

8

Letters of Inquiry Regarding Financial Status and Collection Letters

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8.1 Letters of inquiry regarding Financial Status :

8.1.1 Introduction The scope of trade and commerce has expanded amazingly due to immense means of communication, effective use of advertisements, various types of research in business and increase in purchasing power of people.

One of the important reasons of the expansion, growth and development of business activities is the credit policy for business transaction. As a result of this policy, the sales activity has increased rapidly. Due to this policy, it has become easier for a seller to find customers. The buying capacity of customer (Purchaser) has improved a lot as he/she does not have to necessarily make payment promptly but he/she could pay the amount by instalment or within a fixed time limit.

Thus it is beneficial to both, the seller as well as the purchaser. If the goods are sold on credit and the seller has not been able to inquire the financial status of the client, the issue of collection arises. Money is not received within specific time limit, the risk of the loss of money too may arise. If the business is done on credit basis, that the through scrutiny of the client's / firm's financial status and prestige is advisable and desirables. Opinion regarding firm's prestige and client's financial status should be obtained from the market.

8.1.2 How to obtain information regarding financial status ? It is advisable for a business firm to acquire all information regarding client's financial status before giving him/her material or goods on credit. Normally, letters are written to banks and other business firms to obtain information. 4Cs should be examined before giving goods on credit. The character of the concerned firm, its capacity to repay the amount, its capital and collateral (Security to be furnished) should be verified closely. If this procedure is strictly followed, the risk of the loss of money could be avoided. The inquiry to obtain financial status of any business firm can be made through following procedure :

- (A) Through reference provided by other business firms.
- (B) Reference from the banker of the firm.
- (C) Financial stability of the firm can be known from last few year's annual reports.

Opinion of other business firm is considered important but the information provided by a bank is considered reliable and authentic. Letter written to a prospective customer, asking him/her to furnish reference of another business firms or of a bank should be written in polite and modest language so it does not harm his/her dignity. This type of letter requires skill. It is to be noted that the customer should not feel that his financial status is being suspected. On the contrary, it should be a routine procedure of a business activity to inquire about the financial status of the firm/customer. Now, we shall see some examples of such type of letters.

8.1.3 Model Letters

(1) Request letter for reference :

Saundarya Cosmetics

1, Raj Complex,

Nava Road,

Vadodara -390001

Phone No. (0265) 25558596

E-mail : saudarycosmetics@gmail.com

27th March, 2016

Navvadhhu Novelty stores,

Zanjar Bazar,

Santram Road,

Nadiyad-387001

Sub. : Providing reference

Sir,

We received your letter dated 20th March 2016 for placing an order for a large quantity of various cosmetics products. Thank you for placing a huge order with us.

We have also taken note that you want to purchase above mentioned goods on the credit of 50 days. This is your first business dealing with us so as a part of business tradition and policy, it is required from you to furnish reference of a business firm or your bank. After having received reference letter form you, it would be possible for us to send goods as per your order.

I expect reference from you.

Yours faithfully,

XYZ

Owner

(2) Reply to the request letter for reference. :

Navvadhhu Novelty Stores

Zanjar Bazar,
Sant Ram Road,
Nadiyad-387001

Phone No. (0268) 22232425

E-mail : navnovelty@yahoo.co.in

2nd April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub. : Regarding reference of our firm.

Sir,

You have suggested us to provide reference in your letter dated 27th March 2016. We, too, believe in following established business traditions and policies.

We have been dealing in cosmetic products for the last ten years. You can contact the following firm or our bank to know about our financial status :

- (1) Kamal Pharmacy & Cosmetics,
Gang Bazar, Sayaji Road, Vadodara 390001
Ph No : (0265) 27656566
- (2) Bank of Baroda,
Pij Road branch, Nadiad. 387001 Ph No : (0268) 37373536
Website : www.bob.org, E-mail : bobnadiad@gmail.com
C. B. No. : 00001334364072

After having received information from the above business firm and the bank will execute the order promptly.

