

SAMPLE SOP FOR ACCOUNTS RECEIVABLE PROCESS IN INDIATS PAYABLE PROCESS IN INDIA

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Review Date	[Insert Date]
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1. PURPOSE AND SCOPE

Purpose

This SOP establishes standardized procedures for managing accounts receivable to ensure the timely collection of outstanding amounts, maintain healthy cash flow, and comply with Indian accounting standards and regulatory requirements.

Scope

This procedure applies to all credit sales transactions, invoice generation, collection activities, and receivables management within the organization operating in India.

2. REGULATORY COMPLIANCE

Applicable Regulations

- Goods and Services Tax (GST) Act, 2017
- Companies Act, 2013
- Income Tax Act, 1961
- Indian Accounting Standards (Ind AS)
- Reserve Bank of India (RBI) Guidelines (for applicable entities)

Key Compliance Requirements

- GST invoice format and time limits
- TDS provisions on applicable transactions
- Foreign exchange regulations (FEMA) for export receivables
- Statutory audit requirements

3. ROLES AND RESPONSIBILITIES

Finance Manager

- Overall supervision of the AR process
- Credit policy formulation and approval
- Monthly AR analysis and reporting
- Bad debt provisions and write-offs approval

AR Executive/Accountant

- Daily invoice processing and dispatch
- Customer payment tracking and follow-up
- Monthly aging analysis preparation
- Collection calls and correspondence

Sales Team

- Customer credit information collection
- Sales order processing with credit checks
- Customer relationship management for collections
- Dispute resolution support

IT Department

- ERP system maintenance and user support
- Automated reminder system setup
- Data backup and security

4. CUSTOMER ONBOARDING & CREDIT ASSESSMENT

New Customer Setup

Required Documents:

- GST Registration Certificate
- PAN Card
- Certificate of Incorporation/Partnership Deed
- Bank account details and cancelled cheque
- Trade references (minimum 2)
- Financial statements (last 2 years)
- Credit report from authorized agencies

Credit Limit Assessment

Evaluation Criteria:

- Annual turnover and profitability
- Payment history with other vendors
- Bank relationships and credit facilities
- Industry risk assessment
- Promoter/Management background

Credit Limit Matrix:

- New customers: Maximum ₹5 lakhs initially
- Existing customers: Based on payment track record
- High-value customers: Board/Management approval required

Credit Terms

Standard Payment Terms:

- Local customers: 30 days from invoice date
- Government customers: 45-60 days
- Export customers: As per the Letter of Credit/Contract terms
- Cash customers: Advance payment or delivery against payment

5. INVOICE GENERATION AND DISPATCH

Invoice Creation Process

Pre-requisites:

- Approved delivery challan/goods receipt
- Rate confirmation from the sales team
- Customer GST number verification
- HSN/SAC code validation

Invoice Components (GST Compliant):

- Sequential invoice number
- Invoice date and place of supply
- Customer details (Name, Address, GSTIN, State Code)
- Item description with HSN/SAC codes
- Quantity, rate, and taxable value
- GST breakup (CGST, SGST/IGST, CESS if applicable)
- Total invoice value in numbers and words
- Payment terms and due date
- Bank account details for payment

Invoice Dispatch

Methods:

- Email (primary method)
- Physical copy by courier/hand delivery
- Customer portal upload (if applicable)
- WhatsApp Business (for small customers)
- Timeline: Within 24 hours of goods dispatch/service completi

Invoice Register Maintenance

- Daily update in the ERP system
- Sequential numbering without gaps
- GST return filing compliance
- Monthly reconciliation with the sales register

6. PAYMENT TRACKING & COLLECTION

Daily Activities

Morning Tasks (9:00 AM - 12:00 PM):

- Check overnight payment receipts
- Update customer ledgers
- Identify due/overdue payments
- Send payment reminders for amounts due today

Evening Tasks (2:00 PM - 6:00 PM):

- Follow up on overdue amounts
- Collection calls to customers
- Email follow-ups for pending payments
- Update collection notes in the system

Collection Strategies

0-30 Days (Current):

- Courtesy reminder 7 days before due date
- Due date reminder via email/SMS
- Friendly follow-up call on due date

31-60 Days (Overdue 1-30 days):

- Daily email reminders
- Weekly collection calls
- Request for payment commitment
- Escalation to the sales team if required

61-90 Days (Overdue 31-60 days):

- Formal notice letter
- Management-level calls
- Site visits for high-value accounts
- Hold future supplies (after approval)

91+ Days (Overdue 60+ days):

- Legal notice through the company lawyer
- Involvement of collection agencies
- Consideration for bad debt provision
- Credit limit review and suspension

Payment Methods Accepted

- NEFT/RTGS bank transfers
- Cheques (with proper collection period)
- Demand Drafts
- UPI payments (for smaller amounts)
- Online payment gateway (if available)

7. RECEIVABLES AGING AND REPORTING

Monthly Aging Analysis

Age Buckets:

- 0-30 days (Current)
- 31-60 days
- 61-90 days
- 91-180 days
- 181-365 days
- Above 365 days

Key Performance Indicators (KPIs)

1. GST Returns:

- Days Sales Outstanding (DSO):** Target <45 days
- Collection Efficiency:** Target >95%
- Bad Debt Percentage:** Target <2% of sales
- Overdue Percentage:** Target <15% of total receivables

