

Accounts Receivable Guidelines for DM India

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1 Introduction

Accounts receivable is earned yet uncollected money and thus managing accounts receivable is one of the top priorities in business and is an on-going process.

1.1 Applicability & Accountability

The regulations set herein are applicable to all Local units of DM India. Respective Local unit Head would be responsible for ensuring that the guidelines laid below are adhered to.

1.2 Definition of terms

Customer = Agent
PIC = Person in charge
EMS = Division Emerging Markets & Specialists
DM BU = Destination Management Specialists Business Unit
DM UNIT = Destination Management Specialists Unit (DM Arabia, DM Africa, DM Asia Pacific, DM USA, DM Europe, DM India)
LOCAL UNIT = Local Destination Management Specialists Unit (e.g. Asian Trails Vietnam part of the DM Unit DM Asia Pacific)

2 Acceptance of new customers

Starting a new business relation always opens up new opportunities, but apparently risks too. In order to overcome those risks, following guidelines need to be followed for the acceptance of new customers:

- Acquiring new customers shall be in line with the local sales strategy and/or quotation guidelines.
- Acquiring a new customer needs to be approved by Local Unit Head/ General Manager (GM) heading the respective market.
- The approval of a new customer must be done before sending a binding offer to the prospective customer.
- Business with new customer is on pre-payment basis, except for the following cases:
 - ⇒ The customer is a branch office of an existing good client; this client has a credit line with Kuoni.
 - ⇒ The customer is a Kuoni subsidiary/associate company
 - ⇒ The customer is already working with another Kuoni unit on credit and has a good payment record there.
 - ⇒ The customer pays a deposit or issues a bank guarantee whereas the amount guaranteed covers at minimum a booking volume of 30 days.
 - ⇒ Credit terms have been approved by the CEO DM UNIT, CFO DM UNIT, COO DM UNIT and LOCAL UNIT head.
- Assess the credit worthiness of a new customer before assigning any credit limit/period to him. Aspects to be assessed are:
 - ⇒ Customer's payment reputation in the market and the likelihood of future losses due to bad debts
 - ⇒ Reputation of management
 - ⇒ Customer's current capital-equity, debt
 - ⇒ Customer's financial capacity
 - ⇒ Years of operations of the customer

The above information may be available from the local Debt prosecution and bankruptcy office, other units within the Kuoni Group having relation with the customer, questioning the customer on above mentioned aspects, Register of companies and Dun & Bradstreet website (*for business credit reports*).

The assessment becomes more critical in a downturn situation when the customer may want to switch from the competitor because his credit has been put on hold due to payment issues.

3 Credit policies

Payment terms shall be defined for each client at the time of offering. Hence offer letters and client contracts shall outline the agreed payment terms with the customer.

3.1 Prepayment Terms

The following business is to be done on pre-payment/advance terms:

Rule	Exception from rule
<p>a) <u>Customers on pre-payment/advance terms:</u></p> <ul style="list-style-type: none"> ▪ new agents ▪ customers with an unreliable payment history 	<p>see chapter 2 above</p>
<p>b) <u>Following transactions with customers need to be on pre-payment/advance terms regardless if the agent has a credit line:</u></p> <ul style="list-style-type: none"> ▪ Full or partial advance payment by the customer if Kuoni needs to make an advance payment to supplier(s) → the advance payment to supplier must be covered in full (amount must be the same or higher as Kuoni has prepaid to the supplier AND cancellation deadlines must be the same or stronger as for the supplier pre-payment). ▪ If the expected turnover is ≥ CHF 100'000 (or equivalent in other currencies). 	<p>Exceptional cases would be top customers with a long standing relationship and good payment history. However, these exceptional cases have to be approved by the CEO DM UNIT, CFO DM UNIT, COO DM UNIT and LOCAL UNIT head.</p> <p>Exceptions are also in case of Kuoni subsidiary/associate companies where no advance is received even if advance payment is to be made to the suppliers.</p> <p>None</p>