Yours faithfully,
ABC
Partner

(3) Letter written to a business firm asking for opinion about another business firm that desires to purchase goods on credit. :

Saundarya Cosmetics

1, Raj Complex,
Nava Road,
Vadodara-390001

Phone No. (0265) 25558596

E-mail : saudarcosmetic@gmail.com

8th April, 2016

Kalam Pharmacy & Cosmetics,
Gang Bazar,
Sayaji Raod,
Vadodara-390001

Sub. : Query regarding the credit worthiness of Nav-Vadhu Novelty Store, Nadiad

Sir,

We have received your letter, requesting us to provide the financial and business status of Nadiad based Nav Vadhu Novelty Stores.

This firm desires to purchase goods worth ₹ 3,00,000 (Three Lacs only) on credit of 50 days. We request you to provide us information in this context, especially their dealings, reliability and the financial status of the firm. Your opinion will be helpful to us in taking decision regarding business tie up with that firm. We assure you that information provided by you will be kept confidential.

We will co-operate you if you need our help in this regard in future.

Yours faithfully,

ABC

Owner

(4) Letter expressing positive opinion about a business firm :

Kamal Pharmacy & Cosmetics

Ganj Bazar,
Sayaji Road,
Vadodara-390001

Phone No. (0265) 27656566

E-mail : kamalcosmetics12@gmail.com

15th April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub : Opinion about Navvadhu Novelty Store Nadiad.

Sir,

We have received your letter dated 8th April 2016, requesting us to opine about the financial status and trust worthiness of Navvadhu Novelty Stores, Nadiad.

Pay attention towards the following information about the firm in reference to your letter.

Our opinion is based on the following matters (facts) :

- (1) We have business relations with this firm for the last 10 years.
- (2) On multiple occasions we have supplied the goods worth ₹ 1,50,000/- on credit. It has been noted that they have been punctual in their payments.
- (3) 'Navvadhu' Novelty Store is a popular name in Nadiad. Their credibility in business and trustworthiness for allowing credit in business can never be doubted. They have been able to popularize our products by attaining highest sale figures.

The above information should be adequate enough to help you in taking the decision.

We hope that information imparted by us is adequate and will be helpful in your decision of starting business with them.

Yours faithfully,

XYZ

Owner

(5) Letter not giving any guaranteed information, regarding opinion

Kamal Pharmacy & Cosmetics

Ganj Bazzar,
Sayaji Road,
Vadodara-390001

Phone No. (0265) 27656566

E-mail : kamalcosmetics12@gmail.com

15th April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub : Opinion about Navvadhu Novelty Stores, Nadiad

Sir,

We have received your letter dated 8th April, 2015 asking for opinion about Navvadhu Novelty Stores, Nadiad

In reference to your letter we would like to state that we have dealt with this firm only in cash so we cannot state clearly whether to supply them goods on credit or not.

Let us know if you require any information regarding business.

Thanks for inquiry.

Yours faithfully,

XYZ

Owner

(6) Letter containing negative reply regarding the firm.

Kamla Pharmacy and Cosmetics

Ganj Bazaar,
Sayaji Road,
Vadodara-390001

Phone No. (0265) 27656566

E-mail : kamalcosmetics12@gmail.com

15th April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub. : Opinion about Navvadhu Novelty Store, Nadiad

Sir,

We have received your letter of 8th April, 2016 requesting us to provide our opinion about Navvadhu Novelty Store, Nadiad.

- (1) This firm is quite old yet we find that it has been incompetent to create good prestige and goodwill in the market.
- (2) We have been dealing with them for the last three years. We have found them very irregular in making payment.
- (3) We have not supplied them goods worth more than ₹ 1,50,000 at a time on credit.
- (4) Even after frequent reminders regarding payment, some of the bills remain unpaid till today.

We trust that opinion given by us will be kept confidential.

Yours faithfully,

XYZ

Owner

8.1.4 Reference of bank and its letters Normally, business firms hold current bank account for business transactions. Payments are made through a demand draft/cheque against the purchase of goods. Amount received on the sales of goods is also deposited in this account. Opinion given by a bank is considered more authorized and reliable as it is given, considering the transactions made through that current account. Along with the business firms, letters are also written to the banks to know real financial status of the firm.

