DEBTOR MANAGEMENT

· also called as management of receivables.

DEBTOR MAN^t

- credit Policy
  - credit Period
  - Discount
    - Rate
    - Period
- investigation for credit worthiness.
- Proper monitoring of debtors

- A co must have optimum debtors (X 2 high and X 2 low)
- For all policies - compute Profit - select max profit policy.
- All the costs will be given except Interest cost.

Interest = COGS x interest rate x collection period.

★ collection period is more imp and not CREDIT Period.

★ PV ratio = contribution (profit B4 FC) expressed as a % of sales.

★ Dont forget to consider existing plan also while considering alternatives.

Statement Showing Profit

Sales
(-) VC
contribution
(-) interest
(-) Bad debts
(-) collection expenses.
(-) admin cost
(-) discount cost
Profit.

* For int if COGS is not avaible calculate using SALES.

* Pre tax return = cost of funds.

* Discount = 2/5 net 30. [2% disc if you pay within 5 days or pay full in 30 days]

* Wtd Avg Period: Always consider this.

Dr	Days (A)	% (B)	A x B.
disc	x	x	xx
nodisc	x	x	xx
			xx

DECISION TREE ANALYSIS :-

technique of cost benefit analysis.

Customer Pays

Profit = Sales - Cost.

Customer Doesnt Pay

Loss = COP (VOC+int)

Customer	Profit/Loss	Prob.	Prodt
Pays	x	y	xx
Doesn't Pay	(x)	$100-y$	(xx)
		Estimated Profit/Loss.	xx

estimated profit - give credit
estimated loss = no credit facility.

default = $(100-y) = x$ (assume)

FACTORING

Arrangement where a firm receives advances against its debtors from a factor (financial institution) along with

- debtors follow up
- maintainance of debtors ledgers
- collection of debts
- risk bearing services:
- credit investigation ; protection.

* Factor purchases debtors from firm and gives advance after deducting :-
- a suitable / margin/ reserve.
- factors fees / commission
- interest on advance.

recourse factoring :- bad debts are borne by co and X factor.

Average Debtors	always tk avg
(-) Factor reserve	on Avg dtrs
(-) commission	on Avg dtrs
Amt Payable as advance.	
(-) interest on advance	on amt pay as adv.
Net advance Paid. xx	

* Effective cost of funds (Rs) = commission + interest - Savings Baddebts.

* % = $\frac{COF}{\text{net advance}}$.

Savings in Bad debts = Bad debts + Admin exps