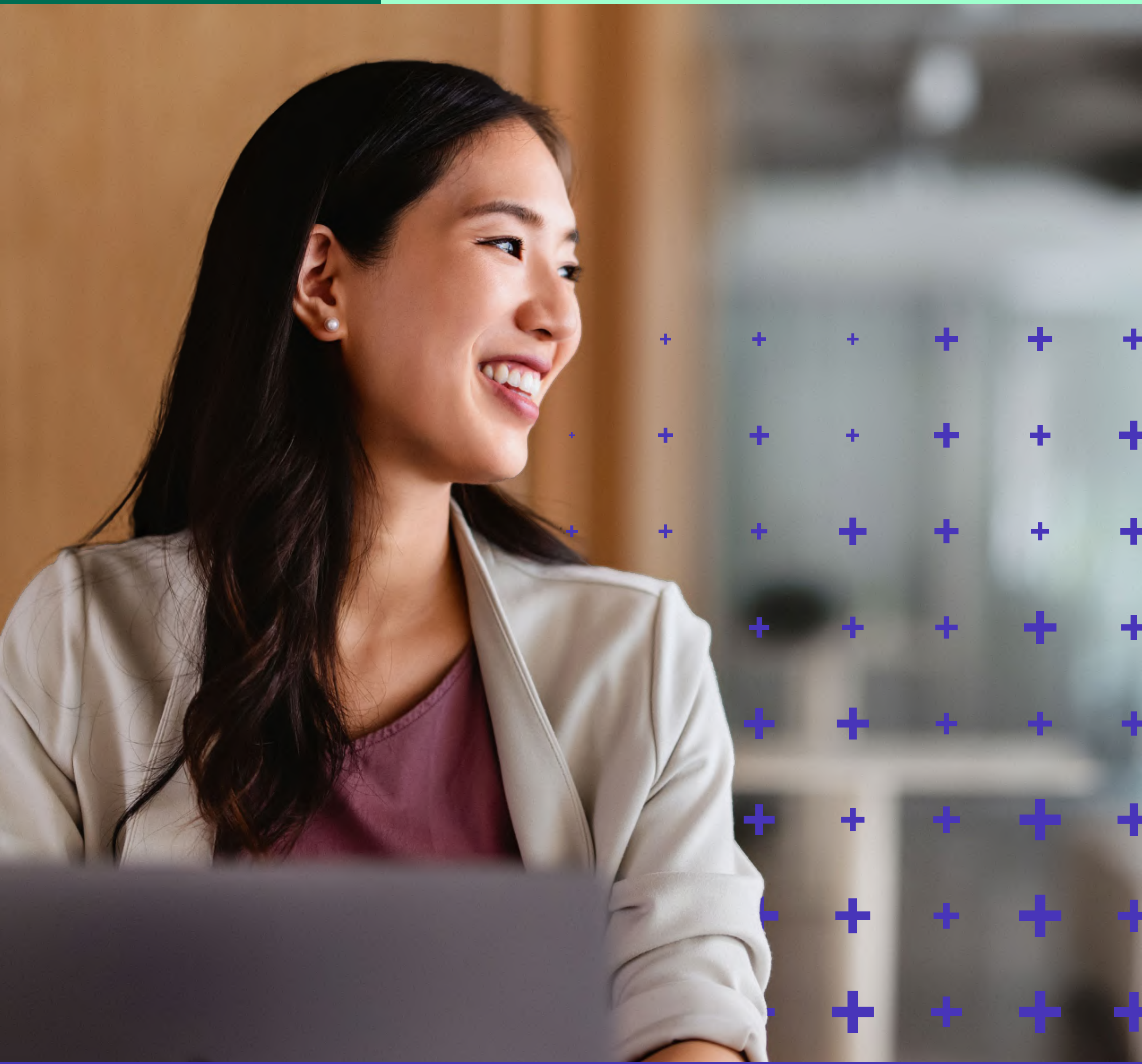
The Complete Guide to Calculating and Improving Your Average Collection Period



You've made the sale and the invoice is out. Now all you need to do is wait to collect payment. The question is: how long will you be waiting, and will that help or hurt your cash flow?

The gap between making a sale and getting paid is an invisible yet debilitating problem. That gap is measured by your Average Collection Period (ACP), which tracks the average number of days it takes to collect payments from customers. A low ACP means you're getting paid quickly, creating a stronger financial cushion. A high ACP means cash is tied up in unpaid invoices – obviously, not great for cash flow.

Waiting for payment...

64%

of B2B buyers struggle to pay on time, leaving suppliers waiting an average of

43 days

to get paid.

(PYMNTS study)

With Net 30 being the most common payment term, it's safe to say most accounts receivable (AR) teams feel the strain of a higher ACP. The right tools and strategies can help you fix a long ACP and take full control of your receivables. This guide breaks down the strategic importance of ACP, how to calculate it, and most importantly how to shrink it – improving cash flow by up to 25%.

ACP is very similar to Collection Effectiveness Index (CEI), another indicator that measures the efficiency of a company's collections process. CEI represents the percentage of receivables collected within a specific period. While both metrics are essential for evaluating and enhancing AR management, this piece concentrates on ACP.