Normally banks do not disclose the information of their account holders to anybody or to any

firm. This type of information is provided only on demand from other banks. The stages of the letters written to the bank, to know the financial status and goodwill of a business firm, are as under :

- 'X' firm desires to purchase goods from the firm 'Y'.
- Firm 'Y' asks the firm 'X' to provide reference regarding their financial status and reputation from other business firm or their banker.
- Firm 'Y' requests its bank to obtain information regarding the firm 'X' from their bank.
- The bank of the firm 'Y', on behalf of their firm 'Y' writes a letter to the bank of the firm 'X' to know about their financial status.
- The bank of the firm 'Y' sends the information to the firm 'Y'.
- The firm 'Y' takes decision, according to the information received, whether to give goods on credit to the firm 'X'.

Now we shall study the correspondence with bank to know the financial status and financial transactions of a partnership firm

(7) Request letter to a bank asking for reference and the financial status of a business firm :

Amardeep Stationers

Vakil Chambers,

Gandhi Raod,

Amdavad-380001

Phone No. (079) 34485260

E-mail : amardeep59@gmail.com

8th May, 2016

Shivani Stationery Stores,

Motibaug,

Nava Bazzar,

Jamnagar-361001

Sir,

We are glad to know that you are interested in purchasing our products. We have noted that you have requested us to send goods on credit. According to our business tradition and policy, we request you to send your banker's reference regarding your financial status.

Send your banker's detail soon, so that if found favorable we could send goods to you on credit as per your order.

Thanks,

Yours faithfully,

XYZ

Partner

(8) Response of business firm regarding the reference of bank :

Shivani Stationery Stores

Motibaug,
Nava Bazzar,
Jamnagar-361001

Phone No. (0288) 213861

E-mail : shivanistores@yahoo.com

15th May, 2016

Amardeep Stationers,
Vakil Chambers,
Gandhi Road,
Amdavad-380001

Sub. : Regarding the reference of bank

Sir,

You suggested us to send our bank's reference, in your letter dated 8th May 2016. Names and addresses of the banks where we hold our current accounts are as under. They will provide required information about us :

1 State Bank of India

Opp. Civil Hospital,
Jamnagar-361001
Phone No. : (0288) 283540,
Website : www.sbi.net E-mail : sbijam@gmail.com
Account no of our firm : C.B. 00010010008880

2 Bank of Baroda,

Gayatri Madir Road, Mahavir Branch,
Jamnagar-361001
Phone No.. : (0288) 236382,
Website : www.bankofbaroda.org E-mail : bobjam@yahoo.com
Account no of our firm : C.B. 10002030405060

Please note that we have financial transactions with these two banks for the last 10 years.

Yours faithfully,

XYZ

Owner

(9) Letter written to the banker to obtain information regarding financial status of a business firm :

Amardeep Stationers

Vakil Chambers,
Gandhi Road,
Amdavad-380001

Phone No. (079) 34485260

E-mail : amardeep59@gmail.com

20th May, 2016

The Manager,
State Bank of Saurashtra,
Nr. Electricity House,
Relief Road Branch,
Amdabad-380001

Sir,

We hold current account with your bank, having current account no 00081150809359, under the name Amardeep Stationers.

Shivani Stationery Stores, Jamnagar desires to purchase goods from us on credit. In this regard they have given the reference of State Bank of India, Jamnagar where they have their current account with number C.B. 00010010008880.

We request you to write a letter to the State Bank of India, Jamnagar on our behalf and get us information about the financial status of the firm.

Yours faithfully,

ABC

Owner

8.2 Collection Letters :

8.2.1 Introduction Goods are sold on credit only if, after thorough investigation of customer's business prestige; the opinion regarding his business is favourable. The seller makes thorough inquiry about the financial status, trustworthiness and reputation of the buyer who wants to purchase goods in bulk and on credit. He may also arrange for getting reference from the buyer's bank through his (seller's) bank. After having supplied the goods on credit, the seller expects his payment within a fixed, specified time limit. This is an ideal situation but it does not always happen in reality. Shortage of working capital occurs if the payment is not received within reasonable period. It directly affects the daily financial transactions of a firm. The businessman selling goods on credit has to fix up specific policy regarding collection.

