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**CBGB6281 : Research Project**

**Effective and Efficiency of Credit Control Management :  
A Case Study on Engtex Group Berhad**

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# **ENGTEX GROUP OF COMPANIES**

CREDIT CONTROL DEPARTMENT

**STANDARD OPERATING POLICIES & PROCEDURES**

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## 1.0 RATIONALE

- 1.1 It is of paramount importance for the employees involved in sales, credit and debt matters to take cognisance of the internal trading and credit guidelines; and their implications. In this context, the creditworthiness of trade debtors could be identified and appraised. Thus, the company's commercial and financial interests are protected at all times.

## 2.0 PREAMBLE

- 2.1 The key purpose of these policies and procedures is to provide uniform trading practices relating to the business of the company. It is not claimed that this guide is comprehensive or exhaustive; as to exclude the exercise of good judgement and discretion, and even common sense, on the part of the relevant personnel.
- 2.2 In reality, there are no hard and fast rules in the conduct of trade and commerce. The operational, business, competitive and international environments are dynamic and, hence constantly changing. Therefore, the challenge is to continuously keep abreast of the latest developments, trends and prospects in the arena of business, industry, market (trade protectionism & liberalisation, market deregulation), economy, politics, legislation, government policies, social-cultural norms, and, not precluding, the world in which the company operates in.
- 2.3 In practice, flexibility in the application of these guidelines and procedures is inevitable; as the raison d'être for the company is primarily to generate sales revenue. Perforce, there are bound to be trade-offs between internal credit requirements and external customer demands.
- 2.4 Hence, the proximately attainable goal is to achieve an optimum balance between trading risks and commercial gains. Nevertheless, all necessary steps are to be taken in order to protect the company's interests.

### **3.0 OBJECTIVES**

- 3.1 To achieve customer satisfaction through prompt processing and approval of new trading accounts; and reviews of existing trading accounts.
- 3.2 To enhance the effectiveness of the debt collection and debt recovery processes.
- 3.3 To mitigate the risks of defaulting trade debtors and delinquent credit accounts.
- 3.4 To monitor compliance to approved terms and conditions agreed to by trade debtors.

### **4.0 PURPOSES**

- 4.1 To assess the creditworthiness of prospective and existing customers; so as to ensure that credit sales are granted to creditworthy customers only.
- 4.2 To decide on appropriate trading limits and terms, security arrangement and, terms and conditions for new and existing customers.
- 4.3 To identify existing customers with high risks of probable default; and to take pre-emptive action to ensure repayment of all outstanding debts.
- 4.4 To review and revise existing credit accounts periodically; and prior to any upgrade of credit limits or credit terms.

## 5.0 CREDIT APPLICATION

- 5.1 An application form (AF) is necessary to open both cash and credit accounts. All prospective customers applying for trading accounts should complete the pre-printed Credit Application Form (Appendix I). The Sales personnel are to assist the prospects in filling up the form and; to explain to them whatever queries they may have.
- 5.2 **All sales or purchase transactions to or from new customers must be on cash basis; unless and until the cash or credit accounts have been approved and, the credit limits and terms established.**

## 6.0 CREDIT DOCUMENTATION

- 6.1 The Sales personnel shall obtain the relevant supporting documents available from prospective customers. **All credit accounts with credit limits of RM50,000 and above should be secured by a Personal Guarantee or Directors' Guarantee or Corporate Guarantee or Bank Guarantee (LG); unless otherwise allowed or instructed by the Managing Director.**
- 6.2 For joint-ventures, the partners must be identified and, must sign the undertaking in the application form to be jointly and severally liable for the trading debts.
- 6.3 **Sole Proprietorship / Partnership**
- a) Copies of Identification Cards – owners or partners, and guarantors.
  - b) Copies of Business Registration (Form A) and Annual Renewal Certificate (Form D), or Changes in Particulars of Partnership (Form B).
  - c) Management Accounts (last 2 preceding years).
  - d) Bank Statements (BS) (last 3 preceding months).
  - e) Company Profile (if available).
  - f) Contracts or Project Listing – completed, ongoing or new.
  - g) Personal Guarantee (Appendix II) or Bank Guarantee.

6.4 **Private Limited (Sdn Bhd) / Public Limited (Berhad)**

- a) Copies of Identification Cards – directors and guarantors.
- b) Copy of Certificate of Incorporation of Private Company (Form 9), and Memorandum and Articles of Association (M&A).
- c) Copies of Return of Allotment of Shares (Form 24).
- d) Copies of Return Giving Particulars in Register of Directors, Managers, Secretaries and Changes of Particulars (Form 49).
- e) Copy of Certification of Incorporation on Change of Name of Company (Form 13); if applicable.
- f) Copy of Notice of Situation of Registered Office And Office Hours And Particulars of Changes (Form 44); if applicable.
- g) Annual Reports or Certified Draft Financial Statements (FR) (last 2 preceding years).
- h) Bank Statements (last 3 preceding months).
- i) Company Profile with complete information on the business, management, staff, current customers and suppliers, financial information, completed orders or contracts or projects, etc.
- j) Contracts or Project Listing – completed, ongoing or new.
- k) Directors' Guarantee or Corporate Guarantee (Appendix III) or Bank Guarantee.