Ready to turn receivables into cash faster? Let's get started.

How to calculate ACP

Key terms to know

First, here are some key terms you'll need to know:

- **Average AR:** The average amount of money customers owe your business during a given period (i.e., fiscal quarter, year).
- **Net credit sales:** The total revenue you earn from credit sales (sales where customers buy now and pay later, not cash sales) minus any returns, allowances, or discounts given.
- **Receivables turnover ratio (RTR):** How many times your company gets paid for outstanding invoices per year. Unlike ACP, you want to strive for a high RTR.

Formulas and steps for calculation

Now, let's look at the formulas for calculating Average Accounts Receivable, RTR, and ACP:

- **Average AR** = (Beginning accounts receivable + ending accounts receivable) ÷ 2
- **RTR** = Net Credit Sales ÷ Average AR
- **ACP** = 365 ÷ RTR

Let's put this knowledge into practice with the following exercise.

Say your company has:

- **Net Credit Sales: $500,000**
  (meaning you've sold $500,000 worth of products or services on credit that have not yet been paid for)
- **Beginning Accounts Receivable: $40,000**
- **Ending Accounts Receivable: $60,000**

Need an easier way to get a handle on these calculations? Take a look at debt collections software.

Step 1: Calculate Average AR

Average AR = 40,000 + 60,000 = 100,000 ÷ 2 = $50,000

Meaning on any given day, your customers collectively owe around $50,000 in unpaid invoices.

Step 2: Calculate RTR

$500,000 ÷ $50,000 = 10

An RTR of 10 means your company collects receivables 10 times per year.

Step 3: Calculate ACP

Divide 365 by the RTR (10) to get ACP.

Since 365 ÷ 10 = **36.5,** it takes your company roughly every 36.5 days to collect payments from customers. If your industry standard is 30 days or less, there's room for improvement.

Pro tips for calculating ACP

1

Always calculate ACP using average accounts receivable.

This smooths out seasonal fluctuations and gives a more accurate picture of your collections cycle.

ACP and DSO are related, but not the same.

ACP focuses on *credit sales only,* while Days Sales Outstanding (DSO) can include both cash and credit transactions depending on how it's calculated. The one thing ACP and DSO have in common? When one metric is high, so is the other – signaling trouble.

Learn more about DSO with Billtrust's complete guide.

2

3

Lean into your data.

If ACP is rising, investigate which customers are delaying payments and adjust your collections strategy. You can also calculate ACP for different customer segments, adjusting terms accordingly to improve cash flow.

Now that you know how to calculate ACP, let's look at why this number matters so much to financial leaders and AR teams.

