

**FILL IN THE BLANK** (note: some terms will not be used)

aging schedule  
character  
charge-off  
collection procedures  
conditions  
consumer credit

contracted credit plan  
credit  
credit agreement  
credit standards  
creditworthy  
debtor

delinquent account  
factoring  
self-managed credit plan  
trade credit

1. \_\_\_\_\_ refers to the characteristics making it highly likely that credit payments will be made on time and in full.
2. A(n) \_\_\_\_\_ is where credit services are provided by a financial services firm for a fee
3. \_\_\_\_\_ are guidelines used by a company to determine if a customer is eligible for credit.
4. \_\_\_\_\_ is the written document describing the terms under which credit is granted and payment will be made.
5. The \_\_\_\_\_ categorizes all accounts receivable by the length of time they remain unpaid.
6. An account that is no longer considered collectable is called a(n) \_\_\_\_\_.
7. A(n) \_\_\_\_\_ is the recipient of credit.
8. The sale of accounts receivable is called \_\_\_\_\_.
9. \_\_\_\_\_ are factors that are generally outside the control of the borrower or lender but that can affect the risk.
10. \_\_\_\_\_ refers to credit offered to individual consumers by a business.
11. \_\_\_\_\_ is an agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.
12. Credit offered to a business customer by another business is called \_\_\_\_\_.

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**THINK CRITICALLY**

13. The average cost per sale to accept credit cards is often higher for a small business than the cost of operating a self-managed credit plan. Based on that, why would businesses choose to use credit cards as their credit system rather than establishing their own credit system?

14. Rank the 4 C's of customer credit in terms of their importance to a business in selecting the best credit customers. Explain your rankings.
15. Most business credit terms allow customers 30 to 60 days to pay invoices without any interest being charged. That means the customer is using the seller's money for free for that time, which adds to the seller's costs. Why do you think businesses offer those credit terms even though they are expensive? Which do you believe is more important to business customers—a discount for paying quickly or no interest charges for 30 to 60 days? Justify your answer.
16. Many people believe that a person's credit score is based only on previous payment history. Instead it includes factors such as the number of credit accounts and their amounts, the length of the credit history, the number of inquiries that have been made by companies, and the types of current credit. Provide reasons why each of those factors are included in calculating a credit score. Which factors do you believe do not fairly represent a person's credit risk? Explain.



#### EXCEL PROBLEMS

Use Excel to solve the problems below and email the spreadsheet as an attachment.  
**MAKE SURE TO USE FORMULAS IN YOUR WORK!**  
 (don't just type the answers)

17. If a person pays the minimum amount on a credit card at the end of the month and leaves an unpaid balance of \$1,800, how much interest will be owed at the end of the next month if the credit card company charges an annual interest rate of 18 percent?
18. Calculate the total amount each customer must pay based on the following invoice terms and payment dates.

Invoice Date	Invoice Amount	Credit Terms	Payment Date
a. January 1	\$74,500	2/10, net 30	January 10
b. March 15	\$8,750	1/15, net 30	April 2
c. July 1	\$52,000	12 percent APR	December 31