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A STUDY ACCOUNT RECEIVABLES MANAGEMENT

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ABSTRACT

The accounts receivable term represents the funds that a company had not yet collected for the services/products that were already provided purchasing party. Such kind of services are sold on credit and the fund collection is the task that should be properly realised, i.e. the management of accounts receivable should be accomplished. Usually companies negotiate all conditions of the payment processes and conduct them in the mutual contracts as per which the accounts receivable management is realised. However, the accounts receivable management itself may not be considered as a simple fund collection and it covers a much complex line of processes. Each company has to make a certain collection plan that depends on number of factors and considers various techniques that help the company make the correct decisions and actions for achievement of targets. Certain part of such decision-making falls on different company departments that are not directly connected to a counting, such as marketing and sales departments, which gives additional value to their performance as well.

Keywords: accounts receivable, decisions and actions

1. INTRODUCTION

Accounts receivable is an accounting transaction which deals with the billing of customer who owes money to a person, company or organization for goods and services that has been provided to the customers. In most business entities this is typically done by generating an invoice and mailing or electronically delivering it to the customer, who in turn must pay it within an established timeframe called credit or payment terms.

The term receivable management is defined as "debt owed to the firm by customer arising from the sale of goods/ services in the ordinary course of business." The receivable represents an important component of the current assets of the firm. Receivables may be known as accounts receivables, trade creditors or customer receivable. When a firm its products / services and does not receive cash for it immediately, the firm has said to be granted trade credit to the customers. Trade credit thus creates receivable / book debts, which the firm is expected to collect in near future. Accounts receivable are thus amounts due from customers, which bear no interest in essence, a company is providing no cost financing to the customer to encourage the purchase of the company's product/services.

Trade credit means receivable or book debts which the company is expected to collect in the near future. The book debts or receivables arising out of credit have three characteristics;

I) First it involves an element of risk which should be carefully analyzed. Cash sales are totally risk free, but not the credit sales as the cash payments is yet to be received.

II) Secondly it is based on Economic value of the goods or services which passes immediately at the time of sale, while the Seller expects an equivalent value to the received later on.

III) Thirdly, it implies futurity. The payment for goods or services received by the buyer will be made by him in a Future period. The seller has to collect the payment from his customers who are called trade Debtors and the amount to be collected is known as receivables. Receivable constitute a Substantial portion of current assets of firm. For example; In India, Trade Debtors after inventories are the major components of the current assets. They form 1/3rd of current assets of firm. Granting credit and creating Debtor's amount to the blocking of the firms funds. Thus, trade debtors represent investment as substantial amount are tide-up in trade debtors it needs careful analysis and proper management.

Important aspects of Receivables Management:

Credit Policy: Always a firm requires a suitable and effective credit policy to control the level of total investment in receivables so, a credit policy may be defined as setting the principles that given the extent of credit and terms of credit extended to the customers.

Credit evaluation: For evaluating the credit given to the customers always they have to observe and recheck the credit standards/ credit terms to strengthen the business by collecting prompt receivables.

Credit standards: Criteria to decide the types of customers to whom goods could be sold on credit. If a firm has more slow-paying customers, its investment in accounts receivable may increase. The firm also exposed to higher default risk.

Credit terms: Specify duration of credit and terms of payment by customers. Investment in accounts receivable will be high if customers are allowed extended time period for making payments.

Collections efforts: determine the actual collection period. The lower the collection period, the lower the investment in accounts receivables and vice versa.

Credit Control: In order to have the credit control the receivables management has to be stringent in adopting its credit policy and credit evaluation in order to reduce the collection cost, bad debts, administration cost and delinquency cost.

2. REVIEW OF LITERATURE

ARTICLE: 1

Tile: Accounts Receivable Management Policy: Theory and Evidence

Author: Shehzad Mian

Source: The Journal of Finance 47(1):169-200

Abstract:

This paper develops and tests hypotheses that explain the choice of accounts receivable management policies. The tests focus on both cross-sectional explanations of policy-choice determinants, as well as incentives to establish captives. The authors find size, concentration, and credit standing of the firm's traded debt and commercial paper are each important in explaining the use of factoring, accounts receivable secured debt, captive finance subsidiaries, and general corporate credit.

They also offer evidence that captive formation allows more flexible financial contracting. However, the authors find no evidence that captive formation expropriates bondholder wealth. Copyright 1992 by American Finance Association.'

ARTICLE: 2

Tile: Accounts Receivable Management and Organizational Profitability

Author: Francis Kakeeto

Source: IOSR Journal of Economics and Finance (IOSR-JEF) Abstract:

This study sought to explore the effect of Accounts Receivable Management on Organizational Profitability, by testing the hypothesis:

Accounts Receivable Management has a significant positive effect on organizational profitability. Using a descriptive research design and a case study strategy, sample size of 181 was taken from the population of 345 staff. Likert type scale questionnaires were used to collect data from the respondents in terms of the two variables.

The findings revealed that revealed that accounts receivable management positively affected organizational profitability (adjusted R 2 =0.90; p<.01), thus the hypothesis was accepted. The study concluded that, accounts receivable management as practiced by GCCE was adequate. Recommendations were made to better enhance accounts receivable management in GCCE.

RESEARCH GAP:

This project develops and tests hypotheses that explain the choice of accounts receivable management policies. The tests focus on both cross-sectional explanations of policy-choice determinants, as well as incentives to establish captives.

