Accounts receivable and collections

Process Definition Document (PDD): template and worked example

Example company (fictional): Brennfeld Industrial Supply, a distributor of fasteners and workshop equipment in Rotterdam, the Netherlands (about 310 employees).

Document control

Field	Value
Process name	Accounts receivable and collections
Process owner	[Name, role]
Prepared by	[Name]
Reviewed by	[Names of the people who do the work]
Approved by	[Name, date]
Version	1.0 (as-is)
Status	Draft

How to use this template

This is a complete process definition document (PDD) for accounts receivable and collections, sometimes called credit control or invoice-to-cash. It describes the process as it runs today at a fictional industrial distributor, with the roles, systems, steps, decisions and controls you would expect in a real receivables team.

Use it as a starting point. Replace the company details, keep the sections, and walk through each step with the collectors and the cash application clerk. Most teams change the dunning timing, the credit hold rules and the write-off limits. The structure stays the same.

- Replace the company, ledger system and bank with yours. If you do not use Dynamics 365, name the screen or module where each step happens.
- Set your own dunning timing, credit hold trigger and write-off limits in steps 7, 13 and 17. These differ more than anything else between companies.
- Check the percentages with real data. A month of bank lines and an ageing report is enough to see how many receipts match automatically and how many invoices are disputed.
- Sit with a collector for a day. The real order of calls, the informal promises and the customers who always pay late are rarely written anywhere.
- Check the legal rules on late payment interest, collection costs and data retention locally. They differ by country and by customer type.
- Keep the as-is version even after you redesign the process. It is your baseline for measuring the change.

1. Purpose and scope

This procedure describes how Brennfeld Industrial Supply turns issued invoices into cash. It covers the payment terms on the invoice, how incoming payments are matched, how overdue balances are chased, how disputes are handed to sales, when a customer is put on credit hold and who may write off a balance. It gives finance, sales and the credit team one shared description of who does what, so that invoices are collected on time and disputes do not sit unseen.

In scope

- Trade invoices and credit notes to business customers in the Netherlands, Belgium and Germany
- Cash application and matching of bank receipts to open items

- Ageing review, dunning reminders and collector calls
- Disputes handed to sales, payment plans, credit hold and write-offs

Out of scope

- Invoice creation and billing runs, which belong to order to cash
- Credit limit setting for new customers, which belongs to customer onboarding
- Legal collection through a lawyer or bailiff, handled by the Finance Director case by case
- Credit insurance claims

2. Process at a glance

Item	Description
Trigger	An invoice is issued to a customer and the payment terms start to run.
Starts when	The invoice is posted in the ERP and sent to the customer with its due date.
Ends when	The invoice is paid and cleared, or the balance is written off with approval.
Inputs	Issued invoice and payment terms, Bank statement file, Customer master record and credit limit, Order and delivery history, Dispute notes from the customer
Outputs	Cleared open items, Weekly ageing report, Dunning letters and call notes, Credit hold and release records, Approved write-off list
Volume	About 38,000 invoices a year, around 150 incoming payments a day, 1,900 active customer accounts
Working hours	Monday to Friday, 08:00 to 17:00. Bank file loaded at 09:00. Dunning run every Tuesday.

3. Roles and responsibilities

Role	Responsibilities
Billing Clerk	Issues invoices and credit notes, confirms the payment terms and sends the invoice to the customer's invoicing address.
Cash Application Clerk	Loads the bank file, matches receipts to open invoices and posts unmatched receipts to the suspense account.
Collector	Reviews the ageing for an assigned portfolio of customers, sends reminders, calls customers and records the outcome.
Sales Account Manager	Resolves disputes about price, delivery or quality with the customer and confirms whether a credit note is justified.
Credit Controller	Decides on credit holds, releases holds, agrees payment plans and keeps the customer's credit limit under review.
Finance Manager	Approves write-offs up to 2,500 EUR and reviews the weekly ageing and the disputes list.
Finance Director	Approves write-offs above 2,500 EUR, decides on legal collection and signs off the quarterly bad debt provision.
Customer (external)	Receives invoices, pays them, and raises disputes or asks for more time.

4. Systems

- Microsoft Dynamics 365 Finance: sales ledger, open items, customer statements, credit hold flag
- Rabobank file import: daily bank statement in CAMT.053 format
- Microsoft Outlook: collections shared mailbox and dunning letters
- Excel: disputes tracker and payment plan register
- Microsoft Teams: escalations to sales

5. Process map

Process diagram goes here

Draw one lane per role from section 3, the steps from section 6 in order, and a diamond for each decision in section 7.

