ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF RECEIVABLE MANAGEMENT PRACTICE IN PUBLIC ENTERPRISES:THE CASE OF ETHIOPIAN SHIPPING & LOGISTICS SERVICES ENTERPRISE

BY

GETU NEGUSIE

July 2017

ADDIS ABABA

ETHIOPIA

ASSESSMENT OF RECEIVABLE MANAGEMENT PRACTICE IN PUBLIC ENTERPRISES:THE CASE OF ETHIOPIAN SHIPPING & LOGISTICS SERVICES ENTERPRISE

BY

GETU NEGUSIE

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF ST. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

July 2017

ADDIS ABABA

ETHIOPIA

ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF RECEIVABLE MANAGEMENT PRACTICE IN PUBLIC ENTERPRISES: THE CASE OF ETHIOPIAN SHIPPING &LOGISTICS SERVICES ENTERPRISE

BY

GETU NEGUSIE

APPROVED BY BOARD OF EXAMINERS

______________________________	______________________
Dean, Graduate Studies	**Signature**
______________________________	______________________
Advisor	**Signature**
______________________________	______________________
External Examiner	**Signature**
______________________________	______________________
Internal Examiner	**Signature**

DECLARATION

I hereby declare that this thesis is the result of my own research work towards the partial fulfillment of the requirements for the Degree of Masters in Business Administration in St. Mary's University. It contains neither material previously published by another person nor that has been accepted for the award of any other degree of the university, except where I have made explicit references to the work of others.

Declared by:

Name: **GetuNegusie**

Signature ________________

Date _________________

Confirmed by advisor:

Name: **Simon Abay (Ass. Prof.)**

Signature ______________

Date ______________

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

____________________ ____________________

Advisor Signature & Date

ABSTRACT

Effective Account receivable management system can play a very crucial role in a profitable business organization to realize financial performance objectives. The main purpose of this study was to access the management of account receivable practice on Ethiopian shipping and Logistics Services Enterprises as a case studyand to suggest possible solutions that may address the problem in the area of receivable management. Sample of 83respondentswere selected using Yamani sampling model from 142 of total population. Primary & secondary data was collected using questionnaire & interview and analyzed using SPSS 20 version software, a descriptive type of research method was used in conducting the case study. The result of this study evidences that Ethiopian Shipping & Logistics Service Enterprise has no means to secure the collection of its credit services. There is a gap between the significant value of the credit services & receivable management practices. The study recommends setting clear receivable management strategy, optimal credit policies and procedures by the management is a requirement so as to manage credit services & receivables efficiently to increase the collection & follow-upto improve the liquidity problem, so; the company shall be achieve better performance.

ACKNOWLEDGEMENTS

First of all, I would like to praise the Almighty God for invaluable cares and support from beginning to end this long journey.

Next would like to give my thanks to my organization, Ethiopian shipping & Logistics service Enterprise for the financial support of my study & the managers how are created this golden opportunity for the stuffs of the enterprise. I am indebted to all the respondents (managers & stuffs) for their positive response and valuable cooperation during distributing questionnaire, conducting interview & also providing necessary data at the right time by scarify their precious time. I am thankful to all of them.

I wish to express my sincere gratitude to my supervisors, Ass. Prof. Simon Abay for his guidance, support, and time input that enabled me to research and write this thesis.

To my colleagues at work, goes my heartfelt appreciation, for their encouragement and for their supportive role when I needed them most, due to the challenges at work front during my study.

I would also like to thank TeklemariamGirma for his constructive suggestions during the thesis and KibretAlemayehu for his support during course of my study.

Finally, my dear wife and all my families have been constant source of inspiration and support, without their cooperation and encouragement it would not have been possible to complete this work.

