

## Introduction:- Receivables Management

Trade credit happens when a firm sell its products or services on credit & does not receive cash immediately. A firm grants trade credit to protect its sales from the competitors & to attract the potential customers to buy its products at favourable terms.

Trade credit creates accounts receivable or trade debts (also referred to book debts in India) that the firm is expected to collect in the near future.

The customers from ~~whose~~ <sup>whom</sup> receivables or book debts have to be collected in the future are called trade debts or simply as debts & represent the firm's claim or asset.

Thus, trade debts represent investment.

As substantial amounts are tied-up in trade debts, it needs careful analysis & proper management which gives rise to "Receivables

Management"

## ■ FACTORS INFLUENCING THE SIZE OF RECEIVABLES

Besides sales, a number of other factors also influence the size of receivables. The following factors directly and indirectly affect the size of receivables.

(1) **Size of Credit Sales.** The volume of credit sales is the first factor which increases or decreases the size of receivables. If a concern sells only on cash basis, as in the case of Bata Shoe Company, then there will be no receivables. The higher the part of credit sales out of total sales, figures of receivables will also be more or vice versa.

(2) **Credit Policies.** A firm with conservative credit policy will have a low size of receivables while a firm with liberal credit policy will be increasing this figure. The vigour with which the concern collects the receivables also affects its receivables. If collections are prompt then even if credit is liberally extended the size of receivables will remain under control. In case receivables remain outstanding for a longer period, there is always a possibility of bad debts.

(3) **Terms of Trade.** The size of receivables also depends upon the terms of trade. The period of credit allowed and rates of discount given are linked with receivables. If credit period allowed is more then receivables will also be more. Sometimes trade policies of competitors have to be followed otherwise it becomes difficult to expand the sales. The trade terms once followed cannot be changed without adversely affecting sales opportunities.

(4) **Expansion Plans.** When a concern wants to expand its activities, it will have to enter new markets. To attract customers, it will give incentives in the form of credit facilities. The periods of credit can be reduced when the firm is able to get permanent customers. In the early stages of expansion more credit becomes essential and size of receivables will be more.

(5) **Relation with Profits.** The credit policy is followed with a view to increase sales. When sales increase beyond a certain level the additional costs incurred are less than the increase in revenues. It will be beneficial to increase sales beyond a point because it will bring more profits. The increase in profits will be followed by an increase in the size of receivables or vice-versa.

(6) **Credit Collection Efforts.** The collection of credit should be streamlined. The customers should be sent periodical reminders if they fail to pay in time. On the other hand, if adequate attention is not paid towards credit collection then the concern can land itself in a serious financial problem. An efficient credit collection machinery will reduce the size of receivables. If these efforts are slower then outstanding amounts will be more.

(7) **Habits of Customers.** The paying habits of customers also have a bearing on the size of receivables. The customers may be in the habit of delaying payments even though they are financially sound. The concern should remain in touch with such customers and should make them realise the urgency of their needs.



# COSTS OF RECEIVABLES

**1. Cost of Financing :** The credit sales delays the time of sales realization and therefore the time gap between incurring the cost and the sales realization is extended. This results in blocking of funds for a longer period. The firm on the other hand, has to arrange funds to meet its own obligation towards payment to the supplier, employees, etc. These funds are to be procured at some explicit or implicit cost. This is known as the cost of financing the receivables.

**2. Administrative Cost :** A firm will also be required to incur various costs in order to maintain the record of credit customers both before the credit sales as well as after the credit sales. Before credit sales, costs are incurred on obtaining information regarding credit worthiness of the customers; while after credit sales, the cost are incurred on maintaining the record of credit sales and collection thereof.

**3. Delinquency Costs :** Over and above the normal administrative cost of maintaining and collection of receivables, the firm may have to incur additional costs known as delinquency costs, if there is delay in payment by a customer. The firm may have to incur cost on reminders, phone calls, postage, legal notices, etc. Moreover, there is always an opportunity cost of the funds tied up in the receivables due to delay in payment.

