The finance director of Widnor Co has been looking to improve the company's working capital management.

Widnor Co has revenue from credit sales of $26,750,000 per year and although its terms of trade require all credit customers to settle outstanding invoices within 40 days, on average customers have been taking longer. Approximately 1% of credit sales turn into bad debts which are not recovered.

Trade receivables currently stand at $4,458,000 and Widnor Co has a cost of short-term finance of 5% per year.

The finance director is considering a proposal from a factoring company, Nokfe Co, which was invited to tender to manage the sales ledger of Widnor Co on a with-recourse basis.

Nokfe Co believes that it can use its expertise to reduce average trade receivables days to 35 days, while cutting bad debts by 70% and reducing administration costs by $50,000 per year.

A condition of the factoring agreement is that the company would also advance Widnor Co 80% of the value of invoices raised at an interest rate of 7% per year. Nokfe Co would charge an annual fee of 0.75% of credit sales.

Assume that there are 360 days in each year.

Required:

(a) Advise whether the factor's offer is financially acceptable to Widnor Co. (7 marks)