Accounts Receivable Management

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Introduction

Accounts receivable represent the amount due from customers (book debts) or debtors as a result of selling goods on credit. “The term debtors is defined as ‘debt’ owned to the firm by customers arising from sale of goods or services in the ordinary course of business.” The three characteristics of receivables—risk, economic value, and futurity—explain the basis and the need for efficient management of receivables. The element of risk should be carefully analyzed. Cash sales are totally riskless but not the credit sales, as the same has yet to be received. To the buyer, the economic value in goods and services process immediately at the time of sale, while the seller expects an equivalent value to be received later on. The cash payment for goods and services received by the buyer will be made by him in a future period. The customer from whom receivables or book debts have to be collected in future are called Trade debtor and represent the firm’s claim on assets.

Receivables management, also termed as credit management, deals with the formulation of credit policy, in terms of liberal or restrictive, concerning credit standard and credit period, the discount offered for early payment and the
collection policy and procedures undertaken. It does so in such a way that taken together these policy variables determine an optimal level of investment in receivables where the return on that investment is maximum to the firm. The credit period extended by business firm usually ranges from 15 to 60 days. When goods are sold on credit, finished goods get converted into accounts receivable (trade debtors) in the books of the seller. In the books of the buyer, the obligation arising from credit purchase is represented as accounts payable (trade creditors). “Accounts receivable is the total of all credit extended by a firm to its customer.”

A firm’s investment in account receivable depends upon how much it sells on credit and how long it takes to collect receivable. Accounts receivable (or sundry debtors) constitute the 3rd most important assets category for business firm after plant and equipment and inventories and also constitute the 2nd most important current assets category for business firm after inventories.

Poor management of accounts receivables are: neglect of various overdue account, sharp rise in the bad debt expense, and the collection of debts expense and taking the discount by customers even though they pay after the discount date and even after the net date. Since accounts receivable represent a sizable investment on the part of most firms in the case of public enterprises in India it forms 16 to 20 per cent of current assets. Efficient management of these accounts can provide considerable saving to the firm.
Factors involving in Receivable management:
1. The terms of credit granted to customers deemed creditworthy.
2. The policies and practices of the firm in determining which customers are to be granted credit.
3. The paying practices of credit customers.
4. The vigoir of the sellers, collection policies and practice.
5. The volume of credit sales.

**Goals of Receivable Management**

The basic goal of credit management is to maximize the value of the firm by achieving a trade off between the liquidity (risk and profitability). The purpose of credit management is not to maximize sales, nor to minimize the risk of bad debt. If the objective were to maximize sales, then the firm would sell on credit to all. On the contrary, if minimization of bad debt risk were the aim, then the firm would not sell on credit to anyone. In fact, the firm should manage its credit in such a way that sales are expanded to an extent to which risk remains within an acceptable limit. Thus to achieve the goal of maximizing the value, the firm should manage its trade credit.

The efficient and effective credit management does help to expand sales and can prove to be an effective tool of marketing. It helps to retain old customers and win new customers. Well administrated credit means profitable credit accounts. The objectives of receivable management is to promote sales and profits until that point is reached where the
return on investment is further funding of receivables is less than the cost of funds raised to finance that additional credit.

Granting of credit and its management involve costs. To maximize the value of the firm, these costs must be controlled. These thus include the credit administration expenses, b/d losses and opportunity costs of the funds tied up in receivable. The aim of credit management should be to regulate and control these costs, not to eliminate them altogether. The cost can be reduced to zero, if no credit is granted. But the profit foregone on the expected volume of sales arising due to the extension of credit.

Debtors involve funds, which have an opportunity cost. Therefore, the investment in receivables or debtors should be optimized. Extending liberal credit pushes sales and thus results in higher profitability but the increasing investment in debtors results in increasing cost. Thus a trade off should be sought between cost and benefits to bring investment in debtors at an optimum level. Of course the level of debtors, to a great extent is influenced by external factors such as industry norms, level of business activity, seasonal factors and the degree of completion. But there are a lot of internal factors include credit terms, standards, limits and collection procedures. The internal factors should be well administered to optimize the investment in debtors.
Credit Management

In order that the credit sales are properly managed it is necessary to determine following factors:

1. Credit Policy
2. Credit Evaluation of Individual Buyers
3. Credit Sanction Decisions
4. Control and Monitoring of Receivables

