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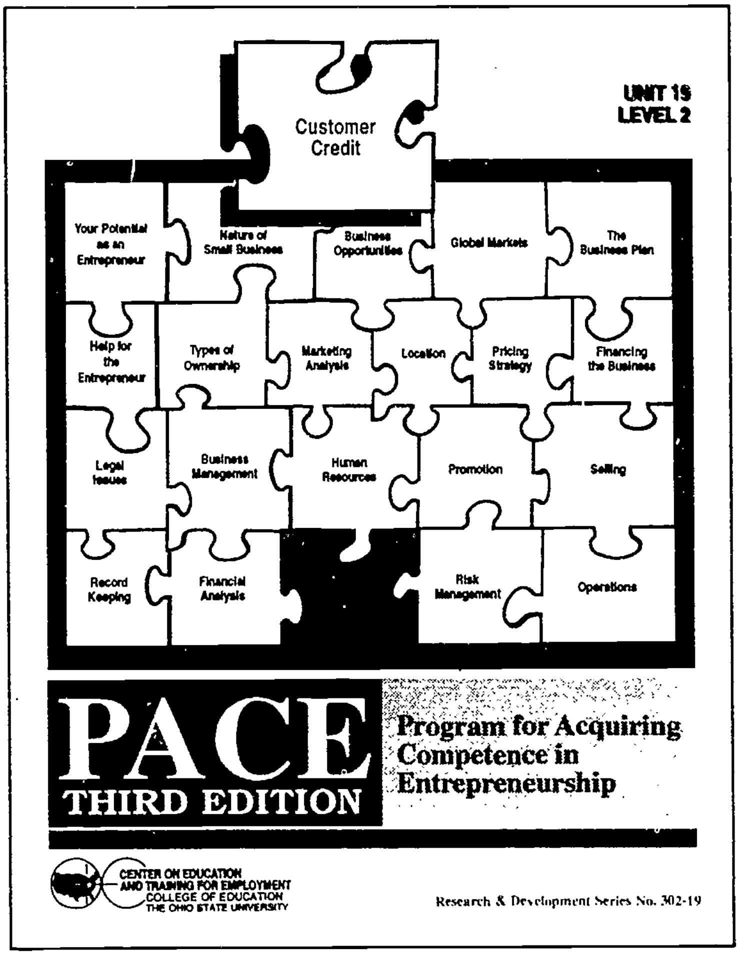
ABSTRACT

This instructor guide for a unit on customer credit in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 2 of learning--planning for a business in one's future. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student's guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: the importance of offering customer credit, criteria for granting credit, options to consider when choosing credit policies, necessary basic credit records, procedures for calculating and analyzing average collection periods, development of accounts receivable "aging" systems, effective collection procedures, and use of collection agencies and courts. (MN)



INSTRUCTOR GUIDE

Unit 19

Customer Credit

Level 2

Objectives:

- Discuss the importance of offering customer credit.
- Examine the criteria for granting credit.
- Analyze the credit options for your small business.
- Describe the use of credit records.
- Analyze the procedures used for credit collections.

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

Objectives	Teaching Suggestions
1. DISCUSS THE IMPORTANCE OF OFFERING CUSTOMER CREDIT	
Why is it important to offer customer credit?	Have students develop a list of reasons why businesses offer credit.
2. EXAMINE THE CRITERIA FOR GRANTING CREDIT	
What are the criteria for granting credit?	Invite a local banker or loan officer to talk about criteria used to grant credit and sources available to check credit information.
3. ANALYZE THE CREDIT OPTIONS FOR YOUR SMALL BUSINESS	
What options should be considered when choosing credit policies?	Divide the class into two teams. Each team should list up factors that influence a company's decision to offer credit. Have the teams determine which factors relate to a firm's specific reasons and which ones relate to macroeconomic conditions (e.g., market demand, competition, etc.).
4. DESCRIBE THE USE OF CREDIT RECORDS	
What basic credit records should be maintained?	Have students interpret the sample credit record shown in the text. Use your own examples to help students practice balance computations.
How can the average collection period be calculated?	Have students work out average collection period problems.
How can the average collection period be analyzed?	Use a credit record example (in addition to the one shown in the text) to explain to students how payment terms and past history help entrepreneurs to analyze collection period numbers. Go to your local library and make a handout with information from Moody's or Standard & Poor's industry ratios almanacs. Explain to students how industry averages can be used to judge collection periods.
How can be an accounts receivable "aging" system be developed?	Use the accounts receivable aging report in the text to teach students how to create this kind of report. You may also use examples on your own to work out problems with students.