## 7.0 ROUTING OF CREDIT APPLICATIONS

### 7.1 SALES PERSONNEL (Sales Representative / Executive / Manager).

#### 7.1.1 Sales Staff Report (SSR) (Appendix IV)

7.1.1.1 The Sales personnel shall complete the Salesman's Report with information on market opinion of prospective customer, length of time the business or company has been in operation, size of operations, ownership status of business premises (rented/owned), number of staff or workers employed, estimated value of goods in shop or warehouse; and the personal particulars of owners or partners or directors, and guarantors.

7.1.1.2 The SMR should be furnished with the comments and recommendations from the respective Sales personnel before submission to the relevant authorities for due consideration and approval.

7.1.2 Sales personnel are discouraged from approaching businesses or companies which are technically insolvent; unless there is capital injection by the proprietors, partners or shareholders. Also included are persons facing legal action on commercial, financial and civil cases.

#### 7.1.3 **New Establishments / Start-ups**

7.1.3.1 Sales personnel are advised to take precautions when dealing with newly set-up businesses or companies; which do not have any track record. Start-ups are defined as businesses or companies already registered or incorporated but have less than two (2) years of active trading history; irrespective of the experience of the management team.

#### 7.1.4 Signs of Plausible Problems :-

- a) Application for more credit without justifiable reasons or; not backed by contracts-in-hand.
- b) Rapid growth of sales (overtrading).
- c) Sudden success.

- d) Stock level substantially below normal levels.
- e) Obsolete or unsaleable stocks.
- f) Operations or production below normal capacity.
- g) Slow completion of orders, contracts or projects.
- h) Factory, machineries and equipments not in good working condition.
- i) Sale of business assets.
- j) People who are new in a business or in an industry.
- k) Changing nature of business.
- l) Transition of family business from one generation to the next.
- m) Sell-off or buy-over of business or company to or by outsiders; who are neither related nor connected to existing owners or shareholders.
- n) Management disputes.
- o) Increasingly difficult to contact the customer or key personnel.
- p) Evasive or aggressive customer.
- q) News that the customer had ceased operations.
- r) News of bankruptcy of customer or guarantor.
- s) Reports of winding-up of company.
- t) Death of owner or key personnel (partner, director or senior manager).
- u) Sudden stop in supply by major suppliers.
- v) Legal claims or execution proceedings by other creditors.
- w) Industry-wide downturn.
- x) Prevailing market conditions.

- y) Adverse economic conditions.
- z) Frequent change of banker, auditor or company secretary.

## 7.2 SALES MANAGER("SM")

7.2.1 The Sales Manager should check if the prospective customer has an existing trading account with the Group; in order to identify purchase trends, payment patterns, group exposure, existing security arrangement, growth prospects, any legal action against owners or partners or directors or guarantors, etc.

7.2.2 **Related accounts** of businesses and/or companies must be **grouped together and considered as a single customer;** in order to determine the aggregate credit limit for group exposure, i.e. single customer credit limit.

7.2.3 Trade references must be obtained from companies within the Group or, existing suppliers of prospective customers.

7.2.4 Recommendations are premised on factors pertaining to :-

### 7.2.4.1 Prospects

- a) trade reputation,
- b) connections,
- c) networks or alliances (business or industry or government),
- d) relationships with customers and suppliers,
- e) integrity,
- f) competency,
- g) experience,
- h) track record,
- i) expertise,
- j) capability,
- k) performance,
- l) achievements (trade or industry awards), and
- m) potential growth or, contracts-in-hand; including

### 7.2.4.2 Credit facility

- a) credit limit ("CL") and credit terms("CT") applied for, and
- b) security offered (personal guarantee, directors' guarantee, corporate guarantee, bank guarantee, etc).

### 7.3 CREDIT CONTROLLER ("CC")

7.3.1 A business or company search should be conducted on all new applications; both credit and cash accounts. In the event that the records are not available in CTOS, "certified true" copies of the Business Registration (Form A) or, Certificate of Incorporation (Form 9), Allotment of Shares (Form 24) and Particulars of Directors, Managers, Secretaries and Auditors (Form 49) should be obtained from the prospective customers.

7.3.2 Bankruptcy searches on owners, partners, directors and guarantors of prospective or existing customers should be conducted; to ensure that there is no pending legal action against them.

7.3.3 In the event of a *positive search*, appropriate measures must be taken to ensure that the account is scaled down and all outstanding debts are collected; and the account eventually closed.

7.3.4 Credit applications by prospects who are under legal action should not be considered; particularly those with debts which were irrecoverable and, had to be written-off. Cases in which the delinquent debts had been settled in full shall be considered on a case-by-case basis or, based on individual merits.

7.3.5 **To conduct a CTOS credit search on the following entities and individuals :-**

#### 7.3.5.1 Entities

- a) Sole Proprietorship or Partnership.
- b) Private Limited (Sdn Bhd) or Public Limited (Berhad).

#### 7.3.5.2 Individuals

- a) Owners or Partners or Directors.
- b) Guarantors.

7.3.5.3 A CTOS search consists of 3 sections as below :-

- a) Company

**Companies Commission of Malaysia (CCM)**  
information.

i) Company Information.

- 1) Company Name and Company Number.
- 2) Date of Incorporation.
- 3) Registered and Business Addresses.
- 4) Principal Activities.
- 5) Authorised and Paid-up Capital.

