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## **DEBT COLLECTION – A PERENNIAL PROBLEM**

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Debt collection is one of the biggest problems for any self-employed person. This is particularly the case for veterinarians dealing with farmers who, as a group, are frequently lax about financial matters and who have been badly affected by the recession. Many veterinarians exacerbate the debt collection problem by having poor accounting systems and ineffective credit control procedures. The costs of poor credit control are high – the level of bad debts increases, cash flow problems develop necessitating costly bank facilities and, most costly of all, the veterinarians' time is spent collecting outstanding debts rather than generating fee income by curing sick animals.

### **A Credit Control Policy**

Good communication with the client is essential to good credit control. The client should be made aware, from the very beginning, of the veterinarian's terms of business – these should be stated clearly on all documentation such as invoices and statements. Many veterinarians clearly display their terms in their offices so that all their clients are made aware of them. Very often the small print on invoices and statements is not read. If possible the client should be given an estimate of the cost of treatment before treatment starts. This will minimise disputation of the fee leading to a delay in payment or no payment at all.

The likelihood of a bad debt may be reduced by informal checks on the client's ability to pay. The veterinarian might keep his 'ear close to the ground' as social conversation with other local traders might provide some useful information. Discussion with the client on how and when he intends to pay will also be useful. The urban veterinarian avoids many debt collection problems by operating on a cash basis only. Most rural practitioners will have to extend credit. They may have to take account of seasonal factors and may have to wait for the clients to make a successful sale before being paid. However, if the veterinarian tries to facilitate clients in this way he may be taken advantage of. It is up to each individual veterinarian to consider his clients' circumstances before requesting payment at a particular time.

Longer established rural practitioners may demand cash before treatment from clients who in the past have proved to be poor payers. In deciding whether to adopt such a 'hard arm' tactic, the veterinarian must weigh up the cost versus benefit; the cost being the loss of goodwill with the client and the benefit being the time saved in doing work for free and in collecting the outstanding debt. In the longer run, word will get around that the veterinarian will not work without being paid promptly and other clients will be encouraged to pay their debts as they fall due.

Particular difficulty in collecting payment is likely to occur where the animal dies after treatment. This is less likely where the veterinarian has given the client an estimate before treatment and explained the risks involved. The client is then in a position to decide whether it is worth going ahead with the treatment. Some veterinarians will vary the fee depending on whether the animal lives or not; charging the full fee if the animal lives and reducing this substantially if the animal dies. Thus, having explained the situation fully to the client, any difficulties in collecting the outstanding debt should be minimised.

Any self-employed person, who finds that raising the question of fee payment is embarrassing, will soon find out the real cost of that embarrassment. Preferring not to mention money is a luxury few can afford. Once the practitioner develops formal procedures, understood by the client, the embarrassment will reduce.

### **Keeping Good Records**

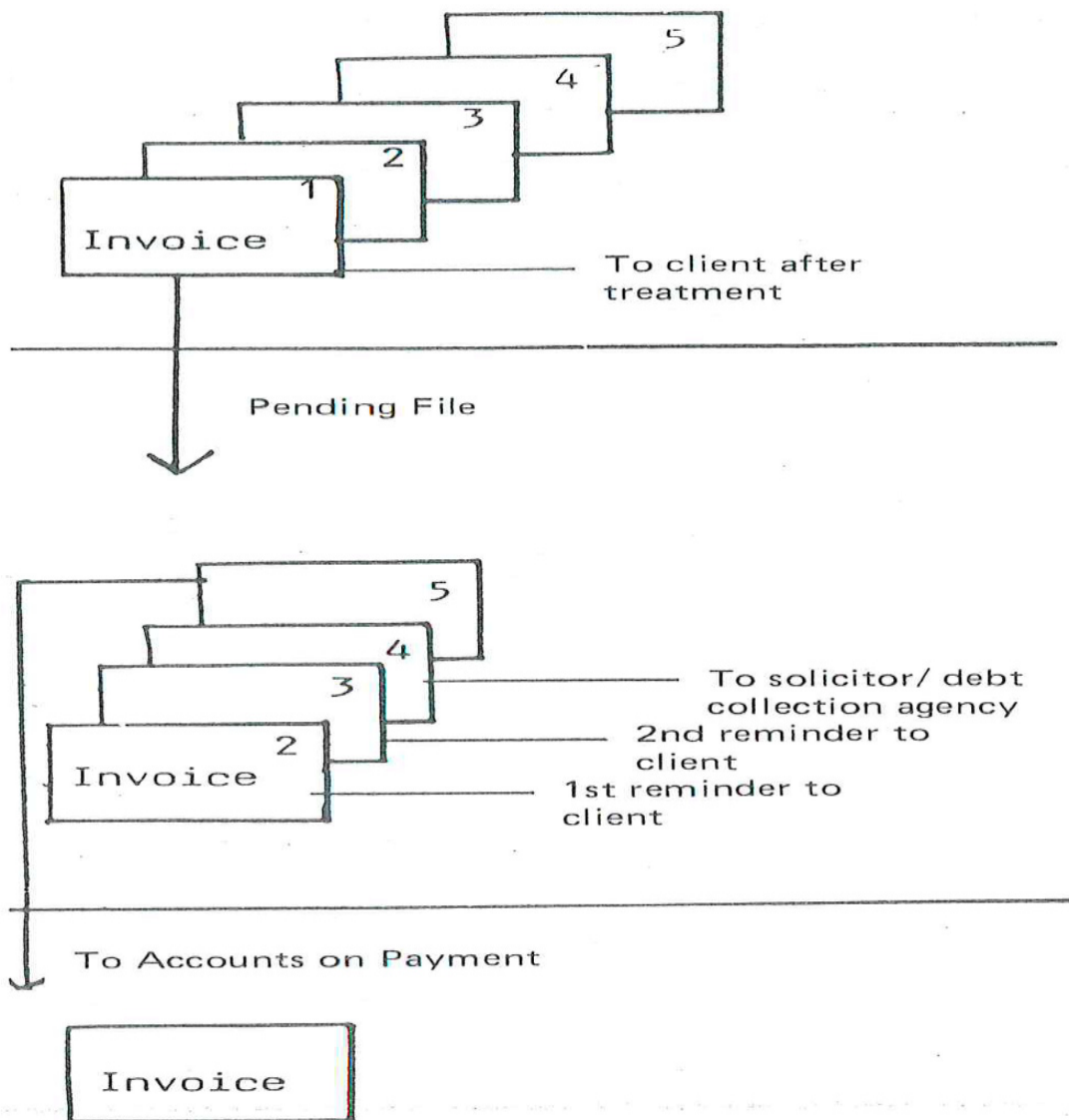
The accounting system should be simple to operate and provide the following information at any particular time:

