



# AAT

## Credit and debt management

### Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Diploma in Professional Accounting – Level 4

AAT Diploma in Business Skills – Level 4

AAT Diploma in Professional Accounting at SCQF Level 8

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chapter

# 1

## Legislation

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

## Contract law

**Contract = Agreement + Consideration + Intention**

Agreement	Consideration	Intention to create legal relations
<ul style="list-style-type: none"> <li>• agreement requires offer and acceptance</li> <li>• offer is an expression of willingness to enter into contract</li> <li>• 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</li> <li>• acceptance must be while offer is still in force, unqualified and communicated to offeror</li> <li>• if there is a counter-offer then the contract is terminated.</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• consideration must be sufficient but need not be adequate.</li> </ul>	<ul style="list-style-type: none"> <li>• social/domestic arrangements – assumption is that legal relations are not intended</li> <li>• commercial arrangements – presumption that legal relations are intended.</li> </ul>

## 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**

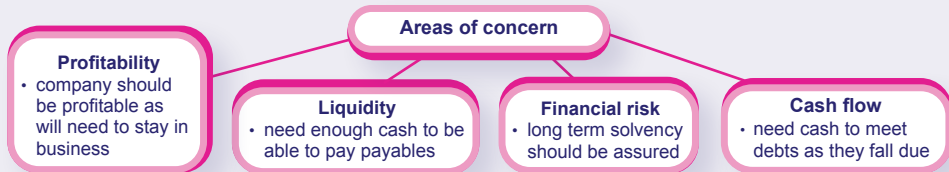
The goods are 'as described', 'fit for purpose' and are of 'satisfactory quality'.

### **Consumer Credit Act**

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

## Ratio analysis

- one of the most useful sources of information are customer's own annual accounts
- compare a number of years of accounts in order to establish trend
- can also compare to other companies in same business sector or industry average figures.



### Profitability ratios

#### Gross profit margin

$$\text{Gross Margin (\%)} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

#### Return on capital employed

$$\text{Return on capital employed} = \frac{\text{Operating profit}}{\text{Capital employed}} \times 100$$

#### Operating profit margin

$$\text{Operating profit Margin (\%)} = \frac{\text{Operating profit}}{\text{Sales revenue}} \times 100$$

#### Interest cover

$$\text{Interest cover} = \frac{\text{Profit before interest}}{\text{Finance cost}}$$



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