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IMPROVE DAYS SALES OUTSTANDING WITH THREE ACHIEVABLE TRICKS

[1]Binik-Thomas, J.

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Abstract

Proper financial management in any company is crucial to ensure contractual agreements that are fair and equitable to both parties. The Finance and Contracting departments are responsible for managing financial aspects such as payments, which should be as cash neutral as possible and paid approximately equal to the work performed. Days outstanding sales, measuring the days from work served to paid, is used to manage financial expectations. The aim is to manage sales in as few days as possible, generally within 30 to 60 days, depending on the industry. Modifications to study expectations that require a change of delegation or price should be incorporated formally into the contract file to protect each party. Urgent work may require additional full-time equivalents allocated to the program, which could impact headcount and legally delegated authority. Nevertheless, the company should not proceed without written permission, as it is a significant financial and legal risk. Proactive communications regarding financial packages, such as completed units and projections, may mitigate the risk, as changes shouldn't surprise. Written approval will clearly show auditors and regulatory bodies the modification to delegated work. The purpose of this paper is to emphasise the importance of proper financial management and communication to minimise financial and legal risks. We aim to provide insights into managing finances and contractual agreements by discussing the responsibilities of the Finance and Contracting departments. We also provide recommendations on proactive communication and written approvals.

INTRODUCTION

Finances can be taboo in the workplace, just like friends and family. Taboo or not, the responsibility of proper financial management in any company falls to the Finance and Contracting departments to ensure the contractual agreements are fair and equitable to both parties. The payments should be as cash neutral as possible, paid

[1] University of Cincinnati Indiana Wesleyan University

approximately equal to the work performed (Baker, 2017). A related measurement within the finance department is day's outstanding sales, measuring the days from work served to paid (Barron, 2010). The expectation is to manage in as few days as possible, generally in the 30 to 60-day range, depending on the industry.

There are changes from time to time to the study expectations; if the modifications require a change of delegation or price, they are incorporated formally into the contract file to protect each party. Some of these changes almost certainly adjust the effort necessary to perform the activities and the price. If the work is urgent, it may need to happen before a contract, thus resulting in the need for additional full-time equivalent (FTE) allocated to the program. This addition would then potentially impact headcount and legally delegated authority. A company working without written permission is a significant financial and legal risk. Proactive communications regarding the financial packages, such as completed units and projections, may mitigate the risk, as changes shouldn't surprise. Further, written approval will clearly show auditors and regulatory bodies the modification to delegated work.

Primary Discussion

An organization must ensure the least risk, and most income is recoverable. Many organizational development tools are applicable, such as a bowtie risk assessment and a cause, effect, and consequence pathway. The resulting data is often disseminated to the larger organization in a Contract Risk Cycle (see

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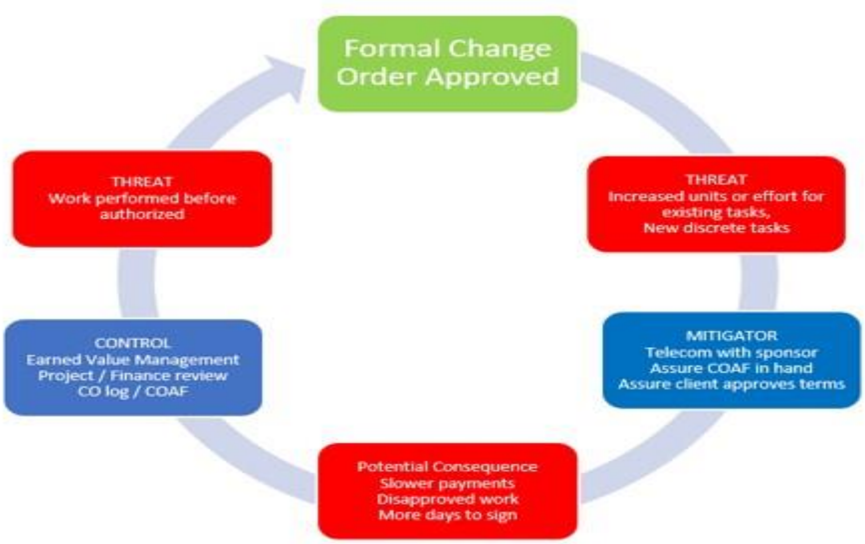
Figure 1) to illustrate the value of proactive risk and financial management. The situation of more units at the same price, more units at a different price, and the addition of brand-new units represent the critical reasons for controllable cashflow that a contract amendment can manage. The organization should have an internal system, such as earned value management, to identify units completed and project units to complete. Anytime there is a change in project requirements, communication with the client must occur before completing work, allowing them to accept or reject the project modification. If accepted and acknowledged in writing, the extra work can continue. If not approved, the study flow may require modification to stay within the original budget, modify the complexity, or perform the work in-house (no longer outsourced). These communications occur through finance packages and preapproval forms implemented through explicitly delegated authority. These recommendations — finance packages, preapproval, and delegated authority - are outlined below.

FIGURE 1
CONTRACT RISK CYCLE



Consistent Finance Packages

The company should provide periodic updates on the study's financial position , including units performed and units projected — the analysis can show as percent complete or trend lines, depending on the type of activity covered. Suppose the organizational efforts exceed the units authorized. In that case, the client needs to decide the next steps utilizing the finance package (e.g., approve more units, adjust the ask to scope, or take some services in-house to compensate). The Contract Risk Cycle (Figure 1) equates to 'change in units' same price' and 'change in units new price.' The final possibility in this scenario is a brand-new task or activity (not previously contracted), as noted in the risk assessment, which may require negotiation before updating theprogram contract.

Signed Preapproval for New Work

If the client decides to change the number of units performed, they must agree to the changes in writing. An ideal agreement format is a contract; however, some items must happen relatively quickly. Using a standardized approval form to memorialize the agreement is valuable in those cases. The standardized approval form may or may not present as a billable form (billable preferred) but assures the alignment of parties on the change and the price before working, thus resulting in fewer surprises at the contract step. The standardized form may also distinguish between staffing and expenses, allowing the no-profit components to be billable immediately (e.g., taxi trip, bank fee, vendor support). In addition to the above points, another benefit to using the standardized form is that the company may prioritize what goes into the changes to streamline discussions, that is, all the items agreed upon and perhaps the related material (e.g., nothing under a preapproved threshold such as $100 or 5%). A quicker contract signature results in improved cashflow and an improved reduction in the days sales outstanding.

Clear Delegated Authority

Once making a go-forward decision to enter into a change in the contract, it is vital to be clear on what decisions each party is authorized to make after the preapprovals. Further, there is value in understanding where to go for deviations ahead of time. There are constructive collaborations between the frontline personnel, the contracts team, and the sales team. The clear delegation of authority within the organization is also essential because it is imperative to maintain constructive relationships with internal and external customers. Providing transparency in the process and presentation for the reviewers on both sides of the deal yields a quicker turnaround. If needed, it helps all parties work toward a binding agreement for billing, revenue, and headcount. No process is foolproof or firm, but authority bands are required to ensure all parties work harmoniously towards a common goal of clear contracting and on-time and on-budget work.

CONCLUSION

Much success or failure is rooted in trust and transparency, like many interactions in life, business, and pleasure. Effective financial management assures no surprises to the efforts, approving increases to units before the performance, and the payment terms are as neutral as possible, so there aren't extensive checks in either direction. The day's sales outstanding measurement tracks the combination of drivers, from the day performing to the day paid for work. Proactive communication, relationship management, and straightforward contracting—all business basics—are the most effective tools to mitigate risk.

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