Thus, the staff analysis demonstrates that the applied rate is 18 percent per annum.

The following narrative illustrates what has taken place on *Schedule A* which follows below. Amounts in the Purchase-(Payments) column on Schedule A have been keyed to related amounts in the credit column. For example, $(a) 32.26 in the Purchase-(Payments) column is the basis for the $(a) 32.26 in the credit column.

The balance in the account on January 27 was $32.26. Because 50 percent of this balance was not paid before February 27, a service charge of 1½ percent for one month, amounting to $.48, was made for 31 days ($32.26×.015) and added to the account.

A purchase was made on January 29 amounting to $9.00. Since this was not a part of the January 27 balance, no service charge was made for 29 days.

No transactions took place during March and, on March 27, a service charge of $.40 was made against the balance on February 27 which covered one month of 28 days ($26.74×.015).

The customer paid $15.00 on his account on April 21. Since this payment was more than 50 percent of the account balance on March 27, it eliminated $15.00 from any service charge computation. Therefore, $15.00 of credit for 25 days was not billed.

On April 27 the account balance was $12.14, which was part of the balance at March 27. The applicable service charge of $.18 for the month of 31 days was applied ($12.14×.015).

A purchase amounting to $13.00 was made on May 3. On May 13, the customer paid off the balance in the account of $12.32 at April 27, thereby stopping the computation of a service charge on that balance. Credit advanced of $12.32 was not billed for 16 days. Since the purchase on May 3 was not in the balance at April 27, no service charge was made on May 27, i.e. $13.00 credit for 24 days was not billed.

On June 27 the account was reviewed. The opening balance of $13.00 had not been reduced during the month, so a service charge of $.20 for one month of 31 days was applied ($13.00×.015). No charge was made on the $11.00 purchase of June 8, because it was not part of the opening balance; hence, $11.00 credit for 19 days was not billed.

The review of the account at July 27 found a balance of $27.20, of which $24.20 was the balance at June 27 and $3.00 reflected a purchase made on June 30. Pursuant to the rules, credit for a month of 30 days was charged on $24.20 ($24.20×.015=$.36) but no charge was levied on $3.00 for 27 days credit.

On August 27 there was no balance in the account; hence no service charge was made. However, the account balance of $27.56 at July 27 was not paid until August 20; hence credit of $27.56 for 24 days was not billed.

Since there was no balance in the account on August 27, there was no service charge on September 27. Purchases charged during the month were given a "free ride" in accordance with the store's policy. These were dollar-days not billed.

The October 27 billing date found a balance of $10.28 that was in the account at September 27. The service charge of $.15 for the 30-day month was applied ($10.28×.015=$.15). The "free ride" on the purchase for $1.55 made on October 21 was not billed.

The balance in the account of $11.98 on October 27 was paid off on November 22; hence the customer was not charged for the credit allowed for 26 days.

No credit charge was made for December because there was no balance in the account on November 27. Purchases during the month were in the "free-ride" category and not billed.

Because the balance in the account on December 27 had not been paid prior to January 27, a service charge of $.37 was made for the 31-day month ($24.83×.015=$.37).

The conversion of "Credit-Days" and "Credit-Amounts" into "dollar days" is done by multiplying these two factors, providing us with a common denominator called "dollar days." Thus, total "dollar days" on Appendix A are computed by multiplying each cumulative balance in the account by the number of days such balance prevailed. The total "dollar days" for the year shown, both billed and not billed, amounts to $6,979.95 as listed on Schedule A. In effect, all of the credit granted during the year has been converted to the equivalent amount of credit advanced for one day. To convert this amount into an equivalent amount of credit for one year, we divide by 365 and obtain the amount of $19.12.

The effective annual *return* or *yield* on the account can now be determined by dividing $2.14 total service charges by $19.12, the average annual credit allowed.