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What Your Aging AR Report Is Actually Telling You

Most owners read an aging report to find out who's late. That's a collections question, and it's the smallest question the report answers. The aging report is really a diagnostic on your cash conversion cycle, and two businesses with identical balances and identical aging can be carrying completely different risks.

Today I'll walk through what the patterns mean and what each one should change about how you operate.

Read the distribution, not the average

Most owners track two numbers: total receivables and days sales outstanding. Both are averages, and averages hide the thing you need to see.

Take a $400,000 balance. If it's concentrated in current and under 30-day buckets, the portfolio is behaving. That may be a normal month of billing moving through the payment window, or it may be growth, with invoices going out faster than cash comes in. Either way, it's a funding question, not a credit question.

Now put the same $400,000 on a different business, with half of it past 60 days. It's the same balance, and possibly even the same DSO if half the customers pay quickly. But this business is doing something different. It's extending unpriced credit, carrying unresolved disputes, or running a collections function that doesn't escalate.

Here's the practical fix. Stop tracking the balance and start tracking the mix - each bucket as a percentage of total AR, month over month. A growing business shows a rising balance with a stable mix. A deteriorating one shows a shifting mix, often while the balance looks flat. The mix is what tells you which one you are, and it's the number that separates a financing problem from a credit problem.

One caution before you trust the report. Confirm whether your system ages from invoice date or due date, and whether unapplied cash and open credit memos are sitting in the current bucket. Both distortions make the front end look healthier than it is.

A broad creep is an operations problem

The first pattern to recognize is a broad drift. Average days to pay moves from 32 to 38 to 45. No single account looks like the culprit, but the whole curve stretches right.

That's almost never a customer problem. It's a process problem, and it usually sits upstream of accounting: invoices are cut days after the work is complete, terms aren't stated the same way in the proposal and on the invoice, change orders are performed without written approval, missing PO numbers, and follow-up that starts only after an invoice is already delinquent. Each one of these creates a dispute, and disputed invoices don't age; they park.

Broad drift can be expensive. At $1 million a month in sales, a 30-day collection means carrying roughly $1 million in receivables. Drift to 45 days, and you're carrying about $1.5 million. That incremental $500,000 gets funded by your line of credit, your vendors, or your reserves. On a credit line at 9%, that's roughly $45,000 a year in pretax profit, spent to finance a process failure. And that's just the carry. It doesn't count the dilution - the credit memos, short pays, and concessions you grant to close out aged invoices, which is real margin leaving the business.

With a broad drift, calling individual customers won't fix it. Look at the gap between your stated terms and your actual DSO. If terms are net 30 and you're collecting in 45, that 15-day spread is the operating defect, and you close it by moving billing closer to delivery, making terms consistent across every document, and making first contact before the due date rather than after it.

A few large overdue accounts are a credit exposure

The second pattern looks nothing like the first. The portfolio is clean except for two or three names sitting in the 60, 90, and 90-plus columns. That's not drift. That's concentration.

Say you're carrying $600,000, and one customer accounts for $180,000 of it, more than 90 days old. The averages look survivable. But you've written that customer an unsecured, uncollateralized, interest-free loan for thirty percent of your receivable base, and you did it without a credit committee.

What matters is why. Financial distress at the customer calls for tighter credit limits, deposits, shortened terms, or stopping work. A dispute calls for resolution plus a fix to whatever produced it. Then there's leverage. Some large customers pay slowly simply because they can. That's a pricing and contract question, and sometimes a question of whether the account is worth the working capital it ties up.

There's a second cost most owners don't see until they need capital. If you borrow against receivables, your lender applies ineligibility rules to that same aging report. Concentrated accounts typically get capped at a percentage of the receivable borrowing base. And under a cross-aging provision, once a meaningful share of a customer's balance goes past due, the lender can disqualify that customer's entire balance, including current invoices. So a single deteriorating account doesn't just delay cash. It can shrink your available credit by a multiple of what that customer owes, at exactly the moment the slow payment has you drawing on your line.

Big accounts aren't automatically good accounts. Judge each large account on revenue net of the capital it consumes and the credit risk it concentrates, not just on the top line revenue.

Aged receivables are worth less than face value

An invoice is an asset that decays. Ten days out, it's nearly cash. Forty-five days out, it needs attention. A hundred and twenty days out, it's a claim.

Collection industry data varies by sector, but the direction is consistent and steep: recovery rates run near-certain on current invoices, fall off materially past 90 days, and by the one-year mark a substantial share is unrecoverable. Thus, carrying $100,000 at 90-plus days is not the same asset as $100,000 invoiced last week, even though the balance sheet shows them at the same number.

That gap has consequences beyond cash planning. It drives your allowance for credit losses, which hits reported earnings. It shapes what a lender will advance. And in a transaction, a buyer will age your receivables, test them, and discount the tail; quality-of-earnings work treats a fat 90-plus column as evidence about revenue quality and collections discipline, not just as a timing issue.

What to actually change

For broad drift, the fix is cycle time. Bill the day work is complete. State identical terms on the proposal, the contract, and the invoice. Make contact before the due date. Require approved change orders before performing the work, because that's where most disputed invoices originate.

The other half of the fix is a follow-up cadence that runs on a strict calendar instead of on judgment. A call at 30 days past due, written notice at 60, work stopped at 90 - applied to every account, not just the ones that feel like a problem. Name the person who owns each step. The discipline matters more than the tone, because a consistent process converts late payments back into cash while a polite one converts them into write-offs.

If you bill recurring or subscription work, look hard at prepayment or autopay enrollment. That's the strongest move available to you, because it doesn't manage the receivable; it eliminates it before it exists.

For concentration issues, additional techniques must be considered. On the front end, the work is credit, not collections: set a limit on how much any one customer can owe you before you take the next job, and use deposits, progress billing, or shortened terms to stay inside it. On the back end, enforcement stops being a policy question. Stopping work on your largest account has revenue consequences a written trigger can't decide for you. So decide in advance who makes that call, and what you're prepared to do about it: a payment plan, a security interest, outside collection. Settle that before the account reaches 90 days, not while you're under pressure.

The bigger picture

Your aging report isn't a list of late invoices. It's a map of how your business converts revenue into cash, and the shape of it will tell you which problem you have well before it shows up in your bank balance.

Next Step

The goal isn't faster collection. It's fewer surprises, and a report you're managing from rather than filing away.

If you have questions or would like to discuss your unique situation, please contact our office.

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