Chapter 28

Credit Policy at Stetson Industries

Input Area:

		Sales	Default rate	Administrative costs	Receivables period
Current policy	Cash Only	$ 120,000,000	0.00%	1.20%	0
Option 1	Net 30	$ 135,000,000	2.40%	2.30%	38
Option 2	2/10 Net 30	$ 150,000,000	3.50%	3.40%	22

Variable costs	45.00%
Interest rate	8.00%

Output Area:

Current policy:

Daily sales	328,767.12
Variable costs (daily)	147,945.21
Defaults on sales (daily)	0.00
Administrative costs (daily)	3,945.21
NPV	**$ 176,876.71**

Option 1:

Daily sales	369,863.01
Variable costs (daily)	166,438.36
Defaults on sales (daily)	8,876.71
Administrative costs (daily)	8,506.85
NPV	**$ 183,228.18**

Option 2:

Discount	2.0%
Daily sales	410,958.90
Variable costs (daily)	184,931.51
Defaults on sales (daily)	14,383.56
Administrative costs (daily)	13,972.60
NPV	**$ 187,719.41**