Contents

Diclaration......VII

Endorsment......VII

Abstract......VII

Aknowledment......VII

List of Tables......VII

Acronyms......**VII**

CHAPTER ONE 1

INTRODUCTION 1

1.1. Background of the study 1

1.1. Background of the Organization 3

1.1.1. Public Enterprises in Ethiopia 4

1.1.2. The purpose of public Enterprises 4

1.1.3. The role of public Enterprises 5

1.1.4. Characteristics of public Enterprises 5

1.2. Statements of the problem 5

1.3. Basic research question 7

1.4. Objectives of the study 7

1.4.1 General objectives 7

1.4.2 Specific objectives 7

1.5. Significance of the study 7

1.6. Scope of the study 8

1.7. Organization of the report 8

CHAPTER TWO 9

REVIEW OF RELATED LITERATURE 9

2.1. Definition of receivable management 9

2.2. Classification of receivables 9

2.3. Management of account receivable 12

2.4. Optimum size of receivables 14

2.5. Benefits of maintaining receivables 14
2.6. Objectives of receivable management 15
2.7. Characteristics of account receivables 16
2.7.1. Accounts Receivable Controls 18
2.7.2. Credit Controls 19
2.7.3. Credit Approval 20
2.7.4. Credit Information 20
2.7.5. Terms of Sale 21
2.7.6. Credit Policy 21
2.8. Credit Risk Analysis and Evaluation 21
2.9. Factors affecting receivable management 23
2.9.1. Forming of Credit Policy 23
2.9.2. Executing Credit Policy 25
2.9.3. Formulating and executing Collection Policy 26
2.10. Factors considering the receivable size 27
2.11. Optimum credit policy 28
2.12. Costs of maintaining receivables 30
2.13. Accounting for credit sales 30
2.13.1. Credit Sales 31
2.14. Credit and collection policy 31
2.14.1. Credit Policy 31
2.14.2. Collection policies 32
2.15. Converting accounts receivable into cash 33
2.16. The effect of credit cost on profit 33
2.17. Uncollectible accounts 34
2.18. Empirical Studies 36
CHAPTER THREE 37
RESEARCH METHODOLOGY 37
3.1. Research design 37
3.2. Sample and sampling techniques 37
3.3. Instrument of data collection 38
3.4. Procedure of data collection 38

3.5. Method of data analysis 38
CHAPTER FOUR 39
INTERPRITATION & ANALYSIS 39
4.1. INTERODCTION 39
4.2. Analysis of the finding 39
4.2.1. Demographic Information 39
4.2.2. Assessment findings 42
CHAPTER FIVE 54
SUMMERY, CONCLUSION AND RECOMMENDATION 54
5.1. Summary of major findings 54
5.2. Conclusion 54
5.2.1. Findings on the credit policy 54
5.3. Recommendation 56
5.4. Limitations of the Study 57
REFERENCES 58

List of Tables

Pages

Table 1:Academic Qualification of the Respondents………….. 41

Table 2: Credit Policy Review of the Company…………………. 42

Table 3: Payment Terms of the Company……………………….. 44

Table 4: Internal Communication Within the Department……… 44

Table 5: Independent Credit Control Department /Unit/……… 46

Table 6: Customer Investigation of the Company……………….. 46

Table 7: Major Credit Customer of the Company………….. 47

Table 8: Customers with Credit Privilege…………………… 48

Table 9: Customers with Long Outstanding Balance………….. 49

Table 10: Reason for not Payment of Customer………………… 50

Table 11 : Credit Effect on Financial Performance of the Company 51

List of Figure

Pages

Figure 1: Response Rate of the Questionnaires…….…………… 40

Figure 2: Work Experience of the Respondents………………… 41

Figure 3: Credit Policy Components of the Company……………. 43

Figure 4: Recording of Credit Sales in the Ledger……………… 45

Figure5: Appraise the Application of the Customer…………… 47

Figure 6: Reasons for Long Outstanding Balance……………… 49

Acronyms/Abbreviations

AR……………Accounts receivable

COD…………Cash on Delivery

CBE…………Commercial Bank Of Ethiopia

CBD………… Cash Before Delivery

DSO…………Average Days Sales Outstanding

ETB…………..Ethiopian Birr

ESLSE ……….Ethiopian Shipping& Logistics Service Enterprise

GAAP……… Generally Accepted Accounting Principles

NR……………Notes Receivables

5Cs…………...Capital, Collateral, Capacity, Characteristics, Conditions

USD…………United States Dollar

SPSS…………Statistical Package for Social Science

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

According to Robert (2001), Accounts receivables are amounts owed to the businessenterprise, usually by its customers. When a firm sells its products or services and does not receive cash for it, the firm is said to have granted trade credit to customers. Trade credit thus creates receivables which the firm is expected to collect in the near future.

There would be cash payment for goods and services by the buyer are made in the future period and customers from which receivables are collected in the future period are called debtors (Julius 2000).