3.2 Credit terms

Following guidelines need to be followed for setting the credit terms of the customers:

- For Kuoni subsidiaries/associates, the credit period is 60 days. The credit period starts from the invoice date or tour start date whichever is later. However, there is no credit limit defined for these companies.
- For 3rd party customers, generally the credit period is between 7-30 days. However, the credit terms for each customer are approved by the CEO DM UNIT, CFO DM UNIT, COO DM UNIT and LOCAL UNIT head before defining the same in XPLOR.
- Credit terms can be agreed with good and profitable customer with a sound payment record only.
- The payment terms shall be printed on offers sent to the customer.

3.2.1 Credit Allowance

Temporary credit terms i.e. credit allowance can be assigned to the customers in following cases:

- In case of existing customers with defined credit limits, if an XO is to be raised for a future file but the existing credit limit is exhausted or credit period has lapsed, then temporary

credit limit/period can be assigned to the customer for issuing the XO after being approved by either of Local Unit Head, CFO DM UNIT, General Manager Business Finance.

- In case of customers where no credit terms are defined in the XPLOR, temporary credit allowance can be given subject to approval by either of Local Unit Head, CFO DM UNIT, General Manager Business Finance, but the amount should be collected before the tour start date.

(In both the cases mentioned above, if the Local Unit head is not available, then the same can be approved by either of CFO DM UNIT/General Manager Business Finance/ Admin Head. However, the collection responsibility will be of the Local Unit head/GM heading respective market only).

4 Billing policies

4.1 Accuracy / Completeness

The CFO DM UNIT implements and maintains appropriate tools and processes to ensure accuracy and completeness of billing (in co-operation with sales and/or operation department).

4.2 Invoicing

a) Prepaid/Advance payment business

Prepaid business is to be invoiced either

- On tour start date or
- Advance payment received date; whichever is earlier.

We also receive advance payments in case of incentives, conferences and cruises. In compliance with the local statutory laws, if advance payment is received, invoice is to be raised on the same day of receiving the payment except in case of conferences (refer 4.2(b) below).

b) Credit business

- Invoice is to be raised on the tour start date.
- Tailor made business (e.g Conference), where invoicing before tour start is not possible due to last minute changes or where additional services are added/changed during the stay, invoice shall be raised within 14 days from the last date of the conference.

4.3 Means of billing

Invoices have to be issued through an automated mode by using the front office systems i.e. XPLOR/SEJOUR. Due to efficiency reasons and to avoid fraud cases, manually issued invoices are to be avoided by all means (e.g. issued in MS Word/Excel).

4.4 Accounting of invoices

All invoices must be accounted for in the local accounting books maintained in SAP as following:

- At latest one working day after issue date of the invoice through Xplor.
- Automated accounting by having an interface between SAP and Xplor/Sejour.
- Recognition according to the cut-off principles of the Kuoni Group

4.5 Monitoring

The CFO DM UNIT periodically monitors the adherence of above mentioned guidelines:

- Accuracy and completeness
- Average time to invoice
- System supported invoicing
- Timely accounting of invoices

Furthermore the CFO DM UNIT initiates appropriate actions in case of non-adherence and continuously improves the billing procedures.

5 Management and aging of accounts receivables

5.1 General rules

- Every customer must be assigned to a person in charge (PIC) (generally GM or Market Head) for AR management.
- Deputyship for AR management shall be defined.

5.2 Actions in case of Non-payment

a) Prepaid business

In case prepaid business is not paid within agreed timelines, immediate action needs to be taken and followed up. If payment cannot be received before arrival or before a cancellation deadline on the vendor side applies, cancellation of services must be initiated. Explained exception can be approved by CEO DM UNIT, COO DM UNIT, LOCAL UNIT head and CFO DM UNIT.

b) Credit business

In case credit business is not paid within agreed credit timelines, immediate action needs to be taken to collect the money (E.g. agree a payment plan with the client).

