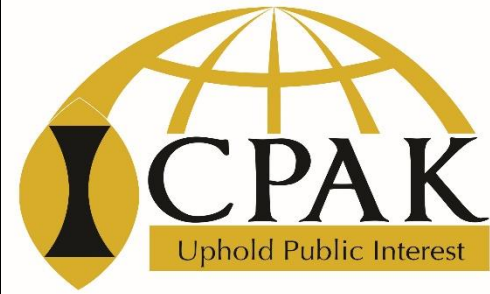


# ***Debt Management Seminar***

## ***Date: 17<sup>th</sup> to 19<sup>th</sup> August 2016***

***Venue Acacia Premier –Kisumu***  
***Presenter: CCP Esther Wangu Mwangi-0721355836 email***  
***estherwangum@gmail.com***

# Theme



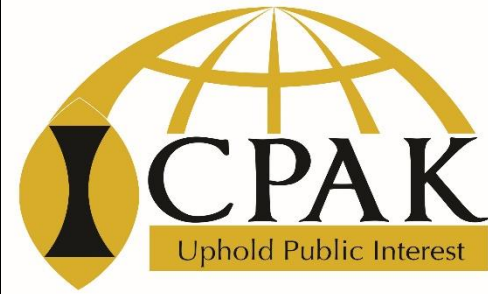
## ***“Reaping the benefits of debt finance – A Cost Benefit Analysis Approach***

Wangu

## **The place of effective credit policies for maximum benefits**

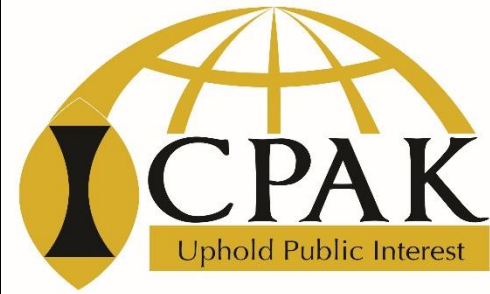
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# Credit Policy Definition



A credit policy is a written and approved document containing a set of principles that gives guidelines on terms and conditions for giving goods/services on credit. It is a tool to help guide the credit department in handling its daily operations within an organization set up.

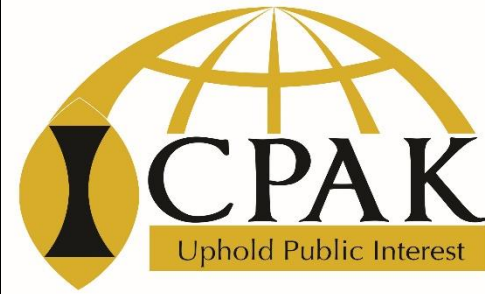
# Main functions of a credit policy



A credit policy can be used both as a

1. training tool
2. reference guide applicable to the majority of issues that the credit department will face.

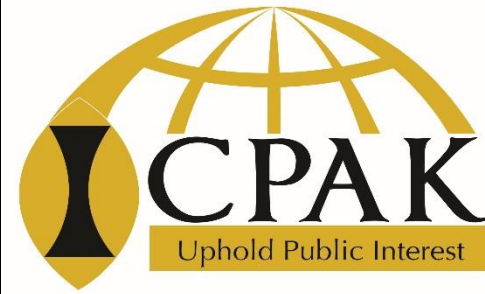
# Types of a Credit Policy



There are basically two types of a credit policy.

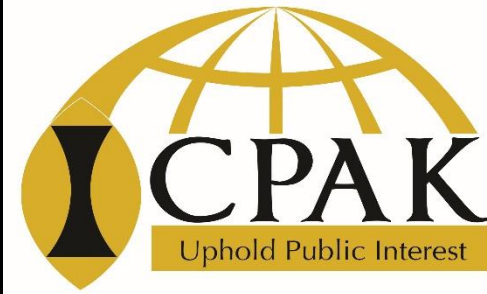
1. Liberal
2. Conservative

# Determinants of the right kind of a credit policy



- Any organization that trades in credit need to have a credit policy which is tailor-made with careful consideration of both;
  1. company ability
  2. prevailing economic conditions

# Liberal credit policy

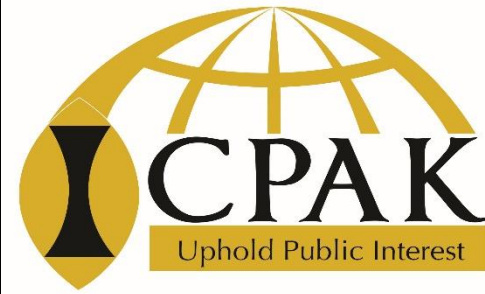


It is referred to as generous credit policy that allows favourable credit terms to customers.

Companies that use this kind of a policy must have the capacity to acquire the goods and services that they give on credit to be paid at a later date.

