IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.301

Volume 3, Issue 8, January 2023

To Study about Credit Management

Vijaylaxmi Gupta and Ajay Kumar Singh

Shri G. P. M. Degree College, Vile Parle (E), Mumbai, Maharashtra, India

Abstract: *Credit management is the process of deciding which customers to extend credit to and evaluating those customers' creditworthiness over time. It involves setting credit limits for customers, monitoring customer payments and collections, and assessing the risks associated with extending credit to customers Credit management is the process of deciding which customers to extend credit to and evaluating those customers' creditworthiness over time.*

The credit terms offered by a firm influences the demand for its products. The firm can only benefit from credit of profitability generated from increased sales exceeds the added costs of receivables. Credit can bedefined as a process whereby possession of goods and services is allowed without spot payment upon an agreement for later payment. Accounts Receivables are direct consequence of "trade credit" which has become an essential marketing tool in modern business Receivable management may be defined as "the process of making decisions relating to the Investment of funds in receivables which will result in maximizing the overall return on the investment Of the firm

Keywords: Credit management

I. INTRODUCTION

The credit process evaluates the ability and willingness of a borrower to repay the debt, underwrites the risk, prices the loan, and determines whether the loan fits the bank's portfolio. An integral part of the credit process is analysis of the borrower's cash flows and financial statements.

Costs of Maintaining Receivables:

The costs of maintaining receivable are as follows i) The firm requires additional finances as resources are blocked in receivables which involves cost of finance which could be in term of interest cost (on outside borrowings) or opportunity cost (cost of own Fund)ii) Administrative cost for maintaining accounting records, investigating credit worthiness, etc. i) Costs incurred for collecting the payments from the customers to whom credit sales have been made iv) Cost of bad debts when the customer are unable to pay the dues on a due date after the credit period The risk of customers defaulting on payment is a high concern in B2B, with nearly half of all B2B invoices in the US getting paid late according to a 2022 At radius survey. Effective credit management processes help businesses mitigate this early on.

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EXPLANATION

What is business credit management?

Credit management is the process of deciding which customers to extend credit to and evaluating those customers' creditworthiness over time. It involves setting credit limits for customers, monitoring customer payments and collections, and assessing the risks associated with extending credit to customers.

The 5 steps in the credit management process

1.You establish your credit policy

Your credit decisioning process should follow a documented credit policy that establishes the company's rules for offering credit terms.

2. Customers fill out a credit application

Before you agree to do business with a new customer on credit, you'll need to collect some information from them in order to determine whether you can count on them to pay their invoices. You'll do this through the credit application process.

3. You conduct research

Your credit management staff will then do their due diligence with the information potential customers have supplied. At this stage, your team will contact the references the applicant provided to get a sense of their financial history. They'll also pull additional information from credit bureaus to further assess prospective customers' financial health.

4. You approve or deny the request for credit

Processing a customer's credit application can take several days, after which you'll decide whether to approve or deny the customer's request for credit. For large credit requests, you might require approval from multiple stakeholders. If you decide a customer isn't a good fit for receiving payment terms, you may still decide to take their business but on the condition they pay upfront or upon delivery.

DISCUSSION

CREDIT MANAGEMENT IN INDIA:

An the past few years, several tools and techniques of credit management is invented and implemented 10 improve the effectiveness of credit management in India. Use of Updated Technology: With the development of telecommunication technology and E-Commerce, there is a huge improvement in the management of accounts receivables in India Electronic payments through internet banking. EFTS, RTGS, NEFT etc facilitate faster processing of payments received from debtors, thereby helping in collection and control. There are automated accounts receivable database systems which update the information on outstanding, collections and age-wise debtor's summary on a real time basis. System generated automatic reminders are sent to the customers on outstanding at pre-defined time intervals

3) Easy to obtain credit worthiness report from reliable sources of a potential customer is feasible now in India thanks to establishment of credit rating agencies. These agencies are registered with SEBI in India 3) Establishment of credit rating agencies such as CRISIL, ICRA, CARE, Fitsch etc. have been playing

Significant role in rating various companies based on financial statements and other fundamental

Information about the companies. These agencies being an independent intermediary, their reports and Ratings have helped the Indian industries in decision making on whether to extend credit or not to extend, how much credit to grant etc. keeping in view likely risk of default. 4) Many companies in India are following centralized collection mechanism with the help of lock box systems, collection by a third party or direct deposit or transfer to the bank account. Risk evaluation has taken an important place in the overall risk management in a company

CREDIT GRANTING DECISION

Credit evaluation attempts to assess the credit worthiness of a prospective customer. It is a pre- requisite for taking a final decision whether to grant credit to the prospective customer or not as it provides the decision maker with necessary information for decision-making. If the customer pays his due the company will make profit on the sale and if he fails to pay, then the amount of cost of the product will be lost. The relative chances of getting the payment or not is expressed as probability of getting the payments and probability of not getting the payment. It is possible to obtain expected profit of granting credit as a weighted average profit and loss where weights are the respective probabilities If the weighted average amount is positive, benefits are more than loss, and hence it is worth granting credit. The probabilities are always non-negative and aggregate to one

II. CONCLUSION

The components of a firm's credit policy are the terms of sale, the credit analysis, and the collection policy

The decision to grant credit is a straightforward NPV problem.

Additional information about the probability of customer default has value, but must be weighed against the cost of the information.

The optimal amount of credit is a function of the conditions in which a firm finds itself.

The collection policy is the firm's method for dealing with past-due accounts-it is an integral part of the decision to extend credit.

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