Collection letters are also called 'Dunning Letters'. The meaning of the English word 'to dun' means 'to remind repeatedly for making payment and to insist on prompt payment'.

The purpose of collection letters is to recover outstanding amount from the client. Care should be taken while writing collection letters that in no case client's dignity is dishonored and relations get spoiled. The principle "Recover money but retain customer" should be kept in mind while writing collection letter.

In reality collection letters are written in form of reminders. Proper moral pressure is gradually exercised to recover money through collection letters.

8.2.2 Various stages of writing collection letters

(1) The first step is to write an indirect and simple reminder after the due date of making outstanding payment gets over.

(2) If there is no response to the above letter then in the second stage, the attempt should be made in a friendly manner to know the reason for not making the payment and to solve the problem.

(3) The seller of the goods wishes to co-operate the customer in all ways, even then if proper response is not received from the customer, it is to be communicated that the seller will be compelled to go for litigation and that will harm the reputation of the customer.

(4) The final date of legal procedure is finally communicated, if increasing moral pressure in the letters has not been effective on the buyer.

8.2.3 Tips for writing effective collection letters

(1) The content of the letter should reflect a friendly attitude.

(2) While writing a collection letter it should be accepted that 'Customer is honest'.

(3) The message in the letter should be positive, hopeful and free from prejudice.

(4) The tone of the language of the letter should be softer. It should not hurt the feelings of the customer.

(5) Collection letters should be in a sequence and should have firmness in tone.

(6) Collection letter written skillfully and with firmness, should not be too brief. Infact, it requires, details regarding consequences.

(7) Before threatening legal action, the customer should tactfully be reminded of the significance of dignity, reputation and sincerity in business relations.

(8) The seller cannot afford the triple loss of money, goods and customer therefore a middle option of compromise should be sought..

(9) The customer should be made to realize his/her own benefit through collection letter.

(10) Secrecy of the collection letters should be observed to maintain the prestige of the customer hence collection letters should be sent in envelopes only.

8.2.4 Model letters

(10) Draft a letter to your customer who has purchased goods on credit and considerable time has passed in making payments. Write a letter to the customer drawing his attention towards unpaid bill.

Bharat Electronics

Sardar Market,
Mahajan Gate,
Bharuch-392001

Phone No. (02642) 384042

E-mail : bharatelectronics@gmail.com

22nd May, 2016

Shahjahan Electric House,
Palace Road,
Rajpipla-393145

Sir,

With reference to your letter dated 15th February 2016, we sent you 100 pieces of 'Kadam' Fans and 150 pieces with a complete kit of 'Surya Kiran' tube lights. We hope the sale of this product is quite good in the market.

We are sending a copy of the bill of the above mentioned goods for your reference. The total amount of the bill is ₹ 1, 90,000 (Rupees One lac and ninety thousand only). The period of its three months credit is over on 15th May 2016. Do the needful in this matter, promptly.

Regular payment strengthens business relations and makes relations business oriented. We think, you know this and strongly believe in it.

Thanking you,

Yours faithfully,

ABC

Owner

Encl. : One copy of bill.

(11) Draft a letter showing your concern for the problem of the customer who normally was regular in making payments but this time he/she has not responded positively in spite of writing reminders to make payment :

Samay Watch Co.

51, Bharavi Tower,
Station Road,
Navsari-396445

Phone No. (02638) 482830

E-mail : samaywatchco@gmail.co.in

15th August, 2016

South Gujarat Watch Company,
Mandvai Bazar,
Tithal Road,
Valsad-396001

Sir,

Good wishes on Independence Day. We expect that up-coming festivals may strengthen our business relations.

