

Section - 1

Ans 1 The size of investments in receivables is influenced by number of factors. Among them two factors, the volume of credit sales, and the average length of time between sales and collection are important. To illustrate, suppose National Enterprise, a newly established firm makes a credit sales of \$ 5000 per day and its customers are allowed 15 days of credit. At the start of business i.e. on the first day it sold \$ 5000 on credit so that its end-of-day it sold another \$ 5000 on credit increasing the book receivables and stand \$ 5000 in the firm's book. During the second day it sold another \$ 5000 on credit increasing the book receivables to \$ 10000. If it goes on granting a credit of \$ 5000 per day for 15 days, its account receivables will increase to \$ 75000 at the end of 15th day. However at 16th day it will make another \$ 5000 credit sales but payments for sales made on first day will reduce receivables by \$ 5000 so that total account receivables

will remain constant as \$75000
in 15th day and the each day
there after throughout the year. The
average account receivables the firm
must carry during the year is
therefore \$75000.