



CERTIFIED ACCOUNTING TECHNICIAN (CAT)
STAGE 3 EXAMINATION
S3.5 CREDIT MANAGEMENT
PILOT PAPER

ANSWERS

Section A – Answer Grid

1. C
2. B
3. C
4. D
5. E
6. B
7. C
8. A
9. C
10. D

Section A – Suggested solutions

Marking scheme

	Marks
2 marks for each correct answer	2
Total marks for this section	<u>20</u>

1. C Solange's reply included terms that were different to those originally offered. As such, the reply was a counter offer that Brigitte could choose to accept or not. Answer A is therefore not correct as Solange's reply does not constitute an acceptance of the original terms. B is not the reason a valid contract has not been formed – even if Solange's response had been received by Brigitte, it would not have formed a valid contract. D is incorrect – if the terms had been agreed, the contract would have become binding at that point not once the goods were dispatched.
(PCM1.1)
2. B A formal reminder letter would be sent once the account is overdue (ideally by recorded delivery to confirm receipt by the customer), this would then be followed up with a telephone chaser. If no payment is received within five days of the telephone chaser, a decision to cease the supply of goods would be made. If this doesn't prompt payment, using the official tone of a debt collection agency may have the desired effect. As a last resort, a solicitor can take the customer to court to recover the debt. This is a last resort as it is slow and expensive, and will likely destroy any remaining relationship with the customer.
(PCM3.2)
3. C The annualised cost of the early settlement discount is:

$$(1 + 2/98)^{12} - 1 = 27.4\%$$
hence it is more expensive than the invoice discounter on an annualised basis.
B is incorrect – the monthly cost of the discounter is not 2.1% as this implies $25/12 = 2.1\%$ per month, and this is not compounded as required by the question.
Answer D is comparing the one-month cost of an early settlement discount with the annual cost of the invoice discounter, and hence is not a valid comparison given they are for different time periods.
Answer A is incorrect as the annualised cost was calculated as simple interest ($2\% \text{ per month} \times 12$) as opposed to compounding required by the question.
(CDC2.4)
4. D Customer A – the full ($12 \times \text{RWF } 100,000 =$) RWF 1.2 million should be written off as the company is insolvent.
Customer B – has been purchasing RWF 1.5 million / 10 = RWF 150,000 a month. The first three months are not provided against at all. Months 4, 5 and 6 are provided at 50% ($= 3 \times 150,000 \times 50\% = \text{RWF } 225,000$) and the

remaining months (7, 8, 9 and 10) should be provided for in full ($=4 \times \text{RWF } 150,000 = 600,000$).

Total to be provided: $1.2 \text{ million} + 225,000 + 600,000 = \mathbf{2,025,000}$.

Option A partially provides for Customer A.

Customer A provision = $(50\% \times (3 \times 100,000)) + (100\% \times (6 \times 100,000)) = 750,000$, and Customer B provision is $225,000 + 600,000 = 825,000$ as above, so total provision is $750,000 + 825,000 = 1,575,000$.

As Customer A is insolvent, it should be provided for 100%.

Option B assumes Customer A does not need to be provided for at all.

Option C assumes both Customer A and Customer B need to be provided for 100%, but not all of Customer B's debt is more than six months old.

(CDC2.5)

5. E Distribution would occur in the following order:

Available to distribute:	RWF 327.5 million
Secured creditors:	(RWF 80 million)
Insolvency fees:	(RWF 75 million)
Preferential creditors:	<u>(RWF 100 million)</u>
Available for trade creditors (unsecured):	<u>RWF 72.5 million</u>

This means trade creditors will receive $(72.5 / 145 =) 50$ centimes in the franc. For Umuhire Scaffolding Ltd, this equates to $(50/100 \text{ RWF } 14.2 \text{ million} = \mathbf{RWF 7.1 \text{ million}}$. Therefore, none of the figures listed in the response options are correct, meaning option E is the correct answer.

Ordinary shareholders would receive nothing.

Option A incorrectly assumes the full amount would be recoverable.

Option B incorrectly assumes Insolvency fees are paid along with trade creditors ie:

Amount for distribution = $327.5 - 80 - 100 = \text{RWF } 147.5$ million to be used to pay $(145 + 75 =) 220$ million trade creditors + insolvency fees, ie $147.5 / 220 = 67$ centimes in the franc, so $14.2 \times 0.67 = \text{RWF } 9.5$ million.

