

ASSOCIATION OF ACCOUNTING TECHNICIANS

GUIDANCE NOTES

ACCOUNTING QUALIFICATION - DIPLOMA PATHWAY

UNIT 15 OPERATING A CASH MANAGEMENT AND CREDIT CONTROL SYSTEM (CMCC)

Guidance on the content of Operating a Cash Management and Credit Control System Introduction

This unit consists of four elements. Element 15.1 is concerned with the monitoring and forecasting of cash receipts and payments, the consultation with appropriate staff and the appropriate corrective action in accordance with organisational policy. The second element, Element 15.2, focuses on the management of cash balances. Element 15.3 considers the granting of credit, using valid internal and external sources of information. The final element, Element 15.4, addresses the management and control of the debt-collection process.

Although they are presented as four separate elements, there are significant interrelationships between the four. In particular, Elements 15.1 and 15.2 consider cash management and 15.3 and 15.4 address the credit control function. Significantly, Unit 15 requires students to have an understanding of legal, organisational and banking issues as well as the ability to apply accounting techniques to cash management and credit control activities for a wide range of organisations.

Guidance by element

Element 15.1 Monitor and control cash receipts and payments

Performance criteria

- i) Cash receipts and payments are monitored and regulated against budgeted cash flow.
- ii) Appropriate staff are consulted to determine the likely pattern of cash flows over the accounting period and to anticipate any exceptional receipts or payments.
- iii) Forecasts of future cash payments and receipts are in accord with known income and expenditure trends.
- iv) Cash budgets are prepared in the approved format and clearly indicate net cash requirements.
- v) Significant deviations from the cash budget are identified and corrective action is taken within defined organisational policies.

Guidance

The first criterion is concerned with the basic business of regularly monitoring (daily, weekly, monthly) cash receipts and payments against a cash budget. The fifth criterion requires students to identify cash shortfalls or surpluses and to identify the most appropriate means to manage the situation. Therefore, students require a clear knowledge of the main types of cash receipts and payments

- regular receipts and payments, such as cash and credit sales
- payroll and operating costs
- capital costs, such as the purchase of new equipment or premises

- drawings
- dividends
- financing payments
- instances of exceptional receipts and payments.

Students also need to be able to distinguish between cash and non-cash elements (such as depreciation and provisions).

The second and third criteria require students to appreciate how cash forecasts are put together using a synthesis of information from accounting, sales and technical staff. The fourth criterion requires students to be aware of a number of the two different forms of cash budgets—i.e. modifying profit and loss account and balance sheet data to calculate cash flow, and also using a simple cashier's forecast of receipts and payments. Alongside developing a cash forecast, students need to be able to apply basic statistical techniques for estimating future trends, including moving averages and the ability to apply different inflation factors to a forecast. Students should also be able to understand the appropriateness of computer models, such as spreadsheets, to assess the sensitivity of the forecast to changes in individual elements.

Element 15.2 Manage cash balances

Performance criteria

- i) Overdraft and loan facilities are arranged in anticipation of requirements and on the most favourable terms available.
- ii) Surplus funds are invested in marketable securities within defined authorisation limits.
- iii) The organisation's financial regulations and security procedures are observed.
- iv) Account is taken of the trends in the economic and financial environment in managing balances.
- v) An adequate level of liquidity is maintained in line with cash forecasts.

Guidance

The first, second, fourth and fifth criteria are concerned with relating the cash forecast to the action required to manage the cash deficit or surplus predicted. In the case of a cash deficit, students are required to be aware of the different ways of funding such a deficit, including bank overdrafts, medium and long-terms loans, and leasing or asset-based financing. This will also require an understanding of the structure of the UK banking system and the relationships between different types of financial institutions.

Students also need to be aware of different alternatives for investing surplus cash. These might include bank deposits and investment in marketable securities such as bills of exchange, certificates of deposit, government securities and local authority short loans. Although management of a portfolio of securities is beyond the scope of the Standards of Competence required at this level, students should have an understanding of the terms and conditions attached to each of these investments and their specific risks. All of this is set in the context of an organisation's structure, systems and procedures and the nature of its business transactions.

Element 15.3 Grant credit

Performance criteria

- i) Credit terms are as agreed with customers in accordance with the organisation's policies.
- ii) Internal and external sources of information are identified and used to evaluate the current credit status of customers and potential customers.
- iii) New accounts are only opened for those customers with an established credit status.
- iv) The reasons for refusing credit are discussed with customers in a tactful manner.

Guidance

The first three criteria are concerned with establishing a customer's credit status and the credit granting decision. In making this decision, students are expected to be able to make use of both internal and external sources of information. These might include analysing accounting information, or informal information from sales staff or trade contacts. External information would include information from credit reference agencies, banks and official publications. In making the credit-granting decision, students are expected to be able to manage the paradox of conflicting information and make a suitable credit decision. The fourth criterion concerns how the credit-granting decision is communicated to the customer—in all instances in a courteous and tactful manner.