Credit Policy

The first stage of credit sales is to decide policy in which most important variable is whether credit sales should be made or not and if yes to what extent i.e. what percentage of sales should be done on cash and what percentage on credit. The discussion with cement companies marketing and finance department clearly suggest that the credit policy is more dependent upon market forces and less on company specially in periods when there is excessive competition which has happened a number of times in the history of cement industry after decontrol and manufactures have been forced to provide credit if they wanted full utilization of capacity. If in the market there is practice of providing credit, those companies who do not fall in line have lower sales and so lower utilization of instilled capacity. The management has to weigh whether it should avoid risk of realization and problem of arranging funds for larger sales on credit or decide for reduced capacity utilization thereby resulting in higher cost per tonne of cement produced.
Actually the policy should be based on cost benefit analysis of these factors but often policy is decided without detailed calculations. In actual practice when one waits to push sales the marketing department pressurizes the management to provide liberal credit to buyers to realize sales targets.

**Credit Rating**

The second virtual point of credit policy is to whom to give credit and whom it should be denied. Whether it should be given to everyone or on selective basis? As per standards one can workout impact of credit sales on profits by following formulae:

\[ \Delta P = \Delta S (1-V) - K \times \Delta I - B, \Delta S \]

in the above formula

\( \Delta P \) = Change in profit

\( \Delta S \) = Change in sales

\( V \) = Ratio of variable cost to sales

\( K \) = Cost of capital *i.e.* interest cost of credit

\( \Delta I \) = Increase in receivables investment

\( B \) = Bad debts ratio on additional sales

The change in profits (\( \Delta P \)) is dependent upon ratio of variable cost and fixed cost and change in sales. The figure is worked out by deducting variable cost from sales *i.e.* sales minus variable cost is change in profits.

The above formula appears to be very simple but for policy purposes it requires that policy maker should be able to estimate precisely the impact of credit on sales value, the
variable cost and bad debts besides the cost of capital. In practice besides the cost of capital, it is very difficult to measure extent of increase in sales as a result of credit and it is only broad estimate of sales department. Similarly, it is very difficult if not impossible to workout likely bad debts. The variable cost can be worked out with great precision if proper costing system is maintained. Because of difficulties in quantifying various variables in the formulae often credit policy is decided without working details on prevailing market conditions and the need of the company to push sales at a point of time. It has been by various companies that no details are worked.

**Credit Period**

The credit period is the time length for which seller agrees to provide credit to the buyers. It varies according to the practice of trade and varies between 15 to 60 days. In some cases for an early payment pre-agreed discount is given to induce buyer make an early payment. For late payment in the agreement there is provision for interest payment by buyer. If credit is given for longer period it induces to push up sales but this is true only when one provides longer period credit than competitors. The customer-distributor, dealer, consumers is attracted to a firm who provides longer period credit. The impact of credit on profits and sales can be worked out from the following formula:

\[
\Delta P = \Delta S (1-V)*K*\Delta 1-b, \Delta S
\]

The various components are as under:
\[ \Delta P = \text{Change in profit} \]
\[ \Delta S = \text{Change in sales} \]
\[ \Delta 1 = \text{Change in investments receivables} \]
\[ V = \text{Ratio of variable cost to sales} \]
\[ K = \text{Cost of giving credit} \]
\[ b = \text{bad debits ratio to increased credit} \]

The discussion with the industry suggests that they rarely take decision on period of credit based on formula. It is market conditions and practices in the trade, which decides the period of credit and hardly any calculations of cost are done. In practice it is marketing department whose advice plays an important and deciding role. In the period when sales have to be pushed up more credit is provided and there is no uniform policy overtime. During rainy season (July-Sep.) when demand is generally slack more liberal credit is granted than rest of the year. Further, when stocks accumulate due to sluggish sales, producers accept the terms of their customers and traders about the period of credit but when market conditions are tight, the seller becomes more strict in providing credit.

**Optimum Credit Policy**

Credit policy refers to those decision variables that influence the amount of trade credit *i.e.* the investment in receivables. The firm’s investment in receivable are affected by general economic conditions, industry norms, pace of technological change, competition etc. Though the firm has no control on these factors, yet they have a great impact on it and it can certainly influence the level of trade credit through its
credit policy within their constraints imposed externally. The purpose of any commercial enterprise is the earning of profit. Credit itself is utilized to increase sales, but sales must return a profit. Further, whenever some external factors change, the firm can accordingly adopt its credit policy. R.J. Chambers says, “The responsibility to administer credit and collection policies may be assigned to a financial executive or marketing executive or both of them jointly depending upon the original structure and the objectives of the firm.”

