Ilkogretim Online - Elementary Education Online, 2020; Vol 19 (Issue 3): pp. 4681-4689
http://ilkogretim-online.org
doi: 10.17051/ilkonline.2020.03.735622

A Study On Receivables Management With Reference To Carborundum Universal Ltd

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ABSTRACT

There is a direct relationship between a firm's growth and working capital needs. As sales grow, the firm needs to invest more in inventories and debtors. The finance managers should determine levels and composition of current assets, which will help to run the business smoothly. Account receivables are one of the major components of working capital. Receivables are a direct result of credit sales. The sale of good on credit is an essential part of competitive economic system. The credit sales are generally made on open account in the sense that there is no formal acknowledgement of the debt obligation through a financial instrument. The extension of credit involves risk and cost. The objectives of credit management is to "promote sales and profit until that point is reached" where the return on investment in further funding receivables is less than the cost of funds raised to finance that additional credit.

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 the element of 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 expect 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.

NEED FOR THE STUDY

Business activity is dynamic in character and subject to wide fluctuation. Most of the firms treat account receivables as marketing tool to promote sales and profit. Every firm has a set of credit terms and policies under which goods are sold on credit and every policy has a cost and benefit associated with it. This project attempts as how to improve the account receivables management and its impact of it at the company. In a competitive environment sometimes the firms are compelled and sometimes the firms desired to adopt liberal credit policies for pushing up the sales and the factoring has been done. So a careful analysis of various aspect of credit policy is required. The result of the research could lead to credit appraisal, since the number of receivables days has increased slightly in recent years in the company.

REVIEW OF LITERATURE

Strischek, Dev (2001) said a contractor's receivables represent two significant elements of contractor cash flow and working capital. Receivables constitute the major source of cash inflow, and payables absorb a big share of cash outflow. A construction company's ability to extend credit to its customers depends on its own trade creditors' willingness to wait for their payments from the contractor's collection of its progress billing receivables. The delicate balance of receivables and payables is key to the financial success of the contractor. Contract receivables take longer to collect, and the

trade creditors expect prompt payment. The receivables ratio is a quick-and-easy test of contractor viability.

Wallis, Lyle Paul (2002) said the entire U.S. Economy is under excessive stress. Faced with this surroundings, receiver managers increasingly want to ensure the feasibility of their very own enterprise. Although there's no incentive to preserve revenues, implementing strict safety features in phrases of credit score authorization is essential, so powerful management of this asset (usually the biggest asset at the stability sheet) is a necessary condition in trendy monetary surroundings.

Deloof, M (2003) determined that there was a tremendous terrible correlation between general working profits and the Belgian corporation's debts receivable, stock, and payable days. These effects display that managers can create cost for their shareholders by way of lowering the amount of 1-day bills receivable and inventory to a reasonable minimum. The terrible relationship between accounts payable and profitability is inconsistent with the view that genes with terrible profitability are waiting longer to pay payments.

Reddy Sudharsana G. Shri and Reddy Raghutha S. Shri (2005) of their look at attempted to evaluate the accounts receivable management practices of selected small scale industries inside the Peenya Industrial Zone in Bangalore. The predominant end result is: The principal reason for credit extension is that the power is a promotional tool and notes receivable are the principle shape of credit score sales. The consumer's reputation is judged based on their past courting with the consumer. The unit collects prices directly from customers, and each consultant and unit does no longer like courts for defaulting customers.

Klapper (2005) observed that this technique is used by the high-risk suppliers to transfer their credit risk to their high-quality buyers. The study also found a positive relationship between use of factoring and level of economic development and growth of countries. The researchers have generally viewed that a carefully documented credit policy is a fundamental requirement of sound credit management practice to counter the risks involved and to maintain a balance between risk and returns involved. The researcher proposed different models for maximizing the sales and minimizing the losses from bed-debts

Paul, Salima Y(2007) determined accounts receivable as biggest but riskiest assets the company is likely to have, one would expect special attention to be given to its management. The way the credit function is organized has an effect on credit management. So the management of this function should be part of the overall objectives and should fit into the strategy of the business.

