CHAPTER VIII
RECEIVABLES MANAGEMENT

Business firms generally sell goods on credit. Credit is granted to facilitate sales. It is valuable to customers as it augments their resources. It is particularly appealing to those customers who cannot borrow from other sources, or find it very expensive or cumbersome to do so. In view of this an attempt is made to evaluate the receivables of the Public Enterprises as to whether or not these have helped them to increase their sales, whether the receivables have accumulated causing financial strains or bad debts, and in general, the management of them, in this chapter. When the firm sells its products or services and does not receive cash for it immediately the firm is said to have granted the trade credit to customers. The trade credit, thus, creates receivables or book debts which the firm is expected to collect in the near future. The 'receivables' is defined by D.M. Joy as "debt owed to the firm by customers arising from sale of goods or services in the ordinary course of business.

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It has also been defined by Robert N. Anthony as, "Accounts receivable are amounts owed to the business enterprise, usually by its customers. Sometimes this is broken down into trade accounts receivable and other accounts receivable; the former refers to amounts owed by customers, and the latter refers to amounts owed by employees and others". ²

The book debts or receivables arising out of credit have three characteristics. ³ Firstly it involves an element of risk which should be carefully analysed. Cash sales are totally riskless, but not the credit sales, as the cash payment has yet to be received. Secondly, it is based on economic value. To the buyer the economic value in goods or services passes immediately at the time of sale while the seller expects an equivalent value to be received later on. Thirdly it implies futurity. The cash payment for goods or services received by the buyer will be made by him in a future period. The customers from whom receivables or book debts have to be collected in future are called trade debtors.

Receivables constitute a substantial portion of current assets of several firms. In India it represents an important component of current assets next only to the inventory. They form about one third part of current assets in India.\(^4\)

**THE OBJECTIVES OF MAINTAINING RECEIVABLES**

The main objectives of maintaining receivables are, (1) expansion of sales; (2) Increase in profits; and (3) maintaining liquidity.

**EXPANSION OF SALES:**

Customers may not be willing to buy goods on cash basis. They have, therefore, to be encouraged with the offer of credit terms. In the absence of such an offer, a firm, may not be able to sell goods at a desired level. Trade credits enable it to push its sales effectively in the market.

**INCREASE IN PROFITS**

If the level of sales increases, the profits will also increase. This is ordinarily so because the marginal contribution affected by an increase in sales is higher than the additional costs associated with such an increase.

MAINTAINING LIQUIDITY

The third objective namely maintaining liquidity is possible by way of keeping some amount of accounts receivables in the working capital. Accounts receivable are more liquid than the inventory and can be converted into cash easily. Especially after the increasing role of commercial and banks, financial institutions, factoring services, it helps to maintain liquidity at lower cost.

PRINCIPLES OF CREDIT MANAGEMENT

To make credit profitable, a business enterprise should follow certain well recognised and established principles of credit management. The first of these principles relates to the allocation of authority pertaining to credit and collections to some specific department. The second principle emphasizes on the selection of proper terms. The third principle of credit management puts stress on or thorough credit investigation before a decision on granting credit is taken. The last principle of credit management touches upon the establishment of sound collection policies and procedures.
OBJECTIVES OF CREDIT MANAGEMENT

The basic objectives in the management of receivables should be to maximise the overall return on investment. The investment of funds in account receivables involves a trade off between profitability and liquidity (risk). "The optimum investment is determined by comparing the benefits to be derived from a particular level of investment with the costs of maintaining that level. The costs involve not only from the funds tied up in receivables but also losses from accounts that do not pay. The latter arises from extending credit too leniently". Actually the two facts are closely related. For example, credit policy involves a trade off between the profits on sales that give rise to receivables on the one hand, and cost of carrying these receivables plus bad debts losses on the other. Therefore credit management is instrumental in determining the amount of credit risk to be accepted.

The purpose of credit management is to see that the business enterprise 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 objective of maximising the value of profit, the enterprise should manage its trade credit:

a) to obtain optimum (not maximum) volume of sales,
b) to control the cost of credit and keep it at minimum, and

c) to maintain investment in debtors at optimum level.

A dynamic credit management covers a range of activities, starting with the initial consideration of a prospective account and ending with the review of the results achieved with an eye on required modification to credit policy and practice.6

CREDIT POLICY

An enterprises' credit policy governing the decision to which customers orders should be accepted or rejected, has a direct effect on the size of the investments in accounts receivable. It is an important part of over all strategy of a firm to market its products. The important decision variables of a firms' credit policy are : (1) credit standards (2) credit terms and (3) collection efforts.

CREDIT STANDARDS

A firm should allow credit only to those customers who contribute good credit risks. The credit policy followed by the firm has an impact on sales and receivables. The sales and receivable are likely to be high if the credit standards of the firm are relatively loose. The firm's credit standards are influenced by four "C"s:

(a) character - the willingness of the customer to pay.
(b) capacity - the ability of the customer to pay
(c) condition - the prevailing economic condition and
(d) capital - the financial position of the customer.

Normally, a firm should lower its credit standards to the extent profitability of increased sales exceeds the associated costs. The costs arising due to credit standard relaxation are administrative costs of supervising additional accounts and servicing increased volume of receivables, bad debt losses, production and selling costs and the cost resulting from a slower average collection period. The extent to which credit standards can be liberalised should depend upon the match between the profits arising due to increased sales and the costs to be incurred on the increased sales.
CREDIT TERMS

The stipulations under which the firm sells on credit to its customers are called credit terms. The two important components of credit terms are: (a) the credit period, and (b) the cash discount terms.