Credit facilities remain the most important and powerful engine for economic growth. Credit facilities transform the economic structure of countries from simple slow growing activities to more vibrant and industrialize economies. Business must ensure proper management of their accounts receivable to avoid to finding their liquidity under considerable strain and to remain profitable (Kilonzo et.al.2016).

Credit facilities are one of the most significant drivers of business growth in terms of sales volumes. Trade receivables are a direct product of Credit sales. These are current assets arising from sale of merchandise or provision of services on credit to customers (Accounting Coach, http://www.accountingcoach.com).

For financial statement purposes, companies classify receivables as either **current** (short-term) or **noncurrent** (long-term). Companies expect to collect **current receivables** within a year or during the current operating cycle, whichever is longer. They classify all other receivables as **noncurrent**. Receivables are further classified in the balance sheet as either trade or nontrade receivables(Kiesoet.al.nd).

Accounts receivable are valuable to the customers on the ground that it augments their resources. It is favored particularly by those customers who find it expensive and cumbersome to borrow from other sources. In a typical business to business environment, a company may have to offer trade credit just to generate sales. This is especially the case for a large company selling to smaller companies where the smaller company literally needs the credit period to sell merchandise so that it can pay its supplier. To this end, not only the present customers but also the potential customers are attracted to buy the firms products at terms and conditions favorable to them (Megginson and Scott 2008).

As a usual practice companies may resort to credit granting for various other reasons which include industrial practice, dealers‟ relationship,status of the customers, customers‟ requirements, and transit delays among others.In a nutshell the overall objective of making such commitment of funds in the name of accounts receivable aims at generating a large flow of operating revenue and earning more than what could be possible in the absence of such commitment (Barad, 2010).

According to Berry and Jarvis (2006),The trade-off between the securing of sales and profits and the amount of opportunity cost and administrative cost of the increasing account receivable, the level of risk the firm is prepared to take when extending credit to a customer because this customer could default when payment is due, and the investment in debt collection management are points a firm has to take in account in setting up a policy for determining the optimal amount of account receivables.

Large companies usually don’t expect to collect every dollar of their accounts receivable. Some customers simply will beunable to make full payment. Therefore, receivables appear in the balance sheet at the estimated*collectible* amount called **net realizable value** (Williams et.al. 2012).

According to (Julius 2000),Managing accounts receivables involves fivesteps: determining to whom to extend credit, establishing a payment period,monitoring collections, evaluating the liquidity of receivables accelerating, andeventually cash receipts from accounts receivable.

No business wants to sell merchandise onaccount to customers who will be unable to pay. Nonetheless, if a company makes credit sales to hundreds perhaps thousands of customers, some accounts inevitably will turn out to be uncollectible (Williams et.al. 2012).

1.1. Background of the Organization

Ethiopian Shipping and Logistics Services Enterprise (ESLSE) is the result of the merger of three enterprises operating separately in a similar and interdependent maritime sub sector in 2011. Namely: Ethiopian Shipping Lines S.C. (1964), Maritime and Transit Services Enterprise (1968) and Dry Port Enterprise (2009). This newly amalgamated enterprise came into being following the issuance of Regulation by the Council of Ministers (Regulation No. 255/2011). The company is governed by Public Enterprises Proclamation NO. 25/1992.

The main objectives of the Enterprise are:

- To render coastal and international marine and inland water transport services
- To render freight forwarding agency, multimodal transport, shipping agency and air agency services;
- To provide services of stevedoring, shore handling, dry port, warehousing and other logistics services for **import and export** goods.

Organizational Structure:

The enterprise is supervised by the Ministry of Public Development and has a Board of Management comprised of eight higher officials from various ministries.

The enterprise has four sectors led by the four deputy CEOs, namely:

1. Shipping Sector
2. Freight Forwarding Sector
3. Port & Terminal sector
4. Corporate Services Sector

There are also 18 departments and 8 branches that report to the deputy CEOs depending on line of function.

The enterprise has more than 3800 employees and 11 vessels, more than 300 heavy tracks.

1.1.1. Public Enterprises in Ethiopia

The term public enterprise refers to enterprises established under the ownership of the state or public authorities. However, the particular features of such enterprises are not the same in all definitions. For instance, International Center for Public Enterprises has adopted the following definition:

As long as public enterprises have to stay under government control, it is necessary to create an organizational structure whereby they can enjoy management autonomy and thus enable them to be efficient, productive and profitable as well as to strengthen their capability to operate by competing with private enterprises(Public enterprise low proclamation no. 25/1992).