**4. Cost of Default by Customers :** If there is a default by a customer and the receivable becomes, partly or wholly, unrealizable, then this amount, known as bad debt, also becomes a cost to the firms. This cost does not appear in case of cash



# BENEFITS OF RECEIVABLES

- (a) **Increase in Sales** : Except a few monopolistic firms, most of the firms are required to sell goods on credit, either because of trade customs or other conditions. The sales can further be increased by liberalizing the credit terms. This will attract more customers to the firm resulting in higher sales and growth of the firm.
- (b) **Increase in Profits** : Increase in sales will help the firm (i) to easily recover the fixed expenses and attaining the break-even level, and (ii) increase the operating profit of the firm. In a normal situation, there is a positive relation between the sales volume and the profit.
- (c) **Extra Profit** : Sometimes, the firms make the credit sales at a price which is higher than the usual cash selling price. This brings an opportunity to the firm to make extra profit over and above the normal profit.

Thus, the receivables bring some costs as well as benefits to the firm. Both the cost and the benefits are to be looked carefully and a trade-off between them should be attempted.

## 2.0 WHAT IS THE OBJECTIVE OF RECEIVABLE MANAGEMENT ?

The objective of Receivable Management is to avoid the situation of excessive and inadequate receivables and to determine and maintain optimum level of receivables after achieving a trade off between the profitability and liquidity so as to maximize the wealth of shareholders as a whole. Whenever the situation of excessive and inadequate receivables arises, prompt and timely action should be taken by management to correct imbalances. Then optimum level of receivable will lie between the two danger points of excessive and inadequate receivables. The consequences of excessive and inadequate receivables are :

<b>Consequences of Excessive Receivables</b>	<b>Consequences of Inadequate Receivables</b>
<ol style="list-style-type: none"> <li>1. High Opportunity Cost of Investment in Receivables</li> <li>2. High Risk of Bad debts</li> <li>3. High Credit Administration Cost</li> <li>4. High Risk of Liquidity</li> </ol>	<ol style="list-style-type: none"> <li>1. Decrease in Sales</li> <li>2. Risk of loosing Market Share</li> </ol>



Receivables Management focuses on 3 basic questions :-

→ To Whom Credit should be allowed

It involves an identification of customers, to whom the goods can be sold on credit after carrying out credit analysis

→ How much credit period should be allowed?

→ How much amount of credit should be allowed?

Credit policy → (Nature)

[A firm's investment in accounts receivable depends on: → how much credit sales

(a) the Volume of Credit Sales

(b) the Collection period

For ex:- If a firm's credit sales are Rs. 30 lakh per day & customers, on an average, take 45 days to make payment, then the firm's average investment in accounts receivable is

1 day - 30 lakh  
45 days - ?

Daily Credit Sales × Average Collection period  
Rs 30 lakh × 45 days = Rs 1,35 lakh

There is one way in which the financial manager can affect the volume of credit sales & collection period & consequently investment in accounts receivable. That is through the changes in credit policy.

For efficient management of receivables, each firm has to design its own credit policy.

The term "credit policy" is used to refer to the combination of 3 decision variables: -

(1) Credit Standards :- Credit standards are the criteria which a firm follows in selecting customers for the purpose of credit extension.

The firm may have stringent credit standards (tight credit standards) i.e. it may sell mostly on cash basis & may extend credit only to the most reliable & financially strong customers.

Such standards will result in

Decrease in credit sales → Decrease in bad

debt losses → less cost of credit administration



On the contrary, the firm may have  
Element Credit Standards (Loose Credit Standards)

i.e. it sells more on credit basis.

Such standards will result in, i.e.  
the firm may have larger sales due to  
credit basis. This results in, that the  
firm have to carry larger receivables.

i.e.

Increase in credit sales  $\rightarrow$  Increase in  
bad debts losses  $\rightarrow$  Increase in credit  
administration cost.

Credit Analysis:-

Credit Standards influence the quality of

the firm's customers. There are 2 aspects of  
quality of customers. Avg. collection period  $\rightarrow$  30-36 days

(i) the time taken by customers to repay  
credit obligations & (ii) the default rate.

Here, ACP i.e. Average Collection period  
determines the speed of payment by customers.

It measures the number of days for which  
credit sales remain outstanding. The longer  
the average collection period, the higher is the

firm's investment in accounts receivable.

Default rate is measured in terms of proportion of uncollected receivables i.e. Bad debt losses ratio indicates default rate.

Default risk is the likelihood that a customer will fail to repay the credit obligation.