CREDIT PERIOD

The period to which the credit to its customers are extended are referred to as credit period. It is generally stated in terms of net date eg. 2/10 net 30. It refers that the entire amount has to be repaid within a period of 30 days, but however if the debtor pays it within ten days he is eligible for a discount of 2 per cent of the amount. This is a method adopted to encourage the debtors to settle the account at the earliest. Usually the credit period of the business enterprise is governed by the industry's norms, but the concerns can extend credit for longer duration to stimulate sales. In general the net period of credit and the free credit period allowed to pay for the goods purchased on accounts tends to be tailored in relation to the period required for the business and
in turn, to resell the goods and to collect payments for them.\footnote{7} To make cash discount an effective tool of credit control, a business enterprise should also see that it is allowed to only those customers who make payments at due date.\footnote{8}

Cash Discount is another aspect of credit terms. Many enterprises offer to grant cash discount to their customers in order to induce them to pay their bills promptly. The credit term itself may indicate the length of credit and the cash discount offered for settlement within that period \textit{ef.} 2/10 net 30.

Collection policy is required because all customers do not pay the firm's bills in time. For the proper regulation of receivables, the management of a business enterprise should also formulate satisfactory 'Collection Policy' and producers.

Liberal credit and long credit terms may result in expanded sales and profits though it may mean carrying larger receivables, greater collection.


\footnote{8} Greig, Cuthbert, \textit{Commercial Credits and accounts collection} the furniture record, London, 1952, p.26
cost and additional risks arising out of bad debts. Stricter credit standards, shorter terms of credits and vigorous collection policy will eliminate chances of loss through bad debts and reduce the size of receivables but it may result in decreased sales and profit margins. Sometimes the liberal credits may result in inflated receivables and bad debts without compensatory increase in sales. Efficient receivables management, therefore, is to be judged neither by high nor low receivables investment but by its achievement of that balance which in the particular circumstances of the firm results in the combination of turnover and profit rates that maximize the overall return on investment of the firm. 9

For the establishment of a proper collection follow up system, Professor Albert F. Chapin suggests, "the use of the 'ledger plan' or 'card tickler system'. The ledger plan of the collection follow up system depends upon the creditors ledger records. The card tickler system is made up of a card for each delinquent, filed recording to dates. Each card contains the amount, terms, due date of past due account in question, and the collection action

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so far taken together with its details. Of late, the use of computers has also come in vogue for routine purpose of credit management.10

To sum up, a credit policy, based on the four principles stated earlier, ought to lead to a low tie up of funds in receivables and a high receivables turnover, and a reduction in the costs of working capital, as a consequence.

CASH DISCOUNT COSTS

It is not that the cash discount is cost free. It is better for the buyer and seller to know the financial cost of not taking advantage of the discount (for the buyer) and granting such discount (by the seller). Harry Gross has calculated the interest rate equivalent to the costs of cash discount.

CREDIT CONTROL

For effective management of credit, the firm should lay down clear cut guidelines and procedures for granting credit to individual customers and collecting the individual accounts. The firm should not follow the policy of treating all the customers alike for the purpose of extending credit. Each case should be fully examined before offering any credit terms.

This function can be divided into two:
namely, credit worthiness of the customer, his ability
to pay, general behaviour, traits, business habits
and past records. The other aspects of the credit
control are the prompt invoicing and follow up
leading to fortnightly review, etc.

COLLECTION EFFORTS:

The credit control measure must also involve
collection efforts. The collection efforts may
consist of the following:11

(1) Monitoring the state of receivables.
(2) Despatch letters to customers whose due date
is near
(3) Telegraphic and telephonic advice to customers
around the due date.
(4) Threat of legal action to overdue accounts, and
(5) Legal action against overdue accounts.

A rigorous collection programme tends to de-
ccrease sales, shortens the average collection period,
reduces bad debts percentage and increases the colle-
cction expenses. A lax collection programme, on the
other hand, would push up sales, lengthens the average
collection period, increases the bad debt percentage,
and perhaps reduces the collection expenses.

11. Prasanna Chandhra, Financial Management Theory
and Practice, Tata McGraw-Hill Publishing Co.,
Ltd., New Delhi, 1984, p.297.
ALLOCATION OF AUTHORITY

The discharge of the credit function in a firm embraces a number of activities for which the policies have to be clearly laid down. Such a step will ensure consistency in credit decisions and actions. The power struggle between sales and credit functions affects the business concerns, very often, the relegation of credit function upset the collection activity. To energise the credit function it should be invested with adequate status and a complementary role to the sales function.

EXPORT SALES AND RECEIVABLES

Export sales are sometimes made on a wide variety of terms. In such cases, segregation by the terms of credit into separate ledger totals may be helpful. Sometimes large contracts, payable by instalments, involve credit for several years. The price fixed in these cases should be sufficiently high, not only to cover export credit insurance, but also to cover a satisfactory rate of interest on the diminishing balances of debt expected to be outstanding during the credit period.

RECEIVABLES MANAGEMENT POLICY OF PUBLIC ENTERPRISES

The Public Enterprises of Tamilnadu sell their goods and services both on cash and credit basis. A good majority of the sales are made to Government or to Governmental agencies and only a small portion to the private agencies. Most often the question of accounts receivables arises from Governmental agencies and to a lesser degree from private. Since a good majority of sales is for Governmental agencies, the impact of the credit sales on the quantum of sales is not substantial and it is beyond the scope of the study to evaluate it either. The levels of accounts receivable are determined in general by adjusting the past figures. Accounts receivable report is being reviewed both in monthly and quarterly basis. Public enterprises follow both, period of credit and other terms such as cash discounts, etc. Whenever they extend credit facilities for private agencies, they grant the credit only after analysing the balance sheet and other financial statements. Their collection policy is generally soft and used to send written reminders only, whenever the amount is not received on the due date. The credit and collection policies are determined by the Board of Directors.
Of the public enterprises of Tamilnadu, there are some like TACEL have local and regional markets for their products and there are like (SS Ltd) whose products/services have national market and there are some more like SS Ltd, TMIN & TASCO, whose products have both national and international market. Within the broad guidelines, the Board, or the chief executives of the public enterprises are given the autonomy to take decisions at the interest of the concern and also accountable to the Government for their decisions.

