Level 2 Award in
Principles of Credit Management

Syllabus

Effective from: 1 September 2010
Version 1
INTRODUCTION

Educational Development International (EDI) is a leading international awarding body that was formed through the merger of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) and a leading online assessment provider GOAL. EDI now delivers EDI and LCCI International Qualifications (LCCI IQs) through a network of over 5000 registered centres in more than 120 countries worldwide. Our range of business-related qualifications are trusted and valued by employers worldwide and recognised by universities and professional bodies.

Aims

The aims of the qualification are to:

- introduce candidates to the fundamental principles of credit management and develop candidates’ knowledge and understanding on its function’s and role within the organisations’ structure;
- enable candidates to apply concepts, processes and techniques to a range of credit environments and customers;
- develop candidates’ skill to manage, monitor, review and reform their credit policy;
- enable candidates to make decisions and take control of the exposure to credit risk and debt using a variety of techniques.

Target audience and candidate progression

This qualification is suitable for candidates who wish to gain or improve upon their general understanding of the key principles of credit management, as part of their own continuous personal development or to further career opportunities and progression. This qualification is not restricted to financial accounting specialist, and maybe of interest to candidates who would like to learn about the strategies of credit management.

This qualification can be taken as a standalone qualification or as part of the Level 3 Specialised Diploma in Business Management and Accounting.

English requirements

There are no formal entry requirements for this qualification. However, candidates should have a minimum level of English equivalent to the LCCI Level 2 English for Business or JETSET 4 - (Council of Europe B1/Threshold) to meet the communication requirements for this qualification.
Structure of the Qualification

The Level 2 Award in Principles of Credit Management is a single unit qualification which covers the following key areas:

1. Understand the role of credit management within the business environment.
2. Understand the organisational requirements of credit management functions.
3. Understand the impact of legislation on the credit function.
4. Understand how to assess and control risk.
5. Understand the different documents and systems used for trade, export and consumer credit.
6. Understand collection and recovery methods.

Guided learning hours

EDI suggest that 45-55 Guided Learning Hours (GLHs) would provide suitable course duration for an ‘average’ candidate at this level. This figure includes direct contact hours as well as other time when candidates’ work is being supervised by teachers. Ultimately, however, it is the responsibility of training centres to determine the appropriate course duration based on their candidates’ ability and level of existing knowledge. EDI experience indicates that the number of GLHs can vary significantly from one training centre to another.
Assessment

Assessment objectives

The examination will assess the candidate’s ability to:

- demonstrate an understanding of the main role and functions of credit management;
- demonstrate an understanding on the range of credit customers and credit agreements;
- understand the need for credit policies and undertaking risk assessments;
- recognise a range of documents and systems used within credit management;
- recognise a range of methods and activities for collection of payments when due.

Assessment format

The qualification is assessed by a paper-based multiple-choice test, which consists of 30 questions covering all areas of the syllabus. The time allowed for the test is 75 minutes. This exam is available on-demand.

All multiple-choice tests must be carried out in accordance with the Examination Guide for LCCI Centres and the Examination Regulations, which will be sent to centres with the exam papers.

Coverage of key syllabus areas in the examination

The multiple-choice test will cover the syllabus areas as follows:

<table>
<thead>
<tr>
<th>Approximate weighting of question allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand the role of credit management within the business environment. 20</td>
</tr>
<tr>
<td>Understand the organisational requirements of credit management functions 15</td>
</tr>
<tr>
<td>Understand the impact of legislation on the credit function 15</td>
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<tr>
<td>Understand how to assess and control risk 15</td>
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<tr>
<td>Understand the different documents and systems used for trade, export and consumer credit 10</td>
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<tr>
<td>Understand collection and recovery methods 25</td>
</tr>
</tbody>
</table>

Answer format

For each of the 30 multiple-choice questions, candidates must mark A, B, C or D on the Candidate Answer Sheet, using a HB pencil. Only one answer must be marked for each question and the answer circle must be completely shaded.
Mark allocation

The multiple-choice test is marked objectively with each question equally carrying one mark for a correct answer, with a total of 30 marks to be gained. EDI rigorously edits all multiple-choice items and test papers to ensure their quality and consistency.

Certification

Successful candidates will achieve the Level 2 Award in Principles of Credit Management based on the marks and grades below:

- Pass 18 – 23 marks
- Merit 24 - 27 marks
- Distinction 28 > marks

Where the qualification is taken as part of the Level 3 Specialised Diploma in Management and Accounting, the certificate will be issued naming this Diploma and all units covered.

