MONEY$LINES

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NEW BUSINESS

We are pleased to have funded the following new client types last month:

- Die Cast Manufacturer
- Moving & Relocation Service
- Graphics Company
- Temporary Staffing Service
- Apparel Mfg. & Dist.
- Furniture Distributor
- Printing Company
- Advertising Specialty Company
- Environmental Consulting Co.

Much of our business comes to us from financial professionals like you. Thank you very much for your trust. Please continue to send us your financially challenged customers.

At tax time: Should you write off bad debts or not?

What bad debt write-offs *really* cost!

As you prepare your taxes this year, you may be faced with some tough decisions regarding bad debts: Do you go ahead and write them off now and take the deductions, or is there still a reasonable chance of collecting the money?

There are several things you should consider as you weigh this decision. Perhaps most important is the impact of write-offs on your cash flow and net profit margin. Many business owners are surprised to see how much new sales volume must be generated to recover lost income due to write-offs before new profits can be realized. See the chart on this page for a startling reminder.

"Many business owners don't understand the true impact of bad debt write-offs and how they affect the company's bottom line and even its ability to survive," says Buck Gentry, a CPA in Chattanooga, Tennessee. As the chart demonstrates, for a company operating on a 5% net margin, a $10,000 bad debt write-off requires *$200,000 in new sales* just to break even. "On the other hand, some owners continue to carry receivables that are one or two years old, but they're just not facing the music," says Gentry. "In this case, the financial statements won't reflect the true equity position of the company."

Making the tough call

Making bad debt write-off decisions means making a judgment call between taking a hard financial hit versus holding out hope that receivables can still be collected. To reduce the number theber of these tough decisions that have to be made next year, make a renewed commitment now to carefully scrutinize new customers before offering them payment terms.

"Sometimes owners think, 'Great, I've got a $20,000 new order, but the customer needs terms,' without thinking about the cost of extending open credit to companies they don't know well," says Gentry.

This cost goes beyond simply bad debt. For example, granting 90 day terms can crimp cash flow severely enough to put some companies out of business. In this case, a company may not be charging the customer enough to carry the financing cost and still turn a profit. A margin analysis will help reveal if this is the case. Another mistake commonly made by small businesses is giving customers prompt-payment discounts (e.g., 2/10, net 30) but not enforcing the prompt payment terms, thus defeating the purpose of offering the discount.

Unwilling lenders

Companies that don't manage their receivables well become, in effect, unwilling lenders helping enhance the cash flow of their customers. A sound accounts receivable management program, coupled with the proper follow-up procedures, is the best way to help alleviate this potential problem.

First Vancouver Finance works closely with businesses to help them continuously monitor and control credit approval and receivables collections and ensure that margins are appropriate given the payment terms. "That's our sole focus," says Tracy Eden, National Marketing Director. "We're another set of eyes advising businesses on all aspects of credit, collections and margins."

"Collections can be much more efficient when handled by a company that does this all the time, like First Vancouver Finance," says Gentry. "Plus, it frees up the business to use its resources on more productive tasks. The professionals at First Vancouver Finance treat my clients' customers as if they were their own customers."

To learn more about FVF's accounts receivable management programs, please visit www.fvf.ca or call (800) 663-0721

Write off amounts in dollars	New Sales Needed using 10% Net Income Result	New Sales Needed using 5% Net Income Result	New Sales Needed using 2% Net Income Result
$10,000	$100,000	$200,000	$500,000
$25,000	$250,000	$500,000	$1,250,000
$50,000	$500,000	$1,000,000	$2,500,000
$75,000	$750,000	$1,500,000	$3,750,000
$100,000	$1,000,000	$2,000,000	$5,000,000

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