In most of the public enterprises excluding the Statutory Corporations, the state civil servants only are managing the affairs of the public enterprises and they in most of the cases are not managed by professional experts.

COMPOSITION OF RECEIVABLES

The study of the composition of receivables is a very important tool to evaluate the management of receivables. It helps in showing the point where receivables are concentrated most. By comparing the composition with the size, the drift of receivables management towards efficiency or otherwise may be seen. In the public enterprises of Tamilnadu, the
receivables are in the form of sundry debtors both secured and unsecured, loans and advances comprising of advances receivable from subsidiaries, staff and workers. These are grouped into two as sundry debtors (sales related receivables) and loans and advances (business related receivables). For detailed examination the size of receivables are presented in Table VIII.1

The observation, of table VIII.1 reveals that, over the period, the total current assets of TANSI, SS Ltd, TACEL, TASCO and TAMIN are Rs.29577.38 lakhs, 13114.86 lakhs, 1698.31 lakhs, 10046.98 and 2995.36 lakhs respectively. Out of this the components of accounts receivable (sundry debtors and loans and advances) put together form 50.80 per cent, 58.92 per cent, 27.97 per cent, 30.04 per cent and 21.10 per cent of the total current assets of respective public enterprises. The special feature of this distribution is that in TANSI and SSL Ltd., the accounts receivables are little more than 50 per cent of the total current assets which, in the normal course, should have ranged from 31 to 35 per cent. 14

14. RBI studies of 1650 medium and large scale public limited companies in India, 1977.
### Table VIII.1

**COMPOSITION OF ACCOUNTS RECEIVABLES IN PUBLIC ENTERPRISES**

(₹ in 1 Lakhs)

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Figures in Parentheses indicate percentage Shares.

**SOURCE:** Computed from the Annual Review of the State BPK.
and hence a glaring evidence of excess investments in this component. In the remaining three units the investments in this component is 30.04 per cent and below, but above 20 per cent. This points out that in TACEL and TAMIN the investment in this source is less than the all India trend. The further analysis of this table reveals that the poor share is due to low share of the loans and advances in TACEL and very meagre share of (1.15 per cent) of sundry debtors in TASCO. While the higher percentage lead to tie up of funds without earning any income, the low percentage share is a sign of efficient management of debtors and loans/advances. Judged from this norm, there are excessive investments in this component in TANSI and SS Ltd and hence not efficient in managing them. But in the remaining three units, the investments are either adequate or less than the trends and hence can be termed as fair in managing them.

The combined share of sundry debtors and loans and advances of these public enterprises shows that they are Rs.12703.60 and 14174.45 lakhs respectively (26878.05 total) and formed 46.80 per cent
of the total current assets of all these units (Rs. 57432.49 lakhs). This shows that the combined share itself is more than the norm of all the manufacturing industries in India.  

The unit wise analysis of the structure of accounts receivables/that the percentage share of accounts receivable to their total current assets is fluctuating throughout the period in TANSI. It was low (43.25 per cent) in the year 1980-81 and high (55.38 per cent) in the year 1982-83. This fluctuation is due to fluctuation in both (total current assets and accounts receivables). The absolute size of the accounts receivable does not show a definite trend. Hence the effect of business and sales related activity are analysed.

The accounts receivable of SS Ltd, also fluctuate throughout the period, from Rs. 95.15 lakhs (1979-80) to 1554.04 lakhs in 1987-88. Inspite of its fluctuation, it shows an increasing trend. The increasing trend of accounts receivables is due to increase in the sundry debtors throughout the period.

The loans and advances do not exhibit any such trend. In three of the five public enterprises the loans and advances are more than the sundry debtors and the combined figures also confirm the same, but in SS Ltd., and TACEL the Sundry debtors are more than the loans and advances. Another feature of accounts receivables of SS Ltd., and TACEL is that normally the inventory would be the largest item in the current assets, but contrary to it the sundry debtors individually is more than the Inventory. Accounts receivables as a bunch also is more than even the sales of this unit in some of the years. This shows that (1) there is excess investments in sundry debtors in particular and accounts receivables in general, (2) slack collection procedures are followed in SS Ltd., and (3) the distribution of the current assets are not even to maximise the profitability.

The accounts receivables of TACEL are fluctuating between Rs. 37.58 lakhs in the year 1979-80 and Rs. 59.47 lakhs in the year 1985-86. The absolute figures show that the sundry debtors contributed substantially to the increase in accounts receivables.
Even though the investments in this component are lesser (27.97 per cent) than the practices of the manufacturing industries in India, it can be treated as a measure of efficient management of this part of working capital, because, the nature of the ceramic industry is such that it does not provide room for such loans and advances and sundry debtors.

