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## **BUSINESS ADVISORY SERVICES**

### **FORMS**

#### **BAS166-01 Debtors' Days Outstanding Calculation**

Client's Name: \_\_\_\_\_

Date: \_\_\_\_\_

Approximate Annual Credit Sales (inc GST)	(1)	\$	
Daily Credit Sales (inc GST) - [(1) ÷ 365]	(2)	\$	
Debtors' Actual Balance (inc GST) as at	(3)	\$	
Debtors' Days Outstanding - [(3) ÷ (2)]	(4)		days
Targeted Debtors' Days Outstanding	(5)		days
Targeted Debtors' Balance - [(2) x (5)]	(6)	\$	
Targeted overdue debtors' collection to achieve the targeted cashflow to achieve debtors' days outstanding improvement - [(3) - (6)]		\$	

Are you concerned about the Debtors' Days Outstanding an improvement may be able to be made by utilising an on-line debt management system (refer to [BAS168](#)).

*By way of example, if:*

- *approximate Annual Credit Sales (inc GST) (1) was \$1,000,000;*
  - *Debtors' Actual Balance (inc GST) (3) was \$145,000; and*
  - *Targeted Debtors' Days Outstanding (5) was 30 days,*
- the calculation would be as follows:*

<i>Daily Credit Sales (inc GST)</i>	<i>=</i>	$\frac{1,000,000}{365}$	<i>=</i>	<i>\$2,730</i>
<i>Debtors' Days Outstanding</i>	<i>=</i>	$\frac{\$145,000}{\$2,730}$	<i>=</i>	<i>53 days</i>
<i>Targeted Debtors Balance</i>	<i>=</i>	$\$2,730 \times 30$	<i>=</i>	<i>\$81,900</i>
<i>Targeted overdue debtors' collection to achieve the targeted cashflow to achieve debtors' days outstanding improvement</i>	<i>=</i>	$\$145,000 - \$81,900$	<i>=</i>	<i>\$63,100</i>

This chart identifies Debtors' Days Outstanding based on variable days outstanding and annual credit sales ranging from \$250,000 to \$2,000,000.

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The strategy for businesses should be to have Debtors' Days Outstanding of 30 to 40 days. Businesses which achieve this will have a significant improvement in their cashflow position.

Improvements in Debtors' Days Outstanding will be influenced by:

Businesses having a written debtors system.

Training staff.

New customer letter with:

Terms of Trade Agreement

Retention of Title Agreement

Advice that debtors' statements will not be issued

Due date for payment stated on all tax invoices.

Reminder email sent to customer 5 days before payment due date.

Debtors' Aged Analysis calculated promptly at the end of the month.

Debtors follow-up action instigated promptly.

Utilisation of IODM system will assist in reducing debtors' balances outstanding.

<u>Annual Credit</u> <u>Sales</u>	<u>Debtors Balance</u>					
	<u>30 days</u>	<u>40 days</u>	<u>50 days</u>	<u>56.4 days</u>	<u>60 days</u>	<u>70 days</u>
\$250,000	\$ 20,548	\$ 27,397	\$ 34,246	\$ 38,630	\$ 41,095	\$ 47,945
\$500,000	\$ 41,095	\$ 54,794	\$ 68,493	\$ 77,260	\$ 82,191	\$ 95,894
\$750,000	\$ 61,643	\$ 82,191	\$102,738	\$115,890	\$123,286	\$143,834
\$1M	\$ 82,191	\$109,589	\$136,986	\$154,520	\$164,383	\$191,780
\$1.5M	\$123,876	\$164,383	\$205,478	\$231,780	\$246,574	\$287,670
\$2M	\$164,383	\$219,178	\$273,972	\$309,040	\$328,767	\$383,561