This information can be compared against the information in the statutory documents provided by the (prospective) customers; in order to ascertain genuineness and validity.

ii) Directors and Major Shareholders with their Shareholdings.

iii) Financial Highlights.

- 1) Turnover (Sales revenue).
- 2) Profit before tax.
- 3) Profit after tax.
- 4) Profit for the year (Accumulated profits).
- 5) Financial ratios.

b) Internal List / Group Exposure.

The internal list monitors the group exposure on trade debtors with multiple accounts within the group; in order to determine the single customer credit limit.

c) Directorships and Business Interests.

The interests and shareholdings of owners or partners or directors and/or guarantors in other businesses and companies.

d) Summons, Writs, Bankruptcy Proceedings and Winding-up Petitions.

Whether the business or company, and/or its owners, partners or directors have been involved in any legal action and; to determine the risk profile of the (prospective) customer.

7.3.6 **To perform financial analysis on the financial health and financial position of the prospect :-**

7.3.6.1 The tools and techniques for the analysis of financial statements are based on the accounting conventions that lay down the construction of the statements and, the nature of the business; which in turn determine the method of operation and, financing decision of the business or company in the marketplace.

7.3.6.2 Financial Statements

- a) a substitute for detailed, day-to-day knowledge of the operations and management of a business or company.
- b) a rich source of data on a business or company, its operations and management.

7.3.6.3 **Profit & Loss Account**

- a) the results of operations for a period of time (*a motion picture depicting the financial health of the company for the entire fiscal year*).
- i) sales growth.
- ii) total goods and services sold.
- iii) cost of production and/or sales.
- iv) major expenses incurred on creating sales.

- v) expenses of running business (general & administration).
- vi) depreciation.
- vii) gross or net profits.

#### 7.3.6.4 Balance Sheet

- a) the interrelationships of assets and liabilities, or financial position at a particular point in time (*a snapshot of the last day of a fiscal year in the life of a company*).
- i) can current assets cover current liabilities.
- ii) is networth adequate and proportionately distributed to provide risk coverage for short-term and long-term debts.

##### 7.3.6.4.1 Horizontal Analysis

- a) comparison of figures for one (1) accounting period or financial year.
- b) percentage of significant values.
- c) (P&L) percentage of sales.
- d) (BS) percentage of total assets.

##### 7.3.6.4.2 Vertical Analysis

- a) differences between account balances.
- b) two (2) accounting periods.
  - i) absolute figures.
  - ii) percentage amounts.
- c) several accounting periods.
  - i) trends.

### 7.3.6.5 Cash Flow

- a) a link between two (2) Balance Sheets and one (1) Profit & Loss Account.
- b) represents changes in all Balance Sheet accounts and retained earnings; except cash.
- c) reflects changes in financial statements; as measured by financial ratios.
- d) evaluation of cash position.
- e) short-term projection.
- f) the relationship between finite sources of cash and its potential infinite uses.
- g) the most direct way of evaluating cash-generation and debt-repayment ability.
- h) analysis of working investment (inventory), financing mix, and profitability.
  - i) *receipts / inflows of cash:*
    - sales realisation (sales/collections)
    - share capital (early stages / certain intervals)
    - other incomes (cash discount, proceeds from sale of fixed assets)
  - ii) *payments / outflows of cash:*
    - payments to suppliers (limit & terms of purchase)
    - capital expenditures.

#### 7.3.6.5.1 *Critical Aspects*

- a) whether assumptions are consistent with the past, and realistic for the future; pertaining to sales, payments to suppliers, and capital expenditures.



- b) as a follow-up exercise (control instrument) to ensure proper utilisation of funds (review of credit facilities, or application for additional credit facilities).

#### 7.3.6.6 Funds Flow

- a) derived from Balance Sheet and Profit and Loss Account.
- b) percentages of total sources and uses of funds; except schedule of working capital changes (changes in non-working capital accounts).
- c) long-term projection (future profitability).
- d) evaluation of working capital position.
  - i) *receipts / inflows of funds:*
    - net income.
    - proceeds from sale of fixed assets.
    - issuance of capital stocks.
    - issuance of bonds.
    - loans from banks or other lenders.
  - ii) *disbursements / outflows of funds:*
    - operating expenses.
    - build-up of inventory.
    - purchase of fixed assets.

##### 7.3.6.6.1 *Critical Aspects*

- a) whether internally-generated funds are rising and reasonable.
- b) overdependence on external borrowings.

### 7.3.6.7 Financial Ratio Tests

- a) mathematical expressions or numeric measures.
- b) percentages of key figures or proportional relationships between two (2) variables which are functionally-related.
- c) only indicative (overview) of past financial performance (financial position): how the company is doing; as compared to previous years, or to rival companies.
- d) only tentative judgements, and not conclusive for credit decision making; as the figures are already outdated, and may no longer represent the true performance of the company.
- e) more specific in results for effective decision making.
- f) identify specific areas of strengths and weaknesses.
- g) detect trends (computed for at least three (3) accounting periods), and project potential or future prospects (estimates).