OBJECTIVES:

- To determine the importance of receivables management in the firm.
- To find out the Debtor turnover ratio and average collection period.
- To study the firm's credit policy and procedure followed for controlling the receivables.
- To analyze the receivables management process.
- To observe the controlling techniques of receivables management.
- To study the impact of receivables management on financial liquidity.

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3. RESEARCH METHODOLOGY

Need For The Study- The receivable and credit management is vital tool of financial management. Receivable Management provides a base and support to the liquidity and working capital requirements of company. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems and it will also determine the liquidity position of the firm.

Scope Of The Study: The scope of the study is limited to collecting financial data published in the annual reports of the company every year. The analysis is done to suggest the possible solutions. The study is carried out for 3 years (2020-2023) in Karimnagar.

Methodology

Primary Data: Primary data is information collected by the researcher directly through instruments such as surveys, interviews, focus groups or observation. Tailored to his specific needs, primary research provides the researcher with the most accurate and up-to-date data.

Secondary Data: Secondary data, on the other hand, is basically primary data collected by someone else. Researchers reuse and repurpose information as secondary data because it is easier and less expensive to collect. However, it is seldom as useful and accurate as primary data.

4. METHODOLOGY OF STUDY

This study was aimed by systematic design. Collection analysis, reporting of data and Finding relevant to receivable management of Kesoram cement. A descriptive study Was done to obtain an accurate description.

DATA SOURCE

This study is based on secondary data.

Source of Data- The primary source for the project study is purely based on secondary source which is collected from management information reports, Annual reports of the company and other related reference books and company website. In this study secondary data used are; Balance sheet for the year 2014-2015 and was used to project the financial analysis for Kesoram cement. Information of other relevant data were collected from the companies reports and annual statements.

Limitations Of The Study

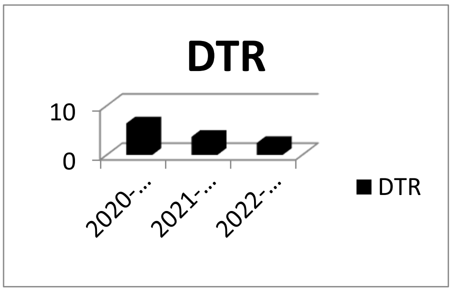
- The Project study is mainly based on information gathered from secondary data, mainly Balance sheet & profit and loss account.
- Time and other resources have proved to be a constraint.

5. DATA ANALYSIS & INTERPRETATION

1) Debtors Turnover Ratio:

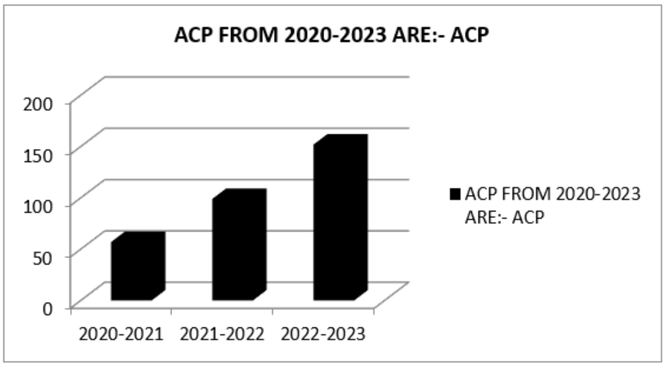
DTR From 2020-2023 are:-

ACP FROM 2020-2023 ARE:-	
YEAR	**ACP**
2020-2021	57
2021-2022	99
2022-2023	**152**



Interpretation: The Debtors **t**urnover ratio for the year 2020 – 2021 is 6.4 times as compare to in the year 2021-2022 is 3.67 times as compare to in the year 2022-2023 is 2.4. It indicates decreased in credit sales of Kesoram in the year 2022-2023 with simultaneous decrease in Debtors turnover ratio which indicates that it is due to good policies adopted by the Company

ACP FROM 2020-2023 ARE:-	
YEAR	**ACP**
2020-2021	57
2021-2022	99
2022-2023	**152**



Interpretation: The Debtors collection period is 57 Days for the year 2020 – 2021 as compared to 99 Days in the year 2021 – 2022 as compared to 152 days in the year 2022 - 2023.

The Debtors collection period for the year 2022 – 23 is increased to 152 days due to in-effective credit management adopted by the company.

Ageing schedule:

The average collection period measures the quality of debtors in an aggregative way. We can have a detailed idea of the quality of debtors through the ageing schedule. The ageing schedule breaks down debtors according to the length of time for which they have been outstanding.

The ageing schedule given below, it shows that within the collection period ranging between 10 to 20 days, 20 to 30 days, 30 to 45 days and more than 45 days what percent of debtors are overdue. It also reveals that some of the accounts of the firm have serious problems of collection. The ageing schedule gives more information than the collection period, and very clearly spots out the slow-paying debtors

Ageing schedule for the year 2022-2023

Outstanding Period (days)	Outstanding Amount of Debtors Rs		Percentage of total Debtor
10-20 days	45000		5.62 %
20-30 days	61956		7.74 %
30-45 days	85125		10.64 %
More than 45 days	121000		15.125 %
Total	**313081**	+	**39.125%**

Interpretation: If the stated credit period of Kesoram is 15.125% days, the aging schedule indicates that 15.125 % of receivables remain outstanding beyond this period.

A significant amount of receivables remains uncollected for a longer period than the firm's credit period

6. CONCLUSION

The decrease in the pattern of credit sales indicates the increase in cash sales which lead to decrease in bad debts over a period of 2020-2023. Which reflects that the Company credit policy is good

The average collection period is extended more than 45 days which may result in working capital management problems

7. REFERENCES

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