



# RECEIVABLES MANAGEMENT

- MEANING
- It refers to the sum of all monies owed to the firm by customers arising from the sale of goods or services in the ordinary course of business. It includes:-
- Debtors
- Accounts Receivable
- Book debts/ customer receivable
- Trade Receivable



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## Features

- ❖ Process of decision making regarding investment of receivables.
- ❖ High working capital implies high interest rates.
- ❖ If receivables are low, sales becomes restricted.
- ❖ Receivables to be managed to optimise profits.
- ❖ Maximises the overall return on investment of the firm.



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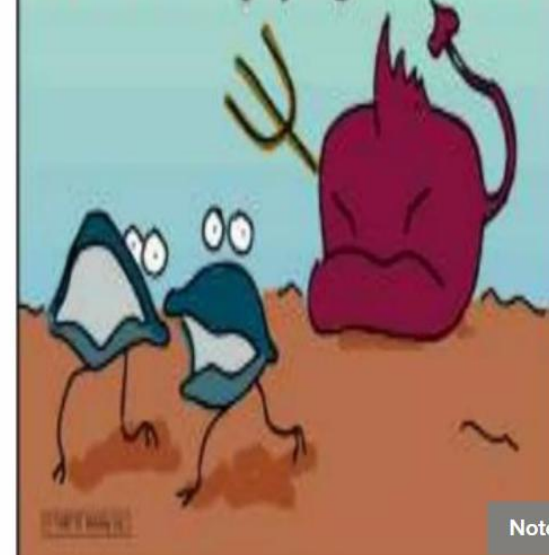
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## Purpose

- ❖ Increase in Sales
- ❖ Increase in Profits
- ❖ Meeting the Competition

Accounts receivable goes  
after slow paying customers



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## *Cost of maintaining Receivables*

- Capital Cost



Time gap between cost incurred and sales incurred.

Funds to be raised for payment of wages and suppliers.

Such funds to be raised from outside or from retained earnings.

Liability to pay interest to creditors.

Opportunity cost incurred – the money the firm could have earned if invested outside the firm.

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- **Administrative Costs**

- ❖ Costs incurred for maintenance of customers' accounts
- ❖ Costs incurred for investigating the creditworthiness of the customers in the market.

- **Collection Costs**

- ❖ Expenses for collection of payments from credit customers.
- ❖ Costs of recovery from defaulting customers

- **Defaulting costs**

- ❖ Bad debts

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# Aspects of Receivables Management

## I - CREDIT POLICY – CRITERIA

Whether to grant credit or not?

How much is the credit limit?

*These depend on the credit*

*standards that are either tight and*

*restrictive OR liberal and non- restrictive*



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## *Credit Standards - determinants*

- Collection Costs
- Avg Collection Period
- Extent of bad debts
- Level of sales



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## *Collection Costs – implications of relaxed credit standards*

**CREDIT?**

PAY LATER

PAY NOW



Increased credit.

Need to maintain a large Department to process the Accounts Receivables and related issues.

Increased collection costs which are semi-variable by nature.

Should be included in the semi-variable costs only.

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## *Bad Debts*

- They change with the change in the credit policy of a firm.
- Bad debts increase with a liberal credit standard.
- They tend to reduce with a tight credit policy of a firm.



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## *Sales Volume*

- Changing credit standards impact the sales volume of a firm.
- A relaxed credit policy will tend to increase the sales.
- A tight credit policy tends to decrease the sales of a firm.



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## *Credit Terms*

**(A) CREDIT PERIOD** – is the time for which the credit is extended.

- ☐ It is generally stated in terms of **Net Date**.
- ☐ If the policy of a company states “Net 30” it means the payment will be made after 30 days of credit sale. The effects of a liberal credit policy are:-



Increase in Sales Volume

Relaxed Collection Period

Increase in bad and doubtful debts

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## II –CREDIT ANALYSIS through credit rating

### Sources of Credit Rating

- Published information
- Bank Reference
- Trade Reference
- Salesman's Interview and Report
- Credit Bureau Reports
- Reports from other Agencies
- Past Experience



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## III. Control of Receivables

This depends on the following:-

- (i) Collection Policy
- (ii) Monitoring of Receivables
- (iii) Ageing Schedule



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