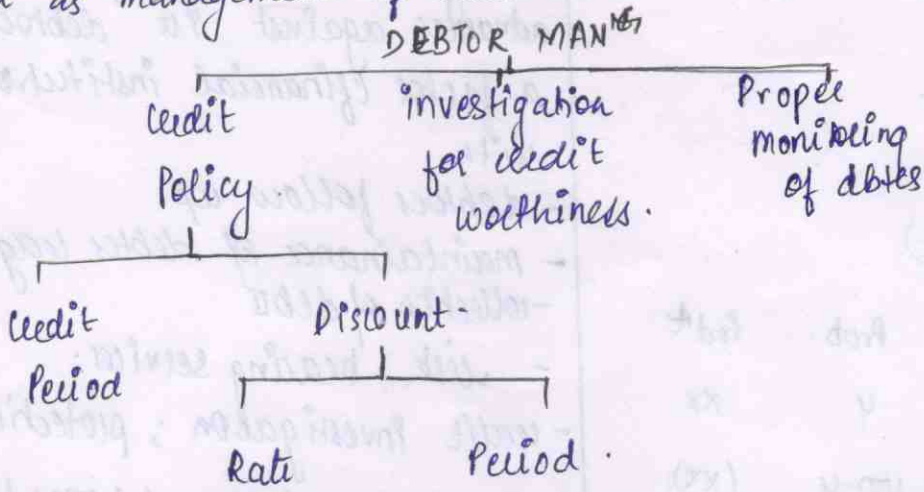


also called as management of receivables.



- A co must have optimum debts (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.
- * Don't forget to consider **existing plan** also while considering **alternatives**.

Statement Showing Profit: * For int if COGS is not available calculate using **SALES**.

* **See 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.**

	Days (A)	% (B)	A x B
disc	x	x	xx
nodisc	x	x	xx
			<u>xx</u>

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

DECISION TREE ANALYSIS :-

Technique of cost benefit analysis.

Customer Pays

$$\text{Profit} = \text{Sales} - \text{Cost}$$

Customer Doesn't Pay

$$\text{Loss} = \text{COP (Cost of Purchase)}$$

Customer	Profit/Loss	Prob.	Prod.
Pays	x	y	xy
Doesn't Pay	(x)	100-y	(xy)
	<u>Estimated Profit/Loss</u>		xx

estimated profit - give credit
 estimated loss = no credit facility.
 default = (100-y) = x (assume)

FACTORING

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

- debts follow up
- maintenance of debts ledger
- collection of debts
- risk bearing services.
- credit investigation; protection.

* Factor purchases debts from firm and gives advance after deducting :-

- a suitable margin/advance.
- factors fees/commission
- interest on advance.

Reverse factoring :- bad debts are borne by co and x factor.

Average Debts
 (-) Factor reserve
 (-) commission

always to avg
 on Avg dts
 on Avg dts

Amt Payable as advance.

(-) Interest on advance

on amt. pay as adv.

Net advance Paid : xx

* Effective cost of funds = $\frac{\text{commission} + \text{interest} - \text{savings}}{\text{Bad debts}}$

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

Savings in Bad debts = Bad debts + Admin exps.