Objectives	Teaching Suggestions
5. ANALYZE THE PROCEDURES USED FOR CREDIT COLLECTIONS	
What are effective collection procedures?	Use an overhead or chalkboard to list procedures used in effective collection. At this point in time you should introduce specific credit concepts (e.g., discount, dating terms, and repossession).
How can collection agencies be utilized?	Invite a banker to discuss various aspects related to collection agencies.
How can the courts be utilized?	Engage students in an open discussion on advantages and disadvantages of using courts as a last resort for collection purposes.

MODEL ASSESSMENT RESPONSES

1. A small business which does not offer credit may lose its competitive advantage to the benefit of competitors.

2. Small businesses evaluate the income and credit history of the applicants in order to establish whether they will be able to meet their financial obligations.

3. Three options that a small business might consider for offering credit are product and service demand, channels of distribution, and credit policy of competition. If the product/service is highly demanded on the market and/or the firm has reliable credit arrangements with its distributors, a strict credit policy could be used. Also, the firm's credit policies should be competitive with other similar businesses.

4. Credit records are a valuable source of marketing information. Sales strategies have to match credit policies. In order to be able to correctly choose between an easy going and strict credit policies, the firm needs accurate credit information from outside sources. These include local credit bureaus, local industrial or business credit exchange bureaus, Dun and Bradstreet Report, National Association of Credit Management and direct checking.

5. Effective collection procedures require that the firm prepare invoices correctly, understand and state payment terms clearly, use cash discounts wisely, prepare customer statements correctly, review outstanding credit balances, maintain customer follow-up, assess delinquency charges, and initiate forceful collection activities in a timely fashion. Last resort forceful activities include use of courts and collection agencies.

PACE THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

Incorporates the needed competencies for creating and operating a small business at three levels of learning, with experiences and outcomes becoming progressively more advanced.

Level 1 — Understanding the creation and operation of a business.
Level 2 — Planning for a business in your future.
Level 3 — Starting and managing your own business.

Self-contained **Student Modules** include: specific objectives, questions supporting the objectives, complete content in form of answers to the questions, case studies, individual activities, group activities, module assessment references. **Instructor Guides** include the full text of each student module and lesson plans, instructional suggestions, and other resources. **PACE,Third Edition, Resource Guide** includes teaching strategies, references, glossary of terms, and a directory of entrepreneurship assistance organizations.

For information on PACE or to order, contact the Publications Department at the
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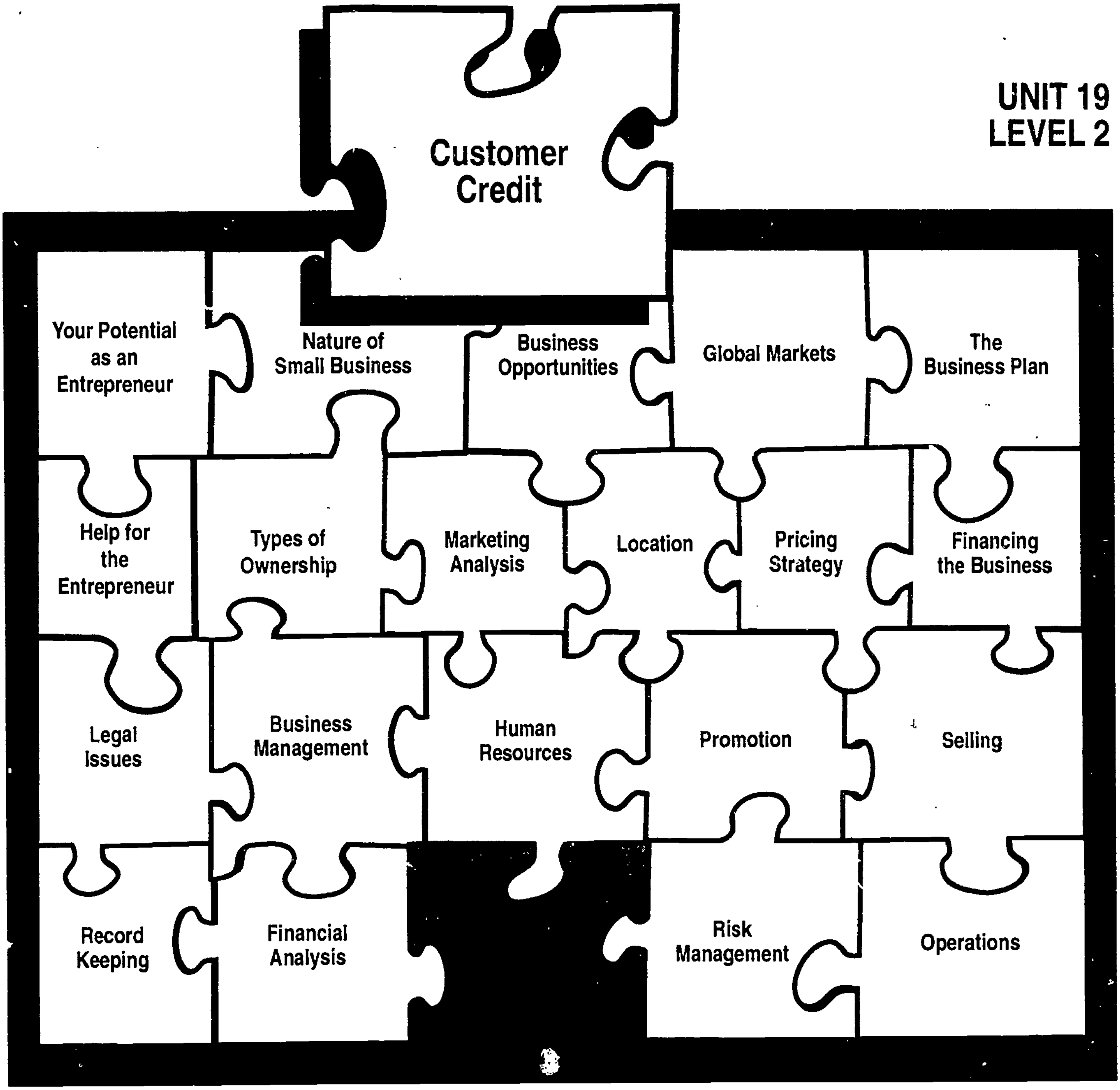
UNIT 19
LEVEL 2