6. Procedure, step by step

#	Step	Who	What happens	System	Output
1	Issue the invoice with terms	Billing Clerk	Posts the invoice from the shipped order. Payment terms come from the customer master record, most often 30 days net, and the due date is printed on the invoice. Invoices go by email to the invoicing address on the customer record.	Dynamics 365	Posted invoice with a due date
2	Load the bank file	Cash Application Clerk	Imports the CAMT.053 statement at 09:00 and checks the closing balance against the bank portal before any matching starts.	Rabobank import, Dynamics 365	Bank lines loaded and balanced
3	Match receipts automatically	Cash Application Clerk	Runs the matching rules on invoice number in the payment reference, then on customer bank account and exact amount. About 78% of receipts clear at this stage.	Dynamics 365	Cleared open items
4	Match the rest by hand	Cash Application Clerk	Works through the unmatched lines. Short payments, bundled payments and payments without a reference are matched using remittance advice or by asking the Collector. Anything unresolved by 15:00 is posted to the suspense account with a note.	Dynamics 365, Outlook	Cleared items, or suspense postings with notes
5	Clear the suspense account	Cash Application Clerk	Reviews suspense items every Friday. Items older than 10 working days go to the Collector of the likely customer, and items older than 30 days go to the Finance Manager.	Dynamics 365	Reduced suspense balance
6	Review the ageing	Collector	Every Monday reviews the ageing for the portfolio, about 250 customers each. Sorts by overdue amount and age, and marks invoices that are already in dispute.	Dynamics 365, Excel	Worklist for the week
7	Send dunning reminders	Collector	The Tuesday dunning run sends a friendly reminder 3 days after the due date, a firm reminder at 14 days and a final notice at 28 days. The Collector removes disputed invoices and customers with a payment plan before the run is released.	Dynamics 365, Outlook	Reminders and notices sent
8	Call the customer	Collector	Calls customers with balances above 1,000 EUR that are more than 7 days overdue.	Phone, Dynamics 365	Promise to pay, or dispute raised

#	Step	Who	What happens	System	Output
			Asks for a payment date and checks the invoice arrived. The promise date and the contact are recorded on the account.		
9	Log the dispute	Collector	When the customer disputes an invoice, records the reason in the disputes tracker, marks the invoice as disputed and sends it to the Sales Account Manager through Teams with the invoice and the customer's own words.	Excel, Teams	Dispute logged and sent to sales
10	Resolve the dispute	Sales Account Manager	Contacts the customer and checks the order, price and delivery proof. Replies within 3 working days with one of three outcomes: invoice correct, credit note justified, or replacement invoice needed.	Teams, Dynamics 365	Dispute outcome
11	Issue the credit note or new invoice	Billing Clerk	Posts the credit note or replacement invoice named in the outcome. The Collector clears the dispute flag on the original invoice and restarts the reminders on what remains.	Dynamics 365	Credit note or corrected invoice
12	Agree a payment plan	Credit Controller	For customers who cannot pay in full, agrees instalments of no more than 6 months with a written confirmation from the customer. The plan is entered in the payment plan register and dunning stops while instalments are met.	Excel, Dynamics 365	Signed plan and register entry
13	Decide on credit hold	Credit Controller	Every Wednesday reviews customers with a balance more than 30 days overdue or over their credit limit. Sets the credit hold flag unless a dispute or an agreed payment plan explains the balance. Sales is told the same day.	Dynamics 365	Hold list and flags set
14	Talk to the customer about the hold	Sales Account Manager	Contacts the customer on the hold list, explains that new orders are blocked until the overdue balance is paid, and passes any promise to pay to the Collector.	Phone, Teams	Customer informed
15	Release the hold	Credit Controller	Removes the credit hold flag once the overdue amount is paid or a plan is agreed. Held orders are released by the Credit Controller the same day if the payment is confirmed in the bank file.	Dynamics 365	Hold released, orders released
16	Propose a write-off	Collector	After the final notice and at least 90 days overdue, lists balances that are uncollectable, for example after insolvency or a failed contact. Adds the history and the reason to the write-off list.	Dynamics 365, Excel	Write-off proposals
17	Approve small write-offs	Finance Manager	Approves proposals up to 2,500 EUR per customer after checking the history. Anything above goes to the Finance Director. Small differences under 5 EUR are written off by the Cash Application Clerk under a standing rule.	Dynamics 365	Approved write-offs, or escalation
18	Approve large write-offs	Finance Director	Reviews proposals above 2,500 EUR, decides whether to pursue legal collection instead, and approves or rejects each one in writing.	Dynamics 365	Signed decision
19	Post the write-off and report	Finance Manager	Posts approved write-offs to the bad debt account, blocks the customer from new credit and includes the movement in the	Dynamics 365	Posted write-off, updated report

