Problem 16-6

McDowell Industries sells on terms of 3/10, net 30. Total sales for the year are $912,500. Forty percent of customers pay on the 10th day and take discounts; the other 60% pay, on average, 40 days after their purchases.

a) What is the days sales outstanding?

b) What is the average amount of receivables?

c) What would happen to average receivables if McDowell toughened its collection policy with the result that all nondiscount customers paid on the 30th day?

Problem 16-7

Calculate the nominal annual coast of nonfree trade credit under each of the following terms. Assume that payment is made either on the discount date or on the due date.

a) 1/15, net 20

b) 2/10, net 60

c) 3/10, net 45

d) 2/10, net 45

e) 2/15, net 40