#### 7.3.6.7.1 *Limitations / caveats*

- a) interpretation.
  - i) not to be analysed per se, or in isolation; analyse key ratios together for consistent and accurate results.
  - ii) requires skill, insight, experience and intuition.
  - iii) depends on individual user or personal judgement (subjectivity).
  - iv) subject to nature or purpose of decision.

- v) comparison
  - other ratios for same company in same year or period.
  - same ratio for same company over a number of years or periods.
  - same ratio for competitors in same year or period.
  
- b) timeliness.
  - access to up-to-date or accurate financial statements.
  - based on published information and financial statements.
  - realistic forecasting.
  
- c) known facts.
  - company, business, industry and economy.
  - the past does not necessarily reflect the future (only a prediction or guesstimate).
  - accuracy subject to integrity and reliability of accounts; i.e. Rubbish in - Rubbish out; or misrepresentation due to creative accounting (dubious accounting methods, or legal but questionable techniques); e.g. :-
    - changes in depreciation policy.
    - extraordinary and exceptional items.
    - contingent liabilities.
    - off-balance sheet finance.

7.3.6.8 **Symptoms of Weak Management** :-

- a) **Delayed payments**
  - trade debts with the group or, other suppliers.
- b) **Overtrading**
  - generating sales at the expense of profit margin; and/or
  - expanding faster than internally-generated cashflows; and/or
  - resorting to higher outside borrowings.
- c) **Big projects**
  - beyond the capacity, competency, experience or expertise of the management team.
- d) **Continuous losses**
  - negative reserves or network.
- e) **Low liquidity**
  - excessive immediate liabilities relative to current assets, i.e. trade creditors, tax payable or, dividends payable.
- f) **High leverage**
  - financing operations with outside borrowings.
  - a high capital gearing is the most common cause of business failures.
- g) **Unusual contingencies**
  - extraordinary and exceptional items.

7.3.6.9 The CC shall :-

- 7.3.6.9.1 Review the comments and recommendations by the Sales personnel.

- 7.3.6.9.2 Evaluate the credit limit applied for; taking into consideration the liabilities (actual or contingent) of the applicant, its repayment capacity (e.g. assignment of payments), the security offered (personal guarantee, directors' guarantee, corporate guarantee, bank guarantee), etc.
- 7.3.6.9.3 Ensure that the credit facility is secured by the applicant and; the legal documentation is complete and valid.
- 7.3.6.9.4 Highlight to management any deviation from credit guidelines and; ensure submission to the approving authorities for consideration.

7.3.6.10 Opening / Updating of Credit Files

When a new application is approved by the MD, the CC shall open a credit file for the customer; and arrange the documents in order. After the Debtor Record Book and Credit Application Record List are updated, the documents are forwarded to the Credit Control and Treasury Manager for verification.

7.3.6.11 Final Check

The CC shall conduct a final check on all the documents to ensure completeness.

7.3.6.12 Filing

a) **Firstly;**

The accounts clerk in charge of filing shall do the following in the "**Debtor Record Book**":-

- 1] Assign a sequential reference number to the new debtor account.

- 2] Register the business or company's name in the "Customer" column.
- 3] Check-off the appropriate columns for availability of SMR, AF, and LG.
- 4] State the Credit Limit and Credit Terms in the columns for "CL" and "CT".

**b) Secondly;**

The abovementioned clerk in charge of filing shall do the following in the "**Credit Application Record List**":-

- 1] Assign a sequential file number to the new debtor account.
- 2] Register the account number and the business or company's name in the appropriate columns for "Account Number" and "Company".
- 3] Check-off the appropriate columns for availability of SMR, AF, and LG; and relevant supporting documents, e.g. Forms B, D, 9, 24, 49, 13 & 44, M&A, BS and FR.

**c) Thirdly;**

The credit files shall be kept in safe custody in the strongroom; according to alphabetical order.

7.4 FINANCIAL CONTROLLER ("FC")

7.4.1 To assess the financial strength and legal matters of the applicant based on :-

- a) statutory documents,
- b) audited accounts,
- c) bank statements, and
- d) credit checks.

## 7.5 GENERAL MANAGER ("GM")

7.5.1 To conduct trade references on prospective customers by contacting existing suppliers to determine the creditworthiness and viability of the business or company; relating to the following points of reference:-

- a) background  
- experience, track record, completed projects, achievements and connections.
- b) duration  
- period of trade dealings.
- c) limit  
- monthly purchases (buying pattern).
- d) terms  
- collection period (payment pattern).
- e) reputation  
- credibility, integrity, reliability and capability.

7.5.2 To consider the comments, recommendations and analyses of the SM and the CC.

## 7.6 MANAGING DIRECTOR ("MD")

7.6.1 To decide whether or not to approve the application based on the information, assessments and recommendations provided by the FC and GM.

## 8.0 UNSUCCESSFUL CREDIT APPLICATIONS

8.1 All unsuccessful applications must be communicated by the CC to the Sales personnel who had canvassed the prospects. The applicants must be informed of the outcome by the respective Sales personnel.