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 302-19

CUSTOMER CREDIT

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1:

   - Identify the different types of credit.
   - Give the reasons for offering customer credit.
   - Identify the advantages and disadvantages of customer credit.
   - Describe the basic guidelines for evaluating credit applicants.
   - Examine credit collection procedures.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide.*

   Accounts receivable/Accounts receivable aging system
   Average collection period
   Cash discounts
   Collection policies
   Collection procedures
   Credit policy
   Credit procedure
   Credit records
   Customer credit
   Dating terms/Discount terms
   Demographics

CUSTOMER CREDIT

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- discuss the importance of offering customer credit,
- examine the criteria for granting credit,
- analyze the credit options for your small business,
- describe the use of credit records, and
- analyze the procedures used for credit collections.

WHAT IS THIS UNIT ABOUT?

Managing credit and collection policies and procedures can be compared to a balancing act. The entrepreneur must achieve a balance between (1) making enough sales, (2) offering competitive customer services (such as credit), and (3) controlling or reducing collection costs and bad debt losses. To do this, the business owner must review and evaluate the reasons why a business offers credit, factors for evaluating credit applicants, and methods of evaluating profits or losses from offering credit.

This unit addresses such questions as these:

- Why is offering customer credit important?
- What are the criteria for granting credit?
- What are your options for granting credit?
- What is the importance of recordkeeping in relation to credit for business management?
- What are some effective procedures for credit collection?

WHY IS IT IMPORTANT TO OFFER CUSTOMER CREDIT?

The significance of credit in the phenomenal growth of commerce is well known. Practically all of the goods and services that make up the well-over $1 trillion American Gross Domestic Product move through the channels of distribution on credit of one form or another.

Should a small business offer credit? For many businesses there are few, if any choices. Nearly everyone extends credit. And a company that doesn't, will find it very difficult to compete. Selling on credit terms opens industry markets to your company that otherwise would be closed to you. Credit must be managed wisely.

WHAT ARE THE CRITERIA FOR GRANTING CREDIT?

When a business decides to extend credit, the next step is to formulate a credit policy that will allow its customers to "buy now, pay later." It is important to note the difference between a credit policy and credit procedures. Included in the *credit policy* are the basic rules that are the foundation for your decisions to grant or deny credit. *Credit procedures* on the other hand are the tools that make collections possible (scripted telephone procedures, letters, forms, and reports). Credit policies and procedures are based on the gathering of accurate credit information. Here are two reasons for gathering and evaluating credit information:

1. To determine if the applicant *can* pay the account within the company's terms
2. To determine if the applicant *will* pay the account within the company's terms

The information gathered from credit applications provides the data necessary to make credit decisions. Because the information is so vital to making sound decisions, it is important to validate the information. Valuable credit information is available from several outside sources. Some of the sources are as follows:

- Local credit bureaus
- Local industrial or business credit exchange bureaus
- Dun and Bradstreet: The Dun and Bradstreet Report
- National Association of Credit Management
- Financial statements and balance sheets
- Direct checking

It is important to remember that all credit information is confidential. If you talk about it outside your company, your business could be exposed to a lawsuit.

WHAT OPTIONS SHOULD BE CONSIDERED WHEN CHOOSING CREDIT POLICIES?

Many factors and combinations of factors go into the formulation of a credit policy suitable for an individual company. Many of these factors originate and exist beyond your control. Therefore, your credit policy must be flexible enough to compensate for these variables.