Option C assumes Ordinary share capital is paid along with trade creditors ie:

Amount for distribution = $\text{RWF } 72.5$ million as above, to be used to pay $(145 + 125 =) 270$ million trade creditors + ordinary share capital, ie $72.5 / 270 = 26.9$ centimes in the franc, so $14.2 \times 0.269 = \text{RWF } 3.8$ million.

Option D incorrectly assumes everyone else will be paid before trade creditors, meaning there is nothing to distribute to them.

(PCM1.5)

6. B Receivables before the discount: $(45/365) \times 1,200 \text{ million} = \text{RWF } 147,945,206$

Receivables after the discount:

$$[0.5 \times (45/365) \times 1200m] + [0.5 \times (10/365) \times 1,200m] = \text{RWF } 90,410,959$$

This is therefore a **reduction** of: $147,945,206 - 90,410,959 = \text{RWF } 57,534,247$

The early settlement discount remains as payable until payment is made, hence it is not deducted from the receivables balance.

Option A assumes the 2% discount has incorrectly been deducted from the ledger, ie $[0.5 \times (45/365) \times 1200 \text{ million}] + [0.5 \times (10/365) \times 1,200 \text{ million} \times 0.98] = \text{RWF } 90,082,192$.

But this is only deducted when the cash is received. In addition, the question asks for the reduction in accounts receivable rather than the balance.

Option C is the reduction assuming the discount has incorrectly been deducted from the receivables balance, ie $147,945,206 - 90,082,191$ (see option A above) = 57,863,015.

Option D is the receivables balance after the discount (see option A above), not the reduction in the balance as required by the question.

(PCM3.1)

7. C Claude's final offer was in effect a counter offer which extinguishes the customer's counter offer so D is not correct. Silence cannot constitute acceptance and therefore B is not correct. The RWF 500,000 limit is a term within this contract so cannot be agreed in isolation meaning that A is not correct. No contract has in fact been agreed; therefore C is correct.

(CDC2.3)

8. A The sales value subject to a successful retention of title clause = $60\% \times 1.45 \text{ million} = \text{RWF } 870,000$. The profit will be unrecoverable, although the cost will be when the inventory is returned. Therefore for this portion, $870,000 \times 40\% = 348,000$ should be written off.

Of the remaining ($1.45 \text{ million} - 870,000 =$) RWF580,000, this is likely to be recoverable at a rate of 25 centimes in the franc, or $(580,000 \times 25/100 =)$ RWF 145,000. The remaining ($580,000 - 145,000 =$) 435,000 should be provided for.

Total to provide/write off = $(348,000 + 435,000 =)$ **RWF 783,000**

Option B incorrectly assumes that only the element not subject a retention of title clause needs to be written off ie the RWF 435,000 noted above. This ignores the fact that the profit on the sale won't be recoverable on the sales relating to the retention of title clause.

Option C incorrectly assumes that the whole retention of title element should be provided for as well at 75 centimes in the dollar on the other portion ie $870,000 + 435,000 = \text{RWF } 1,305,000$.

Option D incorrectly assumes 60% of the portion relating to the retention of title clause should be written off as well as 75 centimes in the dollar for the remaining portion.

$$\text{Ie } (870,000 \times 60\%) + 435,000 = \text{RWF } 957,000$$

(CDC2.5)

9. C The delivery date was a warranty. A breach of a warranty is not so serious that it renders the whole contract terminated. The contract would continue, but Customer A can claim damages for the loss suffered as a result of the Friday delivery. Customer A is not liable to pay for the delivery; therefore B is not correct. Customer A cannot consider the contract terminated; therefore A is incorrect

A warranty is not as serious or fundamental a term as a condition of trade, hence D is incorrect.

(PCM1.2)

10. D Technically, company information does not constitute Personal Data under GDPR regulations, hence the breach concerned is not directly covered. Options A and B are therefore incorrect. However, it would still be best practice to inform the customers affected to maintain trust and relationships, hence option C is incorrect and option D is correct.

(PCM1.3)

Section B – Suggested solutions

11.

Marking scheme

	Marks
Manzi Exports	2
Kigali Wholesale	2
The Tea Company	2
Gisenyi Catering Supplies	2
Mugabo Beverages	2
Total marks for this section	<u>10</u>

Detailed suggested answer

The following courses of action are recommended:

Manzi exports: before the payment on 12 January 2020, legal proceedings would have been underway. The entire outstanding balance has now been paid, therefore any legal proceeding should be stopped. Trading can continue provided the finance director is of the opinion the issue of non-payment is unlikely to recur.