Centres will receive certificates within a maximum of 6 weeks of the receipt of the OMR answer sheets at EDI.
Recommended Reading List and Support Materials

Reading list

<table>
<thead>
<tr>
<th>Title</th>
<th>Authors(s)</th>
<th>Publisher</th>
<th>ISBN code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Management 6th Edition</td>
<td>Edited by: Glen Bullivan</td>
<td>Gower Publishing Ltd</td>
<td>9780 56608 842 1</td>
</tr>
</tbody>
</table>

Support material

A syllabus and sample multiple choice question and answers are all available from the LCCI website, [www.lcci.org.uk](http://www.lcci.org.uk).

How to offer this qualification

To offer this qualification, you must be an LCCI IQ registered examination centre. To gain centre approval, please contact Centre Support on 08700 818008 between the hours of 08.30 and 17.00 hours (GMT), Monday to Friday or by email on [centresupport@ediplc.com](mailto:centresupport@ediplc.com).

Alternatively, you may contact your Regional LCCI Office or coordinating authority.
<table>
<thead>
<tr>
<th>Syllabus topic</th>
<th>Items covered</th>
<th>Indicative content</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Learning outcome</strong></td>
<td><strong>Assessment criteria</strong></td>
<td><strong>Consider the:</strong></td>
</tr>
<tr>
<td>Candidate will:</td>
<td>Candidate can:</td>
<td>Impact of credit sales upon the business and its exposure to risk.</td>
</tr>
<tr>
<td>1 Understand the role of credit management within the business environment.</td>
<td>1.1 Explain the importance of providing credit within the business environment.</td>
<td>Different types of:</td>
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<tr>
<td></td>
<td>1.2 Analyse the differences between trade, export and consumer credit.</td>
<td>• customer demographics (individual, business or both)</td>
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<td></td>
<td>1.3 Quantify the impact of offering credit on cost, profitability and liquidity.</td>
<td>• credit agreements</td>
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<td></td>
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<td>• risk factors involved</td>
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<td></td>
<td></td>
<td>• collection methods</td>
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<tr>
<td>2 Understand the organisational requirements of credit management functions.</td>
<td>2.1 Explain how the credit management function and its personnel fit into the overall structure of an organisation.</td>
<td>Cost of credit to the business e.g.</td>
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<td></td>
<td>2.2 Explain how potential areas of conflict between the credit function and other areas of business can be resolved.</td>
<td>• cash flow</td>
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<td>2.3 Explain how customer service can be achieved within the credit function.</td>
<td>• working capital</td>
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<td>2.4 Explain the importance and use of credit policies and procedures.</td>
<td>• profit/loss</td>
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<td>2.5 Evaluate the usefulness of credit management performance measurements and targets.</td>
<td>• availability to fund credit.</td>
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<td></td>
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<td>• Roles and responsibilities</td>
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<td></td>
<td></td>
<td>• Management of debt exposure</td>
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<td></td>
<td></td>
<td>• Maintaining the sales ledger</td>
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<td></td>
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<td>• Maintaining documents (credit application form, payment methods, etc.)</td>
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<td>• Relationship of credit with the sales, marketing and finance departments</td>
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<td>• Query resolution</td>
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<td></td>
<td></td>
<td>• Customer service (internal and external)</td>
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<td></td>
<td>• Impact of good customer service upon business activity:</td>
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<td></td>
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<td>• Efficient systems, procedures and controls</td>
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<td>• Knowledgeable trained staff</td>
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<td>• Clear written credit procedures</td>
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<td>• Compliance with credit policy.</td>
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<td>• Use of reports e.g.</td>
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<tr>
<td></td>
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<td>• aged debtors report</td>
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<td></td>
<td></td>
<td>• exception reports</td>
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<td></td>
<td></td>
<td>• other management reports</td>
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<tr>
<td></td>
<td></td>
<td>• debtors days outstanding, etc.</td>
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</tbody>
</table>
3 Understand the impact of legislation on the credit function.

3.1 In the context of liability, explain the advantages and disadvantages of offering credit to a range of customers and territories. Consider:
- identity of customer
- legal entity
- ability to pay.

