

5.4 Exercises on debtors and creditors

1.

If you were determined to sabotage a firm, would you cause more damage by destroying the record of the firm's debtors, or the record of its creditors?

Responses should include some of the following points

A firm which buys largely on a cash basis would suffer little from the loss of its creditor records, and a firm which sells largely on a cash basis would suffer little from the loss of its debtor records.

In a firm which sells on credit, losing debtor records would mean losing customer records – that is, not only names and addresses and amounts owed, but also knowledge of previous buying patterns and preferences. The firm would thus find it difficult not only to collect the cash owed by debtors, but also to make new sales by targeting existing customers.

Creditors are suppliers, and a firm which lost creditor records would have to research all of its supply base. However, creditors, who are owed money and will want to be paid, will probably contact the firm, and much of the information lost may be easily recovered – although, of course, the firm would have little defence against the possibility of fraudulent claims by creditors.

2.

As an industrial spy, what useful information would you hope to gain from

- a) copying a firm's records of its debtors?
- b) copying a firm's records of its creditors?

Responses should include some of the following points

A firm in possession of a rival firm's debtor records has access to virtually all relevant information about the rival's customers and pricing policies. This would include not just names and addresses but also buying patterns and preferences, plus any special discounts or credit arrangements (notice that a firm's biggest customers are not necessarily its most profitable customers).

There is possibly less scope for malicious use of a rival's creditor records. Creditors are suppliers, and suppliers cannot be stolen from a rival in the same way as customers.

3.

A firm has bought goods on credit from A for £100, and sold goods on credit to B for £100.

Is it fair to say that the firm's £100 payable to A is fully covered (i.e. equalled in value) by its £100 receivable from B?

Response

£100 receivable from B is in the form of a promise, and promises may be broken. There are many reasons why B may fail to pay, or perhaps be unable to pay. By contrast, there are few reasons why A should give up his claim on the firm. Thus the £100 receivable and the £100 payable are not in fact of equal value: there is some doubt as to whether the receivable will actually be received, while there is little doubt that the payable will actually be demanded.

There is also the issue of differences in timing. £100 receivable tomorrow will not cover £100 payable today.

4.

‘Neither a debtor nor a creditor be.’

Is this good advice? (‘good’ for the individual, or ‘good’ for society at large?)

Response

Both debtors and creditors are to some extent in the power of other individuals.

Debtors may suffer if they cannot pay what they owe when the debt becomes payable. Creditors may suffer if they cannot recover what is owed to them. Both situations therefore involve a degree of risk for the individual.

On the other hand, borrowing, lending, and trading on credit do facilitate trading and the division of labour, and therefore probably contribute to the good of society at large.

5 (a)

If you had to choose, would you rather be a debtor or a creditor?

Response

As suggested in the response to Question 4, both debtors and creditors are to some extent in the power of other individuals. However, creditors are normally in the more powerful position.

In part, the answer may depend on the age of the individual and his or her closeness to death. Creditors hold promises of future payment – valuable to the individual only if he or she has a future in which payment can be received. Conversely, a debtor has given promises of future payment, and these may be of no consequence if the individual does not expect to live long enough to have to pay them.

5 (b)

What difference would it make to your choice if you lived in a time of rising prices (or of falling prices)?

Response

In times of rising prices, it is definitely preferable to be a debtor.

6.

‘In revolutionary politics, the class of debtors will aspire to dismantle the state, while the class of creditors will try to take it over.’

Is this theory plausible?

Response

This theory is at least plausible. Debtors who are overburdened by the weight of their obligations may well attempt to destroy the state and with it the law which requires them to fulfil their promises. On the other hand, creditors, especially those creditors who fear that the state may allow others to escape their obligations, may attempt to take over the state to use its power more effectively in defence of their rights.

(Students may wish to consider the classic case of Shays’ Rebellion in Massachusetts, following the American War of Independence.)