

Many Indian companies are caught in financial crisis of varying degree because of the less efficient working capital management. The objective of Corporate Excellence viz., Quality products, Satisfied Customers, Employees and Investors, High profitability and Comfortable funds position etc., can be achieved through increased productivity of capital, particularly the working capital.

Your business has been reaping huge profits for years now, when all of sudden you find yourself in need of fast cash. If you have tried several solutions without success, you may be interested in learning more about accounts receivable management.

ACCOUNTS RECEIVABLE MANAGEMENT:

An account receivable is the money owed to a company by a consumer for products and services purchased on credit. This is usually treated as a current asset of accounts receivable after the customer is sent an invoice. Accounts receivable are known by various names, such as accounts receivable aging, accounts payable, days receivable, accounts receivable turnover and invoice factoring.

According to the experts, accounts receivable or invoice factoring is one of a series of accounting transactions. These accounting transactions deal with the billing of customers who owe money to a person, company or organization for goods and services purchased. If you are seriously considering using accounts receivable as a method of obtaining a more liquid asset, then it is wise to hire accounts receivable management specialists.

Accounts receivable management specialists can help you in a variety ways:

- ☐ It can cut and maintain your average collection delay or DSO
- ☐ It can lessen your direct and indirect expenses
- ☐ It can considerably reduce your bad debt
- ☐ It can tell you various ways to take advantage of your cash-flow
- ☐ It can help you capitalize on your internal resources

- ☐ It can maximize your interventions on sales, service and market share.

Hiring the best accounts receivable management will clear up the common misconception that the selling of accounts receivable is a loan. Accounts receivable are the amounts that customers owe a business; this is clearly shown on a company's balance sheet.

Some also call accounts receivable trade receivables and try to classify them as current assets. Accounts receivable management's main goal is to take care of all these debts and to record sales of accounts; one must debit a receivable and credit a revenue account. Accounts receivable management also looks into issues such as recognizing accounts receivable, valuing accounts receivable, and disposing of accounts receivable.

Trade credit creates amount receivables or trade debtors also referred to as book debts in India that the firm is expected to collect in near future. The customers from whom receivables or book debts have to be collected in the future are called trade debtors.

A credit sale has 3 characteristics:

- ☐ Involves an element of risk that should be carefully analyzed.
- ☐ Based on economic value.
- ☐ Implies futurity.

Credit policy: Nature and Goals:

A firm investment in accounts receivables depends on:

- ☐ The volume of credit sales
- ☐ The collection period.

There is only one way in which the financial management can affect the volume of credit sales and collection period, consequently invest in accounts receivables that

is through the change in credit policy is sure to refer to the combination of decision variables.

Credit standards:

Credit standards which have criteria to decide the types of customers which have criteria to decide the types of customers to whom goods could be sold on credit. If a firm has more slow paying customers it's investment in account receivables will increase. The firm will also be exposed to higher risk of default.

Credit terms:

Credit terms specify duration of credit payment by customers. Investment in account receivables will be high if customers are allowed extended time period for making payments.

Collection efforts:

Collection efforts determine the actual collection period. The lower the collection period is, the lower the investment in account receivables & vice versa.

Goals of credit policy:

A firm may follow a lenient or a stringer credit policy. The firm following a lenient credit policy tends to sell on credit to customers on very liberal terms and standards credit is granted for longer periods over to those customers whose credit worthiness is not fully known or whose financial position is doubtful.