Kigali Wholesale: the payment on account of RWF 5 million does not even cover the whole 91+ days balance. Legal proceedings, which have presumably already started, should continue. The account should be put on stop if it isn't already. If it hasn't been put on stop, this needs further investigation as it appears to be a breach of stated policy.

The Tea Company: the RWF 72,124,000 would now be 61–90 days overdue. Company policy is to send a letter threatening legal action. However, the basis for dispute needs to be clarified given that the customer has paid RWF 4,123,432 of the aged balance. If the customer agrees to pay the undisputed amount, and the basis of the dispute seems reasonable, no further action should be taken until the dispute is resolved.

Gisenyi Catering Supplies: as their account is now settled in full, no further action is required. The amount was paid on 22 January 2020 so it is likely that the current policy of issuing a reminder letter and making a telephone call to chase payment is proving to be successful in collected debts.

Mugabo Beverages: all debts that were classified as 61+ days at 31 December 2019 have been paid. This still leaves RWF 27,342,000 which is now 61–90 days overdue and RWF 16,171,000 which is now 31–60 days overdue. Presumably a letter threatening legal action has been sent and legal proceedings are already underway to recover the amount that was paid on 15 January 2020. The customer should be placed on stop and subject to the agreement of the finance director, legal proceedings should continue but to recover RWF 27,342,000. The account should be put on stop if it isn't already. If it hasn't been put on stop, this needs further investigation as it appears to be a breach of stated policy.

Note. Other courses of action, provided they are reasonable and justified, will be awarded credit.

(CDC2.1)

12.

Marking scheme

	Marks
Justified choice of court	2
Consideration of different methods of recovery: max 2 per method	6
Reasonable and justified recommendation	2
Total marks for this section	<u>10</u>

Detailed suggested answer**Choice of court**

Should court action be taken, the two courts that could possibly be approached would be:

- The District, Municipality and Town court; or
- The Provincial Court and Court of the City of Kigali

The former is the usual starting point for the majority of claims. However, the Provincial Court and Court of the City of Kigali can be approached directly if the amount is large or the case is complex.

In this situation, given the amount is large, and the case could be complex (as it potentially involves insolvency proceedings and/or involving the parent company), it is recommended that the Provincial Court and Court of the City of Kigali is approached.

Methods of recovery

In addition to **court action**, there are various other methods of recovery that could be employed:

Putting the customer on ‘stop’: this should be done in any case, especially as the customer is rumoured to be in financial difficulties. This will limit our potential exposure to more doubtful debts, and may encourage the customer to pay to reduce disruption to their business operations.

Debt collection agency: debt collection agencies are experts in their field, and may be able to enforce payment where we have failed. Their negotiation skills and practical legal knowledge would be beneficial.

Factoring and invoice discounting: a factor/invoice discounter could lend money to us upfront and chase the debt. However, there is no indication that cashflow is an immediate concern for Byumba Wood and Saw Mill Ltd (Byumba). In addition, we do not need any additional administrative help for regular debt collection. A factor/discounter’s expertise in debt collection would be similar to that of a debt collection agency. Hence, there is no compelling reason to go down this route.

Debt insurance: as this is an existing (and doubtful) debt, it is unlikely that any new insurance policy would cover this particular debt. It may be appropriate as a general policy going forwards, but is not relevant to consider further in this case.

Settlement discounts: Byumba could offer a discount for immediate settlement. Unfortunately, the customer is rumoured to be struggling financially, so a small discount may not persuade them to pay. However, if their parent is prepared to intervene, then they may do so if the group saves some money overall. Although often an expensive course of action, a settlement discount may prove to be less expensive than formal legal proceedings.

Recommendation

A blend of the above might be appropriate: the customer should be put on ‘stop’ immediately. We should then offer a settlement discount with a short timeframe in which to comply, then pass the debt to a debt collection agency for them to attempt collection. Should that fail, legal proceedings should be commenced.

(PCM 1.4)

Section C – Suggested solutions

13.

Marking scheme

		Marks
(a)	Report format	1
	Definition of liquidity management	1
	Discussion of benefits: max 2 each up to	6
	How credit management helps liquidity management – up to	2
		10
(b)	Consideration of external sources – max 2 per source including an assessment of how appropriate in this case	8
	Conclusion of report	2
		10
	Total	<u>20</u>

Detailed solution

To: The Finance Team, Byumba Cobalt Ltd

From: Credit Management Expert

Subject: Liquidity management and information for the credit decision

Date: XX/XX/XXXX

Introduction

This report seeks to explain the benefits of sound liquidity management for our business, and goes on to consider the range of information that should be considered in the decision to offer credit to customers.

