

# Subject CB1

## Corrections to 2019 study material

This document contains details of any errors and ambiguities in the Subject CB1 study materials for the 2019 exams that have been brought to our attention. Each year, we'll incorporate these changes into the study material.

You may also find it useful to refer to the Subject CB1 threads on the Actuarial Discussion Forum. (You can reach the Forum by clicking on the 'Discussion Forums' button at the top of ActEd's website, or by going to [www.acted.co.uk/forums/](http://www.acted.co.uk/forums/).)

### **Important note**

This document was created on 18 February 2019.

## X Assignments

### Solution X3.11(i)

A better solution to the requested calculation of the expected reduction in Company's trade receivables is as follows:

Firstly, calculate the expected reduction in sales revenue:

$$\begin{aligned} \text{Reduction in sales revenue} &= \text{credit sales} \times \text{discount} \times \text{proportion of customers using discount} \\ &= £150m \times 0.02 \times 0.4 = £1.2m \end{aligned} \quad [1]$$

Then use the definition of the trade receivables turnover period:

$$\text{trade receivables turnover period} = \frac{\text{trade receivables}}{\text{creditsales}} \times 365$$

Prior to the introduction of the proposed discount:

$$70 \text{ days} = \frac{\text{trade receivables}}{£150m} \times 365 \text{ days, ie trade receivables are } £28.767m.$$

It is expected that the introduction of the discount would result in a trade receivables turnover period of 50 days and credit sales of  $£150m - £1.2m = £148.8m$ . This would give:

$$50 \text{ days} = \frac{\text{trade receivables}}{£148.8m} \times 365 \text{ days, ie estimated trade receivables of } £20.384m.$$

Therefore the expected reduction in trade receivables is  $£28.767m - £20.384m = £8.4m$ . [1]

[Total 2]