Paul Robbins training and consultancy

Credit Management

Effects of Prompt Payment Discounts on Cash Flows

Exercise 1 Model Answer

Pool 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	*91,000*
Month 2	*94,000*
Month 3	*99,000*

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 60% of customers will pay in the month following the month of sale and 40% of customers will pay two months following the month of sale.

Option 2

A 2% prompt payment discount is offered if customers pay in full in the month of sale. It is expected that 70% of customers will pay in the month of sale, 15% of customers will pay in the month following the month of sale and 15% 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***	***54,600***	***36,400***	***91,000***
Month 2	***0***	***0***	***56,400***	***56,400***
Month 3	***0***	***0***	***0***	***0***
Total	***0***	***54,600***	***92,800***	***147,400***

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	***62,426***	***13,650***	***13,650***	***89,726***
Month 2	***0***	***64,484***	***14,100***	***78,584***
Month 3	***0***	***0***	***67,914***	***67,914***
Total	***62,426***	***78,134***	***95,664***	***236,224***