DEBTORS MANAGEMENT

Statement of evaluation of credit policy

Name of the Company

PARTICULARS	CREDIT POLICIES			
		PROPOSED		
	PRESENT	I	II	III
Average Collection Period				
Sales Qty				
	Rs.	Rs.	Rs.	Rs.
Sales @Rs. /unit				
Less:Variable Cost @ Rs. /unit				
Contribution				
Less:Fixed Cost				
Gross Profit				
Less:Administration Exp				
Less:Bad Debts				
Less:Collectio Cost				
Less:Discount Allowed				
Net profit before tax				
Less:Tax				
Net profit after tax				
Less:Cost of carrying Debtors/Oppurtunity Cost				
Net benefit / Gain				

Working Notes:

1.Caln. Of Cost of carrying debtors(COCD)= Total cost

a)Investment in Debtors	Variable cost+Fixed cost
b)Avg investment in debtors	Invst in Debtors*Collection period*12/360
c)COCD	Return of income(ROI) in Debtors% * Avg investment in debtor

Therefore, the company should choose Policy II by allowing credit period of 2 months as it gives maximum Net Benefit

1)Avg collection period--mostly given; if given like 2/10net30 then it means
Credit period(due date)= 30days
In that 30 days if you repay within 10 days, you can avail the discount of 2%
Addl info like "80% availed the discount" will also be given
Caln of Avg collection period:
10days * 80% = 8
30days * 20% = 6
Therefore avg collection period is 14 days(8+6)
Collection period will be used twice in the sum: 1-at the beginning, 2-for calculating avg investment in debtors

2) Variable cost sometimes known as Cost of goods sold(COGS). Cost per unit (Cpu) for variables cost is same for all the

3)Fixed cost remains same while its cpu changes.

4) Then deduct 'ABCD' expenses
a)Admin exp will directly be given
b)Bad debts/Risk of non-payment, if not given can be calculated as: Credit Sales* Bad Debts%

c)Collection cost(will be given too)
d)Discount allowed can be calculated as: Total Sales * %of debtors availing the discount * Discount%

5)Investment in debtors can be calculated based on Sales if mentioned

6)Provide a note if you have assumed a year to contain 360days

7)ROI in debtors% or pre tax return or cost of capital or average rate of investment is always given as a % in the sum

8)Misc. formulas:
Sales Volume= Variable cost cpu + Fixed Cpu
Average Cpu= Total Cost/ Sales Qty

9) Conclude your answer.

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periods