

ArcBI TS Newsletter

Inside this issue:

A/R Score	1
Healthy A/r	1
More A/R Score	2

ArcSys Hot Tip

What is a healthy a/r? Hard to measure. It is risky to look at just one number and get a feel for how things are going. A "good" month would be a *declining* a/r ratio, an *increasing* daily charge and a *declining* days to collect. It is highly unlikely that this could be consistently maintained month to month.

Aging is a helpful tool. If the total amount 90 days or over is under 10% is exceptional, under 16 is best practice and under 26 is average.

Days to collect under 35 is good and under 46 is average.

Biology Lab

Let's dissect the accounts receivable analysis. This is the report which appears at the end of cycle processing. It can be printed and studied. (If you want to see the report any other time, type in ARSCOREANALYSIS at the menu. There are two options. One is the List view, shown here, and the other is Table.)

06/30/2017			
Total:	493,719.01	avg: 496,775.05	0% Decline
A/R Ratio:	1.3154	avg: 1.5136	13% Improvement
Daily charges:	6,700.60	avg: 8,933.92	24% Decline
Days to collect:	74	avg: 57	28% Decline
Current:	68%		
Over 30:	15%		
Over 60:	5%		
Over 90:	2%		
Over 120:	1%		
Over 150:	7%		
# of clients:	158733		
# 0 balance:	1417		
# < 0 balance:	86		
# > 0 balance:	3271		
# active:	156681		

The first column of numbers is for the month of June 30, 2017. The second column of numbers is the average of the previous 6 months. The third column has percentages for the first four categories. The Decline and Improvement are a subjective statement of how those categories are doing.

What does it mean to compare the current total a/r with a 6 month average? If we assume that the total charges is somewhat steady and the respective collections is, too, then the comparison is meaningful. A decline could mean better collections but it could also mean less business is being generated. The actual dollar amount isn't as interesting as the percentage change. If you look through the entire report you can get a feel for how things have been moving.

A/R Ratio is measured by taking the ending balance and dividing by credits received in the month. Let's say you were selling gift baskets to grocery stores generating \$10,000 per month. Assume the stores paid \$8,000. After the first month the a/r ratio would be $.25 (10-8)/8$. If the same conditions applied in the second month the ratio would be an increase to $.5 (2 + 10 - 8)/8$ which is actually a decline in performance. If you got aggressive in the 3rd month and collected everything the ratio would be $0 (4 + 10-14)/14$. In a nutshell, a smaller ratio number is better.





Ugh, More Lab Work

An argument could be made that the formula is not a very good representation for the a/r ratio. Red Planet is not distinguishing (for this calculation) between payments and adjustments when determining a credit. But, at least the method has been consistent since inception. After all, your methods of determining credit adjustments has probably not changed either.

Here is a list of ratios for one of our clients over a 9-month period.

1.8971 avg: 1.6537 14% Decline
 1.7379 avg: 1.5617 11% Decline
 1.7754 avg: 1.5681 13% Decline
 1.3154 avg: 1.5136 13% Improvement
 1.5543 avg: 1.5564 0% Improvement
 1.6425 avg: 1.5383 6% Decline
 1.3447 avg: 1.4467 7% Improvement
 1.7763 avg: 1.4741 20% Decline
 1.4485 avg: 1.3777 5% Decline

Now, let's dissect daily charges. This is computed by taking the total charges generated year-to-date and dividing by the number of days in the year. Again, you could argue that the divisor should be only working days. But the method has at least been consistent over the life of your business. Here is an example of daily charges for a one-doctor office.

1,890.08 avg: 1,941.55 2% Decline
 1,762.52 avg: 2,068.31 14% Decline
 1,718.74 avg: 2,222.87 22% Decline
 1,774.81 avg: 2,593.77 31% Decline
 2,103.55 avg: 2,622.89 19% Decline
 2,399.62 avg: 2,623.37 8% Decline
 2,650.67 avg: 2,547.73 4% Improvement
 2,689.86 avg: 2,496.51 7% Improvement
 1,991.19 avg: 2,070.78 3% Decline

Scalpel ready? Let's look at days to collect. This is computed by taking the ending balance and dividing by the average daily charges. Let's think of a simple example. Say you were generating 2000/day. At the end of a month your receivables was \$40,000 so days to collect would be 20. At the end of the next month your a/r was \$80,000 and you had no credits, the days to collect would be 40.

28 avg: 28 0% Improvement
 28 avg: 28 0% Decline
 30 avg: 27 7% Decline
 30 avg: 27 7% Decline
 30 avg: 29 1% Decline
 23 avg: 31 26% Improvement
 27 avg: 34 20% Improvement
 27 avg: 35 23% Improvement
 30 avg: 36 18% Improvement

Numbers can only go so far. It is really your gut instinct that can help you have a successful business. The numbers may support your hunch in which case you need to dig deeper. You may need to ask more questions.