

Guide from

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## Credit control

Setting up an effective credit control system is vital when it comes to optimising cash flow and avoiding bad debts.

You need to check each customer's creditworthiness and agree clear payment terms before offering credit. You also need robust systems for fulfilling orders, invoicing and chasing up overdue payments.

### 1. Checking creditworthiness

Is a customer likely to go out of business, leaving you unpaid? Will a customer delay payments, wasting your time as you chase up the money? Checking references lets your customers know you are serious about credit control.

Ask each new customer to complete a credit or trading application form

This should include:

- Full name of the business, and whether the business trades under a different name.
- Registration number, if it is registered.
- How much credit is being asked for.
- Who the contact is for payment queries - including address details, telephone and fax numbers and email address.
- Where to send invoices, as this is often different from the delivery address. Check the statement address, as this can be different again.
- Which bank the business uses - name, address, sort code and account number.
- Details of at least two trade references, which should be regular suppliers.
- A request for consent to obtain a bank reference and a request for consent to obtain credit references.
- Details of who owns - and who runs - the business.
- The legal status of the business (e.g. partnership, limited liability partnerships (LLP), sole trader).

Get an online credit rating

- An instant company search from a credit reference agency can be on your desk in minutes, and cost as little as £10 to £20.
- The report should include the last three years' reported financial information, details of any County Court judgments and suggested credit limits.
- Even a highly detailed report - giving extra information such as comments on the company's past payment record and comparisons against companies of a similar size - will cost around £35 to £45.

## Take up credit references from trade suppliers

Make sure the referee is a genuine core supplier to the business. Ask:

- for confirmation of the customer's trading name and address;
- how long the supplier has traded with your potential customer;
- what credit terms (limit and period) they offer the customer;
- whether your new customer pays within the terms offered;
- what your customer's average monthly spend is;
- whether they are in any way associated with your customer's business, other than as arm's-length trade suppliers;
- if there is any other information they would consider relevant.

## Be realistic about trade references

- Beware of being fed tame suppliers that the customer knows will provide good references.
- Encourage quick replies by sending the form via email, giving a phone number or sending a stamped addressed envelope.
- Trade references may have limited value, as they are usually slow, often guarded and sometimes biased.
- Most references will be given in writing. Telephone the suppliers to thank them for their help, and ask them if there is anything they can tell you over the phone that they could not put in writing.

## Make sure you have checked for County Court judgments (CCJs)

- You can check details of all CCJs registered in the last six years through [Trust Online](#). There is a fee of £4 to search a single register.
- A large number of judgments is a danger signal, indicating that the company is in financial difficulties or has a habit of disputing or not paying invoices. The cause of some of these disputes could be administrative error, but this is unusual.
- CCJ information is available for individuals as well as companies.
- Though the cost is slightly higher, it is easier to get details of CCJs as part of a company search.

## Apply for a bank reference

- Be aware that these are notoriously vague and may take a long time to arrive.
- The response will use standard phrases. You need to interpret these to decide whether or not they amount to a negative reference.
- A reference may sometimes be too ambiguous to be useful. Ask your bank to help you interpret it.
- The fee is typically £10 to £15. Pay your bank's fee up front and enclose the customer's statement of consent.

## 2. Giving credit

It is your choice whether to provide credit to a customer or not. Decide on a credit policy.

### Set a minimum order size for credit accounts

- Is it worth giving small customers credit?

### Set a maximum credit limit for each customer

Take into account:

- how much credit the customer wants;
- the results of the credit checks you have made;
- how much you can afford to risk losing;
- how much credit you can afford to give, particularly if you have to pay your own suppliers on shorter credit terms;
- what alternatives the customer has if you do not offer credit;
- whether the customer would consider an alternative, such as a discount for payment with order.

### Minimise the risks of giving credit

- Give new customers a modest credit limit to begin with. You can raise the limit when the strength of your relationship justifies it.
- Open a credit card merchant account. Seek advice from your bank.
- Consider taking out credit insurance.
- Consider using a monitoring service, offered by most credit reference agencies, to keep track of the financial status of your customers.
- Consider the cash flow and credit control advantages of factoring.