This element has a significant legal element and students are expected to be aware of the terms and conditions relating to the granting of credit and the effect of the Data Protection Act 1984 on credit control information. Students are also required to be able to calculate the cost of discounts for prompt payment and understand why such discounts are offered to credit customers.

Element 15.4 Monitor and control the collection of debts

Performance criteria

- i) Information taken to the current status of debtors' accounts is regularly monitored and appropriate action taken.
- ii) Debts are collected in accordance with the organisations' procedures.
- iii) Information regarding significant outstanding accounts and potential bad debts is promptly sent to relevant individuals within the organisation.
- iv) Discussions and negotiations with debtors are conducted courteously and achieve the desired outcome.
- v) Debt-recovery methods used are appropriate to the circumstances of individual cases and are in accordance with the organisation's procedures.
- vi) Recommendations to write off bad and doubtful debts are based on a realistic analysis of all known factors.

Guidance

Criteria i)–iii) are concerned with the monitoring and communication to other individuals of the status of debtors' accounts. Such an analysis might make use of an age analysis of debtors, the calculation of average periods of credit given and received and of the incidence of bad and doubtful debts.

Criterion iv) focuses on communication with debtors, emphasising the need for courtesy but also with due regard for the need to recover amounts due. As with Element 15.3, there is an

important legal component to Element 15.4. In this respect, students are required to understand the legal remedies for breach of contract and the legal and administrative procedures for the collection of debts. In addition, an elementary understanding of the effect of bankruptcy and insolvency is required.

The fifth criterion addresses the need to identify the most appropriate debt-recovery method. In this regard, students are expected to have an understanding of the costs and benefits of other (external) means of debt collection, including factoring arrangements and debt insurance.

Unit Assessment

The assessment strategy for the Diploma pathway is based on the following conditions:

- Units that are skills-based (such as Unit 15) will be assessed through AAT simulations. The AAT maintains that the work-based evidence demonstrated through simulated tasks is capable of providing valid evidence of competence. The approach provides a more holistic assessment of the unit standards as all the tasks are based around given scenario(s). Centrally produced simulations also allow for standardisation across candidates and centres, ensuring consistency in the assessment process.
- All performance criteria, range and knowledge and understanding will be covered **over time**, but no one simulation will cover all aspects of the unit. However, each simulation will cover most aspects. Candidates are expected to address the full standards specification in their learning, and should expect to be tested on any aspect of the unit standards. If the candidate successfully completes all aspects of a simulation then the assessor should take this as demonstration of broad competence in that unit and s/he is entitled to a unit achievement credit.

Should the candidate have succeeded in most parts of the simulation, but shown weakness, lack of clarity or incorrect response to some areas, then the assessor should carry out supplementary assessment(s) to address the weakness. These assessments could take the form of oral or written questions, a short assignment, or a task, which specifically addresses the area(s) of weakness. Such supporting evidence and the task/questions set should be attached to the simulation and made available to AAT should the candidate's work be called in for inspection by us.

- If the candidate has not succeeded in a substantial part of the simulation then additional developmental guidance should be given to the candidate. They should re-sit a different simulation on the same unit when they are ready for formal assessment.
- To maintain rigorous quality assurance and standardisation across centres and candidates, the AAT does not permit the use of centre-devised simulations on the Diploma pathway.
- Simulated assessments are subject to recall by the AAT for centralised quality assurance.

Assessment tasks

Element 15.1 Monitor and control cash receipts and payments

Typical assessment tasks might include:

- developing a cash forecast, on either receipts or funds-flow formats;
- analysing a cash forecast produced;
- risk assessment, including sensitivity analysis.

Element 15.2 Manage cash balances

Typical assessment tasks might include:

- identifying appropriate funding and/or investments for particular situations;
- communicating cash-management policies to other managers in the organisation.

Much of Element 15.2 is theoretical, lending itself to assessment tasks that require the application and communication of this knowledge to particular scenarios.

Element 15.3 Grant credit

Typical assessment tasks might include making use of transcribed telephone conversations with sales staff, suppliers and other trade contacts, evaluating bank and supplier references, and interpreting accounting information, using the students' underpinning financial accounting knowledge. The communication component of this element could require students to devise supplier and bank reference letters, or to write to an existing or potential customer either granting or refusing them credit.

Element 15.4 Monitor and control the collection of debts

A typical assessment task might be to require students to produce, design or update suitable reports, or to devise or improve suitable debt-collection systems. On communicating with debtors,

a candidate might be required to outline the best means of recovering a long-overdue debt using the courts, perhaps devising an internal procedure for such a process.

As regards debt-recovery methods, typical assessments might require students to evaluate different

methods of debt collection and recommend the most appropriate.