Case-1:
If customers are given **30 days' credit**, the **Average Collection Period (ACP)** is calculated as:

Month	**Debtors**	**Credit Sales**
January	₹50,000	₹1,50,000
February	₹60,000	₹1,80,000
March	₹70,000	₹2,10,000
April	₹80,000	₹2,40,000

$$\text{Average Collection Period} = \frac{\text{Average Debtors} \times \text{Number of Days}}{\text{Credit Sales}}$$

$$\text{Average Debtors} = \frac{\text{Opening Debtors + Closing Debtors}}{2}$$

For the **overall January–April period**:
Step 1: Average Debtors

$$\frac{₹50,000+₹60,000+₹70,000+₹80,000}{4}$$

$$=₹65,000$$

Step 2: Total Credit Sales

₹1,50,000+₹1,80,000+₹2,10,000+₹2,40,000

=₹7,80,000

Step 3: ACP
If using 120 days for January–April:

$$\text{ACP} = \frac{₹65,000}{₹7,80,000} \times 120 \text{ days}$$

$$= 10 \text{ days}$$

Important point about the 30-day credit period

Credit period allowed = 30 days Actual average collection period is calculated from debtors and credit sales.

- If ACP is **less than 30 days**, customers are generally paying before the due date.
- If ACP is **more than 30 days**, collections are taking longer than the allowed credit period.

Second Case:

A limited decided the credit limit of 5 lakh for its customers. The purchase order limit of rupees 150000 was decided by the company. The customer place the order of rupees 180000 and requested to sale on credit. How you will classify the customer according to risk? Which type of credit policy will be accepted?

This is a **credit risk classification and credit policy** problem. Let us calculate it step by step.

Given information

Particulars	Amount
Total credit limit decided	₹5,00,000
Purchase order limit	₹1,50,000
Customer's order placed	₹1,80,000
Excess over purchase order limit	₹30,000

1. Classification of the customer according to risk

The customer's order is **₹1,80,000**, whereas the permitted purchase-order limit is only **₹1,50,000**.

Excess Order=₹1,80,000−₹1,50,000=₹30,000

The customer has exceeded the prescribed purchase-order limit by **20%**:

$$\frac{30,000}{1,50,000} \times 100$$

=20%

Therefore, the customer should be classified as a **medium/high-risk customer** because the customer is requesting credit beyond the approved order limit.

Note: The ₹5,00,000 overall credit limit does not automatically permit a single order of ₹1,80,000. The specific purchase-order limit of ₹1,50,000 has been exceeded.

2. Which credit policy should be accepted?

The company should follow a **restrictive (tight/conservative) credit policy** for this transaction.

The company should **not immediately approve the full ₹1,80,000 on credit**. It can:

- Approve credit only up to **₹1,50,000**, or
- Ask for **₹30,000 as advance/cash payment**, or
- Approve the excess only after reviewing the customer's creditworthiness and payment history.

Conclusion

Risk classification: Medium/High Risk Customer
Credit policy: Restrictive/Credit (Strict)-Control Policy
Reason: The requested order of ₹1,80,000 exceeds the approved purchase-order limit of ₹1,50,000 by ₹30,000 (20%).

Case Study-3

B Co. is a new customer for the A Co. On credit evaluation it is found financially sound. A Co. has sanctioned the total credit of Rs. 500000 but the limit per order is fixed at Rs. 150000. On 15th January, B Co. placed order worth of Rs. 200000 and requested A Co. to sell the goods on credit.
In which class would you put that customer and what type of credit policy would you adopt for that? Why?

Here the important point is that **B Co. is financially sound**, but it is a **new customer** and has requested an amount above the **per-order credit limit**.

Given Information

Particulars	Amount
Total sanctioned credit limit	₹5,00,000
Credit limit per order	₹1,50,000
Order placed by B Co.	₹2,00,000
Excess over per-order limit	₹50,000

1. Classification of the customer

B Co. should be placed in the **medium-risk / moderate-risk class**.

Reason:
Although B Co. is financially sound, it is a **new customer**, so A Co. does not have an established record of its payment behaviour. Also, the order of ₹2,00,000 exceeds the permitted per-order limit of ₹1,50,000.

However, because the customer's financial position is sound, it should **not be treated as a high-risk customer**.

2. Credit policy to be adopted

A Co. should adopt a **moderate (normal) credit policy with suitable restrictions**.

It could:

- Grant credit up to the prescribed **₹1,50,000 per-order limit**.

- Ask B Co. to pay the excess **₹50,000 in advance/cash**.
- Alternatively, after further verification, A Co. may consider approving the additional ₹50,000.

3. Why?

The decision balances **two factors**:

Positive factor: B Co. is financially sound → lower credit risk.
Negative factors: B Co. is a new customer and the order exceeds the per-order limit → some additional risk.

Final Answer

Customer class: Medium/Moderate Risk
Credit policy: Moderate/Normal Credit Policy with restrictions
Why: The customer is financially sound, but because it is new and has exceeded the ₹1,50,000 per-order limit by ₹50,000, A Co. should not freely extend the entire ₹2,00,000 credit without additional safeguards.

Case-4

The inventory of Universe LTD. includes the following inventory. Give the guidance to the company by using ABC analysis method of inventory management.

Inventory	Units	Price per Unit (Rs.)
1	4000	70
2	2000	100
3	8000	2
4	2000	1
5	4000	9
Total	20,000	

In **ABC Analysis**, inventory items are classified according to their **annual consumption value**:

Annual Consumption Value = Units × Price per Unit

Step 1: Calculate annual consumption value

Inventory Item	Units	Price per Unit (₹)	Annual Consumption Value (₹)
1	4,000	70	2,80,000
2	2,000	100	2,00,000
3	8,000	2	16,000
4	2,000	1	2,000
5	4,000	9	36,000
Total	**20,000**		**5,34,000**

Step 2: Arrange items in descending order of consumption value

Step 3: ABC Classification

Using the **usual ABC principle**:

- **A items:** About 70–80% of total value
- **B items:** About 15–25% of total value
- **C items:** About 5–10% of total value

Therefore:

Category	Items	Inventory Management
A	1, 2	Very strict control, frequent review, accurate records, senior management attention
B	5	Moderate control and periodic review
C	3, 4	Simple control, less frequent review, larger order quantities may be used

Final Answer

Item 1 and Item 2 → A Category
Item 5 → B Category
Item 3 and Item 4 → C Category

Guidance to Universe Ltd.

1. **A Category (Items 1 & 2):** These items account for nearly **90% of the inventory value**, so the company should maintain very tight control over them. Purchasing should be carefully planned and stock levels monitored frequently.
2. **B Category (Item 5):** These items require **moderate control** and periodic review.
3. **C Category (Items 3 & 4):** These items represent only about **3.37% of total inventory value**. The company can use simpler control procedures and need not spend excessive administrative effort on them.

Thus, the main management attention should be given to Items 1 and 2, because a small number of items account for the major portion of the inventory investment.