

<b>STANDARD OPERATING PROCEDURE</b>	<b>CODE: AR - 002</b>		<b>PAGE: 1 of 4</b>
	<b>EFFECTIVE:</b>		<b>UPDATE NO.:</b>
	<b>INITIATED BY: PRIMA CONSULTANT CO., LTD.</b>		<b>DEPT./SECTION:</b>
	<b>REVIEWED BY:</b>		
	<b>APPROVED BY:</b>		
	<b>SUBJECT:</b>	<b>CREDIT POLICY</b>	

**OBJECTIVE:**

To define proper evaluation and approval process of new customer accounts or credit limit increases in order to reduce potential collection problems

**POLICY:**

1. Credit should only be extended to customers who have provided evidence that they are committed to satisfy all charges due as requested by the hotel, and who also have been subject to a pre-arranged thorough review of their credit status.
2. The credit application must be formalized, stating maximum credit amounts, payment terms and methods, people authorized to make bookings on behalf of the debtors, etc... All credit applications should be renewed every year.
3. An up-to-date authorized debtors listing must be maintained, stating the credit limit and terms available to each debtor.
4. The Credit Manager or AR Supervisor is responsible for the review of the application and investigation of the applicant's credit history. All credit applications must be approved by the Financial Controller and the General Manager

**PROCEDURE:**

**I- Credit Application procedure**

1. A company wishing to open a credit facility with the hotel must complete a hotel credit application form (sent by the Sales & Marketing department) stating
  - The company details (Name, address, corporate name, etc...)
  - The list of persons authorized to make bookings on behalf of the company (Name, position, ID number, specimen of signature)
  - The credit references
  - The invoicing details (Billing address, contact person, etc...)

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2. Once received, the Credit Manager must review the application for completeness and accuracy. Missing or erroneous information may result in delays or rejection of the application. Then the Credit Manager will perform a formal check of the solvency of the company, through
  - The use of independent credit investigation agencies or investigative services on internet
  - The investigation of the credit references given by the applicants
  - The inquiries made to other hotels in the group
 Detailed results of the inquiries should be attached to the credit application. For company with past relationship with the hotel, any past trouble must be noted such as returned cheques, non-compliance with payment terms, settlement disputes, etc...
3. The Credit Manager will review the credit application and the results of the credit investigation to propose the approval or rejection of credit for the customer, and the credit line and terms authorized if approved, in accordance with the hotel's credit policies.
4. The credit application file will then be submitted to the Financial Controller and the General Manager for their final approval before execution.
5. After completion of the process, the Credit Manager will send an official letter to the applicant to inform him of the result of the process. When the credit application has been approved, the granted payment term only should be mentioned to the debtor. The credit limit should not be disclosed as it is used by the hotel for assessing the total debtor balance and may be revised periodically.
6. Approved credit application should then be filed per alphabetical order in the credit department.

## **II- Credit application maintenance**

1. A credit file for each debtor account, containing the authorized credit application with all supporting solvency check documents attached, is maintained at the credit department. In addition, a summary list of all companies with authorized credit application should be maintained for easy reference, listed by sub-category and stating
  - A/R code

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- Company name
- Date of approval of the credit application
- Credit limit and term granted
- Invoicing term

As part of the list, the companies for whom previous credit authorization has been removed must be stated in with the reason pertaining to the removal. Copy of such list should be distributed to the Reservation Manager and the Sales & Marketing Manager.

2. The credit application must be renewed once a year, ensuring there is no change in the company status and that the persons authorized to make bookings on behalf of the company are still valid. The former credit application will then be replaced.
3. The credit limit must be reviewed regularly by the hotel management to ensure the current validity of the limit granted. Any company in over-credit limit situation for 2 or more consecutive periods should be analyzed during credit meeting.  
Two reasons may explain why a company is over credit limit:
  - The volume of business generated by the company over the period is more than the credit limit. In that case, the credit limit should be increased accordingly.
  - The company is experiencing difficulty with payment. In that case, option of removing credit authorization temporarily or permanently must be discussed.
4. Any changes in the credit limit must be formalized with a new credit authorization form being approved by the Financial Controller and the General Manager and subsequently attached with the debtor credit application.
5. The Financial Controller is responsible for performing regular checks to ensure the filing is properly and accurately maintained.

### **III- Form samples**

#### **Credit Application Form**

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**Credit Authorization Approval Form**

**Letter of offer credit facility**

\_\_\_\_\_  
**Chief Accountant**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Financial Controller**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Director of Finance**

\_\_\_\_\_  
**Date**