**Expense of Bad Debt Recovery**

After exhausting their efforts to collect overdue accounts, companies normally write off uncollectible accounts as bad debts. Once written off, the debts are treated as an expense and are removed from a company's list of assets. Bad debts may still be recovered, but the task is an arduous one and does not guarantee positive results. Faced with various options for bad debt recovery, most companies refrain from spending another cent to cut their losses.

**Collection Agencies**

Collection agencies that specialize in recovering bad debts provide cheap and financially less risky alternative to legal proceedings. Such companies work on commission basis wherein they receive a percentage of the recovered amount. Businesses find this alternative attractive since they don't have to pay fees for any debt that is not recovered.

**Legal Action**

Creditors have the option to go to court and file charges against the debtor, but such an action can become quite expensive and time consuming in the long run, since lawsuits and subsequent hearings require the creditor to retain legal representation to pursue this course. Some law firms engage in the business of buying bad debt portfolios from creditors. The law firm files the charges themselves anticipating to get default judgments against debtors to garnish wages and bank accounts or require payment from the debtor.

**Collateral**

Many borrowers pledge assets to secure a loan or credit, and such assets are subject to seizure in case the loan turns into a bad debt. Seizure proceedings can take time to implement and cost additional expenses due to the legal processes involved. After seizure, creditors have an option to use or sell the collateral, but this option runs the risk of not netting enough money to cover the loan.

**Settlement**

Creditors have an option to offer settlements to debtors for a certain percentage of the outstanding balance. Rather than go to court, some debtors will grab the opportunity to solve their debt problem at a much lesser cost. Many creditors would rather receive payments immediately even if the amount is reduced rather than go to court, spend more money and wait over a long period of time.

# How to Decrease Bad Debt Expenses to Increase Income

Unpaid bills from customers negatively impact your bottom line.

Businesses that work on a cash only basis don't have to worry about bad debt expenses, but working on a cash only basis is uncommon in a global economy. Most businesses know that a certain percentage of sales will not be paid and end up as a bad debt, thus creating the problematic scenario of the higher the bad debt expense the lower the income.

## Review Credit Policies

Accounts receivable aging can creep up on you. Review those accounts on a monthly basis to see which customers are paying on time and which are lagging behind. The longer a receivable is outstanding the higher the probability it won't be paid. It may be necessary to put some customers on a cash only basis if they consistently are paying late. You might lose some sales, but that is better than the double hit of delivering the product and not being paid.

## Eliminate Terms

Stop offering payment terms to prevent your bill from being set aside. Terms allow the customer 30, 60 or 90 days to pay rather than requiring the products or services be paid for upon delivery. Unless you trust the customer implicitly, it is always wise to require payment right away.

## Cash Discount

Alternatively, you can offer customers a discount when they pay cash even if you do offer payment terms. If you accept credit cards, it is against the terms of service to offer a cash discount. You can, however, offer business customers who normally would take advantage of your 30-day payment option a discount if they pay cash immediately.

## Collection Policy

Establish a collection policy and develop a series of letters and actions that your company will take for late paying customers. For example, if the customer is 30 days late, send a polite reminder letter. Follow up with a phone call seven days after the letter and again 14 days later. When the account becomes 60 days overdue a second stronger letter is sent, perhaps telling the customer that while you value their business, you must get paid.

## Collection Agency

Collection agencies have an unsavory reputation; however, it may be necessary to assign a bad debt account to a collection agency to proceed with collections. If you assign the account, you still own the debt. The agency receives a commission of whatever they collect. If you sell the bad debt, the agency pays you a small percentage of the face value of the debt and keeps whatever they collect.