#	Step	Who	What happens	System	Output
			weekly ageing report and the quarterly provision review.		

7. Decision points and business rules

- Does the receipt match an open invoice on reference, bank account and amount? Yes: clear it. No: manual matching (steps 3 and 4).
- Can the receipt be matched by end of day? No: post it to the suspense account with a note (step 4).
- Is the invoice in dispute? Yes: remove it from the dunning run and send it to sales (steps 7 and 9).
- Is the dispute justified? Yes: credit note or replacement invoice. No: the Collector tells the customer the invoice stands and restarts reminders (steps 10 and 11).
- Can the customer pay in full? No: the Credit Controller may agree a payment plan of up to 6 months (step 12).
- Is the balance more than 30 days overdue or over the limit, with no dispute or plan? Yes: credit hold (step 13).
- Is the balance above 2,500 EUR? Yes: the Finance Director approves the write-off (step 18).

8. Exceptions

- A customer pays an invoice twice (about 0.5% of receipts): keep it as an unallocated credit, tell the customer, and refund only on written request after a bank detail check.
- A customer deducts a rebate or a penalty from the payment: record it as a short payment and send it to the Sales Account Manager as a dispute.
- A customer becomes insolvent: stop reminders, lodge the claim with the administrator through the Finance Director, and move the balance to the write-off list once the administrator reports.
- A payment arrives from a different company in the same group: match it only after the customer confirms in writing which entity paid.
- Foreign currency receipts: the Cash Application Clerk posts the exchange difference to the exchange gain and loss account and asks the Finance Manager if it exceeds 1% of the invoice.

9. Controls

- Segregation of duties: the Cash Application Clerk cannot issue credit notes, and the person who proposes a write-off cannot approve it.
- Daily bank reconciliation: the loaded bank file must agree to the bank portal balance.
- Write-off limits: the Finance Manager up to 2,500 EUR, the Finance Director above, with a written reason for each.
- Credit notes above 1,000 EUR need the approval of the Sales Account Manager's manager.
- Credit hold flag set and released only by the Credit Controller, with a log of who and when.
- Monthly reconciliation of the sales ledger to the general ledger control account, reviewed by the Finance Manager.
- Customer statements and collection records kept for the period required by Dutch accounting rules, to be checked locally.

10. Known issues today

- Customers pay several invoices in one transfer without saying which, so about 22% of receipts need hand matching.
- Disputes travel by Teams message and nobody can see how old they are, so dunning sometimes goes out on invoices that sales is already fixing.

- Collectors keep call notes in their own words and the next person cannot tell what was promised.
- Credit hold is decided once a week, so a customer can place two or three orders after the invoice has gone past 30 days.
- Average days sales outstanding is 52 against terms of 30 days, and about a third of the gap comes from disputes that take over 10 days to close.

11. RACI matrix

R = responsible (does the work), A = accountable (owns the outcome), C = consulted, I = informed.

Activity	Billing	Cash Application	Collector	Sales	Credit Controller	Finance Manager
Issue invoices with terms	R		I	I		A
Match and clear receipts		R	C			A
Review ageing and send reminders			R	I	C	A
Call customers about overdue invoices			R	C	I	A
Resolve disputes	C		A	R	I	
Issue credit notes	R		C	A		I
Agree payment plans			C	I	A/R	I
Set and release credit hold			C	I	A/R	I
Approve write-offs			R	I	C	A

12. KPIs

KPI	Definition	Target
Days sales outstanding	Open receivables divided by credit sales for the last 90 days, multiplied by 90. Today about 52 days.	[set]
Overdue share of the ledger	Value of invoices past their due date as a percentage of total open invoices, measured every Monday.	[set]
Auto-match rate	Share of incoming payment lines cleared by the matching rules without hand work. Today about 78%.	[set]
Open disputes over 10 days	Number of disputed invoices that have been with sales for more than 10 working days.	[set]
Unallocated cash	Value on the suspense account at month end, and the age of the oldest item.	[set]
Bad debt write-off rate	Value written off in the last 12 months as a percentage of credit sales.	[set]

13. Revision history

Version	Date	Author	Change
1.0	[date]	[name]	First as-is version

Free template from processfix.ai. You may copy and adapt it. The company in the example is fictional.