Here are some other factors that will influence your company's credit policy:

- Nature and size of business
- Overall business objectives
- General policy of the business
- Product or service demand
- Channels of distribution
- Type of customers
- Credit policy of competition
- Price of the product or service required
- Expectations of supplier

Credit department policies may be characterized by different guidelines, such as:

- liberal extension of credit with a liberal collection policy,
- liberal extension of credit with a strictly enforced collection policy, and
- strict extension of credit with a collection policy adjusted to individual circumstances.

Most businesses have unique conditions under which they operate, therefore, the credit policy becomes a combination or adaptation of the above guidelines.

Generally speaking, when the profit margin is high and the overall economy is viewed as stable, a liberal credit policy will allow a wide margin of acceptable credit risk. This may stimulate sales, but may also result in increased collection costs, slower turnover of accounts receivable, and a greater exposure to losses resulting in an inability to collect receivables.

On the other hand, a stricter credit policy requires less collection effort and expense, and it minimizes bad debt loss. However, a strict credit policy will probably slow sales from clients whose businesses operate with a small cash flow. This may result in profitable business being lost to the competition. It is very important to consider the specific requirements of each individual client before making credit extension decisions.

WHAT BASIC CREDIT RECORDS SHOULD BE MAINTAINED?

Accurate records are essential for reviewing customer accounts and setting credit limits. Credit records provide a valuable source of statistical studies known as *demographics*. Demographics help businesses market their particular product or service in the right geographic area to the right people. One good system of keeping records of credit purchases in small businesses is to use a credit account ledger for each customer. The following information should be recorded on this page:

- The client name
- The client address
- The maximum amount of credit allowed to the customer
- The date each item is purchased
- The item that is purchased
- The amount of each purchase
- The amount of each payment received and the outstanding balance

Such a system is simple and easy to maintain and can provide accurate information concerning the amount of money customers owe. An example of a credit record is illustrated in Figure 1.

As mentioned earlier, *collection procedures* are an integral part of a complete credit policy. Included in these procedures are monthly reporting, average collection period, and an accounts receivable aging system.

From a business point of view, it is wise to lay out a monthly reporting form that shows either the number of accounts that are 30 days unpaid, or the dollar amount unpaid, or the percentage of total credit volume that is on such unpaid overdue credit. Some retailers maintain all three figures on a month-to-month basis. An example of a monthly reporting form is presented in Figure 2.

CREDIT RECORD				
Name: Mrs. Irma Trask				Maximum: $50.00
Address: 873 Vine Street				
Date	**Item**	**Purchase**	**Payments**	**Balance**
3/16/93	G.E. Toaster Oven	$30.00		$30.00
4/1/93			$30.00	
4/5/93	Paint and 3 brushes	$15.00	---	$15.00
4/9/93	Wallpaper, 3 rolls	$30.00	---	$45.00
4/12/93			$15.00	
5/1/93	Clock Radio No. XIX-FM AM	$17.00	---	$47.00

Figure 1. Sample Credit Record

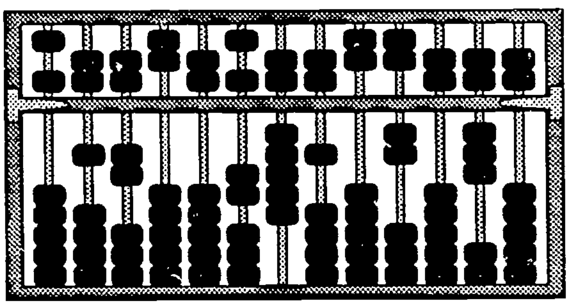
MONTHLY REPORTING FORM

Month	New Credit Issued	Payments	Outstanding Balance	Balance over 30 days and less than 60 days	Balances 60 days or more
March	$800	$850	$200	$150	$50
April	634	500	334	205	29
May	750	600	405	285	120
June	400	350	305	250	55

Figure 2. Sample Monthly Reporting Form

As you can see in this example, the first line indicates that in March, a particular retailer issued $800 in credit. During the month, $850 was received in payment. There remained $150 in unpaid bills in the 30-to-60-day column and $50 in the 60-day category. The next line indicates that in April the retailer advanced $634 in credit, but received only $500 in payments. This increased the overdue amount to $334. The credit picture became even worse in May, when more overdue payments moved into the 60-day column. The June balance began to improve somewhat.

All of the credit accounts, ledgers, and monthly credits reports we have discussed can be easily adapted to several of the microcomputer programs available from commercial suppliers. It is recommended that the entrepreneur consult various businesses using computerized credit systems before deciding which one would best meet his or her needs.



HOW CAN THE AVERAGE COLLECTION PERIOD BE CALCULATED?

A successful credit and collection policy requires that problems be detected and acted on as early as possible. The sooner a problem is detected, the sooner it can be corrected. This is particularly important in client accounts receivable (money coming into the business) management. In this area, passage of time will compound the problem.

