

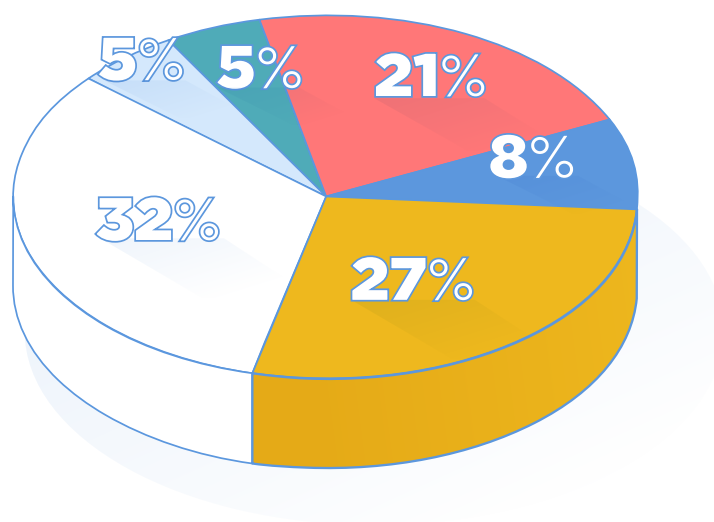


How accounting firms can eliminate debtors

By Mark Wickersham FCA
Author of *Effective Pricing for Accountants*

Why is it that so many accounting firms act as a bank? Why give clients credit?

In 2014 I carried out a survey of 725 UK accounting firms to find out how they priced and how they got paid (you can find out more about this survey [here](#)). In the survey I asked, “What are your payment terms for compliance work (e.g. annual accounts)?” Here are the results;



64% of the firms in the survey give credit.

Why is that? After all, there is no legal or professional requirement to do so.

Accountants are in the service industry; and generally the service industry gets paid either in advance or on delivery.

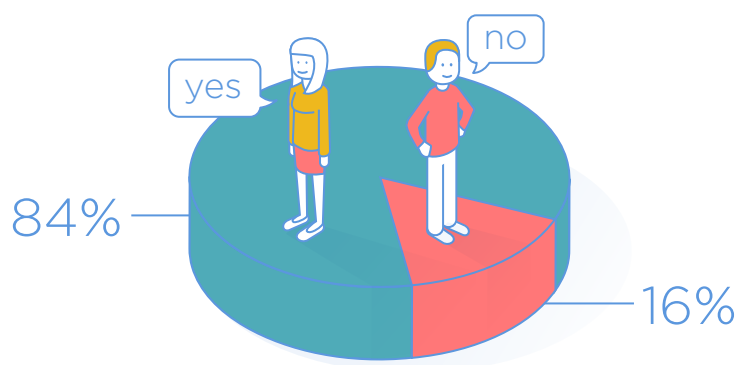
If you go to the dentist for a check up, before you leave, you go to reception, book your next appointment and **pay the bill**. If you take your car for a servicing, you **pay the bill** before you get given your keys. And in some services, you would even pay in advance. For example, we generally pay our utility or telephone bills monthly in advance by Direct Debit.

And yet 26% of the firms in the survey get paid in full – or at least most of the fee – in advance. So how are they doing that?

In this article I am going to share with you how accounting firms have made the transition from getting paid in arrears to getting paid up front.

But first, let's look at some more findings from the survey

In the survey I also asked, "Do you offer standing orders?" The results were:



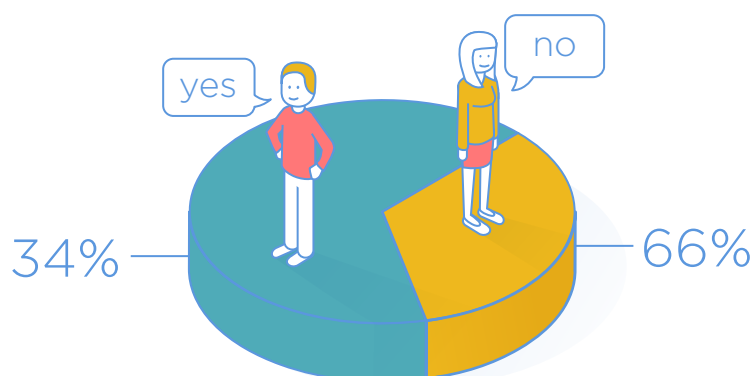
I think it's really interesting that most accounting firms offer standing orders. And certainly there are lots of merits of standing orders.

