

CREDIT MANAGEMENT CHECKLIST

YES NO

Do you grant credit to first time customers?

Do you always give full credit?

Do you set a deadline for the receipt of payment?

Do you give additional credit before you receive payment for the first transaction?

Do you set a limit on the value of goods and services that you credit to any one customer?

Do you set a limit on the items that you would not credit?

Do you keep a record of all credit transactions?

Do you ensure that customers sign the account/invoice?

Do you take steps to collect outstanding debts?

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Centre for Enterprise Development Inc.

BUSINESS GUIDE NO. 14

Managing Your Credit Sales

*"Developing the local economy, one
business at a time"*



WHAT IS A CREDIT TRANSACTION?

A transaction in which goods and services are provided to the purchaser without him/her having to make any form of payment, or where a partial payment is made at the time of purchase.

In St. Vincent and the Grenadines this is commonly known as 'trust'.

DISADVANTAGES OF GRANTING CREDIT

- Some customers will not pay. Bad debt occurs when goods and services are credited to customers but no payment is collected.
- Credit places additional strain in the already limited resources of micro and small enterprises.
- It may lead the business to experience problems with its cash flow, thus the entrepreneur may be placed in a situation where he/she is unable to:
 - meet the cost of his/her overheads
 - pay for purchases to replace items that were credited
 - pay wages and salaries

THE FOUR C'S OF CREDIT

- **Capital** - How much cash the borrower has to make a down-payment.
- **Collateral** - The customer should have something of value which can be used to secure or guarantee what is credited.
- **Capacity to repay** - The customer must be able to repay.
- **Credit worthiness** - The customer must have a good credit rating.

ASSUMPTIONS ON WHICH CREDIT IS GIVEN

- Customers intend to pay.
- Customers are able to pay.
- Nothing will happen to prevent customers from paying.
- That judgement made of the character and integrity of customers is accurate.

SOME POINTS TO NOTE

- Always write down what customers want on the invoice/bill.
- You and the customers must sign the invoice as proof that both parties agree to the terms stipulated.
- Customers must be given the original copy of the invoice.
- Keep a copy of the invoice on the customer's file.
- Have a debtors' unpaid file to find out who owes your business money and the amount.

WHAT IS A CREDIT LIMIT?

This is the maximum or highest amount a business is willing to risk in a credit account.

IMPORTANCE OF SETTING A CREDIT LIMIT

- Reduces risk.
- It helps in monitoring your accounts receivables.

FACTORS TO CONSIDER WHEN SETTING CREDIT LIMIT

- The strengths and weaknesses of the product.
- Level of competition.
- The availability of opportunities.
- The margin of contribution of the product to your profits.
- The financial status of the customer.
- How long the customer is given to pay.
- The type of debt collection system that you have in place.