An important indicator of the effectiveness of a credit and collection policy is the *average collection period*. The average collection period is a ratio that expresses the total amount of accounts receivable that is outstanding in terms of equivalent number of average daily credit sales.

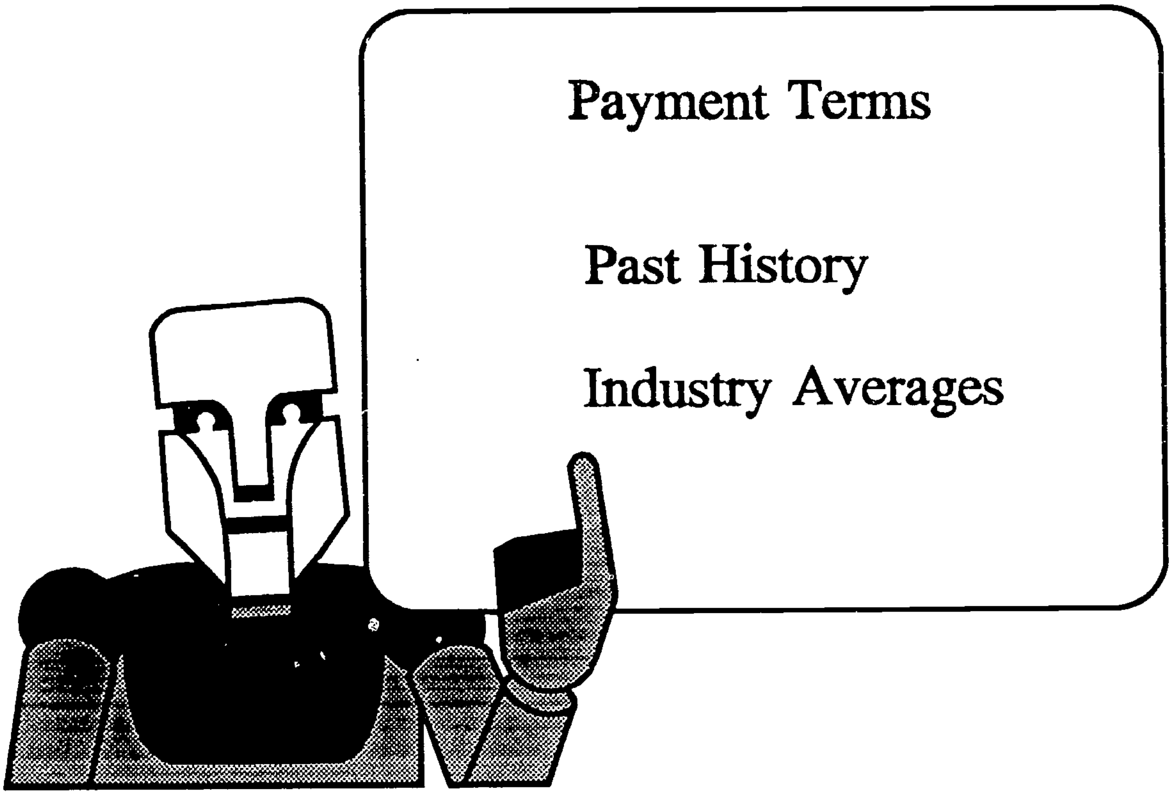
For example, if a business had average monthly credit sales of $6,000 and outstanding accounts receivable of $9,000, the collection period would be calculated as follows:

Average Daily Credit Sales = Average Monthly Credit Sales ÷ Days in Month

Average Daily Credit Sales = $6,000 ÷ 30 days = $200

Average Collection Period = Accounts Receivable ÷ Average Daily Credit Sales

Average Collection Period = $9,000 ÷ $200 = 45 days



HOW CAN THE AVERAGE COLLECTION PERIOD BE ANALYZED?

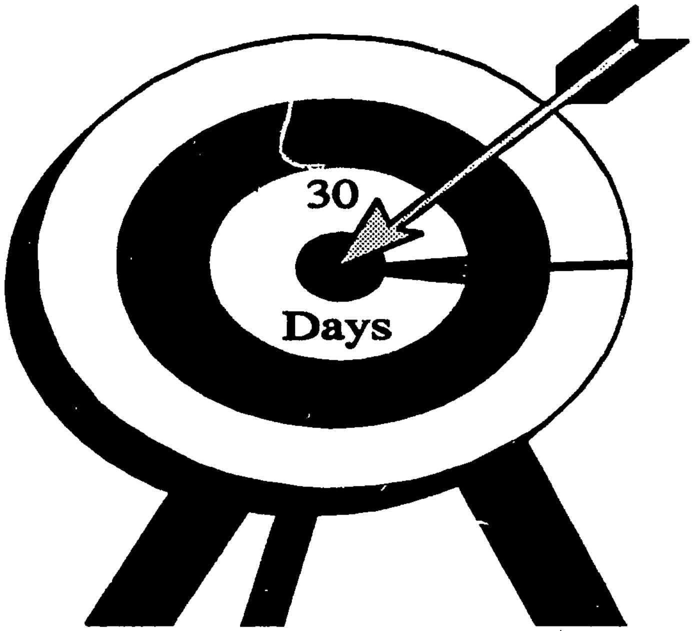
The average collection period can be compared with any of the following bases to determine whether or not a collection problem exists:

- **Payment terms.** If your terms of sale specify payment within 30 days and your average collection period is now greater than this, this indicates that creditors are not complying with your terms, and a problem exists.