(a) Liquidity refers to Byumba’s ability to pay its debts as and when they fall due.

Liquidity management involves ensuring there is sufficient cash and near-cash assets to be able to pay our debts as and when they fall due.

Liquidity management therefore helps to ensure the short-term financial health of our business.

Our liquidity can be measured by considering the size and length of the cash operating cycle, or working capital cycle. The working capital cycle is defined as current assets (typically receivables plus inventory plus cash) less payables (trade payables plus overdrafts). The length of this cycle is the typical time between paying our suppliers and receiving money from our customers. The longer this time period, the more of our money is tied up in working capital.

Benefits to Byumba of liquidity management:

Ensuring sufficient funds to pay our bills: by forecasting our liquidity and planning accordingly, we will reduce the chance of running out of liquid funds to pay our bills as they fall due.

Ensuring excess funds are planned for: should we forecast a temporary surplus of cash, we can plan to invest those excess funds temporarily to earn a small return rather than leaving the cash sitting in our bank account earning very little, if any, return.

Reduced requirement for funding: if we manage our receivables and inventory to an acceptable level, this will result in less funding being needed. For example, should receivables be excessive, this is money in our customers bank accounts rather than ours, and we will need finance to fund this, such as an overdraft. This finance will attract interest charges.

Targeted action: if we identify particular customers who aren't paying, or lines of inventory that are excessively slow moving, we can take targeted action. For example, we have an issue with some smaller manufacturers who habitually pay us late. We could target these more effectively if we have an active monitoring process in place.

Change of policies: should we face ongoing short-term funding issues, we could consider the impact of changing our policies – for example, reducing the period of credit we offer customers.

How credit management could help with liquidity management

Credit management will hopefully reduce the time it takes to receive payment for debts, therefore improving liquidity. It also limits credit which will reduce the risk of bad debts and excessive investment in receivables, both of which will assist with the management of liquidity.

(PCM 2.1)

(b) Range of information to be considered in the credit decision

Unfortunately, we have some small customers who are habitually late payers. We may need to review our collection procedures to reduce the incidence of this happening. It may be however that we are not considering a wide enough range of information in the decision to grant credit in the first place.

Possible sources Byumba could consider would include:

External sources:

Bank references: a bank reference is independent and is a good indication of creditworthiness to date. It uses standard language that can be interpreted reasonably reliably. It is not predictive in any way however.

Trade references: these are generally provided by the customer hence are not reliable. However, if we are given access to their entire payables ledger and are allowed to choose suppliers to provide references, this will improve the validity of this method. This would be useful for the smaller manufacturers in particular.

Credit rating agencies: these are independent sources of information combining objective analysis (of financial statements for example) plus other measures – including court action pending. They are an excellent source of information and should be sought as a matter of course. They do cost a reasonable amount, but they provide an expert opinion based on a wide range of sources.

The Office of Registrar General for filed financial statements: financial statement analysis is useful to assess customer liquidity, and potentially to review and consider the impact of future plans. This would be particularly useful for the larger steel manufacturers in particular who, assuming they are listed, will produce detailed financial statements for our review. It is still, however, of value for our smaller customers as well.

Management accounts supplied by the customer: these may be useful to understand future liquidity but they are internally produced and hence should not ideally be relied upon.

Media publications and internet searches: the quality of information may be relatively low from these sources, but once rumours are picked up, we could take steps to more formally confirm and evaluate them. This is a good source of information and should be included.

Internal sources:

Customer visits: a site visit may help to build relationships as well as helping us to assess how well managed our customers are. This might be useful for smaller customers, however they are unreliable as an assessment tool – we would only be allowed limited access, and our visit would be announced in advance meaning we may not see a true representation of reality.

Staff knowledge: our existing staff – particularly sales staff – may have heard rumours from other customers. This is an informal source but should be used as a starting point for further investigation if relevant.

Previous trading history: our prior experience with the customer is important. For example, if they have been a cash customer and have paid reliably in the past, we will be happier to provide credit in the future.

Conclusion

Liquidity management is key to any business, including ours. A key part of this is ensuring all our customers – large and small - are checked thoroughly before we offer them credit. We should keep them as cash customers initially and run a range of formal checks including bank references, credit rating agency reports,

and financial statement reviews. An informal internet search may also be useful, as will consulting with our own employees.