The accounts receivable position of TASCO shows that the percentage share of it is decreasing over the period eventhough there are fluctuations in between. On an average it is 30.04 per cent of its current assets. The absolute figures of accounts receivable and their percentage share in the total current assets are substantial in the beginning years, but after 1982-83 it started falling. In this, the major component is loans and advances (Rs.2903.00 lakhs) and the sundry debtors (Rs.115.36 lakhs) are about 4 per cent of this. This shows the efficient collection policy of TASCO. There can be no reduction of output and sales due to this, because the production demand for sugar has more or less become inelastic. There is no need for adopting liberal credit policy for selling of sugar. Hence the low percentage of sundry debtors shows the efficiency in the collection of debts from the customers.
TAMIN show an increasing trend both in the sundry debtors and loans and advances with minor fluctuations. In this unit also the business related accounts receivables are more than the sales related dues. Inspite of the fact, that most of the products of TAMIN are exported to foreign countries, its sundry debtors are comparatively lesser than the loans and advances. It has invested in this component about of 21 per cent/its current assets. Even though it is a measure of efficiency, still it loses a cushion at the time of demand. The reduction in investments in this component will force the management to keep more of liquid cash for paying creditors; or else it can have its excess cash in the form of some income earning investments either in the Government, or quasi Government Securities, so that TAMIN can have a fall back in times of need and also earn some income out of the idle cash reserves.

Since the absolute size of the accounts receivables does not give any clue as to its fairness of growth, decline or fluctuations, it is always studied in comparison with the sales. Receivables management, to be successful, should ensure a comparatively slower growth of receivables as against sales, a satisfactory receivables turnover and effective use of the capital
invested. To examine the extent to which the public enterprises are successful in this regard, the following tools have been used to evaluate the performance of the receivables management:

(1) trend of sales and trend of accounts receivables;
(2) accounts receivables turnover ratio;
(3) debtors to sales ratio; and
(4) loans and advances turnover ratio.

Apart from these three ratios, the analysis like average collection period and ageing of accounts receivables may also help the financial analysts to tone up the management. In this study the trend of sales and receivables and the accounting ratios alone are used. Because of the complexities of sales to subsidiaries of some of the public enterprises, delayed performance of the job contracts and also settlement of claims of export commitments the tools like average collection period and ageing of accounts receivables are not undertaken.

Table VIII.2 portrays the trend of sales and accounts receivable of the selected public enterprises for analysis.
### TABLE VIII.2
Trends in Sales and Accounts Receivables in Selected Public Enterprises of Tamil Nadu

<table>
<thead>
<tr>
<th>Years</th>
<th>TANSI</th>
<th>Grs.Ltd</th>
<th>TACEL</th>
<th>TASCO</th>
<th>TAININ</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales Accounts Receivables</td>
<td>Sales Accounts Receivables</td>
<td>Sales Accounts Receivables</td>
<td>Sales Accounts Receivables</td>
<td>Sales Accounts Receivables</td>
</tr>
<tr>
<td>1979-80</td>
<td>1734.53 (100)</td>
<td>1406.46 (100)</td>
<td>393.78 (100)</td>
<td>95.15 (100)</td>
<td>116.74 (100)</td>
</tr>
<tr>
<td>1980-81</td>
<td>1785.73 (102.95)</td>
<td>1175.93 (83.61)</td>
<td>293.48 (74.52)</td>
<td>540.33 (567.87)</td>
<td>136.34 (116.78)</td>
</tr>
<tr>
<td>1981-82</td>
<td>2089.86 (128.48)</td>
<td>1427.18 (101.52)</td>
<td>544.13 (138.25)</td>
<td>748.85 (787.82)</td>
<td>148.01 (127.47)</td>
</tr>
<tr>
<td>1982-83</td>
<td>2663.24 (155.54)</td>
<td>1722.70 (122.48)</td>
<td>528.47 (134.28)</td>
<td>545.13 (572.92)</td>
<td>186.55 (159.79)</td>
</tr>
<tr>
<td>1983-84</td>
<td>2342.45 (135.84)</td>
<td>1598.56 (113.89)</td>
<td>1618.24 (410.95)</td>
<td>537.15 (564.53)</td>
<td>195.49 (167.45)</td>
</tr>
<tr>
<td>1984-85</td>
<td>2391.97 (137.98)</td>
<td>1677.13 (119.24)</td>
<td>1815.35 (256.57)</td>
<td>613.79 (645.86)</td>
<td>244.09 (289.88)</td>
</tr>
<tr>
<td>1985-86</td>
<td>2419.89 (139.51)</td>
<td>1828.17 (129.41)</td>
<td>1342.25 (340.86)</td>
<td>792.97 (833.39)</td>
<td>233.19 (199.75)</td>
</tr>
<tr>
<td>1986-87</td>
<td>2774.04 (159.93)</td>
<td>1362.77 (159.93)</td>
<td>1383.30 (439.85)</td>
<td>1879.86 (1134.91)</td>
<td>238.80 (197.74)</td>
</tr>
<tr>
<td>1987-88</td>
<td>2472.46 (142.54)</td>
<td>1421.27 (101.05)</td>
<td>2727.17 (692.56)</td>
<td>1598.89 (1688.39)</td>
<td>248.08 (206.15)</td>
</tr>
<tr>
<td>1988-89</td>
<td>3186.18 (179.87)</td>
<td>1582.70 (118.84)</td>
<td>3674.22 (933.86)</td>
<td>1388.97 (1451.36)</td>
<td>31.57 (27.84)</td>
</tr>
</tbody>
</table>

Figures in brackets indicate the trend percentages.

Source: Computed from Annual Reviews of the State B P E.
Table VIII.2 reveals that the trend percentages of accounts receivables fluctuate throughout the period in almost all the selected public enterprises. At the cursory look, a glaring feature noticed is that the accounts receivables in two units viz. SS Ltd., in three years and TACEL in one year (1988-89), are more than the sales in the corresponding years. This is an indication that the accounts receivables are due for more than one year revealing the slack collection policy.

