

Paul Robbins training and consultancy

Credit Management

Trade Receivables Analysis

Exercise 1 **Model Answer**

You work in the Credit Control department of Three Lions Ltd, a company that makes and sells football shirts. Normal trading terms are 30 days from the invoice date.

Trade Receivables Analysis					
Customer	Total Due	1 – 30 days	31 – 60 days	61 – 90 days	91 days & over
<i>Pickford Ltd</i>	£2,440.00	£1,150.00	£1,290.00	£0.00	£0.00
<i>Kane & Vardy</i>	£4,650.00	£0.00	£0.00	£1,790.00	£2,860.00
<i>Rashford & Co</i>	£8,730.00	£1,930.00	£4,670.00	£2,130.00	£0.00
<i>Maguire Trading</i>	£9,430.00	£8,950.00	£0.00	£0.00	£480.00
Totals	£25,250.00	£12,030.00	£5,960.00	£3,920.00	£3,340.00
Percentage	100.00%	47.64%	23.60%	15.52%	13.23%

Task 1

You should calculate the percentages outstanding for each period, stating your answers to two decimal places.

Task 2

You should write an email to Jules Rimet, the Credit Controller, analysing the four accounts in the Trade Receivables Analysis, recommending actions that need to be taken where necessary and stating where a provision for doubtful debts needs to be made.

You have been provided with the following information from your line manager about each customer along with a copy of the Credit Control Policy.

Customer Information

Pickford Ltd

They are one of our oldest customers and are very reliable payers. They have had the same staff in their accounts department for many years and they often take longer to pay than our standard credit terms allow, partly because they still do monthly cheque runs rather than making electronic payments, but respond well to debt chasing and debts never go above 60 days old.

Kane & Vardy

We have been trading with them for just over a year and, whilst they were initially good payers and placed quite a lot of business with us, in the last few months we have not had any new orders from them. It is very difficult to contact their accounts department by telephone as the calls always go to voicemail and they never respond to messages left.

Rashford & Co

They are one of our newest customers and have placed a lot of business with us. They have been rapidly expanding due to public demand for retro football shirts and have contacted our Sales Director several times already asking for longer payment periods and an increase in their credit limit. There appears to be a high level of staff turnover in their accounts department and there are rumours that they have run into financial difficulties.

Maguire Trading

They are our largest and most important customer, with links to most of the Premier League football clubs. Mr Maguire is a highly respected former professional footballer and he always ensures that invoices are paid on time and the business is known for being well managed and highly solvent.

Extract from the Credit Control Policy of Three Lions Ltd

Dealing with Overdue Invoices

- 1. Standard reminder letter to be sent to the customer when debts exceed the 30 day credit terms**
- 2. Telephone call to the customer when debts are 30 days overdue**
- 3. Account put 'on stop' and standard letter threatening legal action sent to customer by recorded delivery (signed for) when debts are 60 days overdue. Sales Director informed that account is 'on stop'**
- 4. Commencement of legal action against customer to recover monies owed when debts are 90 days overdue, subject to approval from the Finance Director.**

Note that whilst the rules in the Credit Control Policy should be followed by credit control staff members, it is expected that staff will also apply discretion where necessary.

To:	Jules Rimet
From:	Your Name
Date:	Today's Date
Subject:	Trade Receivables Analysis

Hello Jules,

I enclose my findings from the Trade Receivables Analysis of customer accounts that I have undertaken.

Pickford Ltd

They are reliable payers and do not have any outstanding invoices 61 – 90 days or 91 days & over categories. They have got some outstanding invoices in the 31 – 60 day category and, according to the credit control policy, we should send them the standard reminder letter for when debts exceed the 30 day credit terms. This should serve as a reminder for them to make payment and I would expect them to do this shortly, but I will continue to monitor the situation.

Kane and Vardy

We have not had any new business from them in the last few months and their outstanding invoices are in the 61 – 90 days and 91 days & over categories. It is also concerning that it is not possible to contact their accounts department by telephone. We should therefore contact the Finance Director for approval to commence legal action against Kane and Vardy. In the circumstances, I would recommend making a provision for doubtful debts for the whole amount outstanding on their account of £4,650.

Rashford and Co

There are clear indications that they are overtrading and have run into liquidity problems. These include the fact that invoices are significantly overdue and they have contacted our Sales Director several times to ask for an increased credit limit and longer payment terms. The company is also known to have expanded rapidly in recent months. The high level of staff turnover in their accounts department suggests that they are struggling to deal with the amount of business that they have. As some debts are now almost 60 days overdue, in the circumstances, I would recommend putting the account 'on stop' with immediate effect to prevent any more credit sales being made to them. I would also recommend that our Sales Director arranges to meet with them in person next week to discuss their situation. At this stage I would not recommend making a provision for doubtful debts.

Maquire Trading

They are prompt, very reliable payers and do not have any outstanding invoices in the 31 – 60 days and 61 – 90 days categories. However there is a small balance outstanding (£480) in the 91 days & over category. As this is out of keeping with their payment profile, and given the fact they are our most important customer, we do not want to upset them by putting their account 'on stop' and threatening legal action and instead should show discretion. It may well be that this amount relates to a disputed debt, not recording prompt payment discount taken by them in our accounts or a mistake, either by us or by them. I would suggest referring this matter to the Sales Director, who can investigate this matter further and take the appropriate action.

I hope that this is useful, but if you have any further questions then please do not hesitate to contact me

Kind regards,

Your Name