If you have any question, please do not hesitate to ask.

Best wishes

Credit Management Expert

(PCM2.2, PCM2.3)

14.

Marking scheme

Marks

(a)	Format		
	Calculations: 1 for each of: Margin, interest cover, gearing, payables days, receivables days, inventory days, working capital cycle days. Other relevant calculations are acceptable.	5	
	Maximum		
	Interpretation: 1 for each calculation, provided relevant to the decision, up to a maximum of	5	
	Recommendation: provided justified	1	
			<u>12</u>
(b)	Letter format	1	
	Tone: professional and polite but clear. Maximum	2	
	Justification	4	
	Encouraging a continued relationship	1	
			<u>8</u>
	Total		<u><u>20</u></u>

Detailed solution

- (a) **To:** Finance Manager
From: Finance Team Member
Subject: **KBS credit application**
Date: XX/XX/XXXX

Dear Finance Manager,

We have received an application for credit from an existing cash customer – Kigali Beauty Supplies Ltd (KBS). They currently purchase around RWF 1 million per month from us, and have requested a RWF 3 million credit limit on our standard 30 days terms. I have analysed recent financial statements and have noted the following:

Note	20X9	20X8
1 Gross profit margin %	50%	45%

Note		20X9	20X8
2	Operating profit margin %	21.8%	17.1%
3	Interest cover	5.2 times	5.3 times
4	Current ratio	1.26	1.27
5	Trade payables payment period in days	120.0	98.0
6	Trade receivables collection period in days	78.0	44.0
7	Inventory holding period in days	95.0	37.0
8	Length of working capital cycle in days	53.0	-17.0
9	Gearing %	36.9%	27.7%

Notes

- 1 Gross profit / sales revenue
- 2 Operating Profit / sales revenue
- 3 Operating profit / finance costs
- 4 Total current assets / total current liabilities
- 5 $(\text{Trade payables} / \text{cost of sales}) \times 365$
- 6 $(\text{Trade receivables} / \text{sales revenue}) \times 365$
- 7 $(\text{Inventories} / \text{cost of sales}) \times 365$
- 8 Trade receivables days + inventory days – trade payable days
- 9 Non-current liabilities / (total equity + non-current liabilities)

KBS' income statement appears to be improving from an already good base.

Margins are improving while interest cover is stable. In addition, the current ratio appears stable, and greater than 1, indicating that KBS has enough cash and near cash assets to pay its immediate liabilities.

However, there are a few causes for concern:

Length of working capital cycle: this has gone from negative in 20X8 (meaning working capital was a net source of cash) to positive 53 days in 20X9. This is a huge swing and is a concern. This means the amount of investment in working capital is increasing dramatically, draining KBS of cash resources. Receivables days and inventory days have increased significantly which could indicate that KBS has some irrecoverable debts and some obsolete inventory. Payables days have also increased indicating that KBS could be struggling to pay suppliers on time.

Overdraft: KBS has gone from a position of having cash in the bank in 20X8 (RWF 1,254 million) to an overdraft of RWF 1,319 million in 20X9. If this rate of cash depletion continues, cashflow difficulties may follow unless further finance can be found.

Supplier credit: trade payables days have increased to 120 days. This is significantly in excess of our 30 day standard terms, and may indicate KBS could struggle to pay within our standard credit terms.

Gearing: long-term borrowings have increased significantly. This may be to fund KBS's successful expansion but imposes an increasing finance cost burden on the company that will not abate even if the growth slows down. However, the growth

in profit has meant that interest cover has remained relatively stable at 5.2 times indicating that KBS can comfortably cover its interest commitments from operating profit.

Recommendation

Despite being a reliable cash customer over the last year, there are some signs that KBS may be struggling with liquidity as they work to realise their growth ambitions. Given the dramatic increase in the length of the working capital cycle, their depletion of cash resources, and a period of credit taken to pay suppliers (which is 4 times our standard credit terms), I recommend we refuse credit at this time. Given their international expansion aspirations, this trend may continue for a while yet. We could offer to review the situation annually.

Any questions, please don't hesitate to ask.

Kind regards

Finance team member

(CDC1.1, CDC1.2)

- (b) The Financial Controller
Kigali Beauty Supplies Ltd
Kigali

Finance Team Member
Gisenyi Cosmetics Ltd
Gisenyi

Date: XX/XX/XXXX

Dear Financial Controller

Application for trade credit account with Gisenyi Cosmetics Ltd

I trust you are well and business is good. Thank you for your recent request for a trade credit account with us. As a valued cash customer of Gisenyi, we are willing and happy to do all we can to support you and to continue to work together.