8.2 In this case, the customers must pay cash before or after the delivery of goods.

8.3 The credit documents shall be filed in the KIV file for future reference.

## 9.0 CASH ACCOUNTS

- 9.1 Cash accounts are intended for the ease of walk-in-customers who make purchases below RM10,000. Credit limits for such purchases should not exceed RM10,000.
- 9.2 As the terms for cash accounts is cash-on-delivery ("COD"), the customers must make payment before delivery. The acceptance of post-dated ("PD") cheques shall not be construed as collection in determining the credit limit; until the PD cheques are cleared by the bank.
- 9.3 Cash accounts are only a short-term measure. The Sales personnel are required to review the credit standing of the customers and; to apply to convert the cash accounts into credit accounts. When applying for credit accounts, the procedure of opening a credit account as aforementioned should be observed.
- 9.4 A customer should not be allowed to operate both a cash account and a credit account at the same time.

## 10.0 TEMPORARY CREDIT LIMITS

- 10.1 Temporary credit limits can be authorised by the GM or MD only.
- 10.2 The following situations necessitate the application of temporary credit limits :-
- 10.2.1 New credit applications pending approval; subject to the following conditions :
- a) No temporary limit is allowed for RM2.00 paid-up companies **without** Letter of Guarantee.
  - b) The submission of Credit Application Form and Letter of Guarantee or Corporate Guarantee or Bank Guarantee.
- 10.2.2 Existing credit customers who require additional credit limits over and above existing limits for a specific period of time; subject to the following conditions:
- a) The account must be regularised within existing credit terms or; an official application for additional limit must be submitted for due consideration.
  - b) The guarantee provided is adequate to cover the excess limit.



## 11.0 ORDERING PROCESS

11.1 The Sales Coordinators are only allowed to process sales or purchase orders within the credit limits already approved. Any order exceeding the credit limits must be referred to the CC.

### 11.2 Orders Exceeding Credit Limits

11.2.1 The CC shall review sales or purchase orders exceeding credit limits on an ad-hoc basis. Based on the sales and collection trends, the CC shall decide whether to approve the orders.

11.2.2 The orders could be approved with conditions, such as to collect PD cheques on the amounts exceeding credit limits or credit terms. The orders shall only be processed after the conditions imposed have been complied with.

11.2.3 If the CC is not able to decide, such orders shall be referred to the GM or MD. Assessments on the sales and collection trends must be provided together with the credit files. The GM or MD shall decide on whether or not to approve the orders.

11.2.4 The decision of the MD is final.

## 12.0 CREDIT REVIEW

12.1 Annual credit reviews should be conducted on all credit accounts. A Credit Review Form (Appendix V) must be submitted by Sales personnel; in order to increase an existing credit limit or, to extend credit terms beyond existing credit periods.

12.2 Ad-hoc credit reviews shall be conducted when sales or purchase orders exceed existing credit limits; or for upgrades of credit limits exceeding RM50,000.

12.3 Credit accounts which have been inactive for a period of 6 months and beyond shall be re-evaluated as if they were new applications; and the prescribed approval procedure for new accounts should be observed.

12.4 Any changes in, or modifications to, the terms and conditions originally approved shall be re-assessed vis-à-vis the customer's creditworthiness; and are subject to the approval of the management.

12.5 In addition, individual credit limits may be reviewed as and when the need arises; at the discretion of the management.

12.6 The following procedure shall be adhered to in the review process :-

12.6.1 Sales Personnel

To propose the upgrade in amount or period to the credit limit or terms; and to comment on the creditworthiness of the customer.

12.6.2 Credit Controller

12.6.2.1 To retrieve the credit file and perform a credit search. A new CTOS search shall only be conducted if the timelapse of the last CTOS search has exceeded 6 months. If the timelapse is less than 6 months, the Credit Committee shall decide on whether to do a fresh CTOS search.

12.6.2.2 Based on the historical data, the CC shall comment on the sales volume and collection pattern; the frequency of excesses in credit limits or, breaches of credit terms; and the frequency of postponement of PD cheques collected.

12.6.3 Financial Controller

12.6.3.1 To assess the financial standing and any legal cases on the customer.

12.6.4 General Manager

12.6.4.1 To conduct trade references of existing suppliers to determine the creditworthiness and viability of the business or company; relating to the following points of reference:-

- a) background  
- experience, track record, completed projects, achievements and connections.
- b) duration  
- period of trade dealings.
- c) limit  
- monthly purchases (buying pattern).

- d) terms  
- collection period (payment pattern).
- e) reputation  
- credibility, integrity, reliability and capability.

#### 12.6.5 Managing Director

12.6.5.1 Based on the foregoing information, comments, assessments and recommendations, the MD shall decide on whether or not to approve the credit review.

- 12.7 If approved, the credit file and computer system shall be updated accordingly.
- 12.8 Rejected proposals shall be kept in the credit files for future reference.

### 13.0 REVIEW OF OUTSTANDING DEBTOR BALANCES

- 13.1 An aging list of outstanding accounts exceeding limits or terms shall be prepared for periodical review. The aging of trading debts is based on the calendar months in which the sales were transacted.
- 13.2 Credit control meetings shall be held periodically; so that follow-up actions can be taken on overlimit or overdue accounts. Any excesses in credit limits or breaches of credit terms shall be highlighted for follow-up actions to be taken.
- 13.3 These measures serve to ensure that the trading accounts are conducted within the limits or terms approved. Thus, the risks of trading accounts turning delinquent are minimised.
- 13.4 Accounts shall be classified as : -
  - 13.4.1 **Delinquent** : debt which has exceeded by 30 days of its approved credit terms plus the grace period of 30 days.
  - 13.4.2 **Legal** : debt for which legal action has been initiated.  
(Sales personnel should stop dealing with debtors against whom Summons or Writ of Summons has been issued.)

