

Accounts Receivable

Company: NorthBridge Industrial Supply, Inc.

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Department: Finance – Accounts Receivable

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1. Purpose

This document defines the standard accounts receivable (AR) workflow used to prioritize customer balances, identify delinquency risk, and evaluate customer payment behavior. The objective is to support consistent, repeatable collections decisions, improve cash flow predictability, and ensure fair treatment of customers based on both contractual terms and historical behavior.

2. Scope

This workflow applies to all active customer accounts with open receivable balances. It is used by Accounts Receivable Analysts, Finance Managers, and Credit personnel during daily collections activities, weekly reviews, and month-end close processes.

3. Inputs

The workflow relies on the following standard inputs:

- Customer accounts receivable aging report
- Customer master data (credit limits, payment terms, establishment date)
- Historical payment records
- Open sales order balances

These inputs collectively represent the authoritative source for receivables analysis.

4. Key Concepts & Definitions

- Current Balance: Total outstanding receivable balance per customer
- Aging Buckets: Segmentation of receivables by days past due (0–30, 31–60, 61–90, 91–120, 120+)
- Historical Average Days to Pay: Average number of days a customer historically takes to remit payment
- Behavioral Deviation: Difference between current overdue status and historical payment norms
- Payment Behavior Category: Internal classification describing customer payment tendencies

5. Workflow Overview

The AR prioritization process consists of two complementary evaluation paths:

1. Balance and Aging-Based Risk Review
2. Historical Payment Behavior Review

Both perspectives are considered together to determine collections priority and appropriate follow-up actions.

6. Detailed Workflow Steps

Step 1: Data Review and Validation

Review the accounts receivable aging report to confirm:

- Customer balances are complete and current

- Aging bucket totals reconcile to current balances
- Customer status, terms, and credit limits are accurate

Step 2: Aging and Exposure Assessment

Evaluate each customer based on:

- Total outstanding balance
- Concentration of balances in advanced aging buckets (90+ days)
- Credit limit utilization and exposure

Customers with large balances and advanced aging are prioritized for follow-up.

Step 3: Historical Payment Behavior Comparison

Compare current overdue metrics against historical payment patterns to determine whether current delinquency aligns with normal customer behavior or represents a material deviation.

Step 4: Payment Behavior Classification

Based on aging and historical trends, assign each customer to a payment behavior category such as:

- On-Time
- Predictably Late
- Improving
- Deteriorating
- High Risk

This classification informs the urgency and tone of collections efforts.

Step 5: Prioritization and Follow-Up Planning

Develop a prioritized list of customer accounts requiring action. For each prioritized account, determine:

- Recommended follow-up timing
- Appropriate communication approach
- Escalation requirements, if any

This list is used to guide daily collections activities.

7. Outputs

Outputs generated from this workflow include:

- Daily and weekly collections priority lists
- High-risk account summaries
- Management-level receivables status reports
- Inputs for credit policy review and adjustment

8. Governance and Controls

All collections decisions must comply with company credit policies and customer agreements. This workflow is intended to promote consistency and objectivity; however, professional judgment is required in all customer-facing decisions. Exceptions and escalations must be documented and approved in accordance with department policy.