@nt.gov.au

W: www.nt.gov.au/business

Disclaimer: The material contained in this publication is intended for use as a guide and for general information only. It is not intended to be a substitute for independent professional advice. The Department of Business and Employment of the Northern Territory Government accepts no responsibility or liability for the correctness, accuracy and completeness of any of the material contained in this publication and recommends that users of this publication exercise their own skill, care and judgment in the application of the information contained in the publication.