Shukla (2007) examined the Receivable Management of sample companies using working capital ratios and ANOVA test. The authors found that there was significant relationship between and within the groups of the sample companies. The study found that the pharmacy industries were efficient in managing their Receivables.

Parasuraman (2010) took a sample of ten companies from the Cement Industry to find out how efficiently the receivables were managed by the Industry during the study period. They concluded that the cement industry was efficiently managing their receivables and based on the future sales forecast, the sales turnover and profit would be good in the near future. The above literature provided an overview of the working capital management from different industries. This study also analyzed the receivable management of Indian automobile industry using the methodology and tools used by the earlier studies.

OBJECTIVES OF THE STUDY

- To study the credit policy, procedure and existing accounts receivable system.
- To keep investment at an optimum level in the form of receivables.
- To analyse future trend of the company.
- To promote sales and profit of the company.
- To control the cost of credit and keep it at minimum
- To attain not maximum possible but optimum volume of sales.

RESEARCH METHODOLOGY

Research methodology is the path through which researchers need to conduct their research. It shows the path through which researchers formulate their problem and objective and present their result from the data obtained during the period of study. The purpose of research methodology is to satisfy the research plan and target devised by the researcher. The proposed study will be entirely based on Secondary Data. The data will be compiled from annual reports of the company (i.e.,2014-2019), text books, reference books, journals, articles, magazines and from the internet. The study would add a wealth of knowledge to the researcher. It is a quantitative analysis of the financial data, the necessary data will be collected from the top web sources and official sites of the companies. The collected data has been analysed with the help of ratio analysis, and also through the application of statistical tools such as Mean, Standard Deviation, and simple percentage analysis.

DATA ANALYSIS AND INTERPRETATION

Table 1: Selected Account Receivables Management Ratios and its Descriptive statistics

YEAR	CR	LR	DER	DTR	WCTR	STR
2014-2015	1.6	0.9	0.25	5.1	5.3	8.0
2015-2016	1.8	1.1	0.22	5.0	4.6	7.8
2016-2017	2.3	1.4	0.11	5.3	3.7	8.6
2017-2018	2.7	1.7	0.08	5.4	3.1	10.3
2018-2019	3.2	1.8	0.05	5.3	2.9	11.7
MEAN	11.6	6.9	0.71	26.1	19.6	46.4
STANDARD DEVIATION	3.833	2.279	0.244	8.525	6.465	15.227
Source : 1. Complied from annual reports of CUMI. 2. Statistical computations has been done through MS-Excel Spread Sheets.						

CURRENT RATIO (CR):- It compares the current assets with current liabilities. Standard current ratio 2:1. Higher ratio that is more than 2:1 indicates sound solvency position. Current ratio represents a margin of safety for the creditors. Lower ratio indicates in inadequate working capital. Ratio is high in the year 2018-2019 and ratio is low in the year 2014-2015.

LIQUID RATIO (LR):- It is the relationship between Quick or liquid asset and current liabilities. Liquid ratio is obtained by liquid asset to current liability. The standard limit of liquid ratio is 1:1. In the year 2014-2015, the liquid ratio is less which indicates the company may struggle to pay its short-term obligations. From the year 2015-2016 to 2018-2019, the liquid ratio is high in which it can be utilized in the other areas.

DEBT-EQUITY RATIO (DER):- This ratio is ascertained to determine long term solvency position of a company debt equity ratio is called external and internal equity ratio. Debt-Equity ratio shows the relationship between the debt and the owner's fund in the company. In the year 2016-2017, the Debt-Equity ratio was quite low. Debt was

0.11 times that of owner's fund, it shows the long term solvency capacity of the company. The highest debt is in the year 2014-2015 (i.e. 0.25). And it decreases in the year 2018-2019 in which the company should take necessary steps to increase long term solvency.