Different types of credit policy are:

1. **Loose or Expansive Credit Policy**– Firms following this policy tend to sell on credit to customers very liberally. Credits are granted even to those whose credit worthiness is not proved, not known and are doubtful.

   **Advantages of Loose or Expansive Credit Policy:**
   
   (i) Increase in Sales (higher sales),
   
   (ii) Increase in profit (higher profit),

   **Disadvantages of Loose or Expansive Credit Policy:**
   
   (i) Heavy bad/debts.
   
   (ii) Problem of liquidity
   
   (iii) Increase in cost of credit management.

2. **Tight or Restrictive Credit Policy**– Firms following this policy are very selective in extending credit. They sell on credit, only to those customers who had proved credit worthiness.

   **Advantages of Tight of Restrictive Credit Policy:**
   
   (i) Minimize cost.
   
   (ii) Minimize chances of bad debts.
Higher sales in long run.

Higher profit in long run.

Do not pose the serious problem of liquidity.

**Disadvantages of Tight or Restrictive Credit Policy:**
(i) Restrict Sales.
(ii) Restrict Profit Margin.

**Benefits of Credit Extension:**
(i) Increases the sales of the firm.
(ii) Makes the credit policy liberal.
(iii) Increase the profits of the firm
(iv) The market value of the firms share would rise.

**Cost of Credit Extension:**
(i) Bad debt losses
(ii) Production and selling cost.
(iii) Administrative expenses.
(iv) Cash discounts and opportunity cost.

**Cost Benefit Trade off Profitability**

![Graph showing the trade-off between profitability and liquidity.](image)
Aspects of Credit Policy:

(i) Credit terms
   (a) Credit Period
   (b) Cash Discounts

(ii) Credit Standard

(iii) Collection policy or collection efforts.
   (i) Credit terms – The stipulations under which the firm sells on credit to its customers are called credit terms.
   (a) Credit Period – The time duration for which credit is extended to the customers is referred to as credit period. It is the length of time for customers under which they are allowed to pay for their purchases. It is generally varies between 15-60 days. When a firm does not extend any credit the credit period would obviously be zero. It is generally stated in terms of a net date, for example, if firm allows 30 days of credit with no discount to induce early payments credit then its credit terms are stated at ‘net 30’. Usually the credit period of the firm is governed by industry norms, but firms can extend credit for longer duration to stimulate sales. If the firm’s bad debts build up, it may tighten up its credit policy as against the industry norms. According to Martin H. Seidhen, “Credit period is the duration of time for which trade credit is extended. During this period the overdue amount must be paid by the customer. The length of credit period directly affects the volume of investment in receivables and indirectly the net worth of the company. A long credit period may blast sales but it also
increase investment in receivables and lowers the quality of trade credit.”

(b) **Cash Discounts** – It is another aspect of credit terms. Many firms offer to grant cash discount to their customers in order to induce them to pay their bill early. The cash discount terms indicate the rate of discount and the period for which discount has been offered. If a customer does not avail this offer, he is expected to make the payment by the net date. In the words of Martin H. Seiden “Cash Discount prevents debtors from using trade credit as a source of Working Capital.”

Liberalizing the cash discount policy may mean that the discount percentage is increased and or the discount period is lengthened. Such an action tends to enhance sales (because the discount is regarded as price reduction), reduce the average collection period (as customers pay promptly). Cash Discount is a premium on payment of debts before due date and not a compensation for the so-called prompt payment.

(iii) **Credit Standard** - The credit standard followed by the firm has an impact of sales and receivables. The sales and receivables level are likely to be high, if the credit standard of the firm are relatively low. In contrast, if the firm has relatively low credit standard, the sales and receivables level are expected to be relatively high. The firms credit standard are influenced by three “C” of credit. (a) **Character** – the willingness of the customers to pay, (b) **Capacity** – the ability of the
customers to pay, and (c) **Condition** – the prevailing economic conditions.

Normally a firm should lower its credit standards to the extent profitability of increased sales exceed the associated costs. The cost arising due to credit standard realization are administrative cost of supervising additional accounts and servicing increased volume of receivables, bad debt losses, production and selling cost and cost resulting from the slower average collection period.

The extent to which credit standard can be liberalized should depend upon the matching between the profits arising due to increased sales and cost to be incurred on the increased sales.

(iii) **Collection policy**- This policy is needed because all customers do not pay the firm’s bill in time. There are certain customers who are slow payers and some are non-payers. Therefore the collection policy should aim at accelerating collections from slow payers and non-payers and reducing bad debt losses. According to R.K. Mishra, “A collection policy should always emphasize promptness, regularity and systematization in collection efforts. It will have a psychological effect upon the customers, in that, it will make them realize the attitude of the seller towards the obligations granted.”