13.4.3 **Doubtful** : debt for which full collection in full is improbable; coupled with a high risk of ultimate default.

13.4.4 **Bad** : debt which is deemed totally uncollectible and completely worthless.

## 14.0 CREDIT CONTROL MEETINGS

14.1 A monthly credit control meeting shall be held on Friday from 12.00 p.m. to 1.00 p.m. for ESB. The other credit control meetings are scheduled as follows:

<u>Name of companies</u>	<u>Frequency</u>
Engtex Marketing Sdn Bhd	Weekly
Engtex Metals Sdn Bhd	Weekly
LYE Manufacturing Sdn Bhd	Forthnightly
LYE Marketing Sdn Bhd	Forthnightly
Mega Alliance Sdn Bhd	Forthnightly
Engtex Sdn Bhd	Monthly

14.2 Prior to the credit control meetings, the Accounts Clerks or Assistants of the respective subsidiary companies shall prepare ageing reports on defaulting debtors .

14.3 The CC shall conduct the meetings.

14.4 During the meetings, the CC shall peruse the ageing reports with the relevant Sales personnel responsible for collection or recovery of overlimit or overdue debts.

14.5 Based on the feedback received, the CC shall decide on the next course of action; such as to send reminder letters or, to initiate legal action.

## 15.0 DEBT COLLECTION

15.1 PD cheques should not be accepted as far as possible; if so accepted, the cheques should be banked-in on their due dates promptly. If the PD cheques are dishonoured, the procedure on dishonoured cheques should be adhered to.

- 15.2 When the PD cheques are dishonoured, the Credit Control & Treasury Manager must be informed immediately.

## 16.0 COLLECTION PROCEDURE

### 16.1 Monthly Statement

16.1.1 Monthly statements of account should be sent to the debtors after every month-end; indicating the aging of outstanding balances. This serves to highlight the overdue amounts. Copies are to be forwarded to the respective Sales personnel for collection purposes.

16.1.2 Under no circumstances should the original copies be handed to the Sales personnel for dispatch to the customers.

16.1.3 Dispute on the amounts outstanding by customers should be investigated by the Sales personnel-in-charge immediately. If customers claim non-receipt of the original invoices, duplicate copies of invoices, delivery orders and, purchase or sales orders should be sent to them immediately.

16.2 The following procedure shall be adhered to in the collection process :-

- a) 1<sup>st</sup> Reminder Letter                      14 days notice
- b) 2<sup>nd</sup> Reminder Letter                      14 days notice
- c) Final Reminder Letter                      7 days notice

16.2.1 The reminder letters shall be sent by A.R. Registered post as evidence of posting.

16.3 Other means of follow-up, e.g. telephone calls and site visits, should also be undertaken by the Sales personnel in-charge of the delinquent accounts.

16.4 Prudential care should always be borne in mind in the collection process by all personnel concerned; in order to preserve commercial goodwill and, to sustain existing business relations.

## 17.0 DISHONoured CHEQUES

- 17.1 A dishonoured cheque is one which a banker has refused to pay on presentation. Such cheques are returned by the bank with an advice slip attached stating the reasons the cheques were not cleared; with phrases such as :-
- a) Words and figures differ.
  - b) Endorsement irregular.
  - c) Drawer's endorsement required.
  - d) Refer to drawer.
  - e) Insufficient funds.
  - f) Payment stopped.
  - g) Account closed.
- 17.2 For whatever reason a cheque is returned by the bank, appropriate actions should be taken as soon as possible.
- 17.3 For reasons (a) to (c), the drawer be contacted immediately. The technical mistakes on the cheque should be rectified and; the cheque re-banked on the same day using a separate pay-in slip marked for "*Special Clearance*".
- 17.4 When a cheque is returned "Effects Not Cleared," the cheque should be re-presented immediately; so as to ensure that the funds when cleared are not utilised by the drawer for any other purposes.
- 17.5 When a cheque is returned "Payment Stopped," this may indicate that the customer intends to default on payment; in which case an immediate explanation should be obtained as to how the payment shall be made good.
- 17.6 In all other cases, the drawer should be contacted and informed that the cheque had been dishonoured. Cash payment or, a replacement cheque drawn on another account with sufficient funds should be requested; or an undertaking obtained from the drawer that sufficient funds had been deposited to allow the original cheque to be re-banked-in.
- 17.7 Arrangements should be made with the bank for such cheques to be returned under confidential cover addressed to the CC.
- 17.8 A register of returned cheques shall be maintained; which would record the subsequent disposal of the returned cheques.
- 17.9 Strict control must be exercised over returned cheques. The cheques should not be handed to the drawers; but held by the CC until made good by cash or, by another cheque.

- 17.10 Returned cheques should not be handled by staff whose duties include cash receipts from trade debtors.
- 17.11 Photocopies of returned cheques should be filed in the debtor or credit files for future reference.
- 17.12 In cases where the current account has been closed, the returned cheques serve as proof of debt.