The trend percentages of receivables of TANSI fluctuate between 83.61 (in the year 1980-81) and 29.41 (in the year 1985-86). The percentage growth of sales and receivables further reveal that the growth in the receivables is always lesser than the growth in the sales. This shows that TANSI is following a fair credit policy and the collection efforts are also satisfactory. Another feature also noticed in TANSI is that while sales increased in the year 1980-81, the accounts receivable have decreased and this decrease is followed by decline in the sundry debtors, probably better cash sales might have facilitated to increase the sales.
In SS Ltd., the trend percentages of accounts receivables increase during the period with minor fluctuations. In this unit accounts receivables are more than sales in three years (1980-81 to 1982-83) and in another six years (1983-84 to 1988-89) the percentage increase in account receivables are more than percentage increase in sales. This is another evidence to suggest that the back log of account receivables are increasing year after year leading to the conclusion that its collection policy is not fair. However this type of conclusion has to be confirmed by receivable turnover ratio.

The account receivables of TACEL shows that the percentage growth of receivables are lesser than the trend percentages of sales in all the years except the last year of study. In the year 1988-89, the receivables and their trend percentages are more than the corresponding figures of sales. Excepting this, even though both of them are fluctuating, both show an increasing trend.

The trend percentages of sales and receivables of TASCO reveal that both are fluctuating. The sales are declining for the first four years and start increasing in the remaining six years. The percentage growth of receivables is lesser than the percentage growth of
sales in most of the years. This is an evidence to suggest that credit standard is satisfactory.

The trend percentages of sales and receivables of TAMIN reveal that both of them are increasing year after year, except for the year 1988-89. The absolute figures of receivables are lesser than the sales, but the growth percentages are more than the growth percentages of sales. This shows that the growth in the accounts receivables are more than proportionate or alarming. Therefore, there is a need for looking into credit standards and collection efforts followed by TAMIN.

The overall picture of the public enterprises of Tamilnadu shows that some are following proper credit standards and fair collection policies (TANSI, TACEL and TASCO). Whereas some of them like SS Ltd., follow a liberal credit policy and unsatisfactory collection efforts. There are public enterprises like TAMIN wherein though percentage growth of receivables are lesser than the respective years' sales growth, still the receivables due are in thousands of percentages. Probably this may show the fast growth of sales and also receivables, but, however, since, the receivables are at an alarming rate there is a need for reviewing the credit and collection polices.
ACCOUNTS RECEIVABLE TURN OVER RATIO

Since the credit standards or collection efforts followed by the different public enterprises do not produce the desired results and their performance is immeasurable, the other tool that can effectively measure the performance of accounts receivable is the receivable turnover ratio.

This shows the relationship between sales and the consequent account receivables of a concern. It can be calculated by dividing the net sales by average accounts receivables.

The average accounts receivables are calculated by adding the opening and closing balances and dividing it by two. Effective credit management results in a higher turnover of accounts receivables. To maximise the profitability a higher turnover of inventory should be accompanied by a prompt collection of receivables. "If the investments in inventory is reduced, it may in turn affect total sales and consequently reduce the profits of the firm."16 The reverse may be the case of decrease in the volume of accounts receivable. A

higher turnover of accounts receivable indicates the quick collection of sundry debtors and also enable the firm to transact a high volume of business without corresponding increase in the investment in receivables. A decrease in turnover of accounts receivable may reflect,

(a) a decrease in sales and an increase in receivables;
(b) a decrease in receivables and proportionately higher decline in sales;
(c) an increase in sales and proportionately higher increase in accounts receivables;
(d) a decrease in sales with no change in receivables; and
(e) an increase in receivables with no change in sales.

"The turnover of receivables provide information on the liquidity of the receivables."¹⁷ It indicates the speed or slowness with which receivables are converted into cash. It also serves as a primary indicator of efficiency in this area of investments.¹⁸

With this background, the accounts receivables turnover ratio of the public enterprises of Tamilnadu is calculated and presented in Table VIII.3.

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18. Ibid., p.684.
### TABLE VIII.3

**ACCOUNTS RECEIVABLE TURNOVER RATIO OF SELECTED PUBLIC ENTERPRISES OF TAMILNADU**

<table>
<thead>
<tr>
<th>Years</th>
<th>TANSI</th>
<th>SS Ltd</th>
<th>TACEL</th>
<th>TASCO</th>
<th>TAMIL</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>1.41</td>
<td>2.26</td>
<td>3.41</td>
<td>2.40</td>
<td>14.56</td>
<td>1.75</td>
</tr>
<tr>
<td>1980-81</td>
<td>1.38</td>
<td>0.92</td>
<td>3.35</td>
<td>1.48</td>
<td>13.50</td>
<td>1.41</td>
</tr>
<tr>
<td>1981-82</td>
<td>1.61</td>
<td>0.84</td>
<td>3.54</td>
<td>1.43</td>
<td>7.46</td>
<td>1.44</td>
</tr>
<tr>
<td>1982-83</td>
<td>1.69</td>
<td>0.82</td>
<td>4.15</td>
<td>2.24</td>
<td>8.46</td>
<td>1.64</td>
</tr>
<tr>
<td>1983-84</td>
<td>1.41</td>
<td>2.99</td>
<td>4.43</td>
<td>5.27</td>
<td>13.85</td>
<td>2.17</td>
</tr>
<tr>
<td>1984-85</td>
<td>1.46</td>
<td>1.76</td>
<td>5.93</td>
<td>4.75</td>
<td>11.07</td>
<td>2.03</td>
</tr>
<tr>
<td>1985-86</td>
<td>1.38</td>
<td>1.91</td>
<td>4.52</td>
<td>7.64</td>
<td>9.70</td>
<td>2.24</td>
</tr>
<tr>
<td>1986-87</td>
<td>1.74</td>
<td>1.43</td>
<td>3.91</td>
<td>8.64</td>
<td>9.29</td>
<td>2.37</td>
</tr>
<tr>
<td>1987-88</td>
<td>1.78</td>
<td>2.04</td>
<td>4.22</td>
<td>14.78</td>
<td>11.19</td>
<td>2.97</td>
</tr>
<tr>
<td>1988-89</td>
<td>2.12</td>
<td>2.47</td>
<td>0.64</td>
<td>15.50</td>
<td>6.50</td>
<td>3.30</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>1.6</strong></td>
<td><strong>1.74</strong></td>
<td><strong>3.8</strong></td>
<td><strong>6.4</strong></td>
<td><strong>10.56</strong></td>
<td><strong>2.13</strong></td>
</tr>
</tbody>
</table>

Source: Computed from the Annual Reviews of state BPE.

