



AAT

Credit management

Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Professional Diploma in Accounting – Level 4

AAT Level 4 Diploma in Business Skills

AAT Professional Diploma in Accounting at SCQF Level 8

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Preface

These Pocket Notes contain the key things that you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

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A guide to the assessment

The assessment

Credit Management (CDMT) is an optional unit on the Professional Diploma in Accounting qualification.

Examination

CDMT is assessed by means of a computer based assessment. The CBA will last for 2 hours 30 minutes and consist of 7 tasks.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

Learning outcomes & weighting

- | | |
|--|------|
| 1. Analyse relevant legislation and contract law impacting the credit control environment | 15% |
| 2. Critically analyse information from a variety of sources to assess credit risk and grant credit in compliance with organisational policies and procedures | 45% |
| 3. Evaluate a range of techniques to collect debts | 15% |
| 4. Critically evaluate credit control in line with organisational policies and procedures | 15% |
| 5. Present advice and recommendations to management on the credit control system | 10% |
| Total | 100% |

Pass mark

To pass a unit assessment, students need to achieve a mark of 70% or more.

This unit contributes 10% of the total amount required for the Professional Diploma in Accounting qualification.

chapter

1

Legislation

- Contract law.
- Terms and conditions of contracts.
- Remedies for breach of contract.
- Data Protection Act 1998.
- Other legislation.

Contract law

Outline of contract law

Agreement + Consideration + Intention
to create legal relations = Contract

Agreement

- agreement requires offer and acceptance
- offer is an expression of willingness to enter into contract
- offer should be distinguished from invitation to treat – invitation to another party to make an offer e.g. price tags in shops, advertisements for goods for sale
- acceptance must be while offer is still in force, unqualified and communicated to offeror
- if there is a counter-offer then the contract is terminated.

Consideration

- value given by both parties e.g. supplier agrees to sell goods to customer then supplier is agreeing to deliver the goods and customer is agreeing to pay for goods
- consideration must be sufficient but need not be adequate.

Intention to create legal relations

- social/domestic arrangements – assumption is that legal relations are not intended
- commercial arrangements – presumption that legal relations are intended.

Terms and conditions of contracts

Types of contracts

A void contract is one that cannot be enforced by law.

A voidable contract is a valid contract that can be nullified – one party is bound to a contract but the other party is not, so can withdraw from the contract.

An unenforceable contract is one that is valid but if one party withdraws from the contract the courts of law will not enforce them to meet the requirements of the contract.

A frustrated contract occurs if an unforeseen event either renders contractual obligations impossible, or radically changes the party's principal purpose for entering into the contract. Frustrated contracts could occur in the following circumstances:

- An item or building essential to the contract is destroyed, through no fault of either party.
- A law is passed subsequent to the formation of the contract, which makes the contract illegal.
- A person or group under contract becomes unavailable through death, illness or unavailability

An important limitation is that economic hardship, or a 'bad bargain', will not render a contract frustrated.

Remedies for breach of contract

Legal action can be taken to enforce a contract or to act as a remedy if a contract is breached. There are different types of breach of contract:

- Actual breach
- Anticipatory breach (renunciation)
- Fundamental breach

Anticipatory breach may be:

- Express
- Implied

Damages

The innocent party can claim damages from the guilty party. He may recover damages for any loss suffered as a result of the breach by bringing an action for damages for breach of contract. The objective of damages is to put the innocent person into the same financial position he would have

been in if the contract had been completed correctly. The amount of damages awarded should compensate the innocent party but should not punish the guilty party.

Equitable remedies

- Specific performance
- Injunction
- Rescission

Late Payment of Commercial Debts (Interest) Act 1998

The late payment act allows businesses to charge other business customers interest on overdue amounts and allows businesses to cover late payments of bank borrowings.

The interest rate is 8% above the Bank of England base rate for the period the debt is late. The interest is based on the VAT inclusive amount and calculated as a simple interest rate.

Irrecoverable debt relief

For a business to be able to claim back the VAT that has been paid, the debt must:

- be more than six months old and less than four years and six months old
- be written off
- not have been sold or handed to a factoring company
- not be more than the normal selling price for the items.

Data Protection Act 1998

- covers personal data relating to a data subject
- eight data protection principles – data must be:
 - processed fairly and lawfully
 - processed for limited purposes
 - adequate, relevant and not excessive
 - accurate
 - not kept longer than necessary
 - processed in accordance with the data subject's rights
 - secure
 - not transferred to other countries that do not offer adequate protection.

Other Legislation

Trade Descriptions Act

Suppliers must correctly describe what they are selling and goods/ services cannot be misrepresented in any way

Unfair Contract Terms Act

Contracts must be written in language that is understandable.

The Consumer Rights Act

The goods are 'as described', 'fit for purpose' and are of 'satisfactory quality'.

Consumer Credit Act

Businesses are to be licensed by the Financial Conduct Authority (FCA).