The collection programme of the firm aimed at timely collection of receivables, any consist of many things like monitoring the state of receivable, despatch of letter to
customers whose due date is approaching, telegraphic and telephone advice to customers around the due date, threat of legal action to overdue accounts, legal action against overdue accounts.

The firm has to be very cautious in taking the steps in order to collect from the slow paying customers. If the firm is strict in its collection policy with the permanent customers, who are temporarily slow payers due to their economic conditions, they will get offended and may shift to competitors and the firm may lose its permanent business. In following an optimal collection policy the firm should compare the cost and benefits. The optimal credit policy will maximize the profit and will consistent with the objective of maximizing the value of the firm.

**Credit Evaluation**

Before granting credit to a prospective customers the financial executive must judge, how creditworthy is the customer. In judging the creditworthiness of a customer, often financial executive keep in mind as basic criteria the four (i) **Capital** – refers to the financial resources of a company as indicated primarily by the financial statement of the firm. (ii) **Capacity** – refers to the ability of the customers to pay on time. (iii) **Character** – refers to the reputation of the customer for honest and fair dealings. (iv) **Collateral** – represents the security offered by the customer in the form of mortgages.
Credit evaluation involves a large number of activities ranging from credit investigation to contact with customers, appraisal review, follow up, inspection and recovery. These activities required decision-making skills which can partly be developed through experience but partly it has to be learned externally. This is particularly true in area of pre-credit appraisal and post-credit follow up.

It is an important element of credit management. It helps in establishing credit terms. In assessing credit risk, two types of error occur – (i) A good customer is misclassified as a poor credit risk. (ii) A bad customer is misclassified as a good credit risk.

Both the errors are costly. Type (i) leads to loss of profit on sales to good customer who are denied credit. Type (ii) leads in bad debt losses on credit sales made to risky customer. While misclassification errors cannot be eliminated wholly, a firm can mitigate their occurrence by doing proper credit evaluation.

Three broad approaches used for credit evaluation are:

A. Traditional Credit Analysis - This approach to credit analysis calls for assuming a prospective customer in terms of 5 of credit: (i) Character, (ii) Capacity, (iii) Capital, (iv) Collateral, and (v) Conditions.

To get the information on the 5 firm may rely on the following.

1. Financial statements
2. Bank references
3. Trade references
4. Credit agencies
5. Experience of the firm
6. Prices and yields on securities

B. Sequential Credit Analysis – This method is more efficient method than above method. In this analysis, investigation is carried further if the benefits of such analysis outweighs its cost.

C. Numerical Credit Scoring – This system involves the following steps.
1. Identifying factors relevant for credit evaluation.
2. Assign weights to these factors that reflect their relative importance.
3. Rate the customer on various factors, using a suitable rating scale (usually a 5 pt. Scale or a 7pt. Scale is used).
4. For each factor, multiply the factor rating with the factor weight to get the factor score.
5. Add all the factors score to get the overall customer rating index.
6. Based on the rating index, classify the rating index.

D. Discriminant Analysis - The credit index described above is somewhat ad hoc in nature and is based on weight which are subjective in nature. The nature of discriminate analysis may be employed to construct a better risk index.

Under this analysis the customers are divided into two categories:
1. who pay the dues (X)
2. who have defaulted (O)

The straight line seems to separate the x’s from o’s, not completely but does a fairly good job of segregating the two groups.

The equation of this straight line is

\[ Z = 1 \text{ Current Ratio} + 0.1 \text{ return on equity} \]

A customer with a Z score less than 3 is deemed credit worthy and a customer with a Z score less than 3 is considered not credit worthy *i.e.* the higher the Z score the stronger the credit rating.

**Risk Classification Scheme** - On the basis of information and analysis in the credit investigation process, customers may be classified into various risk categories.

<table>
<thead>
<tr>
<th>Risk Categories</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customers with no risk of default</td>
<td></td>
</tr>
<tr>
<td>2. Customer with negligible risk of default (&lt;2%)</td>
<td></td>
</tr>
<tr>
<td>3. Customer with less risk of default (2% \text{ to } 5%)</td>
<td></td>
</tr>
<tr>
<td>4. Customer with some risk of default (5% \text{ to } 10%)</td>
<td></td>
</tr>
<tr>
<td>5. Customer with significant risk of default (&gt;10%)</td>
<td></td>
</tr>
</tbody>
</table>

**Credit Granting Decision** - After assessing the credit worthiness of a customer, next step is to take credit granting decision.