## 18.0 DEBT RECOVERY

- 18.1 Legal action for the recovery of overdue debts shall be initiated after the debts have become delinquent and; no payments are forthcoming in spite of the first, second and final reminders already sent to the defaulting debtors concerned.
- 18.2 Delinquent debtors may request for an extended time to settle their debts. In such a case, a Letter of Acknowledgment of Debt must be signed by the concerned debtor; in order to confirm the debt and, to fix the instalment and interval of repayment within a specific and reasonable timeframe.
- 18.3 In cases where market information reveals that a debtor is going bankrupt or, is planning to cease business without intending to settle the outstanding debts, whether due or not, legal action should be taken forthwith.
- 18.4 The CC shall consult with the Group FC and the GM on problematic and intractable cases and; thereafter shall submit the cases to the MD for approval to commence legal action.
- 18.5 Prior to initiating legal action, the sum of debt sued for must be indisputable and; no triable issues could be raised in court by the delinquent debtor.
- 18.6 Legal Process
  - Step 1 - Notice of Demand.
  - Step 2 - Summons or Writs of Summons and Statement of Claim.
  - Step 3 - Judgement-in-Default or Summary Judgement or Consent Judgement.

Step 4 - Full Trial (if judgement not obtained earlier).

Step 5 - Execution or Appeal of Judgement.

## 18.7 Quick Recovery

### 18.7.1 *Trial by Documents*

- a) summary proceedings; instead of full trial in open court.
- b) avoid delays in negotiation and settlement.

### 18.7.2 Critical Documents to Trial by Documents

- a) Credit Application Form.
- b) Letter of Guarantee.
- c) Sales or Purchase Orders, Delivery Orders and, Invoices.
- d) Monthly Statements of Balance.
- e) Letters or Correspondences (cover letter of cheque sent-in, appeal letter for time extension in settlement, admission letter on technical dispute of debt).

## 19.0 LEGAL ACTION ON DELINQUENT DEBTORS

19.1 Upon commencement of legal action, the credit account of the delinquent customer shall be automatically withdrawn. No subsequent credit sales are allowed to such customers.

19.2 If there are guarantors to the debt, consent of the guarantors are necessary; unless there is a clause in the guarantee that stipulates that the guarantor are not discharged by any compromise or settlement between the company and the debtor. If such a clause does not exist, written notice by letter shall be sent to the guarantors concerned.

19.3 Where legal action has commenced, the terms of settlement shall include the recording of consent judgment; with a clause to execute in the event of default of any one installment.



- 19.4 When legal action has been initiated by other parties and, subsequently the debtor is made bankrupt or, a winding-up order is instituted against it, the company's solicitors shall be instructed to submit the company's proof of debt to the Official Assignee or, the liquidator; as the case may be.
- 19.5 In order not to prejudice the legal proceedings, all negotiations with debtors under legal action shall be conducted by authorised personnel only. Under no circumstances could anyone else agree to any settlement involving trade debts under litigation, without prior approval from the management.
- 19.6 The MD may, at his discretion, waive overdue interest in any proposed settlement of delinquent debts under litigation.
- 19.7 Legal fees, charges or costs on delinquent debt may be recovered from the delinquent debtor.

## 20.0 PROVISIONING AND WRITE-OFF OF DELINQUENT DEBTS

- 20.1 The CC shall review delinquent debts that are long overdue and; no payments are forthcoming despite having sent letters of reminders and/or legal action had been taken against the debtors.
- 20.2 Outstanding delinquent debts shall be reviewed quarterly; in order to ascertain the extent of provisions for doubtful debts and bad debts.
- 20.3 The following may be sound and valid reasons to write-off bad debts :-
- a) Disputes with no clear-cut solutions.
  - b) Debtors or guarantors are in grave financial position.
  - c) Debtors or guarantors had absconded.
  - d) Owners or partners, or guarantors are declared bankrupt.
  - e) Companies already wound-up.
  - f) Debtors or guarantors are deceased.

- 20.4 The CC shall review the bad debts vis-a-vis the following factors prior to making recommendations to GM or MD for write-off :-
- a) Whether the debtors are still in business.
  - b) A bad account may turn out to be a good account over the long run.
  - c) Disputed debts due to the negligence of the Sales or Accounts personnel.
  - d) High-risk accounts, i.e. blacklisted debtors.
- 20.5 Although the debts had been provided-for or written-off, utmost efforts must still be undertaken to recover the doubtful debts and bad debts; whenever possible.
- 20.6 The onus on debt recovery lies with the Sales personnel-in-charge of the delinquent debtors.
- 20.7 Any debts already provided-for or written-off which are eventually recovered, either partially or in full, shall be "clawed-back" into the Profit & Loss Account and; credited into Exceptional Items.

## 21.0 BLACKLIST

- 21.1 Trade debtors who have been blacklisted shall have the credit limits of their trading accounts reduced to **RM1.00** only. No further sales or purchase on credit terms shall be conducted by the respective Sales personnel or, be entertained by the Sales Coordinators.
- 21.2 The following may be justifiable reasons to blacklist trading accounts:-
- a) Accounts with positive results upon bankruptcy search.
  - b) Accounts with chronic overdue payments.
  - c) Accounts under litigation.
- 21.3 Exceptions to the foregoing rule can only be made after prior approval has been obtained from the GM or MD; strictly at the sole discretion of the management.

