Credit Management

Effects of Prompt Payment Discounts on Cash Flows

Exercise 2

Billiards Ltd has forecast its sales revenue for the next three months as follows. All sales are made on Net Monthly credit terms.

	Sales Revenue (£)
Month 1	***60,000***
Month 2	***65,000***
Month 3	***70,000***

The company is currently looking at two payment options for its customers and has predicted the pattern of payments for each.

Option 1

No prompt payment discount is offered. It is expected that 65% of customers will pay in the month following the month of sale and 35% of customers will pay two months following the month of sale.

Option 2

A 3% prompt payment discount is offered if customers pay in full in the month of sale. It is expected that 75% of customers will pay in the month of sale, 15% of customers will pay in the month following the month of sale and 10% of customers will pay two months following the month of sale.

Task 1

Using the table below, calculate the predicted cash receipts for months 1 – 3 based on the information provided in Option 1.

	Month 1 (£)	***Month 2 (£)***	***Month 3 (£)***	***Total (£)***
Month 1				
Month 2				
Month 3				
Total				

Task 2

Using the table below, calculate the predicted cash receipts for months 1 – 3 based on the information provided in Option 2.

	Month 1 (£)	***Month 2 (£)***	***Month 3 (£)***	***Total (£)***
Month 1				
Month 2				
Month 3				
Total				