1. The total practice debt outstanding;
2. The amount outstanding for each client;
3. The length of time for which the debt has been outstanding;
4. The work done in trying to collect the debt.

There is little advantage in developing formal credit control policies unless the accounting system provides the information necessary to implement the policy. Invoices should be given to clients on the day of treatment or should be sent to clients promptly after treatment and should give sufficient detail of the work done. The invoices should state clearly the terms of business. The debt should be followed up by regular up-to-date statements (monthly or quarterly). The information on the statement should be free of errors and payment by the client should be promptly recorded on the statement.

### **A Simple System Described**

It is a myth that computerised accounting is needed to maintain a good, up-to-date accounting system. The following manual system might be useful in a small practice (Figure 1).



**Figure 1: A Simple Credit Control System**

The veterinarians might have multiple copy invoices printed (each copy preferably of a different colour). My example is based on a five copy invoice but some practitioners might prefer few copies and thus less paperwork. In addition, different types of invoice might be used; one type, for example, to cover treatment, farm visits etc and another type for the sale of drugs. The degree of detail in the accounting system will depend on the size and nature of the practice and each veterinarian will need to design a system that best suits his particular circumstances and tastes.

After treatment, the first copy will be given to the client and the remaining four copies will be kept in a pending file. If, by the end of the month or after, say, thirty days the invoice has not been paid, a second reminder should be sent to the client, followed by a third reminder

sometime later. Finally, the veterinarian may have to employ an outside agency to collect the debt.

The pending file should be arranged by client name. When payments are made the invoice should be removed from this file. Part payments may be noted on the relevant invoice. The veterinarian will be able to see, at a glance, for each client, the amount outstanding and the age of the debt.

### **Remedies**

As part of his credit control policy the veterinarian might offer a discount for cash transactions, thus encouraging his clients to pay promptly. This approach will be particularly effective in the sale of drugs. These terms are also likely to be used by competitors in this field such as co-operatives and chemists. In relation to the treatment of animals, there is always the threat that the veterinarian will not continue to treat a client's animals unless outstanding debts are settled. This approach may result in loss of client good will and the veterinarian must decide on his course of action depending on the circumstances of the case.

Eventually, the veterinarian may hand over the debt for collection to a solicitor or debt collection agency. In some cases, the cost and effort involved, not to mention the loss of client goodwill, may outweigh the benefit of recovering the debt. On the other hand, if word gets around that the veterinarian is prepared to deal seriously with unpaid debts then his debt collection overall will be easier.

### **Examine your Conscience**

Some practitioners reading this article may already have an accounting system which they feel is inadequate. What can be done? The veterinarian should consult a good accountant to devise an effective system – effective from the point of view of its cost as well as it doing the job well. Some practitioners think that the purchase of a computer is the answer to all accounting problems. If an already ineffective accounting system is computerised the problems are likely to be compounded. Also, each practitioner must ask himself 'Am I going to get value from a computer'? Apart from the acquisition costs (and remember the software) there may be additional costs such as staff training, employment of extra staff to operate the computer, maintenance costs, cost of office space to house the computer, etc. I hope to describe some computer packages in a later article but suffice to say at this stage that if your manual system is not doing the job properly there is no guarantee that a computer will do so.

Many practitioners add to their debt collection problems by having poor accounting and credit control systems. Only blame the bad payers when you are satisfied that your own procedures have not contributed to the delay in payment.