- **Past history.** Comparison of your experiences in previous periods indicates whether or not collections are improving or declining.

- **Industry averages.** Comparison of experiences of other firms in your line of business will determine whether or not your credit and collection policies are as effective as those of your competitors. (Business/industry averages are usually available at the library or from the trade association).

A simple formula is to compare the actual receivables with a target level to find the extent of the accounts receivable in excess of the target level. For example, assume



that your terms of sale specify payment within 30 days. Your average collection period is approximately 30 days. A suitable target for your receivables would then be 30 days, average credit sales. If your average daily credit sales are $200, you can calculate a target for receivables as follows:

Average Daily Sales x Collection Period = Receivables

$200 x 30 = $6,000 (Desired Receivables Target)

If your actual receivables were $9,000, you would then know that you have an excess of $3,000 ($9,000-$6,000) in receivables that requires attention.

A relatively high average collection period indicates that a problem exists and corrective action must be taken. Prompt attention should reduce the collection period, speed conversion of receivables to cash, minimize your capital tied up in accounts receivable, and, at the same time, reduce the risk of uncollectible accounts. Prompt attention requires that accurate credit records be kept, a system be developed to identify overdue accounts, and customer contacts be made to determine causes for overdue accounts.

HOW CAN AN ACCOUNTS RECEIVABLE "AGING" SYSTEM BE DEVELOPED?

Analysis of your average collection period will help you identify and measure receivables problems in total. However, immediate corrective action requires identification of individual problem accounts.

Problems in individual accounts can be detected through analysis of your receivables by "aging." A *receivables aging system* involves dividing each customer's account into amounts that are 0-30 days old, 31-60 days old, 61-90 days old, and so on.

For example, examine the receivables aging system shown in Figure 3 below. The first account shown for L. Brown has a total outstanding debt of $775.02. Of this amount, $317.91 is in the group of accounts 0-30 days old, $222.63 is 31-60 days old, $156.32 is 61-90 days old, and $78.16 is over 90 days old. Prompt action directed toward collecting the outstanding balance would appear advisable.

Totals are entered in columns for each level of aged receivables. It is often useful to calculate the percentage of total receivables in each age group to alert you whenever overdue receivables become excessive. For example, if you know from past experience, or from industry averages, that receivables more than 90 days past due are seldom more than 5 percent of total receivables, the 19.9 percent would alert you to a situation that requires immediate action.

ACCOUNTS RECEIVABLE AGING REPORT

	Total Amount Due	Amount Due for 0–30 Days	Amount Due for 31–60 Days	Amount Due for 61–90 Days	Amount Due over 90 Days
L. Brown	$ 775.02	$ 317.91	$ 222.63	$ 156.32	$ 78.16
A. Charles	426.58	426.58			
B. Doherty	507.19				507.19
F. Eagle	1,871.67	736.12	$ 617.02	518.53	
R. Francis	896.15	896.15			
L. Gillis	1,343.41			716.48	626.93
M. Holloway	271.42	271.42			
TOTAL	$6,091.44	$2,648.18	$ 839.65	$1,391.33	$1,212.28
PERCENTAGE	100%	43.5%	13.8%	22.8%	19.9%

Figure 1. Sample Accounts Receivable Aging Report

WHAT ARE EFFECTIVE COLLECTION PROCEDURES?

The fundamental rule of sound receivables management is to minimize the time between the sale and collection. Any delays that lengthen this time cause receivables to build to unnecessarily high levels and increase the risk of uncollectible accounts. This is just as true for delays caused by your internal billing and collection procedures as it is for external delays caused by the customer. Effective collection procedures relate to the following activities:

- **Proper invoice preparation.** Proper collection procedures begin with invoice preparation. Invoices should be prepared promptly and accurately. Promptness eliminates one possible source of delay. Accuracy prevents those delays that occur when the customer disputes the invoice and returns it for correction, which can be time-consuming and costly.

- **Clearly state payment terms.** Is payment due within 10 days? 30 days? Are the days measured from the receipt of goods? Receipt of invoice? End of the month?

