



Impact of Bad Debt Write-Off On Sales/Day Sales Outstanding

Bad debt write-offs affect more than your company’s cash flow and bottom line performance. They also impact its sales and marketing efforts. The below table shows the “multiplier” impact on sales from bad debt write-offs. For example, a business with a net profit of 2%, experiencing \$100,000 in write-offs, would require an additional \$5,000,000 in sales to offset the loss of profit on the \$100,000 in write-offs.

Bad Debt Write OffAnd Your Net Profit is				
	2%	3%	4%	5%	6%
\$100,000	\$5,000,000	\$3,333,333	\$2,500,000	\$2,000,000	\$1,666,666
\$250,000	\$12,500,000	\$8,333,333	\$6,250,000	\$5,000,000	\$4,166,666
\$500,000	\$25,000,000	\$16,666,666	\$12,500,000	\$10,000,000	\$8,333,333
\$750,000	\$37,500,000	\$25,000,000	\$18,750,000	\$15,000,999	\$12,500,000
\$1,000,000	\$50,000,000	\$33,333,333	\$25,000,000	\$20,000,000	\$16,666,666
\$2,500,000	\$75,000,000	\$50,000,000	\$75,500,000	\$30,000,000	\$25,000,000

Days Sales Outstanding (DSO)

DSO is a common measure of the average number of days that a company takes to collect revenue after a sale has been made. A low DSO number means that it takes a company fewer days to collect its accounts receivable. A high DSO number shows that a company is selling its product to customers on credit and taking longer to collect money. DSO is usually reviewed quarterly or annually.

$$= \frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$$

OR

$$= \left[\frac{\text{Accounts Receivable}}{\left(\frac{\text{Total Credit Sales}}{\text{Number of Days}} \right)} \right]$$

The following is a guide if you use 30 days as a payment term. **What is yours?**

Very Good	Good	Fair/Poor	Poor
under 45 days	46 - 59 days	60 - 74 days	over 75 days

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toll free: 800-652-4445 | **fax:** 631-462-5751 | **website:** www.wcscollects.com