

CHAPTER NO. 3 : RECEIVABLES MANAGEMENT

Points to be discussed

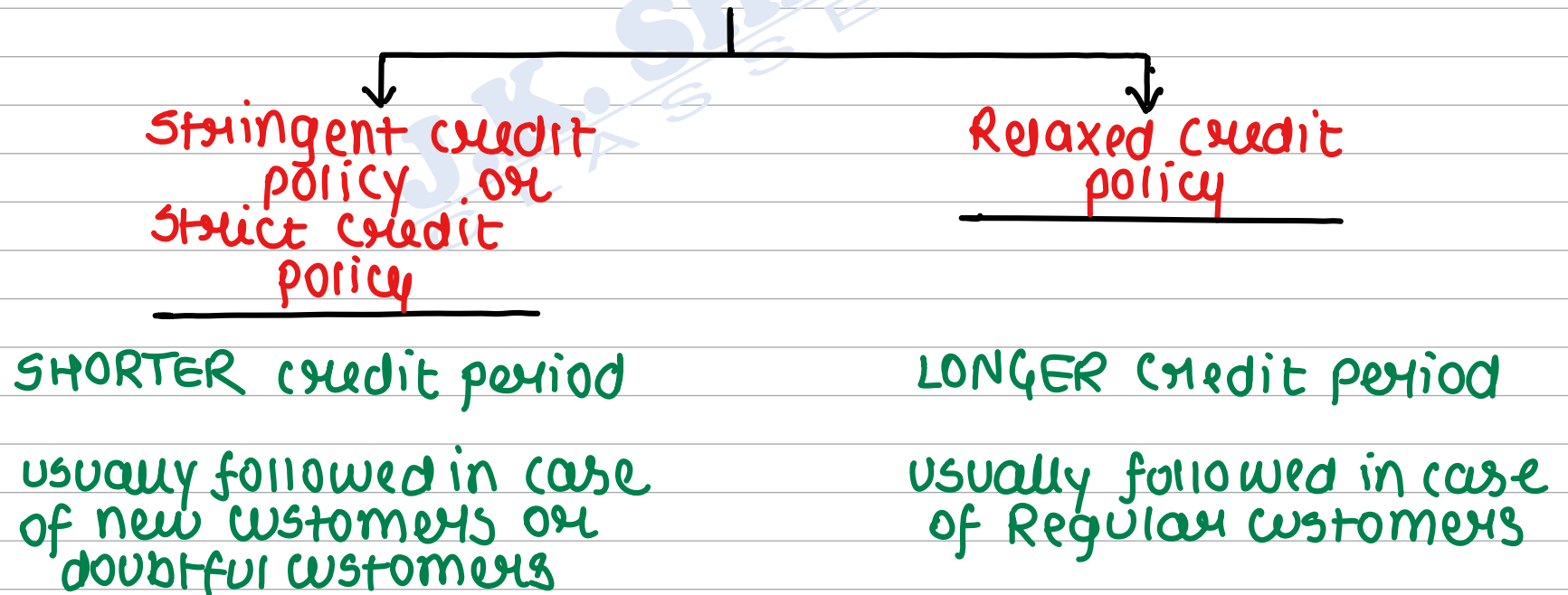
- Introduction
- Types of credit policies
- Evaluation of credit policies
- concept of Average collection period
- Factoring

→ INTRODUCTION

No credit period . LOSS of customers / sales

Higher credit period : Higher opportunity costs

→ Types of credit policies



→ EVALUATION OF CREDIT POLICIES - FORMAT

<u>Particulars</u>	<u>Present Policy</u>	<u>Proposed Policies</u>	
		<u>I</u>	<u>II</u>
Sales	xxx	xxx	xxx
variable cost	xx	xx	xx
Fixed cost	xx	xx	xx
(-) Total cost	xxx	xxx	xx
Profits	xxx	xxx	xxx
(-) Bad debts	- xx	- xx	- xx
(-) collection costs	- xx	- xx	- xx
(-) Discount allowed	- xx	- xx	- xx
Profits before tax	xxx	xxx	xxx

(-) Tax @ ___ %

Profits after Tax

(-) COCD / OCIR

Net Benefits

- XX	- XX	- XX
XXX	XXX	XXX
- XX	- XX	- XX
XXX	XXX	XXX

Working Notes :

Cost of carrying Debtors (COCD) or opportunity cost of investment in Receivables (OCIR)

= Total cost or

$$\frac{\text{Variable cost or Sales}}{\text{Sales}} \times \frac{\text{Collection period}}{365/360/52/12} \times \frac{\text{Rate}}{100}$$

→ Concept of Average collection period

On an average within how much time all the customers make payment

Example: Credit terms : $\frac{2}{10}$ net 30

60% customers avail discount & balance 40% pay at end.

