



## Policies and Procedures

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Subject: <b>CREDIT CONTROL &amp; CREDIT NOTE POLICY</b>	Date Issued: <b>12/08/2021</b>	Supersedes: <b>12/03/2020</b>

**POLICY/ PURPOSE:**

The purpose of this policy is to communicate the Company’s policies and procedures relating to the proper accounting for the control of Receivables.

**SCOPE:**

The scope of this subject includes the accounting treatment recommended for opening a new account, extending credit, placing accounts for collection, accomplishing credit note adjustments.

This policy applies to all of the Company’s subsidiaries and business units of J&E Hall (including Coulstock & Place).

**POLICY AND PROCEDURES:**

Daikin Accounting policies require Accounts Receivable to be reported in the financial statements at Net Realizable Value. Net Realizable Value is equal to the Gross Accounts Receivable, less an estimated allowance for doubtful or uncollectible accounts. An allowance should be established if it is probable that not all receivables will be fully collected and the amount of future loss can be reasonably estimated.

**1.0 OPENING NEW ACCOUNTS**

For a new customer account, either the Salesman searches, or forwards a request to the Credit Controller to perform a search of the ERP system, to ensure that customer account does not already exist on IFS. This is to prevent duplicate accounts. Salesman must complete a Customer Creation form with the customers details and submit this to the Credit Controller for analysis and verification of the customer’s credit worthiness. |

## 1.1

Opening a new customer account requires the following steps:

- a. A customer creation form is completed by the Service Administrator or salesman with the company details of the customer.
- b. The completed form is submitted to the credit controller to perform a credit check on the company and determine the allowable credit limit based on the credit information.
- c. The credit worthiness of the customer should be established with the aid of reliable outside sources of information such as Experian credit report.
- d. This is reviewed by the credit controller and the financial controller against the requested credit and credit terms to determine where to set the limits.
- e. Justification is sought where the terms of trade requested are greater than 60 days from invoice date from the business unit manager.
- f. If the credit limit is above the discretionary credit limit covered by insurance a request is made to the insurance company to raise the insured credit limit for the customer. If the credit limit exceeds the insurance credit limit required, then authorization is required from the Finance Director.
- g. The customer creation form is signed in line with the Customer Credit section in the LOA.

## 1.2

In keeping with JE Hall Accounting Policy the Salesman, before submitting a quote must verify the following:

- a. The Customer has an approved credit limit.
- b. The quote reflects conditions that apply to the account with respect to payment terms, credit insurance and credit limit and the quote plus the preexisting credit does not take the customer above the credit limit.
- c. In case of a bad credit rating sales will (in principal) only take place on prepayment basis.

Exceptions: if a credit rating isn't sufficient but commercial interest prevails Director of Finance and Managing Director must give a written approval for release of credit hold.

## 1.4

In keeping with that policy, Financial Controller reviews Customer accounts based on the following guidelines:

- a. If derogatory information exists on credit history such as slow payments or increasing CCJ, the credit extended will be revaluated.
- b. The Financial controller and credit controller will review all overdue accounts each month.
  - i. All accounts where the overdue amount is > 75 days overdue, the open amount is > £5,000 and the overdue is >20% of the open amount, must be approved monthly by the MD / FD in order to continue trading.
  - ii. All accounts where the overdue amount is > 45 days overdue, the open amount is > £5,000 and the overdue is >30% of the open amount, must be approved monthly by the Financial controller for continued trading.
  - iii. All accounts that are overdue where the open amount is < £5,000 will be reviewed by the Credit controller with decision to put an account on stop approved by Financial controller.

- c. The Financial controller will review annually all Customer accounts above the discretionary insurance credit limit and all accounts where the credit limit calculated based on sales volume and trading terms of the previous 12 months is different to the set credit limit by plus/minus 50%.

## **2.0 ADJUSTMENTS AND CREDITS**

2.1 Credits that are to be raised on a customer's account will be authorized in line with the current LOA for each business unit and reviewed on a monthly basis at the Management Meeting.

If a credit note is to be raised then a credit note request form will be completed detailing the original order number, invoice, value and reason why the credit note is required. This will require authorization from a different person within the current LOA that is requesting the credit note.

### **Return of goods – Returned to stock or supplier.**

If a credit note is to be raised for a return of goods then the appropriate authorization will consider whether the goods can be resold to another customer or returned to a supplier without penalty. If a re-stocking fee is required then the credit note value should be adjusted accordingly.

The credit note will only be raised once the goods have been inspected to determine that the goods are free from damage and in the original packaging.

### **Price adjustments to Customer Agreements.**

If a credit note is required due to an incorrect price being invoiced then the following will need to be reviewed: -

- I. Check IFS pricing agreement for customer is correct.
- II. Check internal communication i.e. special pricing has been authorized in line with current LOA.

### **Other Credit Notes**

- I. Credit notes raised as a "goodwill gesture" or other discretionary reason will need to be signed off as per the current LOA but in the body of the credit note will give a detailed explanation as to why the credit note is to be raised.

### **3.0 COLLECTION PROCEDURES**

#### **3.1**

Any accounts extending beyond its established terms are subject to collection procedures.

#### **3.2**

During the month in which payment is due, generally minimal collection effort is made unless a large Value purchase is involved. Courtesy calls are made to the customer only to remind the customer, and inquire as to any billing problems. All contacts are recorded and reported in a monthly collection status report.

If the customer does not pay according to the agreed terms then:

- i. After a week: contact the customer by phone or by email and request the customer to pay, or at least ask why there has not been paid yet.
- ii. After two weeks: call or email the customer again (valid reason for non-payment?)
- iii. After three weeks: send an official reminder to the customer.
- iv. After one month, becomes part of the overdue customer accounts review procedure outlined above. The account will be placed on stop according to the criteria stated and we will continue to case the debt.
- v. If the customer refuses to pay without valid reason the debt will be pursued through the legal process. All legal or collection accounts must be acknowledged by Director of Finance and Managing Director.
- vi.

### **4.0 CREDIT HOLDS**

#### **4.1**

A review of approved credit limits and the current receivable balance must be made before additional customer orders are accepted and/or shipped.

All accounts that exceed the credit limit for more than 30 days will be on stop until increased credit limit is approved.

Release of blocked orders is at the discretion of the Financial controller and must be requested by email by the BU manager. Where the blocked order will breach the customer's credit limit by greater than 5k or 20% of the credit limit, whichever is greater, it requires approval by the FD/MD to unblock

Financial controller is responsible for monitoring the credit holds. If new credit holds appear he takes appropriate action (checking outstanding balance, credit limit, overdue etc.) to determine if a credit hold can be released or not. Proposals for release of credit holds in line with the above stated criteria are presented to FD/MD for approval. If a credit hold cannot be released according to Managing Director, Inside Sales or Sales Engineers determines appropriate action.

## **5.0 BAD DEBT**

### **5.1**

Financial Controller is responsible for establishing and monitoring bad debt reserves and to ensure sufficient funding is recorded (see policy ACC-001- Allowance for Doubtful accounts).

### **5.2**

Bad debts are written off the accounts receivable when it is determined that the account has little or no chance of being collected. Bad debt write off is determined by Director of Finance and Managing Director.

## **6.0 Other**

### **6.1**

As part of the Internal audit process a review of the credit notes will be performed against the LOA. Discrepancies reported on the Internal audit report.

\*Subject to report to DIL in all cases according to LOA.

/s/ Gary Burnett  
Finance Director, J&E Hall Ltd.