Prepared By:

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Kwee Ming Yan  
Credit Control Executive

Checked By:

-----  
Khoo Tick Chuan  
Accountant

Approved By:

-----  
Teh Chee Ghee  
P.A. to M.D.  
Corporate & Finance



**UNIVERSITY OF MALAYA**  
**Master of Business Administration**  
**Graduate School of Business**  
**Faculty of Business and Accountancy**

“Effective and Efficiency of Credit Control Management –  
A case study on Engtex Group Berhad”

Dear Sir/ Madam,

This research is conducted as part of completion of the Master of Business Administration from University of Malaya.

Please be assured that the information you provide in this survey is for academic purposes only and will be kept strictly confidential. The findings from this survey will be reported in aggregate forms and the anonymity of the respondents will be guaranteed.

I anticipate that the questionnaire will take approximate 10 minutes to complete. Thank you in advance for your invaluable assistance in participating in this survey.

Yours sincerely,  
Chong Kei Loong  
Email: keiloong81@yahoo.com

PART A: Respondent demographics

This section is about some basic information about you. Please cross only one box for each question as below:

X

1. Gender

Male

Female

2. Age

Below 21 years

41 - 50 years

22 - 30 years

51 - 60 years

31 - 40 years

Above 60 years

3. Ethnic group

Malay

Indian

Chinese

Others (please specify) \_\_\_\_\_

4. Marital status

Single

Married

Divorced / Widow

5. Highest level of education

Primary School

Secondary/High School

Certificate or Diploma

Bachelor Degree

Postgraduate (i.e. Master/ Doctorate)

Professional Certificate

Others

6. Monthly income

Below RM2,000

RM8,001 – RM10,000

RM2,000 – RM5,000

RM10,001 & above

RM5,001 – RM8,000

7. Occupation

Managerial/Professional

Executive

Supervisor

Non- Executive

Students

Not Working/Retired

Housewife

Self Employed/Business Owner

Others

8. Employer's nature of business

Manufacturing

Construction

Banking Industry

Trading

Transportation

IT company

Insurance Company

Services Company

Other: \_

9. Company turnover:

<input type="checkbox"/>	Below RM100,000	<input type="checkbox"/>	RM100,001 – RM500,000	<input type="checkbox"/>	RM500,001 – RM1,000,000
<input type="checkbox"/>	RM1,000,001 – RM10,000,000	<input type="checkbox"/>	RM10,000,001 & above		

10. Number of employees

<input type="checkbox"/>	1 to 10	<input type="checkbox"/>	11 to 50
<input type="checkbox"/>	51 to 200	<input type="checkbox"/>	200 & above

PART D: This section examines your Attitudes to Functional (Healthy) Food Products.  
 (1 denoting STRONGLY DISAGREE and 5 denoting STRONGLY AGREE)

Please cross (x) your answer.

		Strongly Disagree	Disagree	Neither Disagree nor Agree	Agree	Strongly Agree
1	Standard Credit Control Policy and Procedures	1	2	3	4	5
a	A standard credit control policy will help me in better debtor management and better collection.					
b	A standard credit control procedures will assist me in better debtor management and better collection.					
c	A successful company should set up a credit control department.					
d	A successful company should have their own standard credit control policy and procedures for their credit control department.					
e	A standard credit control policy and procedures will provide guideline to credit control staff.					
f	It is pointless to have a credit control policy and procedures for a company.					

2	Employee Development and Motivation	1	2	3	4	5
a	I strongly believed that an experience credit control staff will be more effective and efficient than non-credit control staff					
b	I think being a good collector, he/she must post a well negotiation skills.					
c	A proper training provide to the respective credit control staff will help to improve the knowledge of the credit control staff.					
d	Incentives given to the credit control staff will affect the individual collection performance from the credit control staff.					
e	Incentives will attract the credit control staff to maximise the debt recovery.					
3	Intelligence Collection System	1	2	3	4	5
a	An intelligence collection system will help the company reduce their bad debt.					
b	An intelligence collection system will help the credit control staff for better monitoring their individual portfolio.					
c	An intelligence collection system will incurred extra unnecessary operation cost of the company.					
d	An intelligence collection system can generated a lot of useful data and information to credit control staff for review and further action.					
e	An intelligence collection system will help the company to save the time and cost of the company.					

4	Comprehensive Collection Report	1	2	3	4	5
a	I think review the collection report is wasting the staff's time.					
b	A comprehensive collection report will not assist the credit control staff for better monitoring on their customer.					
c	The credit control staff can review the collection report and gather more repayment trend for its customer.					
d	This collection report will assist the credit control staffs to get the comprehensive skip-tracing information that they need to take action when chances of recovery are highest.					
e	This collection report will furnish you the details of the debtor for the delinquent accounts.					
5	Effective and Efficiency if Credit Control Management					
a	Standard Credit Control Policy and Procedures provides a guideline and standard of collection manual to credit control staffs					
b	Standard Credit Control Policy and Procedures can help a company to monitor their debt receivable effectively.					
c	Employee Development and Motivation can affect the effective and efficiency of the credit control management					
d	Intelligence Collection System can help a company to monitor their debt receivable effectively.					
e	Comprehensive Collection Report can help a company to monitor their debt receivable effectively.					

*Thank you very much for completing this questionnaire*