

Credit Management and Debt Control

A typical credit control policy and procedure is shown below:

New Accounts

- 1 One bank reference and two trade references are required.
- 2 A credit reference agency report and the last three years published accounts for limited companies need to be analysed.
- 3 A credit reference agency report and the last three years accounts for a sole trader need to be analysed.

Existing customers

- 4 A credit reference agency report to be obtained on an annual basis together with the latest annual accounts (either from Companies' House or directly from the customer). Both documents to be reviewed.
- 5 A trading history review to be undertaken annually to review for performance against credit limits and terms of payments.
- 6 Annual review of usage of the customer's credit limit to ensure that an outdated credit limit is not in existence. This is particularly important where the trade with the customer has reduced over the past year.

Credit terms

- 7 Standard terms are 30 days from invoice. Any extension to be authorised by the Finance Director.
- 8 A 2% settlement discount to be offered to all accounts with a profit margin of 50% or greater, or with a profit margin of 30% and a value in excess of £50,000 or with the credit controllers discretion.

Debt collection process

- 9 Invoices to be despatched on day of issue (day of issue to be no more than 2 days after date of delivery).
- 10 Statements to be despatched in the second week of the month.
- 11 Aged debtor analysis to be produced and reviewed on a weekly basis.
- 12 Reminder letter to be sent once an account is overdue.
- 13 Telephone chaser for accounts 15 days overdue.
- 14 Customer on stop list if no payment is received within 5 days of the telephone chaser. Computerised sales order processing system updated and automatic email sent to the customer contact and the account manager (sales person).
- 15 Letter threatening legal action if payment not received within 30 days of the first letter
- 16 Legal proceedings / debt collection agency instructed subject to the approval of the Finance Director.
- 17 Prepare a report suggesting an appropriate provision for bad or doubtful debts.
- 18 If at any stage in the process the customer is declared insolvent or bankrupt then contact the insolvency practitioner in order to register the debt and notify the financial accountant so that the VAT can be reclaimed.

Candidates need to be able to explain the stages in the credit control policy and procedure and why the stages are important. Candidates may also be required to use a given policy in a scenario and decide upon an action which needs to be taken.