But there are also two very big disadvantages

Here are the big problems with standing orders:

- The bank doesn't tell you if a standing order does not clear your account. This means you don't know if you have a collection problem until you review your bank statement.
- You have to get a new standing order signed whenever you change your price. And that's a very big issue, which I'll come back to.

Direct Debits overcome those two big disadvantages. And yet when I asked, "Do you offer Direct Debit facilities?" the answer was:



Direct Debits are one of the most powerful tools for getting paid. Most firms I work with use Direct Debit. And they use it to get **paid in advance** (I'll show you how below).

Remember the second big disadvantage of standing orders

If you need to change your price you have to cancel the standing order and get the client to sign a new one.

The problem with asking the client to sign a new standing order is the danger they may question your fee and perhaps consider changing accounting professional.

Combine that with the administrative hassle of cancelling the standing order, creating a new one and sending it for signing. It's no surprise that some accounting firms simply leave the standing order in place. And that means keeping the price the same - not reviewing price every year.

This is what I love about Direct Debit...

Once the customer is set up on Direct Debit, if they agree to a new price you simply take the money from their account (they are of course fully protected by the Direct Debit guarantee system).

Even better...

If the customer agrees to an additional piece of one off work, you can collect that extra fee via the Direct Debit agreement.

Once you have your customer on Direct Debit you are in full control of getting paid. You eliminate your collection issues and with it bad debt.

So why doesn't everyone use Direct Debit?

Initially Direct Debit was only available to large companies with very high transaction volumes (such as telephone and utilities companies).

Then a number of companies opened up the market to smaller businesses. The trouble was, these early solutions were expensive and involved high levels of admin. You typically had to pay £500 just to get set-up and the finance charges per transaction were high.

That has all changed now and there is a solution that every UK accounting firms should be exploring. Before I share that solution, let's deal with another big issue... moving customers onto a monthly payment in advance.

So how do you make the change?



Increasingly accounting firms are getting paid in advance by Direct Debit. This is what many firms now do...

If the year end is 30 April they promise their client to have their accounts completed within 3 months of the year end; 30 June in this example. The client pays by monthly Direct Debit over 10 or 12 months (I prefer 12 months because you can use some powerful price psychology).

The Direct Debit starts so that the last payment is made when the accounts are expected to be complete. In this example, 12 months starting July of the previous year or 10 months starting in September of the previous year.

But how does that work when historically the customer has paid in arrears?

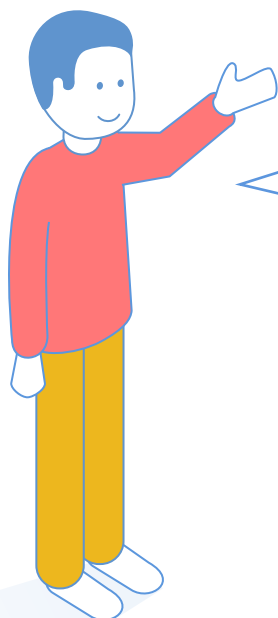
The best time to agree the fee for accounting work is as soon as the previous year is complete. So when you complete the work for the April 2016 accounts have the fee discussion about the work for the 2017 work and then start the Direct Debit so that the client has paid in full by June 2017.

Of course the problem here is they probably need to pay for the 2016 accounts in full – and if they are used to paying 30 days after completion of the work, they will be starting the Direct Debit for the April 2017 accounts before they have even paid for 2016.

This is what they do...

Words really matter

The way you describe your payment terms to your customer is important. You should describe it in a way that explains the benefit. This is how many firms I work with describe their payment terms for annual accounts...