There are two possibilities:

(i) No repetition of order.

Profit = \( P \text{ (Rev-Cost)} - (1-P) \text{ Cost} \)
Where P is the probability that the customer pays his dues, (1-P) is the probability that the customer defaults, Rev is revenue for sale and cost is the cost of goods sold.

The expected profit for the refuse credit is O. Obviously, if the expected profit of the course of action offer credit is positive, it is desirable to extend credit otherwise not.

(ii) Repeat Order - In this case, this would only be accepted only if the customer does not default on the first order. Under this, once the customer pays for the first order, the probability that he would default on the second order is less than the probability of his defaulting on the first order. The expected profit of offering credit in this case.

Expected profit on initial order + Probability of payment and repeat order x expected profit on repeat order.

\[ P_1 (Rev_1 - Cost_1)-(1-P_1) Cost_1] + P_1 x [P_2(Rev_2-Cost_2)-(1-P_2) Cost_2]\]

The optimal credit policy, and hence the optimal level of accounts receivable, depends upon the firm’s own unique operating conditions. Thus a firm with excess capacity and low variable production cost should extend credit more liberally and carry a higher level of accounts receivable than a firm operating a full capacity on a slim profit margin. When a sale is made, the following events occur:
Inventories are reduced by the cost of goods sold.

Accounts receivable are increased by the sales price, and the differences is recorded as a profit. If the sale is for cash.

Generally two methods have been commonly suggested for monitoring accounts receivable.

1. **Traditional Approach**
   a. Average collection period
   b. Aging Schedule

2. **Collection Margin approach or Payment Pattern Approach**
   a. **Average Collection Period (AC):** It is also called Day Sales Outstanding (DSOI) at a given time ‘t’ may define as the ratio of receivable outstanding at that time to average daily sales figure.

   $\text{ACP} = \frac{\text{Accounts receivable at time “t”}}{\text{Average daily sales}}$

   According to this method accounts receivable are deemed to be in control if the ACP is equal to or less than a certain norm. If the value of ACP exceed the specified norm, collections are considered to be slow.

   If the company had made cash sales as well as credit sales, we would have concentrated on credit sales only, and calculate average daily credit sales.

   The widely used index of the efficiency of credit and collections is the collection period of number of days sales
outstanding in receivable. The receivable turnover is simply ACP/360 days.

Thus if receivable turnover is six times a year, the collection period is necessarily 60 days.

(b) Aging Schedule – An aging schedule breaks down a firm’s receivable by age of account. The purpose of classifying receivables by age group is to gain a closer control over the quality of individual accounts. It requires going back to the receivables’ ledger where the dates of each customer’s purchases and payments are available.

To evaluate the receivable for control purpose, it may be considered desirable to compare this information with earlier age classification in that very firm and also to compare this information with the experience of other firms of same nature. Financial executives get such schedule prepared at periodic intervals for control purpose.

So we can say Aging Schedule classifies outstanding accounts receivable at a given point of time into different age brackets. The actual aging schedule of the firm is compared with some standard aging schedule to determine whether accounts receivable are in control. A problem is indicated if the actual aging schedule shows a greater proportion of receivable, compared with the standard aging schedule, in the higher age group.

An inter firm comparison of aging schedule of debtors is possible provided data relating to monthly sales and collection experience of competitive firm are available. This tool,
therefore, cannot be used by an external analyst who has got no approach to the details of receivable.

The above both approaches have some deficiencies. Both methods are influenced by pattern of sales and payment behaviour of customer. The aging schedule is distorted when the payment relating to sales in any month is unusual, even though payment relating to sales in other months are normal.

II. Payment Pattern Approach - This pattern is developed to measure any changes that might be occurring in customer’s payment behaviour.

It is defined in terms of proportion or percentage. For analyzing the payment pattern of several months, it is necessary to prepare a conversion matrix which shows the credit sales in each month and the pattern of collection associated with it.

The payment pattern approach is not dependent on sales level. It focuses on the key issue, the payment behaviour. It enables one to analyze month by month pattern as against the combined sales and payment patterns.

From the collection pattern, one can judge whether the collection is improving, stable, or deteriorating. A secondary analysis is that it provides a historical record of collection percentage that can be useful in projecting monthly receipts for each budgeting period.

Control of Accounts Receivable

Some of the important techniques for controlling accounts receivable are ratio analysis, discriminate analysis,
decision tree approach, and electronic data processing. Information system with regard to receivables turnover, age of each account, progress of collection size of bad debt losses, and number of delinquent accounts is also used as one of the control measures.