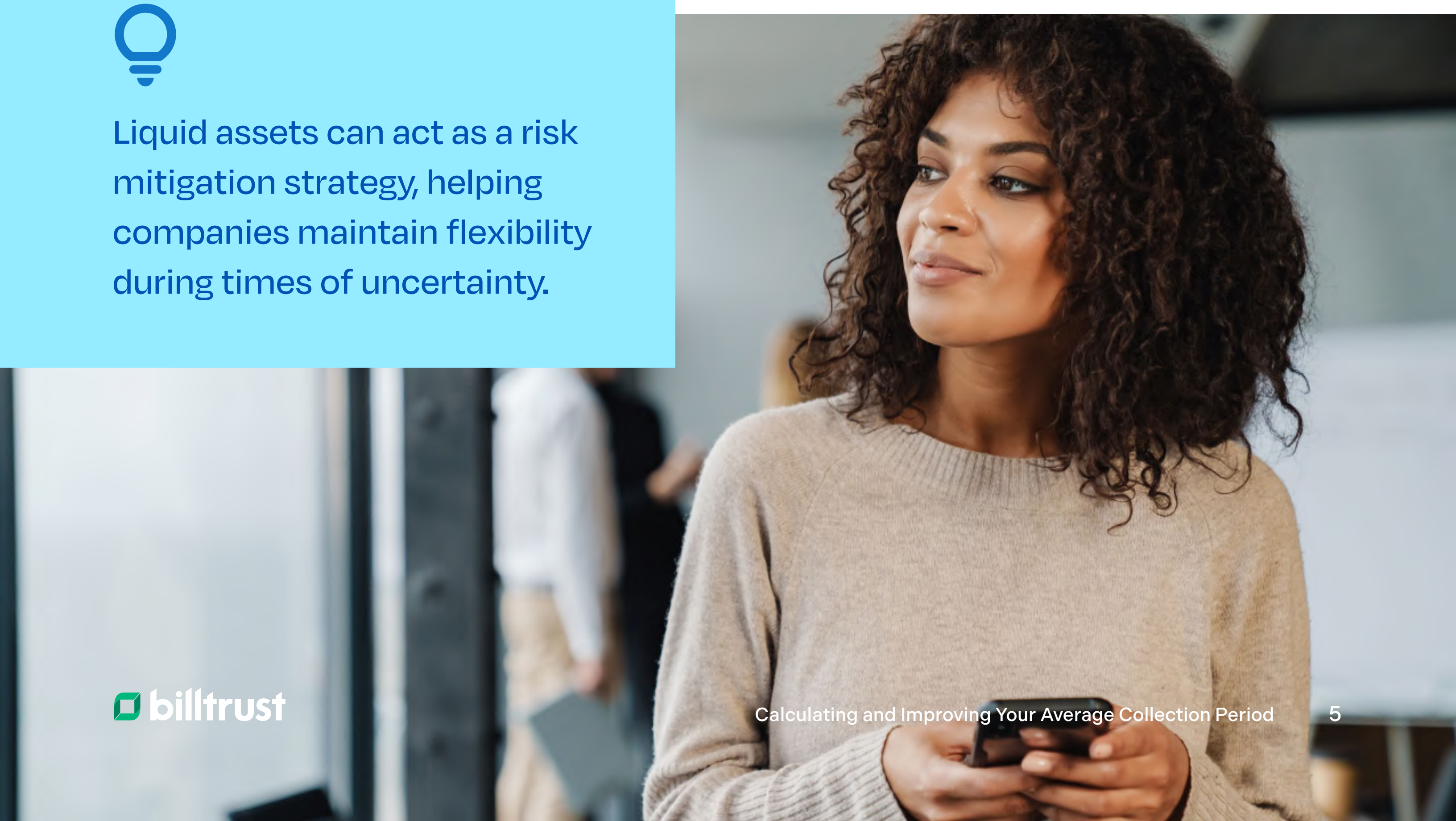
Why ACP matters more than you think

ACP isn't just another metric. It's a reflection of your company's financial health, operational efficiency, and risk management.

- **Cash is king, keep more of it:** Businesses don't go under because they're unprofitable, they go under because they run out of cash. The faster you have cash in hand, the less risk you take on.
- **Break free from the credit trap:** Faster payments mean fewer cash crunches where you need to borrow money or dip into credit lines just to cover expenses.
- **Spend less time chasing payments and more time fueling growth:** Instead of waiting on late payments, you have the funds to hire, expand, or invest in new opportunities that deliver tangible value.
- **Take advantage of discounts:** 80% of early payment discounts go unclaimed, according to PYMNTS. More cash in hand means more opportunity to seize these discounts and improve your bottom line.
- **Build a financial safety net:** A faster cash cycle gives your business the ability to absorb unexpected costs, handle emergencies, and avoid unnecessary financial risk.
- **Investors and stakeholders are watching:** Reducing ACP helps improve liquidity, profitability, and investment potential, making your company more attractive to investors and stakeholders.
- **Shut down scammers:** Fraudsters thrive on slow collections with tactics like invoice fraud and bank detail scams. Sixty percent of companies reported payment fraud in 2024, with an average loss of $100,000 per incident.

We've covered how to calculate ACP and why it's a key measure of success. Now, let's dive into what you've been waiting for – boosting your cash flow.

Liquid assets can act as a risk mitigation strategy, helping companies maintain flexibility during times of uncertainty.



How to lower your ACP and get paid faster

1. Automate, Automate, Automate

Thirty-five percent of companies still rely on manual AR processes that delay payments by 40-85% compared to companies that use AR automation software. Data shows AR automation software speeds payment by more than 40%. That's a huge difference in ACP and cash flow efficiency. What AR processes are you automating? If not, what's stopping you?

2. Optimize Payment Policies

Poor payment policies create gaps that can extend ACP, delaying cash flow and increasing losses. In tracking over $1T in payments annually, Billtrust recommends analyzing past payment patterns to identify delinquent customers and adjust policies accordingly. Our clients have seen a 35% drop in delinquency and up to a 50% decrease in DSO by making these kinds of simple, data-driven improvements.

Start optimizing your payment policies with Billtrust's comprehensive guide.

3. Offer Multiple Payment Options

The more options customers have, the faster they'll pay. An automated AR platform not only supports multiple payment methods but ensures accuracy and efficiency with AI-driven matching that minimizes errors and administrative burden in cash application processes.

4. Get Proactive with Collections

Don't wait until an invoice is overdue to follow up. Studies show that even one weekly text reminder improves timely payments. Get proactive with communications, check in immediately when payments are late, and segment customers by risk level. AI financial automation tools make this even easier by ensuring consistent, personalized outreach without the manual effort.

5. Spot & Prevent Fraud Before It Happens

Automated fraud prevention cuts fraud-related losses by 50% or more, according to PYMNTS. AI-driven fraud detection instantly verifies the authenticity of invoices and payments and flags suspicious activity in real-time, preventing losses that could extend ACP.

Don't let a high ACP drag you down

What story is your ACP telling? You now have the insights to take control of your receivables with confidence. If you need extra support, Billtrust can help with AI automation and expert guidance that ensures faster payments and a healthier bottom line.

Accelerate collections. Get paid faster.

Lean on our AR experts to improve your average collection period and keep your finances flowing smoothly.

Start innovating today with AI-powered automation from Billtrust.

billtrust