- **Wise use of cash discounts.** For large accounts such as commercial, industrial, institutional, and governmental buyers, collection is often accelerated by the offer of a cash discount. The discount, usually 1 or 2 percent, is offered for payment within ten days. Most large organizations take advantage of all such discounts. In so doing, they can help to reduce your commitment of capital to accounts receivable. If your competitor offers cash discounts, it may be necessary for you to do so to maintain your competitive position.

- **Understanding payment terms.** Payment terms usually include *discount terms* and *dating terms*. Discount terms describe the discount available, if any, for prompt payment. Dating terms specify the time when payment is due.

Discount terms are usually described on the bill. A number before the slash shows the discount percentage, in this case 2 percent. The number following the slash is the number of days within which payment must be made in order to take advantage of the discount. For example, assume that a customer receives a 2 percent discount for payment within 10 days. This leads to the question, "Ten days from when?" "If the customer lets the discount period pass, when is the net amount due?" The answers to these questions are specified in the *dating terms*, which might be expressed as follows:

2/10 - n30

The "n" is the abbreviation for net. The "30" indicates that payment is due within 30 days. If no other date is specified, the 30-day period begins with the invoice date. For example, if the terms above appeared on an invoice dated September 2, the customer would be entitled to a 2 percent cash discount for payment by September 12. If the customer does not pay within this period, the net amount is due within 30 days, or by October 2.

- **Meeting special conditions.** Certain accounts specify unique requirements for invoice preparation. They may require certain ways of preparing a purchase order, proof of delivery, or a certain number of copies. These conditions should be met when the invoice is first prepared and submitted in order to avoid delays and duplication of effort.

- **Preparing customer statements.** To keep customers advised of their account balances, you should submit monthly statements to all open accounts. Statements should summarize the amount owed and any activity in the account within the month.

- **Review outstanding credit balances.** Once a month, review any outstanding balances that are more than 30 days old to see what problems might exist. Follow up on any bill not paid within 30 days. Send a statement to the customer to inform him or her of the overdue amount. Indicate that finance charges have begun, as well as the rate at which they are being charged.

- **Send a follow-up letter.** For all accounts more than 30 days overdue, send a follow-up personal letter with the statement. Ask the customer whether he or she has overlooked the bill and whether there is any problem. You could ask the customer to please come in to your place of business and discuss any problems.

- **Assessing delinquency charges.** In some businesses, a delinquency charge for late payment is used to discourage customers from allowing their accounts to become long past due. The delinquency charge normally involves a finance charge or service charge of 1-1/2 percent per month on all balances more than 30 days past due. For example, if a customer's statement at the end of June indicates a total balance due of $630, of which $417 is more than 30 days past due, the finance charge for June would be calculated as follows (assuming a 1-1/2 percent delinquency charge):

  $417 x .015 = $6.25

  Most customers recognize that a charge of 1-1/2 percent per month represents an annual interest expense of 18 percent (12 x .015).

- **Initiate forceful collection activities.** Once a bill is 90 days old, more forceful collection activities are essential. Make a personal phone call between the 60-day and 90-day point. If the customer still does not pay, send a strongly worded letter, preferably over a lawyer's signature or on a lawyer's letterhead, indicating that legal action will be taken if payment is not made. Lawyers fees vary between 20-40 percent of the outstanding credit due. You should have a clearly written statement when using lawyers' services. Turning collection activities over to lawyers and collection agencies should be considered as a last resort.

If your own collecting efforts fail, there are two courses of action that are left to you—the collection agencies and the courts.

HOW CAN COLLECTION AGENCIES BE UTILIZED?

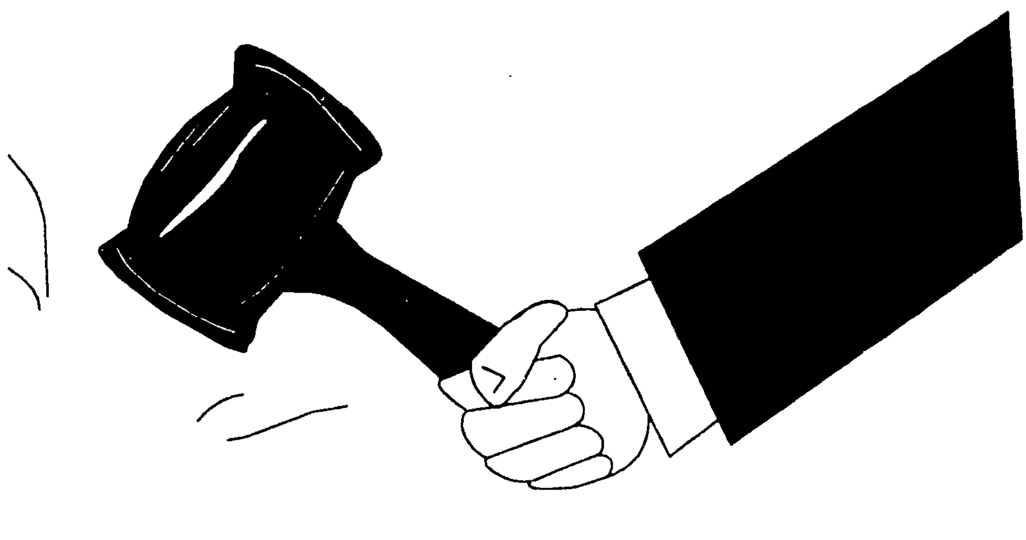
Collection agencies are businesses established to collect past due accounts receivable on behalf of creditors. The primary advantage that collection agencies offer is their superior knowledge of persuasive collection techniques. Additionally, creditors are usually anxious to clear their invoices referred to collection agencies rather than further damage their credit ratings.