We have considered your application carefully, and are pleased to note your expansion plans are progressing well, and that you are still looking to expand abroad.

We are perhaps a little concerned that your successful expansion may continue to strain your liquidity for a while, and as such I'm afraid at this time we are unable to agree to your request for credit. We will, however, with your agreement, return to this decision next year when hopefully we may be in a position to agree.

In the meantime, we look forward to continuing to work with you on the present terms. I hope this is acceptable and that you understand, even though this is not the decision you wanted.

If you have any questions at all, please do not hesitate to contact me – my mobile number is included below.

Yours sincerely

Finance team member

Mobile: xxxx xxxxxxxx

(CDC1.2, CDC1.5)

15.

Marking scheme

		Marks
(a)	Aged analysis – max 1 per customer plus one for format	4
	Provision: 2 per customer	6
		10
(b)	Further information: up to 2 marks per source, adequately explained	5
		5
(c)	Recommendations – up to 2 marks each with justification (note: suggesting further work as a recommendation is acceptable if justified)	5
		5
	Total	<u>20</u>

Detailed solution

(a)

Customer	Total RWF'000	Credit period agreed	Credit limit RWF'000	Current <30 days RWF'000	31–60 days RWF'000	61–90 days RWF'000	90+ days RWF'000
1001	17,685	30	20,000	7,413	8,624	1,648	
1002	9,212	30	9,000	999	3,477	4,736	
1003	14,515	45	15,000	4,516	8,463		1,536
Total	41,412			12,928	20,564	6,384	1,536

The irrecoverable and doubtful debts provision can be calculated as follows:

Customer 1001:

1–30 days overdue: $25\% \times \text{RWF } 8,624,000 = \text{RWF } 2,156,000$ 31–60 days overdue: $50\% \times \text{RWF } 1,648,000 = \text{RWF } 824,000$

Total for customer 1001: RWF2,980,000

Customer 1002:

1–30 days overdue: $25\% \times \text{RWF } 3,477,000 = \text{RWF } 869,250$ 31–60 days overdue: $50\% \times \text{RWF } 4,736,000 = \text{RWF } 2,368,000$

Total for customer 1002: 3,237,250

Note: this takes the balance net of provisions down to $(9212000 - 3237250 =)$ 5,974,750 which is below the credit limit of RWF 9 million, hence no further provision is required.

Customer 1003:

15 June invoice is 46 days old, hence is 1 day overdue – provide $25\% \times$ RWF 8,463,000 = RWF 2,115,750

14 April invoice is over 108 days old, which is $(108 - 45 =)$ 63 days overdue, hence provide 100% ie RWF 1,536,000

Total for customer 1003: RWF 3,651,750.

Recommendation

Total provision = 2,980,000 + 3,237,250 + 3,651,750 = **RWF 9,869,000** in accordance with policy.

(PCM2.4, CDC2.1, CDC2.5)

- (b) Further information to consider:

Basis of dispute: Rwandan Dreams is a large customer that recently received a significant credit note from NFA for RWF 536,000. This may have delayed the payment of other invoices and this possibility should be examined before deciding on a course of action.

Trading history: the state of the account over time historically should be examined to see how reliable the customer has been with paying their debts, and whether the current state of the account is unusually poor, indicating current issues.

Recent financial statements: these may indicate worsening trading results and/or liquidity issues, and may help inform our decision to offer credit going forwards.

Recent news stories and rumours: internet and press searches, and asking around the sales team may prompt rumours that could be investigated further.

Credit agency report: if the customer is struggling to pay generally, this may have negatively affected their credit rating. NFA could obtain an up-to-date credit report to see if this recent issue is specific to NFA or is part of a larger issue.

(PCM2.5, CDC2.1)

- (c) All three customer accounts include significantly overdue amounts. In light of this, each account should be reviewed more closely, and potentially revert to trading on a cash basis as well as having their credit accounts removed. That said, account managers should be consulted first as this may result in a loss of business.

Customer 1003 – Kiyumba Excursions Ltd – has unusual terms of 45 days. This is potentially difficult to manage as it is half a month more than the other two customers. The reasons for this need to be ascertained, and unless there is a compelling reason, this credit limit should be brought in line with those of other customers.

Other customers have been offered 30 days credit. This should be compared to the industry standard and brought into line with that. If it is less generous than the industry terms, NFA may be losing business as a result.

(CDC1.4)