

Paul Robbins training and consultancy

Credit Management

Effects of Prompt Payment Discounts on Cash Flows

Exercise 1

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 (£) |
|----------------|-------------------|
| <i>Month 1</i> | <i>91,000</i> |
| <i>Month 2</i> | <i>94,000</i> |
| <i>Month 3</i> | <i>99,000</i> |

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 | | | | |
| Month 2 | | | | |
| Month 3 | | | | |
| <u>Total</u> | | | | |

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 | | | | |