

Debt Policy Development and Planning:
Key Considerations
Presentation by:

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Presentation agenda



- What is Credit or Debt Policy
- Overview
- Function
- Responsibility
- Contents
- Procedures
- Emerging issues in debt policy
- Key considerations

Overview



Acquisition

Origination

Customer
Management

Collection and
Recovery

What is Debt/Credit Policy



Document that defines the credit management function outlining the objectives, scope and responsibilities.

Chartered Institute of Credit Management-UK

- Unique to different organizations-size and content.
- Subject to continual change
- Accessible
- Part of induction process

Function



- ❑ Protect Investment in the debtors of a company
- ❑ Maintain lowest level and highest quality of receivables
- ❑ Balancing inherent risks
- ❑ Achieving sales/revenue objectives and meeting economic requirements of the organization.

Responsibilities



Involves delegation of authority, escalation of matters, approval of key financial transactions-credit notes, write offs, provisions.

➤ Traditionally

- Finance Director
- CEO

➤ Current set up

- Credit Manager-Order to cash

Contents



Based on scope

- ☐ Credit assessment
- ☐ Credit limits
- ☐ Collections processes-Different sectors
- ☐ Payment collection and allocation
 - Steps and any proactive measures
 - Accepted methods of payment
 - Sequence of allocation
- ☐ Authority levels(credit limits, bad and doubtful debts)
- ☐ Debt recovery and write off process
- ☐ Withdrawal of credit

Procedures



Define them

- a. Credit applications and limits
- b. Payment terms
- c. Terms and conditions of sale
- d. Collection Performance targets

Procedures Contd....



- ✓ Listed in policy
- ✓ Frequency of reporting and to whom
- ✓ Measures of performance and targets
 - ❖ DSO-Invoicing to payment
 - ❖ DDSO-Invoicing to payment less payment terms
 - ❖ Cash targets-Cash receipts
 - ❖ Ageing analysis- e.g 30day bucket
 - ❖ Percentage Overdue or PAR- e.g above 30days
 - ❖ Bad debts-%age of revenue
 - ❖ Debt in dispute
 - ❖ Percentage billing accuracy

Emerging Issues-IFRS 9



- ❑ Effected on 1st January, 2018
- ❑ Replaces IAS 39-principles for recognition, measurement and disclosures of financial and non financial instruments
- ❑ Focuses on Classification, measurement and impairment of debt assets based on the business model and contractual cash flow
- ❑ IAS 39-Incurred Credit losses
- ❑ IFRS 9-Expected Credit Losses

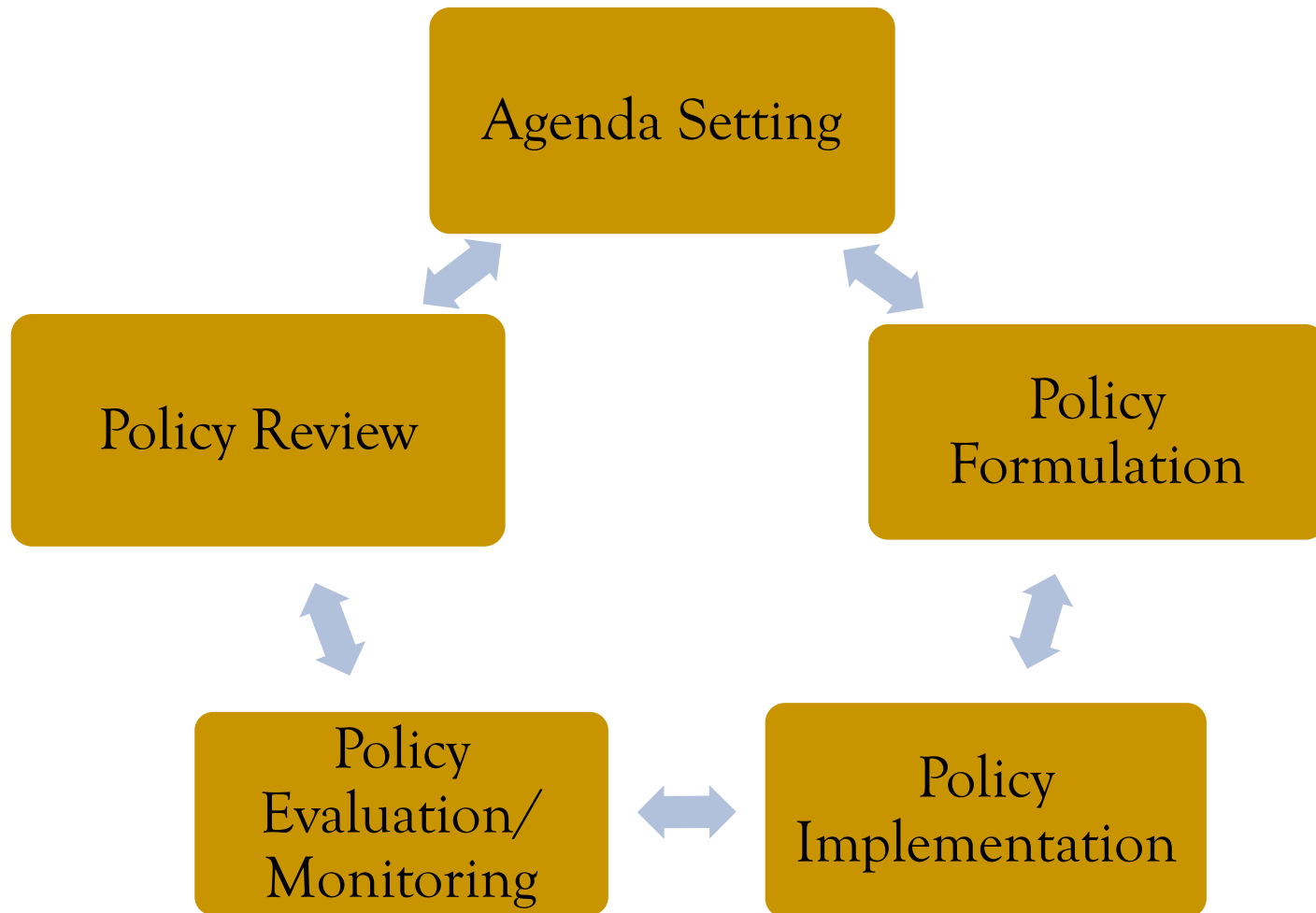
Emerging Issues IFRS 9- Contd.....



Governance areas for IFRS 9

- ✓ Define aggregate portfolios
- ✓ Define what default is
- ✓ Measuring ECL
- ✓ Change in Policy

Debt Policy Cycle



Bridging the Gap



Key Considerations



1. Environment in which the policy will be used
2. Key processes to be summarized
3. Continuous review and inclusion of new rules like IFRS 9
4. Involve stake holders
5. Senior Management and Board approval

Action



If you think you are too small
to make a difference you
haven't spent the night with a
mosquito.

-African proverb

Interactive Session

