

Credit Management

Small Business Development Corporation

Credit management is implementing and maintaining a set of policies and procedures to minimise the amount of capital tied up in debtors and to minimise the exposure of the business to bad debts.

You can minimise the outstanding accounts of your debtors (people who owe you money) and the likelihood of bad debts by implementing some standard credit management policies. Some of the following commonly used policies and procedures may be appropriate for your business.

Prepare a written quote for clients, specifying what will be supplied, when the work will be done, and when and how payment is to be made. Obtain a written acceptance of the quote. Revise quotes and get written acceptances for any variations to the original contract.

Ask customers for a deposit to cover your costs and overheads, and as an indication of their ability and intention to pay.

Include your terms and conditions of trade in your quote and any related documentation. If you intend to impose a penalty for late payment, this should be included in your terms of trade.

It may be appropriate to include in your terms of trade a retention of title clause. This enables you to retain ownership of the goods until the goods are paid for, which may be important if the client is unable to pay. Professional advice should be sought if using a retention of title clause. (Also referred to as a Romalpa clause).

Ask new clients how they heard about you. Avoid giving credit to unknown and new clients. Encourage cash on delivery (COD) sales. This will also reduce administration costs.

If credit is given, ask the client to complete a credit application form. Full names, street and postal addresses should be obtained. If the client is a business, the application should ask for their business name, their business structure, and their Australian business number (ABN). Their ABN can be checked on the Australian Business Register website at www.abr.gov.au.

If your business client is a sole trader or a partnership, the individual owners are personally liable for the debt. If the client is a company, it is good commercial practice to ask the directors of the company to guarantee the debt, as directors are not generally liable for the debts of their company. This may be important if the company gets into financial difficulties. The requirement for the directors' guarantee should be included in the application for credit.

The credit application form should ask for business references and these should always be checked.

Have the wording of your credit application form checked by your solicitor.

Obtain a credit report. This is an important step in assessing your client's ability to pay. A range of credit reports can be obtained from information service providers, listed on the website of the Australian Securities and Investments Commission (ASIC) www.asic.gov.au, or the Yellow Pages website www.yellowpages.com.au under information services, or under credit reporting services. Discuss the reports available and the costs involved with the service provider.

The ASIC National Names Index, on the ASIC website, is an index of Australian corporate and registered business names. It provides access to basic free information. Further information on a company may be accessed, for a fee, from the ASIC Service Centre, Level 3, 66 St Georges Terrace, Perth. The Business Names branch of the Department of Commerce, Tel: 1300 304 014, offers a business name search for a fee. Searches on both registered company and business names may be arranged through service providers listed on the National Names Index. The ASIC information line is 1300 300 630.

If supplying goods, obtain a written order from your customer before supplying. Obtain a signature for goods delivered. Invoice promptly. Your policy on returns should be included in your terms of trade.

Establish an accounting system that includes debtors' records. Some debtors work on the principle that if no one asks for payment they do not pay. Constantly review your debtors and follow up promptly any that do not pay by the due date.

Monitor exposure to individual debtors and watch that debtors do not exceed current credit limits. Computerised systems of debtor control are ideal if there are many debtors.

Design a standard letter that can be sent to a debtor who has not paid by the due date. Request that the account be promptly paid and that the debtor contacts you, if there is a problem.

If the account is still not paid, you may wish to contact the customer personally to ask for payment. Otherwise, a formal letter of demand should be sent. This should include:

- the amount(s) due, enclosing copies of invoices
- the number of days overdue
- the date by which payment is required
- advice of the action that will be taken if the debt is not paid by the date nominated.

If the account is not settled by the date nominated, and you do not take the action indicated in your letter of demand, the debtor may not take you seriously. You may get a reputation as someone who will allow debtors to get away with not paying.

In looking at the alternatives available for recovery of debts, consider:

- the real chances of recovery
- the time taken away from your business
- the costs associated with the various options and whether these costs will be recoverable from the debtor.

Magistrates Court

The Magistrates Court of Western Australia, amalgamating the former Court of Petty Sessions, Local Court and Small Claims Tribunal into a single court, commenced operation on 2 May 2005. The new court has multiple registries located around Western Australia to deal with various criminal and civil matters, including claims for debt.

In relation to debt recovery, the Magistrates Court deals with:

- general procedure claims for debt or damage up to \$75,000
- minor case claims for debt or damage up to \$10,000.

With a debt of \$7,500 or less, you can elect to make either a general procedure claim or a minor case claim.

The Small Business Development Corporation (SBDC) business brief *Recovery of a debt* provides further guidance on debt recovery in the Magistrates Court. Fact sheets can also be accessed on the website at www.magistratescourt.justice.wa.gov.au.

Other options available for the recovery of debts include:

- a mediated settlement
- use of a debt collector
- use of a solicitor.

Publications

Publications available from the SBDC Business Information Centre at Level 2, 140 William Street Perth, or online at www.smallbusiness.wa.gov.au include the following titles:

<i>Dun and Bradstreets Guide to Cash Flow and Credit Risk</i>	
PLU 301	\$39.95
<i>Manage Finances and Develop Financial Plans</i>	
PLU 21	\$54.95

For further information and guidance contact:

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This publication is also available upon request in alternative formats such as large print, electronic format, audio, or braille.

Disclaimer

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