Ratio analysis is widely used in the control of accounts receivable. Some of the important ratios used for this purpose are discussed below:

(1) **Average collection Period** \((\text{Receivables} \times 365/\text{Annual Credit Sales})\):

The average collection period indicates the average time it takes to convert receivables into cash. Too low an average collection period may reflect an excessively restrictive credit policy and suggest the need for relaxing credit standards for an acceptable account. On the other hand too high an average collection period may indicate an excessively liberal credit policy leading to a large number of receivables being past due and some being not collectable.

(2) **Receivables Turnover** \((\text{Annual Credit Sales}/\text{Receivables})\):

This ratio also indicates the slowness of receivables. Both the average collection period ratio and receivables ratio must be analyzed in relation to the billing terms given on the sales. If the turnover rates are not satisfactory when compared with prior experience, average industry turnover and turnover ratios of comparable companies in the same industry, an analysis should be made to determine whether there is any
laxity in the credit policy or whether the problem is in collection policy.

(3) Receivables to Sales (Receivables/Annual Credit Sales x 100)

Receivables can be expected to fluctuate in direct relation to the volume of sales, provided that sales terms and collection practices do not change. The tendency towards more lenient credit extension as would be suggested by slackening of collections and increase in the number of slow paying accounts needs to be detected by carefully watching the relationship of receivables to sales. When credit sales figures for a period are not available, total sales figures may be used. The receivables figures in the calculation ordinarily represent year-end receivables. In the case of firms with seasonal sales, year-end receivables figures may be deceptive. Therefore, an average of the monthly closing balances figures may be more reliable.

(4) Receivables as percentage of Current Assets (Receivables/Total Current Assets Investment)

The ratio explains the amount of receivables per rupee of current asset investment and its size in current assets. Comparison of the ratio over a period offers an index of a firm’s changing policies with regard to the level of receivables in the working capital.

Some other ratios are:
1. Size of receivable = receivable/total current assets
2. Size of debtors = debtors/total current assets
3. **Size of loans and advances = loans and advances/total current assets**

The size of receivables of selected companies has been given in table 5.1

<table>
<thead>
<tr>
<th>Year</th>
<th>ACC</th>
<th>Mangalam</th>
<th>Gujarat Ambuja</th>
<th>Shree Cement</th>
<th>India Cement</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>0.68</td>
<td>0.52</td>
<td>0.35</td>
<td>0.58</td>
<td>0.54</td>
<td>0.53</td>
</tr>
<tr>
<td>2004-05</td>
<td>0.61</td>
<td>0.43</td>
<td>0.35</td>
<td>0.55</td>
<td>0.72</td>
<td>0.53</td>
</tr>
<tr>
<td>2005-06</td>
<td>0.67</td>
<td>0.46</td>
<td>0.52</td>
<td>0.63</td>
<td>0.79</td>
<td>0.61</td>
</tr>
<tr>
<td>2006-07</td>
<td>0.64</td>
<td>0.43</td>
<td>0.54</td>
<td>0.61</td>
<td>0.84</td>
<td>0.61</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.62</td>
<td>0.38</td>
<td>0.54</td>
<td>0.66</td>
<td>0.87</td>
<td>0.62</td>
</tr>
<tr>
<td>Company Average</td>
<td>0.64</td>
<td>0.44</td>
<td>0.46</td>
<td>0.61</td>
<td>0.75</td>
<td>0.58</td>
</tr>
</tbody>
</table>

Source: Based on data provided annual Reports of the cement companies.

The size of receivable of all the cement companies shows fluctuating trend throughout the study period except Gujarat Ambuja, and Shree. Both the companies show increasing trend. The minimum size of receivable in ACC is 0.61 (2004-05), Mangalam is 0.38 (2007-08), Gujarat Ambuja is 0.35 (2003-04 and 2004-05), Shree Cement is 0.55 (2004-05) and in India Cement is 0.54 (2003-04). The maximum size of receivable in ACC is 0.66 (2003-04), Mangalam is 0.52 (2003-04), Gujarat Ambuja is 0.54 (2007-08), and Shree cement is 0.66 (2007-08) and in India cement is 0.87 (2007-08). The study of the composition of receivables is a very important tool to evaluate
the management of receivables. It assists to show the point where receivables are concentrated most.

The size of sundry debtors in cement manufacturing companies in India has been computed and presented in the table 5.2.