The table reveals that the receivable turnover ratio of public enterprises of Tamilnadu is not uniform. It fluctuates between 82 time in SS Ltd in 1982-83 and 15.50 times in TASCO in the year 1988-89. Within the units some consistency is there in TANSI, TACEL and no consistency in turnover of receivables in the case of SS Ltd., TASCO and TAMIL.
The unit wise analysis may throw more light on this, the receivables turnover ratio of TANSI fluctuates between 1.38 times in two years and 2.12 times in 1988-89. On an average, the receivables turned over 1.6 times in TANSI. This is the lowest of all the selected public enterprises. This low turnover ratio reveals the poor collection procedures adopted in TANSI. In view of the huge amounts (Rs. 14,882.26 lakhs) invested and low turn of the same, there is a need for quick remedial measures to increase the liquidity especially when it is starved of cash and bank balances for meetings its operational requirements.

The receivables turnover ratio of SS Ltd., also fluctuates between .82 time and 3 times (1983-84). On an average, the receivables were turning over 1.74 times. This is slightly better than TANSI, but still below the standard. In the years 1980-81 to 82-83 it has low turn overs i.e., not even once in a year. This shows the slack collection procedures followed in SS Ltd., In view of the heavy overdue dues in sundry debtors and low turn over ratio, it requires quicker remedial measures to increase liquidity and profitable investments elsewhere.

The receivables turnover in TACEL is more or less consistent over the period. Its turnover ratio is ranging
between 3.35 (excluding the last year because of its closure) and 5.93 times over this period. On an average, the receivables were turning over 3.8 times in an year. This is little better than the other two units. But when it is compared with TASCO and TAMIN, it has to improve its performance.

The receivable turnover ratio of TASCO also fluctuates between 1.43 times and 15.50 times (in the year 1988-89). On an average, it turns over 6.4 times in an year. Approximately once in two months. In view of the low debtors to sales ratio obtained in TASCO, the attention have to be paid towards the loans and advances which causes for heavy receivables.

The accounts receivable ratio of TAMIN also fluctuates between 6.5 times (1988-89) and 14.56 times (1979-80). There is no consistency in its turnovers. On an average it turns over 10.56 times in an year. This is the highest among the public enterprises examined. Approximately once in 45 days TAMIN gets its investments in receivable liquidated.

The combined receivables turnover ratio also fluctuates between 1.41 times (1980-81) and 3.30 times (1988-89). The combined average is the mean of the extremes of low and high being at 2.13 times. This shows that the
public enterprises as a whole get back its investments in receivables once in five months. This is an investment without earning any income and hence unless it augments the sales, it is not fair to wait for nearly five months to get back.

Therefore there is a need for the public enterprises to evolve a proper credit policy and collection procedures to increase the liquidity and profitability of the public enterprises.

Since the turnover of the accounts receivable does not give any definite information as to which component of the receivables have turned over fastly and a decrease in turnover of accounts receivables may reflect varying results, the analysis of the turnover of the components of the accounts receivable may give a clue to the financial manager as to where the fault lies. Hence an attempt is made here to analyse the sales related dues.

DEBTORS TO SALES RATIO

The debtors to sales ratio shows the extent of trade credit granted and the efficiency in the collection of debtors. The lower the ratio, the more efficient the collection of debtors.\(^\text{19}\) In the light of this, the

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The debtors to sales ratio of the selected public enterprises are presented in Table VIII.4

**TABLE VIII.4**

DEBTORS TO SALES RATIO OF SELECTED PUBLIC ENTERPRISES OF TAMILNADU

<table>
<thead>
<tr>
<th>Years</th>
<th>TANSI</th>
<th>SS Ltd</th>
<th>TACEL</th>
<th>TASCO</th>
<th>TAMIN</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>0.45</td>
<td>0.13</td>
<td>0.15</td>
<td>0.004</td>
<td>0.03</td>
<td>0.27</td>
</tr>
<tr>
<td>1980-81</td>
<td>0.26</td>
<td>0.50</td>
<td>0.17</td>
<td>0.005</td>
<td>0.05</td>
<td>0.21</td>
</tr>
<tr>
<td>1981-82</td>
<td>0.28</td>
<td>0.50</td>
<td>0.16</td>
<td>0.006</td>
<td>0.13</td>
<td>0.24</td>
</tr>
<tr>
<td>1982-83</td>
<td>0.25</td>
<td>0.45</td>
<td>0.16</td>
<td>0.01</td>
<td>0.05</td>
<td>0.22</td>
</tr>
<tr>
<td>1983-84</td>
<td>0.26</td>
<td>0.30</td>
<td>0.15</td>
<td>0.008</td>
<td>0.01</td>
<td>0.22</td>
</tr>
<tr>
<td>1984-85</td>
<td>0.25</td>
<td>0.55</td>
<td>0.13</td>
<td>0.01</td>
<td>0.03</td>
<td>0.24</td>
</tr>
<tr>
<td>1985-86</td>
<td>0.27</td>
<td>0.52</td>
<td>0.16</td>
<td>0.003</td>
<td>0.05</td>
<td>0.23</td>
</tr>
<tr>
<td>1986-87</td>
<td>0.27</td>
<td>0.61</td>
<td>0.18</td>
<td>0.01</td>
<td>0.07</td>
<td>0.25</td>
</tr>
<tr>
<td>1987-88</td>
<td>0.30</td>
<td>0.39</td>
<td>0.19</td>
<td>0.007</td>
<td>0.009</td>
<td>0.21</td>
</tr>
<tr>
<td>1988-89</td>
<td>0.28</td>
<td>0.27</td>
<td>1.13</td>
<td>0.009</td>
<td>0.05</td>
<td>0.18</td>
</tr>
<tr>
<td>Average</td>
<td>0.28</td>
<td>0.42</td>
<td>0.26</td>
<td>0.007</td>
<td>0.05</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Source: Computed from the Annual Reviews of state BPE.