To determine the ~~credit~~ <sup>default</sup> risk, the credit manager should consider following 3 factors (or)

**3 C's**  
a) Character  $\rightarrow$  refers to the customer's willingness to pay. The financial manager should judge <sup>whether the</sup> customer will make honest efforts to honour their credit obligation.  
b) Capacity  $\rightarrow$  refers to customer's ability to pay. Ability to pay can be judged by assessing the customer's capital & assets which he may offer as security.

c) Condition  $\rightarrow$  refers to the prevailing economic & other conditions which may affect the customer's ability to pay.

(a) credit terms :- credit terms refer to the <sup>condition for an agreement</sup> stipulations under which the firm sells goods on credit to the customers. These include

(a) credit period (b) cash discount

credit period refers to the length of time for which credit is granted to the customer. It is



usually stated in terms of net days.

For ex:- if credit terms are "net 60", it means customers are required to pay within 60 days.

Cash discount is a reduction in payment offered to customers to induce them to pay within a specified period of time, which will be less than the normal credit period.

If a customer wants to avail cash discount, he must make the payment in specific credit period otherwise he may make the payment within normal credit period.

For ex:- credit terms of "2/20 net 60" implies 2% cash discount if payment is made within 20 days & no cash discount, if payment is made within 60 days.

Credit terms may be stringent (tight) or lenient (loose).

lenient  $\rightarrow$  Increase in sales  $\rightarrow$  Increase in investment  
in Accounts receivable  $\rightarrow$  Increase in bad debt  $\rightarrow$

Increase in credit administration cost

Stringent credit terms  $\rightarrow$  Decrease in Sales  $\rightarrow$   
Decrease in investment in Accounts receivable  $\rightarrow$   
Decrease in bad debt  $\rightarrow$  Decrease in Credit  
Administration Cost

- (3) Collection efforts :- The firm has to take efforts for collecting the dues from its customers. For this the firm should follow a well laid-down collection policy to specify the collection procedures clearly. The following procedure is suggested when customer has not made the payment within the credit period allowed
- (a) Send first reminder in polite wordings
  - (b) If customer does not respond, send second reminder in some strong wordings
  - (c) If customer still does not respond, send third reminder in strong wordings & follow-up by e-mail, fax, telephone, personal visit etc
  - (d) If the customer still fails to make the payment & his financial position appears to be weak, a personal visit should be made & it is better to be patient & wait or accept reduced payment in the settlement of the account



On the other hand if the financial position appears to be strong, the firm may initiate a legal action against the customer.

### Goals of credit policy :-

The goal of credit policy is to maximise the shareholder's wealth. It is neither the maximisation of sales nor minimisation of bad debts losses.

If sales maximisation would have been the goal of firm's credit policy, the firm would follow a very lenient credit policy & would sell on credit to everyone.

If minimisation of bad debt losses would have been the goal of firm's credit policy, the firm would follow tight credit policy & would not sell on credit to anyone.

(ii) Another technique available for monitoring the receivables is known as **ageing schedule**. The quality of the receivables of a firm can be measured by looking at the age of receivables. The older the receivable, the lower is the quality and greater the likelihood of a default. In the ageing schedule, the total outstanding receivables on a particular days (at the end of a month or a year) are classified into different age groups (age being the number of days since becoming outstanding) together with percentage of total receivables that fall in each age group. For example, the receivables of a firm, having a normal credit period of 30 days, may be classified as follows :

Age Group (Number of Days)	% of Total outstanding Receivables
Less than 30 days	60%
31-45 days	20%
46-60 days	10%
61 and above	10%

It may be noted that, the firm has a credit period of 30 days and 60% of the total receivables are less than 30 days old. 20% of the receivables are over due by 15 days, 10% are over due by 30 days and 10% are over due by more than 30 days. This type of ageing schedule can provide a kind of an early warning suggesting (i) deterioration of receivables quality, and (ii) where to emphasize the appropriate corrective actions. When compared with the past ageing schedule done by the same firm or done by other comparable firms, this may provide an indication of whether the firm should start worrying about its collection procedure. By comparing the ageing schedules for different periods, the financial manager can get an idea of any required change in the collection procedure and can also point out those customers which require special attention. However, a basic short coming of the ageing schedule is that it is influenced by the change in sales volume.

