

# SOP Template: Late Payment Penalty Implementation Process

**Purpose:**

This SOP details the **Late Payment Penalty Implementation Process**, outlining the steps for identifying overdue accounts, calculating penalty fees, notifying customers of their late payments and associated charges, applying penalties to customer accounts, and maintaining accurate records of all transactions. The purpose is to ensure consistent enforcement of late payment penalties, encourage timely payments, and support the organization's financial management and cash flow.

**Scope:**

This SOP applies to all customer accounts with outstanding balances that have exceeded the established payment terms defined by the organization.

## Definitions

Term	Definition
Overdue Account	An account with an outstanding payment past the agreed payment due date.
Late Payment Penalty	A fee charged to a customer for failure to pay by the due date.
Penalty Rate	The percentage or amount applied to calculate the late payment charge.

## Responsibilities

- **Accounts Receivable Team:** Responsible for monitoring accounts, calculating penalties, notifying customers, and updating records.
- **Finance Manager:** Approves penalty application, reviews compliance, and generates related reports.
- **IT/System Administrator:** Ensures billing software and notification systems are operational.

## Procedure

1. **Identify Overdue Accounts**
  - Generate a daily or weekly report of customer accounts with payments past due dates using the billing system.
  - Verify accounts to ensure accuracy and exclude accounts with active disputes or payment arrangements.
2. **Calculate Late Payment Penalty**
  - Apply the approved penalty rate/formula as defined by company policy to each overdue balance.
  - Review calculations for accuracy.
3. **Notify Customers**
  - Send formal notification (email, letter, SMS, as applicable) to customers, stating the overdue amount, penalty fee, new total due, and consequences of further delays.
  - Include instructions for payment and a contact point for queries or disputes.

4. **Apply Penalties to Accounts**

- Post the calculated penalty charges to the relevant customer accounts in the billing system.
- Ensure that account records clearly indicate the reason for the charge.

5. **Maintain Records**

- Keep accurate records of all overdue accounts, communications, penalties applied, and payment updates.
- File documentation securely for audit and compliance purposes.

6. **Review and Reporting**

- Generate periodic reports on the status of overdue accounts, penalties assessed, and collections.
- Report findings to management for review and policy adjustment.

**References**

- Company Credit & Collections Policy
- Customer Account Management Manual
- Applicable Legal and Regulatory Requirements

**Revision History**

Version	Date	Description	Author
1.0	2024-06-01	Initial SOP creation	Finance Department