

Paul Robbins training and consultancy

Credit Management

Credit Scoring

Exercise 2

You have been provided with a summary from the Financial Statements for the last two years of Rugby & Cricket Ltd, a new customer requesting trade credit.

	Year 1 (£000)	Year 2 (£000)
Sales Revenue	705	824
Cost of Sales	512	633
Current Assets	658	782
Current Liabilities	554	765
Inventory	87	41
Trade Receivables	176	285
Trade Payables	284	336
Profit from Operations	39	11
Interest Paid	31	45
Net Profit	8	(34)
Long Term Debt	150	175
Equity	200	250

Note that Current Liabilities includes short-term debt and trade payables only.

Tasks

1. You should calculate the performance indicator ratios shown in the table below for Year 1 and Year 2, expressing your answers to two decimal places.
2. You should then complete the credit scoring for each ratio, using the scoring criteria provided, in the table below for Year 1 and Year 2.
3. You should then calculate the Total Credit Rating in the table below for Year 1 and Year 2.
4. In the box provided below, state the level of risk for Year 1 and Year 2 and advise whether we should grant trade credit to Rugby & Cricket Ltd.

	Indicator Year 2	Rating Year 2	Indicator Year 1	Rating Year 1
Operating Profit Margin %				
Interest Cover				
Current Ratio				
Gearing %				
Total Credit Rating				

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Credit Rating (Scoring) System	Score
Operating Profit Margin	
Losses	-5
Less than 5%	0
5% and above but less than 10%	5
10% and above but less than 20%	10
20% and above	20
Interest Cover	
No cover	-30
Less than 1	-20
More than 1 but less than 2	-10
More than 2 but less than 4	0
4 and above	10
Current Ratio	
Less than 1	-20
Between 1 and 1.25	-10
Between 1.26 and 1.5	0
Above 1.5	10
Gearing (total debt / (total debt plus equity))	
Less than 25%	20
25% and above but less than 50%	10
More than 50% but less than 65%	0
Between 65% and 75%	-20
Between 76% and 80%	-40
Above 80%	-100
Risk	Aggregate Score
Very low risk	Between 60 and 21
Low risk	Between 20 and 1
Medium risk	Between 0 and -24
High risk	Between -25 and -50
Very high risk	Above -50