In case that such action cannot be realized as agreed, the CEO DM UNIT, COO DM UNIT and CFO DM UNIT must be informed and one or several of below mentioned actions shall be performed immediately:

- Initiate legal proceedings against the customer
- New business shall be put on prepayment.
- Stop business relation

In case that a customer is going out of business (or high likelihood to do so in near future) the CEO DM UNIT, COO DM UNIT and CFO DM UNIT needs to be involved ASAP.

c) Monitoring

Actions taken and actions/dates agreed with customers shall be recorded in the customer file (preferably within a CRM system).

5.3 Responsibilities - Business Unit Head: know A/R situation & trends

The overall responsibility of outstanding control lies with the Local Unit head. This involves:

- The Local Unit head is in charge to assign clear responsibilities and to establish procedures and incentives to ensure fast money collection (in coordination with the CFO DM UNIT).
- Knows the A/R situation and its development:
 - Watch for trends in total A/R
 - Initiate early actions to avoid non-payment / bad debts.

5.4 Responsibilities - Sales: proactive A/R management

The responsibility to collect invoices on a day-to-day basis shall be with the PIC for the customer.

That means the PIC as defined above is in charge to collect the payments for each business sold. This involves communicating on a day-to-day basis with the customer.

Taking a highly proactive approach to A/R management is critical. Call customers frequently when they pay on time and let them know you appreciate their business. This makes it much easier to call when payment is late. In case of a delayed payment the PIC needs to get immediately in contact with the customer to find an adequate solution.

Besides verbal day-to-day communication, monthly account statements showing the aging shall be sent to the client by PIC.

5.5 Responsibilities - Finance: provide timely and accurate information

Accounting is in charge to support the PIC and the Local Unit head pro-actively in their collection task:

- Ensuring that accounts are up to date and complete
 - Invoices must be posted to A/R the latest one working day after issue date.
 - Payments received must be registered latest 3 working days after receipt in the A/R books.
 - Do not leave a payment uncleared (e.g. "on account payment") → if a payment cannot be assigned to its invoice due to missing information, finance must inform the PIC, who would further need to contact the customer and to get the missing information within 2 weeks.
 - Payments which cannot be allocated to a customer account due to missing information, have to be posted on a suspense/unclaimed debtors account:
 - Investigations to clear
 - Payments which cannot be allocated and remain on the suspense account are to be written off after the statutory period of limitation (2 years) has ended.
- Preparing and distributing aging list (at least twice a month).
- Preparing and distributing customer statements at least twice a month
- Identify problem cases and draw attention to it (e.g. team meeting with general manager/sales).

6 Handling of bad debts

6.1 Accounting principles

In line with the Kuoni Group accounting principles, a receivable due for more than 90 days must be considered as doubtful to collect and therefore a provision needs to be built in the same amount. This as a consequence has a direct impact on company's profit.

6.2 Write off of bad debts

The procedure is based on the regulations on financial powers:

- A write-off of bad debt loss needs the approval of the LOCAL UNIT head, CEO DM UNIT, COO DM UNIT and CFO DM UNIT
- A write-off of bad debt loss > CHF 20'000 needs the approval of the CEO DM BU¹ and the CFO EMS².
- A write-off of bad debt loss > CHF 100'000 needs the approval of the CEO EMS³ and the CFO EMS (coordination via CFO EMS).

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² Christian Akeret

³ Stefan Laser

7 Issue & Approval of credit notes

Issuing of credit notes to Customers should ideally be avoided.

However, it may be required to issue Credit notes under following circumstances:

- Incorrect invoicing
 - higher rates charged
 - certain services billed but not provided to customer (must be proved conclusively)
- Compensation claims

Approval process:

- In case of current month, GM can approve the credit note.
- In case of prior month(s), refer to the below table for approval:

Amount of credit note	To be approved by
Up to Rs 1,000,000	GM
Above Rs 1,000,000	LOCAL UNIT head, COO DM UNIT* and CFO DM UNIT

*COO approval required on email