1. Collection Effectiveness Index - This figure expresses the effectiveness of collection efforts over time. The closer to 100 percent, the more effective the collection effort is. It is a measure of the quality of the collection of receivables.

Formula: $\frac{\text{Beginning Receivables + (Credit Sales/N*) - Ending Total Receivables}}{\text{Beginning Receivables + (Credit Sales/N*) - Ending Current Receivables}}$ **x** 100

**N = Number of Months*

CEI can be used as a departmental or individual performance measure.

2. Days Sales Outstanding - This figure expresses the average time (aggregate), in days it takes a firm to convert its accounts receivables to cash. DSO is one of the most often misused and misunderstood performance measures. Widely used (or misused) in corporate valuation on Wall Street makes this an important metric for the credit manager to understand. It's value lies in the ability help determine if a change in A/R is due to a change in sales, or to another factor such as change in selling terms. It is composed of: terms (the future & current receivables), delinquent invoices and operational errors, service and quality problems, disputes and customer dissatisfaction (deductions). But like any measure, if it is used consistently and routinely, it has value.

Formula: $\frac{\text{Ending Total Receivables x Number of Days in Period Analyzed}}{\text{Credit Sales for Period Analyzed}}$

By calculating your company's DSO and comparing it to others in your industry, you may be prompted to ask yourself these questions: Are credit terms in line with competitors? Are they enforced? Are collection procedures appropriate? Is the customer base risky? Are invoices issued promptly and correctly? Are invoices easily understood to avoid disputes and encourage prompt payment? Would early payment discounts be cost effective? Can product or service quality be easily disputed? Are customers dissatisfied?

3. Best Possible DSO - This figure expresses the best possible level of receivables under the most favorable condition – A/R with no delinquency. This measure should be used together with DSO. The closer the overall DSO is to the Best Possible DSO, the closer the receivables are to the optimal level, and therefore should relate closely to your terms of sale.

Formula: $\frac{\text{Current Receivables x Number of Days in Period Analyzed}}{\text{Credit Sales for Period Analyzed}}$

4. Average Days Delinquent: ADD reflects the average number of days invoices are past due. It provides a snapshot to evaluate individuals, subgroups or overall collection performance. However, it can be deceiving by masking the performance of delinquent accounts if other accounts are discounting their bills.

Formula: DSO - Best Possible DSO

Like the many measures, there are flaws and biases, however, used consistently and routinely, these DSO related measures can be indicators of performance and can be an early warning sign by pointing out problems.

5. Percent Current - Reflects the relationship of non-past due receivables (current and future) to total receivables outstanding. It can be used in forecasting receivables condition and workload at a staff or individual level. Percent current is a quick check-up on the relative condition of receivables. It is easy to understand and calculate.

Formula: $\frac{\text{Ending Current A/R}}{\text{Total Receivables}}$

6. Percent over 91 Days – There's nothing special about the period of over 91 days, except that it represents CRF's consistent methodology for over 45 years in the NSDTR which makes it a valuable benchmark. You can use whatever aging category suits your needs. This measures a specific overdue period of invoices and expresses it as a percentage of total receivables. It represents a good comparative measure of receivables condition and can focus and alert management to unusual increases in A/R requiring prompt attention. This metric can be used to evaluate individuals or groups and is simple to calculate and easy to understand.

Formula: $\frac{\text{Total Amount in the Over 90-Days and beyond Category}}{\text{Total Receivables}}$

Upon calculating the % over 91 days past due, some questions that you may need to answer are: Are the reasons for late payment analyzed and understood? Are late payers monitored more closely? Is some late payment tolerated? Would discounts have an impact on speeding up collections?