<table>
<thead>
<tr>
<th>Year</th>
<th>ACC</th>
<th>Mangalam</th>
<th>Gujarat Ambuja</th>
<th>Shree Cement</th>
<th>India Cement</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>0.21</td>
<td>0.34</td>
<td>0.05</td>
<td>0.22</td>
<td>0.11</td>
<td>0.19</td>
</tr>
<tr>
<td>2004-05</td>
<td>0.29</td>
<td>0.32</td>
<td>0.05</td>
<td>0.33</td>
<td>0.08</td>
<td>0.22</td>
</tr>
<tr>
<td>2005-06</td>
<td>0.32</td>
<td>0.34</td>
<td>0.07</td>
<td>0.32</td>
<td>0.11</td>
<td>0.23</td>
</tr>
<tr>
<td>2006-07</td>
<td>0.28</td>
<td>0.31</td>
<td>0.08</td>
<td>0.27</td>
<td>0.14</td>
<td>0.22</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.27</td>
<td>0.21</td>
<td>0.09</td>
<td>0.26</td>
<td>0.12</td>
<td>0.19</td>
</tr>
<tr>
<td>Company Average</td>
<td>0.28</td>
<td>0.30</td>
<td>0.07</td>
<td>0.28</td>
<td>0.11</td>
<td>0.21</td>
</tr>
</tbody>
</table>

Source: Based on data based on Annual Report of Cement Company

It is evident from the table 5.2 that the size of sundry debtors in ACC, India Cement, Mangalam and Shree show fluctuating trend throughout the study period. Percentage to current assets was highest to 0.32 in ACC in 2005-06 and highest 0.33 in Shree in 2004-05. Gujarat Ambuja shows increasing trend throughout the study period. The percentage of sundry debtors to current assets where reduced shows that in those years the speed of increase in current assets was much more than that of the sundry debtors. The size of receivable of all the cement companies shows fluctuating trend throughout the study period except Gujarat Ambuja. The minimum size of
receivable in ACC is 0.21 (2003-04), Mangalam is 0.21 (2007-08),
Gujarat Ambuja is 0.05 (2003-04 and 2004-05), Shree cement is
0.22 (2003-04) and in India Cement is 0.08 (2004-05). The
maximum size of receivable in ACC is 0.32 (2005-06),
Mangalam is 0.34 (2003-04 and 2005-06), Gujarat Ambuja is 0.09
(2007-08), and Shree Cement is 0.33 (2004-05) and in India
Cement is 0.14 (2006-07).

The average collection period of selected cement
companies has been given in table 5.3

<table>
<thead>
<tr>
<th>Year</th>
<th>ACC</th>
<th>Mangalam</th>
<th>Gujarat Ambuja</th>
<th>Shree</th>
<th>India Cement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>34</td>
<td>36</td>
<td>7</td>
<td>46</td>
<td>18</td>
</tr>
<tr>
<td>2000-01</td>
<td>43</td>
<td>36</td>
<td>7</td>
<td>47</td>
<td>20</td>
</tr>
<tr>
<td>2001-02</td>
<td>43</td>
<td>33</td>
<td>8</td>
<td>49</td>
<td>22</td>
</tr>
<tr>
<td>2002-03</td>
<td>41</td>
<td>27</td>
<td>10</td>
<td>48</td>
<td>37</td>
</tr>
<tr>
<td>2003-04</td>
<td>26</td>
<td>28</td>
<td>10</td>
<td>37</td>
<td>47</td>
</tr>
<tr>
<td>Company Average</td>
<td>39</td>
<td>32</td>
<td>8</td>
<td>45</td>
<td>29</td>
</tr>
</tbody>
</table>

Source: Based on data provided in Appendix

The minimum Average Collection Period in ACC is 34
(2003-04), Mangalam is 27 (2006-07), Gujarat Ambuja is 7 (2003-
04 and 2004-05), Shree Cement is 37 (2007-08) and in India
Cement is 18 (2003-04). The maximum Average Collection
Period in ACC is 43 (2004-05 and 2005-06), Mangalam is 36
(2003-04 and 2004-05), Gujarat Ambuja is 10 (2006-07) and
2007-08), and Shree Cement is 49 (2005-06) and in India Cement
is 47 (2007-08).
The Creditor turnover of selected cement companies has been given in the table 5.4.

