Paul Robbins training and consultancy

Credit Management

Effects of Prompt Payment Discounts on Cash Flows

Worked Example Model Answer

Snooker 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	***76,000***
Month 2	***80,000***
Month 3	***86,000***

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 50% of customers will pay in the month following the month of sale and 50% of customers will pay two months following the month of sale.

Option 2

A 5% prompt payment discount is offered if customers pay in full in the month of sale. It is expected that 80% of customers will pay in the month of sale, 10% 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	***0***	***38,000***	***38,000***	***76,000***
Month 2	***0***	***0***	***40,000***	***40,000***
Month 3	***0***	***0***	***0***	***0***
Total	***0***	***38,000***	***78,000***	***116,000***

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	***57,760***	***7,600***	***7,600***	***72,960***
Month 2	***0***	***60,800***	***8,000***	***68,800***
Month 3	***0***	***0***	***65,360***	***65,360***
Total	***57,760***	***68,400***	***80,960***	***207,120***