

## YOUR GUIDE GUIDE TO INTERPRETING CREDIT AGENCY REPORTS

GUIDE  
2



Credit checking a customer prior to carrying out work with them is an excellent way to indicate their ability to pay and their payment history.

Page One of Two

There are specific things that you should look out for on a credit risk report that should give you an effective overview of your customer's credit risk.

### COMPANY NAME

Please ensure this is the correct company name that you are trading with. For the avoidance of doubt, check the company registration number is the same as the one your customer has supplied you with.

### COMPANY NUMBER

Company registration numbers are a 7 digit unique number. Company numbers prefixed with 'SC' are Scottish registered companies. Prefixed with 'NI' are Companies registered in Northern Ireland.

### REGISTERED ADDRESS

This address may be the trading address or a head office address. Some companies use their accounts address as a registered address, so don't be alarmed if the registered address is different to the trading address you have for your client.

### TRADING ADDRESS

This address may be the address you are aware of or possibly another trading address for the same company.

### INCORPORATION DATE

This is the date your client's limited company was incorporated. Companies have an obligation to file their accounts at Companies House by the following dates:

- > **Public Limited Companies (PLCs)** - 18 months from incorporation
- > **Private Limited Companies (Ltd)** - 21 months from incorporation

And annually thereafter.

If a company is late filing their accounts, this can often indicate negative issues.

### COMPANY STATUS

If this is shown as anything other than 'Active' then you should not be trading with this company.

Other status you may see are:

- > **Dormant** - this is a non trading company and you should seek clarification from your client as to the company's status.
- > **Non Trading** - again, this is a non trading company and you should seek clarification from your client as to the company's status.
- > **Financial statements too old** - You should speak to your client as to why their accounts have not been filed with companies house. Unless you receive a satisfactory answer, you should ask for payment of cleared funds in advance.
- > **Active** - newly incorporated - As this company is new, and not yet filed any accounts, they do not have a proven track record. We recommend if there are no other adverse indicators about the company, you should only allow a very small credit limit ( eg £150) until they have a proven payment history with you for at least 6 months.
- > **Directors Not Appointed** - A limited Company requires directors, therefore you should seek clarification from your client to the status of the company.
- > **Company is dissolved** - You should not be trading with this company on open credit terms, seek clarification from your client.

> **In Liquidation** - You should not be trading with this company on open credit terms. If you already have a debt with this company before the date it went into liquidation, you are classed as an unsecured creditor. You should have received a letter from the insolvency practitioner dealing with the liquidation regarding the liquidation and the prospect of receiving a 'dividend' against your debt.

### TPS/FPS/MPS

Telephone/ Fax/ Mail preference service. If there is 'yes' against any of these abbreviations, your client has registered not to receive cold calls/faxes/emails. This does not prevent you from calling/ faxing/ emailing to obtain payment of debts.

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Page Two of Two

### CREDIT RATING AND LIMIT

#### Limit

The report will give a recommended credit limit, it is worth mentioning, this is not a guarantee for payment. Credit agency reports look at a lot of indicators to assess what this limit should be, however it is worth checking other indicators as described in this guide to ensure you are happy to allow the full recommended credit limit.

#### Rating

Credit agency reports will give a rating between 0 and 100, 0 being caution- trade at your discretion, 100 being very good credit worthiness. Therefore, the higher the rating the lower the risk.

### PREVIOUS RATING & RATING HISTORY

It is good practice to review the trends to see if there is an upward or downward trend in limits and ratings. It stands to reason that a company with a downward trend from say a rating of 94 to 68 is a higher risk than a company with an upwards trend with a rating from 32 to 54.

### KEY FINANCIAL DETAILS

Small and medium sized companies are exempt from filing full accounts to Companies House and can file 'abbreviated accounts'. Therefore you may see that turnover, pre tax profit and number of employees are blank.

### CCJ DETAILS

It is fair to say that any County Court Judgment registered against a company is a strong indicator that you should not trade with this company on open credit terms. However, if the CCJ is old and of small value, you may want to speak to your client to discuss it and if you receive satisfactory answers to your questions, you may allow a very small credit limit for your customer until you have established a positive payment pattern over a minimum of 6 months.

### MORTGAGE DETAILS

If your client has an overdraft facility or loans the security for the loans will be registered here. It is common for most companies to have some financial arrangement, but be aware of multiple mortgages registered against a company, as this may represent a higher than normal risk.

### DIRECTORS

It is important to view the director's report. We recommend you should look at the financial strength of companies they are or have been a director of.

It goes without saying that if other companies the directors are involved with have negative indicators for trading on open credit terms, you should be cautious about extending credit terms to them.

If the report indicates the director is disqualified, you should not be trading with this company, a disqualified director can only be a director with the leave of the court.

### PROFIT & LOSS, BALANCE SHEET, CAPITAL & RESERVES, OTHER FINANCIAL ITEMS, CASH FLOW, RATIOS

This area is a complex science in itself and we are not able to give a full guide to interpreting financial information in these procedures. However, Credit Agency Reports do assess all these figures to give their recommended credit limit. If you feel you need further advice on the financial data in the Credit Agency report, we recommend you speak to your accountant.

### EVENT HISTORY

Any changes in the status of a company recorded here can indicate issues with your client.

Changes to be aware of include:

- > Directors resigning from the board
- > Change in registered office
- > Accounts overdue

### GROUP STRUCTURE

If your client is a subsidiary of another company, it is worth checking the financial status of the holding company and other trading companies