Table 5.4
Credit turnover of Selected Cement Companies
or the years from 2003-04 to 2007-08

<table>
<thead>
<tr>
<th>Year</th>
<th>ACC</th>
<th>Mangalam</th>
<th>Gujarat Ambuja</th>
<th>Shree</th>
<th>India Cement</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>11.10</td>
<td>8.77</td>
<td>1.12</td>
<td>1.63</td>
<td>1.40</td>
<td>4.80</td>
</tr>
<tr>
<td>2004-05</td>
<td>12.60</td>
<td>6.98</td>
<td>0.71</td>
<td>1.15</td>
<td>1.38</td>
<td>4.56</td>
</tr>
<tr>
<td>2005-06</td>
<td>12.93</td>
<td>5.80</td>
<td>0.63</td>
<td>1.41</td>
<td>1.09</td>
<td>4.37</td>
</tr>
<tr>
<td>2006-07</td>
<td>12.19</td>
<td>5.48</td>
<td>0.95</td>
<td>1.93</td>
<td>0.97</td>
<td>4.30</td>
</tr>
<tr>
<td>2007-08</td>
<td>13.42</td>
<td>3.71</td>
<td>0.73</td>
<td>1.58</td>
<td>0.90</td>
<td>4.07</td>
</tr>
<tr>
<td>Company Average</td>
<td>12.45</td>
<td>6.15</td>
<td>0.83</td>
<td>1.54</td>
<td>1.15</td>
<td>4.42</td>
</tr>
</tbody>
</table>

Source: Based on data based on Annual Report of the cement companies

It is evident from the table 5.4 that Creditor turnover in ACC and Gujarat Ambuja and Shree fluctuating trend. Mangalam and India Cement show decreasing trend all over the study period. The minimum Creditor turnover in ACC is 1.10 (2003-04), Mangalam is 3.71 (2007-08), Gujarat Ambuja is 0.62 (2005-06), Shree Cement is 1.15 (2004-05) and in India Cement is 0.90 (2007-08). The maximum Creditor turnover in ACC is 13.42 (2007-08), Mangalam is 8.77 (2003-04), Gujarat Ambuja is 1.12 (2003-04), and Shree Cement is 1.93 (2006-07) and in India Cement is 1.40 (2003-04).

The debtors turnover in cement manufacturing companies in India has been computed and presented in the table 5.5.
### Table 5.5

**Size of Receivable of Selected Cement Companies**

**for the years from 2003-04 to 2007-08**

<table>
<thead>
<tr>
<th>Year</th>
<th>ACC</th>
<th>Mangalam</th>
<th>Gujarat Ambuja</th>
<th>Shree</th>
<th>India Cement</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>10.65</td>
<td>10.21</td>
<td>50.26</td>
<td>7.90</td>
<td>20.45</td>
<td>19.89</td>
</tr>
<tr>
<td>2004-05</td>
<td>8.58</td>
<td>10.21</td>
<td>52.07</td>
<td>7.78</td>
<td>17.85</td>
<td>19.30</td>
</tr>
<tr>
<td>2005-06</td>
<td>8.45</td>
<td>11.19</td>
<td>44.17</td>
<td>7.47</td>
<td>16.66</td>
<td>17.59</td>
</tr>
<tr>
<td>2006-07</td>
<td>8.95</td>
<td>13.64</td>
<td>36.79</td>
<td>7.67</td>
<td>9.92</td>
<td>15.39</td>
</tr>
<tr>
<td>2007-08</td>
<td>10.20</td>
<td>13.06</td>
<td>37.41</td>
<td>9.94</td>
<td>7.73</td>
<td>15.67</td>
</tr>
<tr>
<td>Company Average</td>
<td>9.37</td>
<td>11.66</td>
<td>44.14</td>
<td>8.15</td>
<td>14.52</td>
<td>17.57</td>
</tr>
</tbody>
</table>

Source: Based on data based on Annual Report of the Cement Companies

It is evident from the table 5.5 that the debtors turnover in ACC is fluctuating maintains approximately a fixed level. Mangalam and Gujarat Ambuja show fluctuating trend throughout the study period. Debtors turnover was highest to 13.64 in Mangalam and 9.94 in Shree in 2006-07 and 2007-08 respectively. India Cement shows decreasing trend throughout the study period. The minimum debtors turnover in ACC is 8.45 (2005-06), Mangalam is 10.21 (2003-04 and 2004-05), Gujarat Ambuja is 36.79 (2002-03), Shree Cement is 7.47 (2005-06) and in India Cement is 7.73 (2007-08). The maximum debtors turnover in ACC is 10.65 (2003-04), Mangalam is 13.64 (2006-07), Gujarat Ambuja is 52.07 (2004-05), and Shree Cement is 9.94 (2007-08) and in India Cement is 20-45 (2003-04).
Select References:


