Credit Management and Debt Control

Learning Area Overview

Welcome to this learning area overview for Credit Management and Debt Control, prepared by AAT.

In this overview we'll explain what Credit Management and Debt Control is all about, and how it fits into the bigger picture of the AAT Accounting Qualification.

We'll explore the main topics you can expect to cover, and how the knowledge and skills you'll pick up will be of practical use to you in the workplace.

Finally, we'll explain how this learning area relates to the others you've already studied, and those you'll study in the future.

What you'll learn in Credit Management and Debt Control

In this learning area you'll learn how organisations deal with the process of granting credit and collecting amounts outstanding from debtors.

In terms of detailed content, there are three main areas in Credit Management and Debt Control. The first is concerned with how legislation impacts upon credit control. The second looks at how to prepare and use information to manage an organisation's granting of credit. The third and final topic covers how to manage and control the supply of credit. Let's look at each of these in a little more detail.

When it comes to how legislation impacts upon credit control, you'll learn about the main features of contract law, remedies for breach of contract, the terms and conditions of credit-related contracts and the importance of data protection legislation.

You'll also cover the legal and administrative procedures for the collection of debts, and the effect of bankruptcy and insolvency on organisations. These will all be considered in the context of credit management.

The second part of this learning area is concerned with the preparation and use of information to manage how an organisation grants credit. Here you'll need to appreciate the importance of liquidity management, and the information requirements for credit control. You'll also learn how to identify the sources of information used in an assessment of creditworthiness, such as credit references and accounts analysis.

It will also be important to understand methods of analysing credit control information, such as age analysis of debtors, and issues like trading history and materiality.

The final area of Credit Management and Debt Control examines the techniques and methods you can use to manage the supply of credit and prepare information to aid the collection of outstanding amounts on a timely basis.

This includes the regular monitoring and analysis of information relating to debtors' accounts, and the prompt sending of information regarding significant outstanding amounts and potential bad debts. It also covers negotiation with debtors in a courteous and professional manner, including the accurate recording of the outcome of negotiations, and the identification of a range of methods for the collection, management and recovery of debts.

Finally, you'll learn about the reasons for – and the effects of – offering discounts for prompt payment, and the need to write off bad debts.

How Credit Management and Debt Control will help you in the workplace

Once you complete Credit Management and Debt Control, you'll be able to give reliable advice on granting credit and collecting amounts owed by customers in compliance with relevant legislation, good practice and an organisation's policy.

You'll also be able to give advice on management of debts and on the methods likely to minimise the risk to an organisation.

The types of jobs that particularly focus on the knowledge and skills covered in this learning area include credit control clerks and general accounts clerks. More specifically, those people who deal with the sales ledger, the monitoring of debt or the collection of cash will find these elements of use.

A credit control clerk's work could typically include assessing the creditworthiness of new and existing customers, using a variety of methods to decide whether the customer is suitable for credit, and the extent to which they are. They would also monitor the credit level on a customer's account and advise on granting further credit, or stopping supplies until outstanding debts have been cleared.

Many roles within the sales ledger function involve enforcing procedures to collect existing amounts owed by customers. Such procedures include telephoning or emailing customers, preparing written communications such as statements of account and reminders, and dealing with third parties.

These third parties may include bodies like debt collection agencies, factoring and credit insurance companies, and also solicitors in cases where legal action is required due to customers who cannot or will not pay.

Furthermore, the ability to think, communicate and act in the language of credit management is an essential part of any accounting technician's role, particularly if you're interacting with the sales function.

How Credit Management and Debt Control relates to other learning areas

Credit Management and Debt Control is one of the four optional learning areas at this level. You'll need to take a total of two of these, with the other optional learning areas being:

- External Auditing
- Personal Tax
- Business Tax.

There are also four compulsory learning areas at level 4. These are:

- Financial Statements
- Budgeting
- Financial Performance
- Internal Control and Accounting Systems.

At level 2, you learned about the fundamentals of trading on credit. This included recording associated transactions in the respective sales and purchase ledgers, and the coding of sales invoices and credit notes.

You also developed knowledge about processing payments from customers, the importance of maintaining and reconciling the cash book, and reconciling the sales ledger control account with a list of debtors. Writing off bad debts was another related topic you covered at this level.

At level 3, your comprehension in this field was built on largely by the Cash Management learning area. Here, you learned about the main types of cash receipts and payments, together with how these feed into the cash budget and how they're then used to aid decision making.

In addition, you examined the effects on an organisation's cash management of lagged receipts from customers and lagged payments to suppliers, together with the fundamental principles of liquidity management. This included how to take corrective action when there are significant deviations from the cash budget.

At level 4, you'll be studying the compulsory learning areas of Budgeting and Financial Performance. As part of Budgeting, you'll revisit cash budgets to reinforce how important it is for organisations to have accurate cash forecasts.

In Financial Performance, you'll look at a range of performance indicators. The financial indicators which measure profitability, liquidity, debt and cash flow are of particular significance to Credit Management and Debt Control at the time when the creditworthiness of a customer is assessed.