Any commercial, financial, industrial, agricultural or promotional undertaking owned by public authority, either wholly or through majority shareholding which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. Such undertakings may have diverse legal and corporate forms, such as departmental undertakings, public corporations, and statutory agencies, established by Acts of Parliament or Joint Stock Companies registered under the Company Law (Mehret 2014).

1.1.2. The purpose ofpublic Enterprises

To fill the gaps left in the economy by private enterprise, either because of the size of investments required or because of the unpredictability of the project, to provide a basic infrastructure for the economy, to promote greater national economic independence, to provide some measure of check over or at least competition with the private sector, to

obtain greater control over the economy, to ensure a more balanced distribution of industry and its rewards (Dagnachewet.al.2009).

1.1.3. The role of public Enterprises

The role of public enterprises in Ethiopia is manifested in thequantum of capital they command and the magnitude of the economy's dependence on such enterprises. Essential services such as electricity, telecommunication, shipping and logistics, transport and the like are mainly, if not solely, provided by public enterprises (Mehret, 2014).

1.1.4. Characteristics of public Enterprises

A public enterprise is necessitated by the need "to find an effective andefficient economic organization under socially satisfying conditions.Hence, the economic and social aspects converge in a single entity. It is a borderline entity sharing the features of a public entity and business. A public enterprise combines dual features (in status and functions) as enterprise aiming at profit while at the same time having public nature as apublic entity (Mehret, 2014).

Unlike a private business, profit is not the only motive that drives the enterprise or its decisions. It has public purpose to achieve such as employment, public service, access, fair distribution, economic development,and other elements of public interest (Mehret 2014).

1.2. Statements of the Problem

One of a company's most important assets is its accounts receivable, which constitutes debt owed by customers who have bought goods or services using payment terms (Neville, 2009).

Organizations establish receivables management policy in order to ensure optimal investment in receivables so as to achieve sound financial position and profitable operations (Kakuru Julius, 2000).

The objectives of management of accounts receivable may be viewed as to; attain not maximum but optimum volume of sales, exercise control over the cost of credit and maintain it on a minimum possible level and to keep investment at an optimum level in the form of accounts receivables (Periasamy, 2009).

There is an upside and a downside to selling goods and services to customers on credit. The upside is that selling on credit encourages people to buy. For the most part, people pay their bills when they are due. The downside is that there will inevitably be customers who will either delay paying their bills or will never pay. The latter are referred to as ***bad debts***(Joffe, 2009).

Management of accounts receivable in developing countries is ineffective. It prevents the company from having the essential working capital needed for their routine operations and also to ensure maximization of needed profits(Ernest et.al. 2016).

Public utility companies in developing countries are unable to collect outstanding bills in a timely manner due to inefficiencies in the billing and collection system, or political expediencies prevent the utilities from forcing its customers, particularly government or government - owned entities to pay their bills (Ernest et.al. 2016).

Researchers have focused on the assessment of receivable management practices of firms in various sectors other than shipping and logistics (Kannadhasan, 2011), (Mintah,2015), (KsenijaDencic-Mihajlov, nd), (Kubíčková1, 2013),(Ernest, 2016) and (Ezejiofor, 2015).

The aim of the study is toanalyze the practice of receivable management in Ethiopian Shipping and Logistics Services Enterprise (ESLSE) which were issueson the enterprise's audit report indicate the enterprise was received an external fund /loan from local banks and china's Exim bank instead of collecting its receivables of long outstanding (aged).Which is high amount of capital tide up receivables account as per the enterprise's audit report and reports from the management's annual meeting that was held in 2016 in Addis Ababa.

1.3. Basic Research Question

1) Does the enterprise apply an optimal credit policy?
2) How the procedures of credit services affect receivable management?
3) What are the follow-up & collection efforts of credit receivable of the enterprise?
4) Does the credit service affect the liquidity of the enterprise?
5) What the remedies have been taken to reduce the uncollectable of the enterprise?

1.4. Objectives of the Study

The objective of the study has its own general and specific objectives.

1.4.1 General objectives

The general objective of the study is to evaluate and analyzereceivable management practice in Ethiopian shipping and logistics service enterprise.

