NET, IAS, State-SET (KSET, WBSET, MPSET, etc.), GATE, CUET, Olympiads etc. Accountancy Credit Policy

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Credit Policy

The credit policy of a company is very important for the business prospects and hence a decision on this should be taken after considering various factors like

1 Government guidelines

2 Nature of product

3 Competition

4 Customer background

5 Financial position of the company

Credit policy is the actions taken by a business to grant, monitor and collect the cash for outstanding accounts receivable. Now I'm going to explain the credit policy considering od 'X' ltd. FOLLOWING three credit policies were under consideration of Xltd. We have to find out which of the policies would be beneficial to the company considering the net profit for the year concerned

- Particulars Credit Policy A
- 30 Days Credit Policy B
- 45 Days Credit Policy C
- 60 Days
- Sales In Units 25000 30000 40000
- Sales Price Per UnitRs 100 100 100
- Profit/Volume Ratio 50% 51% 51%
- Fixed CostRs 100000 1000000 100000
- Cost Of Credit
- Intrest 15% 15% 15%
- Collection Expenses 1% 2% 3%
- Bad Debts 1% 2% 3%
- Particulars Credit Policy A Credit Policy B Credit Policy

- Sales 2500000 3000000 400000

- Less: Variable Cost 1250000 1470000 1960000

- Contribution 1250000 1530000 20400000

- Less: Fixed Cost 100000 100000 100000

- Gross ProfitA 1150000 1430000 1940000

- Less Cost Of Credit

- Intrest 30822 55479 98630

- Collection Expenses 25000 60000 120000

- Bad Debts 25000 60000 120000

- Total Cost Of Credit B 80822 175479 338630

- Net Profit A-B 1069178 1254521 1601370

From the above working, we can come to conclusion that credit policy 'c' would gibve more profit hence to be ranked as I, credit policy as 'B' AS II and credit policy 'A' AS III