We dispatched you a large quantity of various types of watches on 10th June 2016. We sent a reminder to you on 20th July for the payment of ₹ 25000 only (Rupees twenty five thousand only) as its credit period is over. 15 days have already passed but we have not heard anything from you. Regularity in payment has always been your special feature. We appreciate your dedication for our business relations for the last 10 years. Delay in payment and not replying our letter indicate that you have some financial hitch. We are ready to help you in just and fair ways regarding solution of your financial problems and your reply would help us in getting some idea about your present situation.

We await a response from you.

We expect your co-operation.

Yours faithfully,

ABC

Owner

(12) Draft a letter expressing the feelings of disappointment for National Publishing House, Godhara as they have not made any attempt to make payment in spite of your soft attempts for collection of amount.

National publishing House

Vora Vadi,
Akabar Road,
Godhara-389001

Phone No. (02672) 786225

E-mail : rashtriyhouse@yahoo.com

15th October, 2016

The Saraswati Book Bhandar,
Kadiya Bazzar,
Sardar Raod,
Santrampur-389260

Sir,

With reference to your letter dated 5th July 2016, we have sent you 100 copies of 'Gujarati Nibandh Mala' of standard 11 and 12 and also 50 copies of Gujarati – English Dictionary. The amount of its bill is Rs 18,000 (Rupees Eighteen thousand only).

We have sent you two reminders on 1st September, 2016 and the other one on 15th September 2016 respectively but no favourable response is received from you. This type of attitude is risky for business relations. In our previous letters, our attitude to co-operate you has not created any positive impact on you. Moreover we haven't received any satisfactory reply when we talked to you on telephone. Your behavior is not befitting to any reputed businessman.

We have made all necessary attempts to receive payments from you. This is for the last time we let you know to make the payment latest by 25th, October 2016 at the rate of 10% interest, Failing which we shall be compelled to proceed legally.

Yours faithfully,

ABC

Owner

- (2) Whose opinion is considered more authentic while inquiring about the financial status of a firm ?
 (A) Insurance Company's (B) Angaida Firm's
 (C) Bank's (D) Other Business Firm's
- (3) What is to be verified to know the financial status ?
 (A) Business experience (B) Repaying capacity
 (C) Enthuasim to work (D) Business for sightedness be avoided
- (4) Which of the following is the chief aim of letter of collection ?
 (A) To wish the customer (B) To recover the dues
 (C) To obtain order in large quantity
 (D) To inform the customer regarding legal procedure.
- (5) By which other name, the collection letters are known ?
 (A) Threatening letter (B) Dunning letter
 (C) Settlement letter (D) Complaint letter

2 Answer the following questions in one sentence only

- (1) What type of information does the seller expect from the buyer who wishes to buy goods on credit ?
- (2) What risk factor is involved while selling goods on credit ?
- (3) How is the customer benefitted by selling goods on credit ?
- (4) When should be the letter of collection written ?
- (5) How should the letter of collection be sent to maintain its secrecy ?
- (6) Which matter should be specifically mentioned in the final letter of collection ?
- (7) What would be the consequences, if the payment is not made within time ?

3 Answer the following questions in brief

- (1) Explain the process of obtaining financial status.
- (2) Which four things should be assessed before supplying goods to a business firm on credit ?
- (3) Explain the different stages of a collection letter ?
- (4) By which other name, the collection letters are known ?

4 Draft the following letters

- (1) You have received a large order for the first time from Himmatnagar based Paras Novelty Store who desires to purchase ready made garments on credit. Draft a letter asking them to provide reference of another business firm.
- (2) Pratima Jewellers has received a letter to furnish reference about Saunday Jewellers, Rajkot. Draft a letter expressing positive opinion regarding Shanagar Jewllers.
- (3) Adhunik Cycle House of Porbandar suggested its banker to obtain information regarding its financial status. Draft a letter to your bankers to get you the information regarding the financial status of the firm.
- (4) Draft a letter to your customer giving your indirect suggestion to pay the amount of the goods sent on credit as the time limit of the credit has exceeded.
- (5) Draft a letter to Rimzim House, Vadodara informing them to be prepared for legal notice as in spite of warning for legal steps, no positive response for payment of unpaid bill is found.