## EVALUATION OF CREDIT POLICIES

A firm may face a situation when it has several alternative credit policies before it and has to select one such policy which is the most profitable to the firm. For example, the firm may extend the credit of 15 days, 30 days, 40 days, 60 days etc. to its customers. Every credit policy will result in a particular sales level. Normally, longer the credit period, higher will be the sales, and therefore, larger would be the profit of the firm. Does it mean that the firm should go on increasing the credit period? Definitely, No.

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There is no doubt that increase in sales will increase the contribution (Sales-Variable Cost). But simultaneously, the firm will face the risk of increase in other costs also. There costs may be:

(a) **Increase in investment in debtors** : Increase in credit period will naturally result in higher and higher amount of outstanding debtors, which results in more funds of the firm blocked in debtors. There is always a cost of funds to the funds. So, the higher average debtors result in higher cost to the firm.

(b) **Increase in bad debts** : Longer credit period facility will attract more and more customers. Some of these customers may turn out to be defaulter, and the firm will have to bear the cost of bad debts. As the sales increases (as a result of longer credit period), the chances of bad debts also increase.

(c) **Other costs** : Increase in debtors may also require the firm to incur some other expenses.

So, on the one hand, the firm has benefits (in the form of higher profits) from the increase in credit period, while on the other hand, the firm has to bear some additional costs. At the time of evaluation of different proposals of credit policies, what is required is to compare (trade off) the costs and benefits associated with each credit policy. The firm should select that proposal which is expected to give highest net profit (benefits - costs). This comparison of costs and benefits may be attempted as follows :

- Total profit under different proposals, or
- Incremental profit under different proposals.

Graded Illustrations given below explain the procedure under both the approaches.

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**Illustration 1.** Bharat Ltd. decides to liberalise credit to increase its sales. The liberalised credit policy will bring additional sales of ₹ 3,00,000. The variable costs will be 60% of sales and there will be 10% risk for non-payment and 5% collection costs. Will the company benefit from the new credit policy?

**Solution :**

Additional Sales Revenue	₹ 3,00,000
Less : Variable Cost (60%)	<u>1,80,000</u>
Incremental Revenue	1,20,000
Less : 10% for non-payment risk	<u>30,000</u>
	90,000
Less : 5% for costs of collection	<u>15,000</u>
Additional Revenue from increased sales due to liberal credit policy	<u>75,000</u>

The company will be benefitted from the new credit policy because the increase in revenue is more than the costs of providing additional credit. In fact, the profit of the company will increase by ₹ 75,000.

**Illustration 2.** From the following information, calculate average collection period :

Total Sales	₹ 1,00,000
Cash Sales	20,000
Sales Returns	7,000
Debtors at the end of the year	11,000
Bills Receivables	4,000
Creditors	15,000

**Solution :**

Average Collection Period	$= \frac{\text{Trade Debtors} \times \text{No. of Working Days}}{\text{Net Credit Sales}}$
Trade Debtors	$= ₹ 11,000 + 4,000 = ₹ 15,000$
Net Credit Sales	$= ₹ 1,00,000 - 20,000 - 7,000 = ₹ 73,000$
Hence, Average Collection Period	$= \frac{15,000 \times 365}{73,000}$
Or, A.C.P.	$= 75 \text{ days}$

**Illustration 3.** Dryson Ltd. provides the following informations :

Cash sales during the year	₹ 1,50,000
Credit sales during the year	2,70,000
Returns inward	20,000
Trade debtors in the beginning	55,000
Trade debtors at the end	45,000
Provision for bad and doubtful debts	5,000

Calculate :

- (i) Debtors Turnover Ratio
- (ii) Average Collection Period

**Note.** Take 360 days in a year and all returns are from credit sales.

**Solution :**

(i) Debtors Turnover Ratio	$= \frac{\text{Net Credit Annual Sales}}{\text{Average Trade Debtors}}$ $= \frac{2,70,000 - 20,000}{(55,000 + 45,000) \times \frac{1}{2}}$ $= \frac{2,50,000}{50,000} = 5 \text{ times}$
(ii) Average Collection Period	$= \frac{\text{No. of Working Days}}{\text{Debtors Turnover Ratio}}$ $= \frac{360}{5} = 72 \text{ days}$
Or, Average Collection Period	$= \frac{\text{Average Trade Debtors} \times \text{No. of Working Days}}{\text{Net Credit Sales}}$ $= \frac{50,000 \times 360}{2,50,000} = 72 \text{ days.}$

**Illustration 4.** A firm sells 40,000 units of its product per annum @ ₹ 35 per unit. The average cost per unit is ₹ 31 and the variable cost per unit is ₹ 28. The average collection period is 60 days. Bad debt losses are 3% of sales and the collection charges amount to ₹ 15,000.