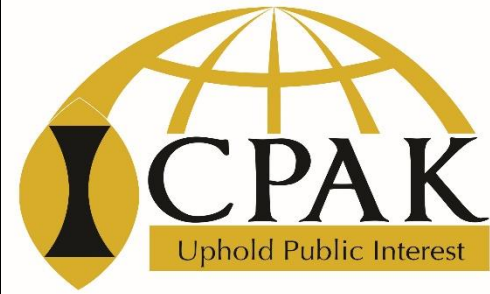


# Business conditions that may influence a company to embrace a liberal credit policy



- High stock levels
- Low demand
- New market penetration
- Risk of expiry
- Stiff competition
- High profit margins
- Seasonal business that leaves surplus

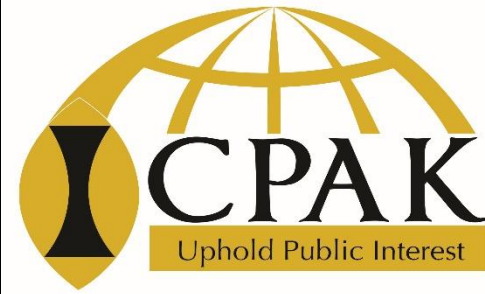
# Conservative credit policy



It is a restrictive policy that is not generous to borrowers.

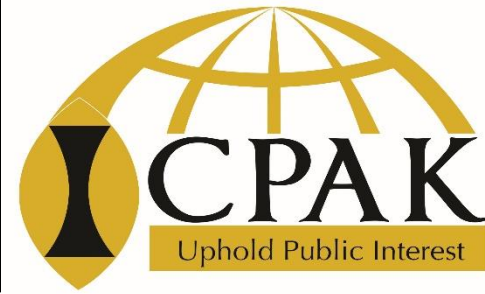
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# Conditions that influence the use of a conservative credit policy



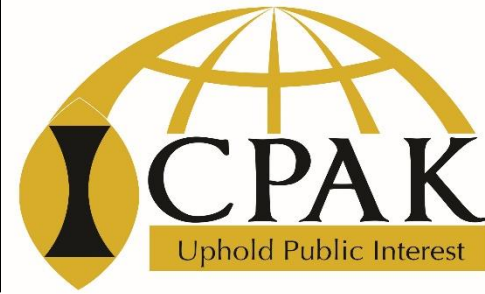
1. High demand and low stock
2. Tailor-made products that cannot be re-sold elsewhere
3. Lengthy production process
4. Customers nature of business

# Questions that a credit policy should address



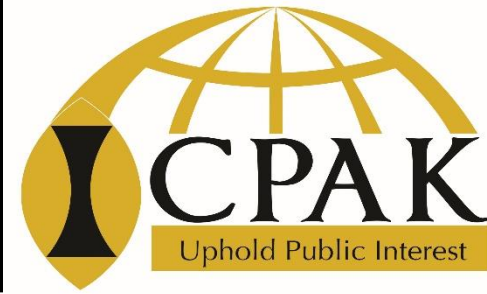
1. Who is responsible for deciding who gets credit and factors to be used to make the decision.
2. Who is responsible for establishing credit limits and factors that determine credit limits.
3. What are normal payment terms.
4. What are normal interest terms.
5. What discounts terms are available.
6. How delinquent customers will be dealt with.

# Structure of a credit policy



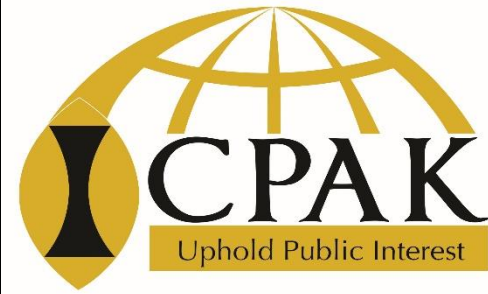
- Vision
- Mission statement
- Purpose
- Objective
- Standard terms and conditions
- Credit assessment procedure and tools.
- Sales ledger maintenance
- Collection procedures

# Credit policy structure contd



- Other conditions
- Accountability levels, approval rejection of credit application (sales agents/other managers)
- Bad debts provisions
- Debtor measurements
- Management review procedures
- Appedix (Application forms, standard credit agreement)

# Updating Your Credit Policy

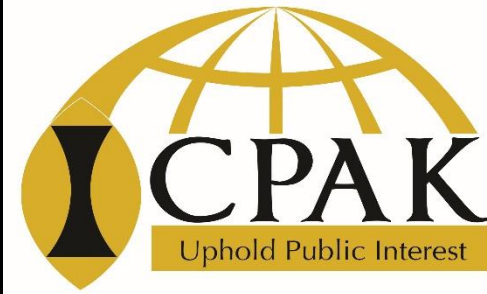


Business conditions change and from time to time it becomes necessary to modify one or more of your existing credit policies

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# Benefits of a credit policy in an organization



- All customers are treated equally without favour
- Makes work easier for the credit staff
- Portrays a positive business attitude towards customers
- It eliminates 'special' credit deals by unauthorized staff
- Sets out guidelines to all staff on matters related to credit sales
- role of credit is recognized by the top management



# Illustration of a credit policy

Thank you for listening

**TIME FOR  
QUESTIONS AND  
COMMENTS**