The analysis of the table reveals that the average of the debtors to the sales ratio is the lowest in TASCO 0.007 and highest in Southern Structural Limited (0.42) over this period. The ratio is not uniform in all the
public enterprises. While Southern Structural Limited sells its goods and services on more liberal terms, TASCO sells its products on stricter terms, almost on cash basis only. In TAMIN, even though it is not as strict as TASCO it also sells its products comparatively on stricter terms. Another feature noticed in this is that all the public enterprises except Southern Structural Limited have followed a uniform policy throughout the period within themselves. It is only in Southern Structural Limited the ratio fluctuates violently from 0.13 in the year 1979-80 to 0.61 in the year 1986-87.

The unit wise analysis of this table reveals that TANSI has followed a consistent credit sales policy except in the year 1979-80. In all the years the share of the debtors are around 0.28 only. This ratio is little more than the norm of all manufacturing industries in India (.12). Hence TANSI should try to speed up collections, so that the loss of bad debts can be prevented.

In the case of Southern Structural Limited the ratio is not uniform. Southern Structural Limited is not following a consistent credit policy. The ratio is fluctuating between 0.13 to 0.61. The high ratio shows that on an average 42 per cent of its products
are sold on credit. The other ratios have revealed that the debtors are outstanding for more than a year also. All these show the liberal credit and weak collection policy followed by it. If the delayed claims or staggered settlements are any reason for this long overdues, Southern Structural Limited can make appropriate remedial measures to speed up collections and avoid bad debt losses in future.

In the case of TACEL also the ratio is more or less uniform throughout the period except the year 1988-89. In the first nine years, the ratio has been around 0.15. In the last year of the study (1988-89) the ratio is 1.13 denoting debtors are more than sales. This may be because of the over due debtors of the previous years and closure of some of the units in that year. The lower ratio of debtors to sales reveals that the losses of TACEL was not due to bad debts or wrong credit policy.

Debtors to sales ratio of TASCO reveals a poor share of debtors in the sales. On an average it is 0.007 only over this period. This further reveals that in TASCO the cash sales are the regular practice and the credit sales are much rare. The high receivables in TASCO are due to loans and advances (Rs. 2903.00 lakhs) and not due to sundry debtors (just Rs. 115.36 lakhs).
The position of Tamin also is more or less similar to that of TASCO. In this unit also, the debtors are on an average 0.05 over this period. The total sundry debtors are Rs.97.88 lakhs and the loans and advances are Rs.434.68 lakhs over this period. The alarming rate of growth of receivables is due to increase in loans and advances and hence, measures may be taken to reduce the loans and advances unless it increases the business.

By and large the debtors to sales ratio of public enterprises have proved that except a few like Southern Structural Limited, all of them follow a consistent credit policy. Even though, there is variance, on an average they sell 23 per cent of their sales on credit. Eventhough it looks like small share, still it is more than the trend of the manufacturing industries in India (which is around 0.12). Hence the public enterprises will have to insist for quicker collection period as in the case of TASCO.

The turnover of the other component of the receivables namely loans and advances are computed and shown in Table VIII.5.
TABLE VIII.5

LOANS AND ADVANCES TURNOVER RATIO OF THE SELECTED PUBLIC ENTERPRISES OF TAMILNADU

<table>
<thead>
<tr>
<th>Years</th>
<th>TANSI</th>
<th>SS Ltd</th>
<th>TACEL</th>
<th>TASCO</th>
<th>TAMIL</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>2.80</td>
<td>9.14</td>
<td>5.93</td>
<td>1.64</td>
<td>23.58</td>
<td>2.57</td>
</tr>
<tr>
<td>1980-81</td>
<td>2.53</td>
<td>0.75</td>
<td>6.31</td>
<td>1.46</td>
<td>13.58</td>
<td>1.84</td>
</tr>
<tr>
<td>1981-82</td>
<td>2.46</td>
<td>1.15</td>
<td>9.38</td>
<td>1.72</td>
<td>17.56</td>
<td>1.94</td>
</tr>
<tr>
<td>1982-83</td>
<td>2.53</td>
<td>1.71</td>
<td>9.79</td>
<td>2.54</td>
<td>11.20</td>
<td>2.84</td>
</tr>
<tr>
<td>1983-84</td>
<td>2.40</td>
<td>30.86</td>
<td>20.15</td>
<td>16.80</td>
<td>23.70</td>
<td>4.26</td>
</tr>
<tr>
<td>1984-85</td>
<td>2.22</td>
<td>16.98</td>
<td>20.12</td>
<td>17.32</td>
<td>8.48</td>
<td>3.57</td>
</tr>
<tr>
<td>1985-86</td>
<td>2.06</td>
<td>13.58</td>
<td>10.74</td>
<td>8.88</td>
<td>18.88</td>
<td>4.11</td>
</tr>
<tr>
<td>1986-87</td>
<td>5.24</td>
<td>5.00</td>
<td>13.56</td>
<td>8.88</td>
<td>14.2</td>
<td>6.44</td>
</tr>
<tr>
<td>1988-89</td>
<td>4.95</td>
<td>9.90</td>
<td>4.52</td>
<td>13.54</td>
<td>6.00</td>
<td>7.82</td>
</tr>
</tbody>
</table>

Average 3.08 9.42 12.40 9.20 15.16 4.18

Source: computed from the Annual Reviews of State BPE.