∴ Average collection period = How much % of customers x pay within how many days

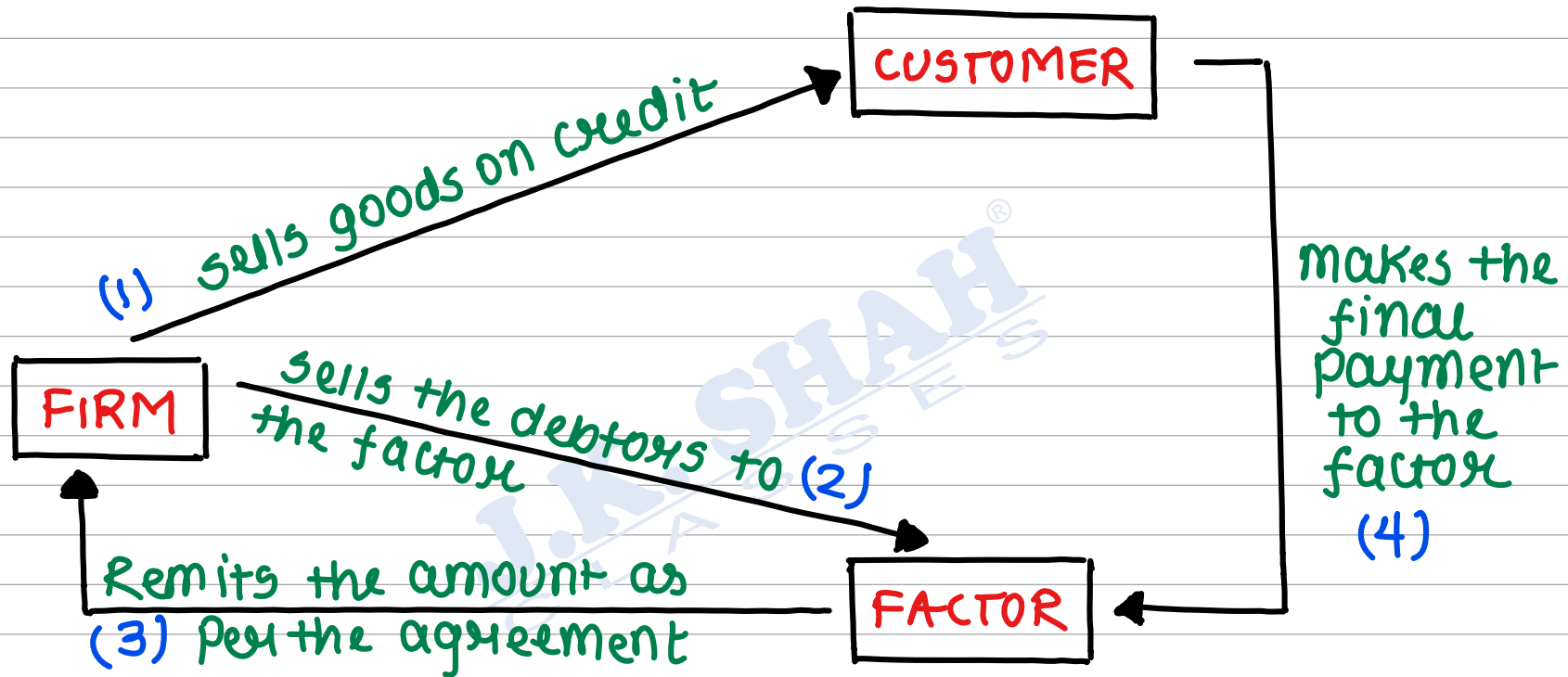
$$= (60\% \text{ of } 10) + (40\% \text{ of } 30)$$

$$= 6 + 12$$

$$= 18 \text{ days}$$

∴ On an average, all customers make payment within 18 days

→ Factoring



- AGREEMENT :
- With Recourse : Firm will bear Bad Debts
 - Without Recourse : Factor will bear Bad Debts

$$\text{Effective cost of Factoring} = \frac{\text{Net cost of Factoring}}{\text{Amount remitted by Factor}} \times 100$$

Net cost of Factoring

$$= \text{Additional cost due to factoring} - \text{Additional benefits due to factoring}$$

Amount remitted by the factor

Debtors under Factoring	xxx
(-) Factoring commission	-xx
(-) Factoring Reserve	-xx
(-) Interest charged by Factor	-xx
Net Remittance.	<u>xxx</u>

————— x ————— x ————— x ————— x ————— x ————— x ————— x —————