Monthly Management Reports

Contents:

- Receivables aging summary
- Top 10 overdue customers
- Collection efficiency analysis
- Bad debt provision requirements
- Action plan for recovery

8. DISPUTE RESOLUTION

Common Dispute Types

- Quantity/quality issues
- Rate discrepancies
- GST calculation errors
- Service deficiencies
- Documentation issues

Resolution Process

- Immediate Acknowledgment (within 24 hours)
- Investigation and Analysis (2-3 working days)
- Internal Discussion with relevant departments
- Customer Communication with proposed resolution
- Implementation of the agreed solution
- Follow-up for customer satisfaction

Documentation

- Dispute register maintenance
- Email trail preservation
- Resolution timeline tracking
- Customer satisfaction feedback

9. BAD DEBT MANAGEMENT

Identification Criteria

- 1. Outstanding for more than 180 days
- 2. The customer declared insolvent/closed
- 3. Legal recovery is not economically viable
- 4. Management decision based on specific circumstances

Provision Policy

As per Ind AS 109:

- Stage 1: 12-month expected credit losses
- Stage 2: Lifetime expected credit losses (not credit-impaired)
- Stage 3: Lifetime expected credit losses (credit-impaired)

Practical Provision Rates:

- 0-90 days: 0.25%
- 91-180 days: 2%
- 181-365 days: 10%
- Above 365 days: 25-100% (case-by-case basis)

Write-off Process

- Management Approval (above threshold limits)
- Board Resolution (for significant amounts)
- Tax Implications consideration
- Accounting Entry Processing
- Continued Recovery Efforts even after write-off

10. SYSTEM AND CONTROLS

ERP System Configuration

- Automated payment reminder system
- Credit limit monitoring
- Aging report generation
- Integration with the GST filing system
- Dashboard for real-time monitoring

Internal Controls

Segregation of Duties:

- Invoice preparation \neq , Payment posting
- Credit approval \neq , Collection responsibility
- Write-off approval \neq AR processing

Authorization Matrix:

- Credit limits: As per the delegation of authority
- Write-offs: Finance Manager/CFO approval
- Legal action: Management committee decision

Data Security

- Regular password updates
- Access controls based on roles
- Daily data backup
- Confidentiality agreements for AR staff

11. DOCUMENTATION & RECORD KEEPING

Physical Records

- Customer master files
- Invoice copies and acknowledgments
- Payment receipts and bank statements
- Legal notices and correspondence
- Board resolutions for write-offs

Digital Records

- ERP system data with regular backups
- Email communications archive
- Scanned documents storage
- Electronic payment confirmations
- GST portal transaction records

Retention Policy

- Current Year: Immediate access required
- Previous 3 Years: Ready access for audit/disputes
- 4-8 Years: Archive storage as per statutory requirements
- Beyond 8 Years: Secure disposal after legal clearance

12. TRAINING AND DEVELOPMENT

Initial Training (New Staff)

- Company credit policies and procedures
- ERP system operation
- GST compliance requirements
- Communication skills for collections
- Legal aspects of debt recovery

Ongoing Training

- Quarterly updates on regulatory changes
- Customer relationship management
- Negotiation skills development
- Technology updates and system enhancements
- Industry best practices sharing

13. AUDIT AND COMPLIANCE

Internal Audit Checklist

- Credit approval documentation
- Invoice generation accuracy and timeliness
- Payment posting verification
- Aging analysis accuracy
- Provision calculation validation
- Write-off authorization compliance

Statutory Compliance

- GST Returns: Monthly/Quarterly filing
- TDS Compliance: Quarterly returns and certificates
- Income Tax: Annual return filing with proper disclosures
- Company Law: Board approval for material write-offs

14. ESCALATION MATRIX

Issue Type	First Level	Second Level	Final Level
Payment Delays (>30 days)	AR Executive	Finance Manager	CFO
Disputes (Amount >₹1 lakh)	AR Executive	Finance Manager	General Manager
Write-offs (>₹50,000)	Finance Manager	CFO	Board of Directors
Legal Action	Finance Manager	General Manager	Managing Director
System Issues	AR Executive	IT Manager	CTO

15. PERFORMANCE METRICS AND REVIEW

Monthly Review Points

- Achievement against DSO targets
- Collection efficiency percentage
- Overdue aging trend analysis
- Bad debt provision adequacy
- Customer complaint resolution time

Quarterly Business Review

- Credit policy effectiveness
- Industry benchmark comparison
- Process improvement opportunities
- Technology upgrade requirements
- Staff performance evaluation

16. EMERGENCY PROCEDURES

System Downtime

- Manual invoice processing backup
- Alternative communication methods
- Priority customer identification
- Recovery timeline communication
- Data synchronization post-recovery

Key Personnel Absence

- Cross-training requirements
- Backup responsibility matrix
- Critical activity prioritization

- Temporary resource arrangement
- Knowledge transfer protocols

APPENDICES

Appendix A: Sample Invoice Format (GST Compliant)

Appendix B: Customer Credit Application Form

Appendix C: Collection Call Script Templates

Appendix D: Legal Notice Formats

Appendix E: Monthly Reporting Templates

Appendix F: Delegation of Authority Matrix

Revision History:

Version	Date	Changes	Approved By
10	[Date]	Initial version	[CFO Name]

