Section-4

11 What factor determine the size of the investment of a company in account Receviable

Ans The size of Investment in receivables is influenced by number of factors Among them two factors, the vloume of credit size sales and the average length if time between sales and collection are important
To illustarte, suppose National Enterprises a newly established film marks a creedit sales of \$ 5000 per day and its customer are allowed 15 days of credit. At the start of business i.e in the first day it sold \$ 5000 on credit so that its end-of-day accounts receivales stand \$ 5000 in the firm's book
During the second day, it slod another \$ 5000 on credit increasing the book receivales to \$ 10,000 if it goes on guranting a credit of \$ 5000 per day for 15 days, its account reviables will increase to \$ 75,000 at the end of 15th day
However in 16th day it will make

another \$ 5000 credit sales, but Payments for sales made on first day will reduced receivables by \$ 5000 credit sales. but Payments for sales made on first day will \$ 75000 in 16th day and the each day thereafter throughtout the year The average account receivable the firm must carry during the year is therefore \$ 75000

Accout Receivable = credit sales Per day x Average length of collection Perieod

= \$ 5000 x 15 days = \$ 75000.