1.4.2 Specific objectives

The specific objectives of the study are:

1) To investigatethe credit policy that the enterprise applied.
2) To examine how credit service affect the receivable management of the enterprise
3) To evaluate the follow-up & collection efforts applying in the enterprise.
4) To assess the effect of credit service & receivables on liquidity of the enterprises.
5) To examine what remedies has been taken to reduce the uncollectable of the enterprise.

1.5. Significance of the Study

In order to achieve its objectives and deliver quality services a company must evaluate its performance and take necessary action. The result of the study will assist the management of ESLSE to evaluate the effectiveness of receivable management policy of the company and will contribute some in the improvement of the policy and procedures. The findings will also assist management to better access the credit worthiness of potential customers before transactions takes place.

1.6. Scope of the Study

The study was conducted to investigate the receivable management practice of ESLSE's in the range of 2012-2015 at head office. This is because the audited financial data of the enterprise was limited the time gap and any decisions related to provide service made in the head office.

1.7. Organization of the Report

The research report will be expected to comprise five chapters. Chapter one contain background of the study, statement of the problem, basic research question, objectives of the study, significant of the study. Chapter two is deals with the review of related literature. Chapter three research design and methodology and in chapter four summarized the results or findings of the study, at last in chapter five summary, conclusion, limitation of the study and recommendations has been comprised.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter offers a review of related literatures on receivable management. It containswhat has been captured through what is available in.

2.1. Definition of Receivable Management

Receivable refers to amounts due from individuals and other companies. Receivables are claims that are expected to be collected in cash. **Receivables**are claims held against customers and others for money, goods, or services.

The term "**accounts receivable**" was introduced to report amounts owed to a company by its customers. Individual balances are generated by sales made on credit. According to U.S. GAAP, the figure that is presented on a balance sheet for accounts receivable is its **net realizable value**the amount of cash the company estimates will be collected over time from these accounts.***Saylor URL: http://www.saylor.org/books.***

Receivables management is the process of making decisions relating to investment in trade debtors. We have already stated that certain investment in receivables is necessary to increase the sales and the profits of a firm. But at the same time investment in this asset involves cost considerations also. Further, there is always a risk of bad debts too.

Management of the accounts receivable is a complex task as it addresses the ramifications of practices and processes usually outside the span of the responsible manager, thus it requires balancing of opposing priorities of the sales, marketing and finance functions (Salek2005).

2.2. Classification of Receivables

Receivables exist in virtually every reporting entity, though their nature varies depending on the characteristics of the business. Accordingly, the guidance governing the receivables will also vary.

They are frequently classified as (1) accounts receivable, (2) notes receivable, and (3) other receivables. Accounts receivable are amounts owed by customers on account. They result from the sale of goods and services. Companies generally expect to collect these receivables within 30 to 60 days. Accounts receivable are the most significant type of claim held by a company. Notes receivable are claims for which formal instruments of credit are issued as proof of the debt. A note receivable normally extends for time periods of 60–90 days or longer and requires the debtor to pay interest. Notes and accounts receivable that result from sales transactions are often called trade receivables. Other receivables include nontrade receivables. Examples are interest receivable, loans to company officers, advances to employees, and income taxes refundable. These do not generally result from the operations of the business (Williams et.al. 2012).

According to (Mosich, 1989), Trade receivables are amounts owed by customers for goods sold and services rendered as part of normal business operation. If notes and account receivable originate from sales transactions, they are sometimes called traded receivables. A large portion of retail trade involves credit in some from; at the whole sale and Manufacturing level almost all sales transaction are on a credit basis. Terms on ordinary trade account receivable range from 10 days typically allowed for taking cash discounts to as long as 6 months or a year in some cases in countries like untitled states. Non trade receivables are receivables that arise from a variety of transaction and can be written promises either to pay or to deliver. Non trade receivables also may arise from many other sources, such as advance to employees, interest receivables, rent receivables and loan to affiliated companies.

For financial statement purposes, companies classify receivables as either current (short-term) or noncurrent (long-term). Companies expect to collect current receivables within a year or during the current operating cycle, whichever is longer. They classify all other receivables as noncurrent. Receivables are further classified in the balance sheet as either trade or nontrade receivables (Williams et.al. 2012).

- **Accounts receivable**are oral promises of the purchaser to pay for goods and services sold. They represent “open accounts” resulting from short-term extensions of credit. A company normally collects them within 30 to 60 days (Williams et.al. 2012).