A collection agency's fee is usually based upon a percentage of each account collected. The percentage ranges from 25 percent to 50 percent, depending on the size of the account or the total dollar volume of accounts referred to the agency for collection. This approach, although often effective, can be expensive.

HOW CAN THE COURTS BE UTILIZED?

If the collection agency fails, your final recourse is through the courts. The matter may be resolved in a small claims court if the amount owed is small. This may be a time-consuming process. For larger amounts, you may have to hire a lawyer and file suit to collect. In such a case, you are faced with a costly and time-consuming procedure. Remember that going through small claims court, however, is not that costly in terms of money, but may take up a great deal of your time.

The best way of avoiding these time-consuming, costly procedures is to take prompt, strong action on your own as early as possible. In the long run, you will be doing both yourself and the creditor a favor. Although your creditors may be unhappy at the time, you may well have spared them costs, time, and the loss of their credit ratings.



ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

This individual activity is designed to assist you in analyzing an accounts receivable aging report.

Refer to the accounts receivable aging report in this unit. Answer the following questions on a separate piece of paper.

1. Which accounts are current (0-30 days old)?

2. What percentage of total receivables are past due (more than 30 days old)?

3. What action should be taken with L. Brown? Explain your answer.

4. What action should be taken with P. Doherty? Explain.

5. How would you interpret the account of L. Gillis?

6. What moves could you make to reduce the age of the average accounts receivable?

7. What are your impressions of the credit collection policies of the firm?

B.

This activity is designed to familiarize you with the language and form of a credit follow-up letter.

You are the credit manager for a small manufacturing company. A new customer (18 months) showed a few months of steady payment but now the customer has gone 60 days past due on the account. Your credit policy requires that at this time a follow-up letter should be sent. Your task is to draft this letter using a standard business letter format. Be tactful, concise, and firm. Use your school or local library to find examples of the different business letter formats. Ask your instructor to review your letter.

GROUP ACTIVITY

This activity is designed to help you better understand various collection policies and procedures.

1. On your own, prepare a list of commonly used collection policies and procedures described in this unit or from other sources identified by your instructor.

2. Assemble into small groups of four to six. Review the different types of collection policies and procedures identified by each member of the group. As a group decide on the specific types of businesses that each group will explore. Prepare a list of questions on such topics as common reasons for credit problems, collection procedures commonly used, legal rights and recourse, external collection services, collection trends, follow-up procedures, and so on. As a group try to find sources for answers to your business explorations.

CASE STUDY

Fred and Judy DiRosato are partners in a small mulch supply business in rural upstate New York. Fred and Judy had a business problem and sought the advice of their banker.

They needed a load of mulch to fill orders but had reached their credit limit with their supplier. As was customary in their community Fred and Judy extended credit to their customers on the "I'll pay when my crops are sold at market" basis. Their long-term business assets were solid due to a predicted bumper crop, but this did not fix the short term cash flow problem they were experiencing.

The banker determined that the only answer was to call on his customers to pay their past due bills. Neither Fred nor Judy liked this idea, but felt they might lose their business if they didn't do something. They decided to start with the oldest debts first. They discovered that they had many uncollected debts that were over a year old. This was not an easy decision nor process for the DiRosato's, but within 3 weeks, using just the telephone, they had collected enough funds to pay their supplier and place the new order.

DISCUSSION QUESTIONS

1. What did Fred and Judy learn about their current credit policy? Do you feel they should modify it?

2. Why do you think they had trouble with the decision to act on their banker's advice?

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this module. When you feel prepared, ask your instructor to assess your competency on them.

1. How does offering credit contribute to the competitive strength of a small business?

2. Discuss one of the criteria for granting credit and how the small business evaluates the potential client on the basis of this criteria.

3. List and discuss three options that your small business would have in offering customer credit.

4. Explain how credit records serve as a valuable source of marketing information. Give examples of how businesses collect customer information when processing routine sales transactions.

5. List and discuss the procedures for credit collections.

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PACE

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business