The firm is considering a proposal to follow a stricter collection policy which would reduce bad debt losses to 1% of sales and the average collection period to 45 days. It would, however, reduce sales volumes by 1000 units and increase the collection expenses to ₹ 25,000.

The firm's required rate of return is 20%. Would you recommend the adoption of the new collection policy? Assume 360 days in a year for the purpose of your calculation.

**Solution :**

<b>(A) Calculation of Savings/Benefits of the New Policy</b>	
<b>(i) Savings in Losses due to bad debts :</b>	
Present Sales (40,000 × 35)	14,00,000
Proposed Sales (39,000 × 35) <i>(40,000 units - 1,000 units)</i>	13,65,000
Present Bad Debts (3% of 14,00,000)	42,000
Proposed Bad Debts (1% of 13,65,000)	<u>13,650</u>
Savings in Losses due to bad debts (a)	<u>28,350</u>
<b>(ii) Savings in Cost of Receivables Investments :</b>	
Present level of Receivables $\left(14,00,000 \times \frac{60}{360}\right)$	= 2,33,333
Proposed Level of Receivables $\left(13,65,000 \times \frac{45}{360}\right)$	= 1,70,625
Reduction in the level of Receivables	= 62,708
Total Savings in Cost of Receivables Investment (b) (20% of 62,708)	= <u>12,542</u>
Total Savings/Benefits of New Policy (a+b)	<u>40,892</u>
<b>(B) Calculation of Increase in Cost and Reduction of Profit under New Policy :</b>	
(i) Increase in collection charges (25,000-15,000)	= 10,000
(ii) Reduction in Profit due to decrease in Sales of 1000 units [1000 × (35 - 28)]	= <u>7,000</u>
Total Increase in Cost and Reduction of Profit (i+ii)	<u>17,000</u>
Net Gain arising from adopting New Policy (A-B) [40,892 - 17,000]	= 23,892

Hence, the firm is advised to adopt the new collection policy.

**Illustration 5.** A group of customers want to enter into a contract with you to buy goods worth ₹ 20 lakh during 2017. The deliveries to be made in four equal instalments quarterly. The price of the commodity is ₹ 20 per unit on which you expect a profit of ₹ 10. The acceptance of this proposal would mean an additional recurring expenditure of ₹ 10,000 p.a. on your part.

The ageing schedule of accounts receivables in respect of this group of customers in the past was as follows :-

<b>Period</b>	<b>Percentage of bills for which payment received</b>
At the end of 30 days	15%
At the end of 60 days	25%
At the end of 90 days	40%
At the end of 100 days	20%

Assuming an opportunity cost of 20% of the funds locked up in accounts receivables, will it be desirable to accept this proposal ?

**Solution :**

<b>(A) Calculation of Net Expected Profit from the Contract :</b>			
Contract value			20,00,000
Less : Cost (20,00,000×10/20)			10,00,000
Gross Profit			10,00,000
Less : Additional Recurring Expenses			10,000
Expected Profit			9,90,000
<b>(B) Calculation of Opportunity Cost of Funds Locked-up in Receivables :</b>			
Quarterly Sales = 20,00,000×1/4		₹ 5,00,000	
This amount shall be realised as per given ageing schedule :			
No. of Days	Amount	₹	Product
30	15% of ₹ 5,00,000	75,000	22,50,000
60	25% of ₹ 5,00,000	1,25,000	75,00,000
90	40% of ₹ 5,00,000	2,00,000	1,80,00,000
100	20% of ₹ 5,00,000	1,00,000	1,00,00,000
			3,77,50,000
Opportunity Cost of Funds blocked (20%) per quarter $3,77,50,000 \times \frac{20}{100} \times \frac{1}{365}$			20,685
Opportunity Cost of Funds for the year = 20,685×4			₹ 82,740.
<b>(C) Expected Net Gain from the Contract (A-B)</b>			
			= ₹ 9,90,000 - 82,740
			= ₹ 9,07,260.

As there shall be a net gain from the contract amounting to ₹ 9,07,260, the proposal should be accepted.