Our easy payment solution helps your cash flow

To make your cash flow easy and to help with budgeting our Cloud Accounting packages are payable monthly in advance by Direct Debit.

And if you have a set of accounts due to be completed within the next year, we even have a range of easy payment options to help with any catch up. These include paying by credit card, paying by finance, paying by cheque or spreading the payment across the first few Direct Debit payments.

In practice this is what many accounting firms do...

Let's say the fee for the April 2016 accounts is £1200 and they are completed in June 2016. You are having the conversation with the client in June 2016. And let's say this would normally be paid a month after invoicing, i.e. in full in July 2016.

Let's say you also agree a fee of £1320 for the April 2017 and you would like this to be paid over the 12 months from July 2017 to June 2017 so you are paid in full by the time you expect to complete their 2017 accounts.

What you do is say to the client...

First you describe your payment policy (as set out above). You then say, "To avoid any cash flow issues we will let you pay your 2016 accounts in 12 interest free instalments of £100 per month. That means you will pay a Direct Debit of £210 per month for 12 months."

Clients do not object to you allowing them to spread the current fee over 12 months by interest-free instalments.

Focus on the benefits

You should re-emphasise the big benefit, “To make your cash flow easy and to help with budgeting”.

Some firms go further and say, “The great news is, after 12 months your monthly payments will roughly halve!” Which is true. Because once they have caught up their monthly payments will just be for one year (in the example above the £210 per month will drop to something in the region of £110, subject to what the fee is likely to be for the 2018 accounts, which you would discuss in June 2017).

My favourite solution for Direct Debit

GOCARDLESS

I started to use GoCardless in 2015 and of all the cloud solutions in my business this is my favourite software provider. GoCardless is simply brilliant.

The cost to set up is an astronomical...
... free!

So absolutely no excuse to set up your account.

The on going finance costs are tiny. Just 1% of the transaction capped at £2. Which is nothing when you consider the savings in debt collection, bad debt and, slow payers. And with standard monthly accounting fees being of a reasonable size, the £2 cap should benefit most practices.

It's also so easy to set up and manage. Just 5 minutes to set up and add customers online. The online dashboard means you can manage your payments payments in real time with automatic notifications of any failures or cancellations. You log into your account and manage everything online from setting customers up in minutes, to managing payments with ease.

GoCardless integrates with all the leading accounting software packages and, launching in June 2016, integrating inside QuickBooks Online (QBO). The QBO integration means you can manage your customers and payments from within QBO – just raise an invoice and collect the money at the same time.

Most of the accounting firms I work with now use GoCardless. Here are two examples:



Superb software. The simple act of being able to change a regular Direct Debit, or to charge a one-off amount, is excellent. Payment is pretty quick and fees are minimal. The ability also to have a 'pay link' on your website or in an email is excellent. Once I found GoCardless I never looked back!

Jason Blackman, 3 May 2016



I think it's brilliant. Now a condition for all new clients. And now approaching all the legacy clients to get them on board.

David Potter, DP Accounting, 3 May 2016

Remember the big benefit to you

Imagine the debtors (accounts receivable) currently on your balance sheet being in your bank account, with no worry of bad debts and collection issues. What difference would that make?

Actually, it's bigger than that... when you start collecting by Direct Debit in advance you will end up with negative debtors.

GoCardless is completely transforming accounting firms cash flow.

About the author

Mark Wickersham FCA

Mark Wickersham – *Chartered Accountant, public speaker and #1 best-selling author* – is known as the most sought after **profit improvement expert** in the accounting community.

Mark is also a widely published author on practice issues. In May 2011 his book, “Effective Pricing for Accountants”, was a **number 1 Amazon bestseller**.

You can get a free copy of his eBook, “How to price accountancy services for maximum profit” [here](#) and download a special VIP voucher code where you can get a free version of my Cloud Pricing software.

GOCARDLESS

GoCardless is the UK’s leading Direct Debit provider, offering a simple way to take recurring payments. Sign up now to join over 16,000 other merchants and take control of your payments.