   Consumer customers:
   - Individuals
   - Minors
   - Guarantors

   Trade customers:
   - Sole traders
   - Partnerships
   - Limited companies, PLC
   - Government bodies
   - Unincorporated associations (charities, clubs, trade unions etc)

   Export credit:
   - Geographical location
   - Settlement terms
   - Specialised documentation
   - Government/legal requirements

3.2 Explain the impact of current legislation, on the decision making process when dealing with credit applications.

   - Government regulations
   - Data protection act
   - Recovery of debt through litigation

3.3 Assess the advantages and disadvantages of different credit arrangements in a range of circumstances.

   Trade and consumer credit:
   - Hire purchase agreements
   - Credit sale agreements
   - Credit and Charge cards
   - Mortgages (first & second)
   - Leasing
   - Secured and unsecured loans
   - Other forms of consumer credit
   - Open account
   - Defined payment term from invoice date e.g. 30 day account
   - Staged payments
   - Other forms of trade credit (e.g. load overload, contra, proforma, cash on delivery)

   Export credit:
   - Specialised documentation
   - Different payment terms
4 Understand how to assess and control risk.

4.1 Assess the risks associated with credit provision in export, trade and consumer environments.
- Confirm customers’ identity
- Customers’ ability to pay
- Ongoing risk assessment
- Economic situation

Additional consideration for export:
- Stability of country and their currency
- Specialised documentation
- Communication barriers
- Additional costs of export
- Access to customer information

4.2 Assess the advantages and disadvantages of different sources of information used in credit assessment.

Consumer credit:
- Consumer credit application form
- Credit reference agencies
- Credit scoring
- Other sources

Trade credit:
- Trade credit application form
- Credit reference agencies
- Search domains
- References
- Account analysis
- Risk categories

Export credit:
- Application form
- Credit reference agencies
- Use of banks, agents etc
- Credit insurers
- Agreed payment terms prior to delivery

4.3 Explain the characteristics and importance of risk control methods.
- Initial and ongoing risk assessment
- Periodic review of credit facilities in line with credit policy
4.4 Explain the factors that influence the choice of payment terms and methods of payment in the control of risk.

Factors that influence payment terms:
- Customer identity
- Credit policy
- Availability of funds
- Cost of credit

Payment methods.
- Cheque/bill of exchange
- Standing orders/Direct debits
- Credit cards and debit cards
- BACS/CHAPS
- Contra accounts
- Cash/proforma
- Documentary letters of credit
- Other

4.5 Evaluate sources of finance for credit.

- Internal and external sources
- Working capital
- Share capital
- Banks, loans, overdraft
- Factoring & invoice discounting
- Other sources

5 Understand the different documents and systems used for trade, export and consumer credit.

5.1 Assess the design and purpose of documents used in trade, export and consumer credit.

- Credit application form
- Purchase order from customer
- Sales order confirmation
- Delivery note
- Invoice or credit note
- Statement
- Credit terms and conditions

Specialised documents in export:
- Export invoices
- Bills of lading
- Air waybill
- Insurance certificate
- Certificate of origin

5.2 Evaluate the importance of a customer master file.

Maintain an up to date collection of paper and online documents, that create the customer master file include:
- signed legal agreement
- confirmation of legal entity of customer
- details of credit facility
- interdepartmental information
- other historical information
5.3 Explain how the principal features of a sales ledger/accounts receivable system assists the operations of credit function.

- Full customer information and contact details
- Processing of cash, invoices etc
- Production of invoices, credit notes, statements etc
- Trading history
- Produce management and exception reports to identify balance and age of overdue items

6 Understand collection and recovery methods.

6.1 Assess the advantages and disadvantages of different collection methods.

- Letters
- Telephone collections
- Text and email messages
- Customer visits
- Fax
- Stop supply of goods/services
- Interest on overdue account
- Credit insurance
- Query resolution
- Prompt payment discount
- Payment confirmed prior to dispatch (in particular with export credit, where litigation abroad can be expensive)
- Other

6.2 Assess the effectiveness of methods used in collections letters and telephone collections work.

Methods used are dependent upon:

- type of customer
- amount overdue
- cost of collection activity
- available trained staff

6.3 Explain how to manage reasons for non-payment and disputes.

Reasons for non-payment:

- Can pay, but don't
- Won't pay, but could
- Can't pay, but want to
- Don't care
- Company policy
- Inefficiency of customer's systems
- Company operate inefficient collection procedure
- Query, disputes or complaint
- Returned cheques/payments stopped
- Other reasons

Manage by:

- Ad hoc management and/or exception reports
- Next stage plan/procedure
6.4 Explain the steps for debt recovery and enforcement through the County Court and High Court in a range of circumstances.

- Court used is dependent upon the type of customer and value of debt
- Cost of litigation.