DEBTORS TURNOVER RATIO (DTR):- This ratio shows the proportion of sales to average receivables. It shows the efficiency of the collection policy of the firm. Higher the ratio, the less satisfactory position of the firm. Higher ratio indicates weak collection policy of the firm. The debtors turnover ratio measures the efficiency with which the company has collected on their credit that had extended on its customers. In the year 2018-2019, the debtor turnover ratio is high which denotes the account receivable is efficient. While in the year 2015-2016, there is decrease in the ratio due to bad credit policies and not creditworthy.

WORKING CAPITAL TURNOVER RATIO (WCTR):- It represents the number of time the working capital is turned over in a year. High ratio represents effective utilization of working capital. From the financial year 2014-2015 has the higher ratio which indicates the better working capital condition of the company. In the year 2018-2019 there is a decrease in working capital from the previous year (i.e. 2017-2018) this is due to decrease in the net working capital which means that the company invested excess cash to generate higher rate of return.

STOCK TURNOVER RATIO (STR):- Stock turnover ratio indicates the efficiency of the firm in producing and selling its product. It is the no. of times the stock has turned over in a year. High stock turnover ratio indicates the company is handling stock in an effective manner. In the year 2014-2015 the stock turnover ratio is less which indicates the weaker sales and decreasing demand for the company's stock. From the year 2015-2016 to 2018-2019 there is aincrease in stock turnover ratio which denotes the company is selling goods quickly and increasing demand for the stock.

In addition to mean and standard deviation, an effort has also been made to measure the consistency among all six parameters of account receivables management.

FINDINGS & SUGGESTIONS

FINDINGS

- In the analysis the current ratio is increases in the year 2018-2019 which denotes the sound solvency and decreases in the year 2014-2015 which indicates inadequate working capital.
- Liquid ratio is decreased in the year 2014-2015 by which the company is not able to pay its short-term obligations and it increased from the year 2015-2016 to 2018-2019.

- Debt-Equity ratio which is high in the year 2014-2015 and it decreases from 2015-2016 to 2018-2019 and the company should take steps to increase long term solvency.
- Working capital turnover ratio decreases in the year 2018-2019 in which the company invested excess cash but it was high in the year 2014-2015 which indicates the better working capital.
- Stock turnover ratio increased from the year 2015-2016 to 2018-2019 which denotes the company is selling goods quickly and there is a high demand for stocks but for the year 2014-2015 there is a decrease in stock.
- Debtor turnover ratio is high in the year 2018-2019 which means the account receivable is efficient.

SUGGESTIONS

- Firstly the company should set up some restrictive credit standards, credit terms and credit policy regarding the credit to its any type of customers.
- The company has to first analyse the credit worthiness of its customers before giving credit facilities.
- The company can be more effective in utilisation of available resources.
- To payoff current liabilities in time without its accumulation to improve working capital position
- The company can manage inventory so the movement of cash flow will be faster and get increase.
- After providing the credit facilities to its customers, the company has to take corrective measures in realizing the debt, so the company profitability can be improved.
- Company should take necessary steps to increase long term solvency.
- There should be better coordination between production, sales and finance department.

CONCLUSION

Over the years, CUMI grew in size from its first plant established at Chennai, Tamilnadu. An experienced and committed workforce is the hallmark of the company taking it successfully through the vagaries of business cycles. Today it is truly a market driven company, making important structural changes and continuous process improvements to meet its customer and obligations. Through its continuous efforts to utilize its modernized facilities to their full capacity and achieve cost effectiveness, CUMI is endeavouring to provide its customers with the benefit of competitively priced products of world class quality. To achieve cost leadership, the company is currently implementing a business restructuring plan which envisages the separation of all non-core activities into secondary business, in addition to regular cost-cutting measures, including manpower cost, following restructuring the company is found to be collecting

large value of debts in short term duration that enables the company to have good working capital to meet its current liabilities, reserves and surplus and can also plan its future investments.

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