The turnover of the loans and advances reveals that they are not turning over uniformly. The turnover is low in TANSI (average 3.08) and high in TAMILIN (average 15.16). The turnover is more or less the same in SS Ltd., and TASCO. The high and low turnovers indicate the velocity with which the loans and advances given to
The high velocity may facilitate smooth flow of funds, to meet working capital requirements and low turnover may indicate the funds kept idle without earning income. (Rs.8286.34 lakhs) This reveals that in TANSI 28 percent of its current assets Rs.8286.34 lakhs are kept in idle investments which have a low turnover. In all the other four units, the turnover is satisfactory. Another feature of this is that the performance of loans and advances is better than the combined accounts receivables. In some units, the lower turnover of the loans and advances have caused the lower turnover of the receivables, in some other units, it is the low debtors turnover which have caused the slow movement of receivable. Hence the analysis of the individual units may help the public enterprises to take appropriate remedial measures.

In TANSI the average turnover of the loans and advances is 3.08 which is more than the turnover of account receivables. The debtors to sales ratio has been consistent and moderate and hence it is only the slow turnover of the loans and advances which have caused the lower turnover of receivables. Hence there is a need for looking into the loans and advances and speed up collections in this regard.
In Southern Structural Limited the sundry debtors are more than the loans and advances unlike TANSI. The average turnover of loans and advances (9.42) are speedier than in TANSI. The accounts receivable ratio has been too small (2.87). This leads to the conclusion that it is the low turnover of the debtors which have reduced the velocity of the receivables in this unit.

Similar is the case with the TACEL. In this unit also the sundry debtors are more than the loans and advances. The turnover of the loans and advances are more (12.40) than the turnover of receivables (5.70). This suggests that the low turnover of sundry debtors might have reduced the speed of the receivables. On the other hand the debtors to sales ratio of TACEL has also evidenced efficient management and hence the improvement in this regard is hardly possible.

The loans and advances turn over ratio of TASCO has shown not much of consistency. It is fluctuating between 1.46 in the year 1980-81 and 19.26 in the year 1987-88. On an average, it had been turning over 9.20 times over this period. The share of debtors in sales in this unit is very negligible and hence it leads to the conclusion that the erratic movement of the loans and advances only must have reduced the turnover of
receivables. If the loans and advances do not increase the business activity of TASCO, it is better to speed up the collection, so as to increase its profitability.

In TAMIN also, the share of the debtors is negligible in its sales. The turnover of the loans and advances are not consistent, it has been violently fluctuating between 6 (in the year 1988-89) to 23.70 (in the year 1983-84). Even though, it has a high average ratio of 15.16 times, when compared it to the average accounts receivables ratio (10.56) the turnover of loans and advances reveals the effect of reducing the velocity.

By and large the turnover of the loans and advances of public enterprises of Tamilnadu has proved that they do not follow a consistent loans and advances and collection policy. That is why the combined turnover of the loans and advances ratio also fluctuates between 1.84 times to 7.82 times. The combined average being 4.18 times the loans and advances turnover approximately once in three months. To ensure liquidity and profitability it is better for the public enterprises to increase the velocity.

CONCLUSION

Credit sales is the order of the day to facilitate sales. It is valuable to customers too as it augments their resources and is particularly appealing to those customers who cannot borrow from other sources. When
the firm sells its products or services and does not receive cash for it immediately it is said to have created receivables or book debts. It is defined as debts owed to the firm by the customers. These accounts receivables are also broken down into sundry debtors and loans and advances. The receivables have three characteristics namely risk, economic value and futurity.

The objectives of maintaining receivables are:
(1) expansion of sales (2) increase in profits and (3) maintaining liquidity. To make credit profitable a business enterprise should follow certain recognised principles like allocation of authority to grant and collect, selection of proper terms, investigation of the parties before granting credit and finally the efficient collection procedures.

The public enterprises of Tamilnadu do have certain policy and procedures in managing their receivables, eventhough they sell most part of their products only on cash and a small part on credit. The public enterprises determine the levels of receivables, grant credit only after scrutinising the balance sheet, still there is need for evaluating the management of receivable because mostly they are headed by buearacrats rather than professional executives.
In the public enterprises of Tamilnadu the structure of receivables is in the form of sundry debtors and loans and advances. The size of the receivable when compared to the composition shows the drift of receivable.

The absolute size of the receivable is not able to give the clue as to its fairness of growth and hence it is analysed along with sales. The trend of sales and receivables has shown that except Southern Structural Limited in all the other units the percentage growth of receivables are lesser than the percentage growth of sales.

When the performance of the accounts receivables is measured using the tools like receivables turnover ratio; debtors to sales and loans and advances turnover ratio, the results are:

1. There is no consistency in the turnovers of the receivables among all the public enterprises.
2. In some enterprises the receivables are more than the sales in some years evidencing long overdues.
3. Even though, there is some amount of efficiency with reference to granting of credits, it has been marred by the maintenance of excess levels of loans and advances, and
(4) In a few enterprises, the grant of credits are not uniform throughout the period.

Hence the public enterprises of Tamilnadu in general will have to maintain a lower level of sundry debtors as per the trends in the manufacturing industries of India. The credit terms should specify the time limits and there should be efficient collection process, to provide adequate liquidity and also increase the profitability of public enterprises.