**Illustration 6.** The following are the details regarding the operation of a firm during a period of 12 months :

Sales	₹ 12,00,000
Selling price per unit	10
Variable cost per unit	7
Total cost per unit	9
Credit period allowed to customers	One month

The firm is considering a proposal for a more liberal credit by increasing the average collection period from one month to two months. This relaxation is expected to increase sales by 25%.

You are required to advise the firm regarding adopting of the new credit policy, presuming that the firm's required return on investment is 25 per cent.

**Solution :**

<b>(i) Calculation of new average cost per unit after adopting new credit policy</b>	= ₹ 12,00,000
Current sales	= ₹ 10
Selling price per unit	= 1,20,000
Number of units sold at present (12,00,000/10)	= ₹ 10,80,000
Current cost of sales (1,20,000 × 9)	



$\uparrow 1,20,000 \text{ units} \times 25\%$

Add : Cost of additional sales (30,000 × 7)	= ₹ 2,10,000
Total cost for 1,50,000 units	= ₹ 12,90,000
New average cost per unit (12,90,000/1,50,000)	= ₹ 8.60
<b>(ii) Calculation of average additional investment in debtors</b>	
Current cost of sales	= ₹ 10,80,000
Current credit period = 1 month	
(a) Current investment in debtors (10,80,000 × 1/12)	= ₹ 90,000
Proposed cost of sales for 1,50,000 units	= ₹ 12,90,000
Proposed credit period = 2 months	
(b) Proposed investment in debtors (12,90,000 × 2/12)	= ₹ 2,15,000
(c) Additional investment in debtors (b - a)	= ₹ 1,25,000
<b>(iii) Calculation of profit on additional sales</b>	
Additional units sold × Contribution per unit = 30,000 × 3	= ₹ 90,000
<b>(iv) Calculation of return on additional investment</b>	
$\frac{\text{Additional Profit}}{\text{Additional Investment}} \times 100 = \frac{90,000}{1,25,000} \times 100 = 72\%$	

**Advise :** As the required rate of return (25%) is much lower than the expected return on additional investment (72%), the proposal should be accepted.

**Illustration 7.** A trader whose current sales are ₹ 15 lakhs per annum and average collection period is 30 days wants to pursue a more liberal credit policy to improve sales. A study made by a consultant firm reveals the following information :

Credit Policy	Increase in Collection Period	Increase in Sales
A	15 days	₹ 60,000
B	30 days	₹ 90,000
C	45 days	₹ 1,50,000
D	60 days	₹ 1,80,000
E	90 days	₹ 2,00,000

The selling price per unit is ₹ 5. Average cost per unit is ₹ 4 and variable cost per unit is ₹ 2.75. The required rate of return on additional investment is 20%. Assume 360 days in a year and also assume that there are no bad debts. Which of the above policies would you recommend for adoption?

**Solution :**

	Existing Policy	Proposed Policies				
	30 days	A 45 days	B 60 days	C 75 days	D 90 days	E 120 days
(1) Sales revenue (₹)	15,00,000	15,60,000	15,90,000	16,50,000	16,80,000	17,00,000
(2) Selling price per unit (₹)	5	5	5	5	5	5
(3) Number of units(1÷2)	3,00,000	3,12,000	3,18,000	3,30,000	3,36,000	3,40,000
(4) Variable cost @ ₹ 2.75 p.u. (₹)	8,25,000	8,58,000	8,74,500	9,07,500	9,24,000	9,35,000
(5) Fixed cost (₹)	3,75,000	3,75,000	3,75,000	3,75,000	3,75,000	3,75,000
(6) Total cost [4 + 5] (₹)	12,00,000	12,33,000	12,49,500	12,82,500	12,99,000	13,10,000

(7) Profit [1 — 6] (₹)	3,00,000	3,27,000	3,40,500	3,67,500	3,81,000	3,90,000
(8) Average debtors at cost (₹)	1,00,000	1,54,125	2,08,250	2,67,188	3,24,750	4,36,667
$\left( \frac{\text{Total Cost}}{360} \times \text{Credit Period} \right)$						
(9) Required return on investment at 20% (₹)	20,000	30,825	41,650	53,438	64,950	87,333
(10) Net Profit [7—9] (₹)	2,80,000	2,96,175	2,98,850	3,14,062	3,16,050	3,02,667

Thus, Policy D which gives the highest profit of ₹ 3,16,050 should be adopted.