### Use your credit limits

- If a customer wants to buy more than the credit limit allows, get cash for the extra. If a customer does exceed your credit limit, insist the excess is paid before accepting any more credit orders.
- Credit limits should be reviewed regularly. You may lose business if customers are offered more credit elsewhere.

## 3. Your credit terms

### Agree payment terms with your customer at the order stage

- Confirm this in writing. Ask the customer to sign a copy of the agreement.
- Get help from your lawyer or trade association to draw up a standard sales contract.
- Ensure your standard payment terms are printed on your credit application form (and on other relevant documents, such as invoices).

### Set out the maximum credit period

- For example, if payment is due 30 days from the date of invoice.

## Consider offering a discount for quick payment to boost cash flow

- Remember to cost this properly.
- Beware of customers who take prompt payment discounts and still pay late.
- A settlement rebate for good payers can be more effective than discounts. You give regular rebates to customers who have paid on time, based on a percentage of the value of their purchases.

## Your terms can include claiming interest on late payments

- You have a legal right to recover interest from business and public sector customers at 8 per cent above the Bank of England base rate.
- In many cases you can claim for debt recovery costs as well.
- You should take legal advice before charging consumers interest.
- Drawing attention to your right to claim interest in your terms and conditions does not oblige you to collect interest on any late payments.

## Make sure your terms include all the information your customers need

- For example, whether your prices include delivery charges.

## Take advice on any other clauses you should include

Your lawyer or a trade body can advise you. For example, you may want:

- A 'retention of title' clause saying that the goods remain your property until paid for. Check whether your insurance covers any goods damaged on customers' premises.
- Agreement that the customer must tell you within a set time if a delivery has not been received or if they have an invoice query. A clause like this helps to avoid disputes.
- Different terms when doing business with customers overseas.

## 4. Fulfilling the order

### Get the order details right

- If they are incorrect, the customer may have every right to delay or even refuse payment.
- Ask your customer to confirm the order in writing, including an order number.
- If you are providing a service, such as consultancy, the order should specify the work to be undertaken.

### Obtain proof of delivery for the goods

- Get a signature acknowledging receipt of the goods. Consider using Royal Mail's recorded or guaranteed delivery services.
- Include a packing note with every order, giving the order number and listing the items being delivered. Keep a copy.

### Ensure the customer is satisfied

- Sort out any problems immediately.

## 5. The invoice

### Establish how different customers pay their invoices

- Many businesses will not pay unless there is an order number.
- Some businesses need the invoice passed to the accounts department by a certain date, or it misses the monthly cheque run.

### A clear, easy-to-understand invoice will encourage customers to pay more quickly

As well as the amount owing, make sure you include the following important details:

- a detailed description of the goods;
- a reference to the order number;
- the agreed payment date (in line with the terms of trade);
- your full bank details, VAT number (if applicable) and address.

### Send your invoice out the day the goods are sent

- Sending invoices out late sends the wrong message.
- Send the invoice to the right person. Find out beforehand who this is, or where it should be addressed to.

### Send statements out as early as you can in the month, every month

- Many businesses will not pay an invoice until they receive a statement.
- Include details of all current transactions, and your payment terms.

## 6. Everyday credit control

### Set aside a regular time each week to chase outstanding invoices

Focus on:

- the largest debts;
- customers you think may be in financial trouble;
- the oldest accounts (but debts over a year old are unlikely to be paid except in special situations).

### Start chasing payment as soon as an account becomes due

- If you want immediate action, phoning is one of the fastest ways to persuade late payers to pay up.
- Be consistent and firm but not hostile.

### Maximise your effectiveness

- Keep customer details, invoice numbers, dates and amounts in front of you.
- Keep a record, with dates, of all your calls and any problems you have getting payment.

## If a customer stops buying from you, find out why

- Reduced purchases may be a sign of financial problems. Try to get any money you are owed as soon as possible.
- If orders fall below your minimum, or customers do not want to buy any longer, cancel their credit

## Every month check the total credit outstanding across your whole business

- How many days' sales does this represent? For example, in a business with sales of £1,000 a day (annual sales of £365,000), total credit outstanding of £44,000 represents 44 days' sales.
- If the days' sales figure rises, you are being paid more slowly. Investigate and correct the problem.

## Working with big companies

Big companies and public sector bodies can have very different cultures.

### You need to know where invoices must go

- Your invoice may need to be sent for authorisation to the buyer you deal with.
- Alternatively, invoices may have to be sent to the customer accounts manager or the bought ledger department.
- You may need to be on an approved suppliers list.

### Large organisations may decline to pay your invoice until they receive a statement

- Send statements as early as you can in the month, every month.

### Your vital invoice may be gathering dust in someone's in-tray

- Call the buyer to ensure it has been signed off and put into the payment system.
- Then phone the accounts office to confirm it has been received.

### You must not miss a payment run

- Many organisations only pay invoices once a month.
- Find out the date. Call a few days before to ask for confirmation that you will be paid.

## 7. Chasing debts

### Telephone any late payers after a week to ask the reason for the delay

- Keep a written record of all your calls.
- Send reminders to anyone you do not call, copying these to other members of the company as appropriate.
- If a customer has a fixed weekly or monthly payment date, call again just before that date.

### Cultivate a contact in the accounts-payable office - someone you know by name

- Speak to him or her personally. Be thoroughly reasonable, but persistent.

## If you cannot get through on the phone, try different times of the day

- Do not accept 'I'll call you back'.
- If the amount is large enough, arrange to call to collect the cheque - and be prepared to wait.

## If a customer makes an excuse, ask when you can expect to be paid

- If they claim not have to received the invoice, email a copy straight away. Follow up with a phone call to check when you can expect payment.
- If the customer queries one item, insist on full payment for the rest of the order. Sort out the query separately.
- If cheques are 'in the post', ask customers to check the relevant payment records. Then ask for the cheque numbers.

## Watch out for customers who try to delay payment

- They may be trying to improve their cash flow at your expense, or they may have financial problems.
- Suggest a payment on account and stress that you need cash, too, to pay your suppliers. Negotiate a payment scheme and stop all further credit until the debt is paid off.
- If a cheque is incorrect or bounces, call and ask for a new cheque or payment immediately. Keep the cheque as evidence.

## If necessary, stop offering a customer any further credit

- Tell the customer that they are 'on stop'. This encourages them to pay up, especially when they realise they are going to want to place further orders.
- Do not supply any more goods to customers on the list until they have paid their account up to date.

## Try to maintain a positive personal relationship throughout the process

- You are more likely to get the response you want if you adopt a friendly approach.
- Discuss your situation with the customer. Explain that you value the customer's business.
- If possible, speak to the customer's managing director or finance director.
- If necessary, explain that you have been advised to take legal action. Make it clear that you only want to take this course if there is no alternative.

## 8. Further action

### If you are still making no progress, consider employing a debt-collection agency

- The commission charged is usually 8 to 10 per cent for commercial debts. Charges for consumer collections vary more, between 3 per cent and 15 per cent. Unlike solicitors' costs, these charges are not usually reclaimable from the debtor.
- Collection agencies should be registered with the Financial Conduct Authority and, ideally, belong to the Credit Services Association. They are especially useful if you do not have the time to collect the debt yourself.

### If legal action seems likely, you should send a letter of claim

- The letter tells your customer that if overdue invoices are not settled by a certain date (usually in seven to ten days' time) you intend to sue without further notice.
- You cannot sue someone until you have sent such a letter.

- Write this yourself. You do not need to pay a solicitor to do it. Unless your debtor is determined to see you in court, the letter will often produce results.

## After this, you may take legal action

- You have to decide if a debt is worth chasing. The costs involved may make it better to write off the debt.
- You can make a small claim for any amount up to £10,000. You will pay a fee (£25 to £455, depending on the amount and whether you make the claim online). You should be able to represent yourself.
- For large claims, seek legal advice.

## Signpost

- Find [cash flow management guides](#) and [credit control training courses](#) from the Chartered Institute of Credit Management.
- [Search for CCJs](#) through Trust Online.
- Read [guidance on late payment legislation](#) from Payontime.
- [Find a debt collection agency](#) belonging to the Credit Services Association.
- Check a [debt collection agency's registration](#) through the Financial Services Register.
- Read about [making a court claim](#) on GOV.UK.

### **ACCA LEGAL NOTICE**

This is a basic guide prepared by ACCA UK's Technical Advisory Service for members and their clients. It should not be used as a definitive guide, since individual circumstances may vary. Specific advice should be obtained, where necessary.

April 2018