- **Notes receivable** are claims for which formal instruments of credit are issued as proof of the debt. A note receivable normally extends for time periods of 60–90 days or longer and requires the debtor to pay interest. Notes and accounts receivable that result from sales transactions are often called **tradereceivables**(Weygandt, et.al.nd).

One of the key factors underlying the growth of the American economy is the trend toward selling goods and services on credit. Accounts receivable comprise the largest financial asset of many merchandising companies. Accounts receivable are relatively liquid assets, usually converting into cash within a period of 30 to 60 days. Therefore, accounts receivable from customers usually appear in the balance sheet immediately after cash and short-term investments in marketable securities (Williams et.al. 2012).

Assets capable of being converted quickly into cash are classified in the balance sheet as current assets. The period used to define current assets is typically one year or the company’s operating cycle, whichever is longer. The operating cycle defined as the normal period of time required to convert cash into inventory, inventory into accounts receivable, and accounts receivable back into cash. Some companies sell merchandise on long-term installment plans that require accounts receivable be outstanding for12, 24, or even 48 months before being collected. These receivables are part of the company’s normal operating cycle. Therefore, all accounts receivable arising from normal sales activity are generally classified as current assets, even if the credit terms extend beyond one year (Williams et.al. 2012).

2.3. Management of Account Receivable

A finance manager has to match the increased revenue with additional costs. The credit should be liberalized only to the level where incremental revenue matches the additional costs. The quality of trade accounts should be decided so that credit facilities are extended only up to that level. The optimum level of investment in receivables should be where there is a tradeoff between the costs and profitability. On the other hand, a tight credit policy increases the liquidity.

Receivables management begins with the firm's credit policy, but a monitoring system is also important to keep tabs on whether the terms of credit are being observed. Corrective action is often needed, and the only way to know whether the situation is getting out of hand is with a good receivables control system (Ehrhardt and Brigham, 2011).

There are three key areas of accounts receivable management.

- Before a company grants credit to a customer it should ensure, as far as possible, that the customer is worthy of that credit and that bad debts will not result. Checks should continue to be carried out on existing customers as a company would like to have early warning of any problems which may be developing. This is especially true for key customers of the company.
- Once the decision has been taken to grant credit, then suitable credit terms must be set and the receivables that arise must be monitored efficiently if the costs of giving credit are to be kept under control.
- A key area of the management of accounts receivable is the final collection of cash from customers. Any company must have a rigorous system to ensure that all customers pay in a timely fashion as, without this, the level of receivables and the cost of financing these receivables will inevitably rise, as will the risk and cost of bad debts.**http://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/arm.html.**

According to (Weygandt&Kimmel, 2010), recognising account receivables,valuing account receivable & disposing of account receivable are the three accounting issues associated with accounts receivable.

I. Recognizing Account Receivable

Recognizing accounts receivable is relatively straightforward. A service organizationrecords a receivable when it provides service on account. A merchandiser recordsaccounts receivable at the point of sale of merchandise on account. When a merchandisesells goods, it increases (debits) Accounts Receivable and increases(credits) Sales Revenue.

In most receivables transactions, the amount to be recognized is the exchange pricebetween the two parties. **The exchange price is the amount due from the debtor**(a customer or a borrower). Some type of business document, often an invoice, serves as evidence of the exchange price. Two factors may complicate the measurement of the exchange price: (1) the availability of discounts (trade and cash discounts), and (2) the length of time between the sale and the due date of payments (Kieso,nd).

II. Valuing Accounts Receivable

Once companies record receivables in the accounts, the next question is:How should they report receivables in the financial statements? Companies report accounts receivable on the balance sheet as an asset. But determining the **amount** to report is sometimes difficult because somereceivables will become uncollectible (Weygandt &Kimmel, 2010).

III. Disposing of Accounts Receivable

In the normal course of events, companies collect accounts receivable incash and remove the receivables from the books. However, as credit sales and receivables have grown in significance, the “normal course of events” has changed. Companies now frequently sell their receivables to another company for cash, thereby shortening the cash-to-cash operating cycle (Weygandt& Kimmel, 2010).

2.4. Optimum Size of Receivables

The optimum investment in receivables will be at a level where there is a trade-off betweencosts and profitability. When the firm resorts to a liberal credit policy, the profitability of the firm increases on account of higher sales. However, such a policy results in increased investment in receivables, increased chances of bad debts and more collection costs. The total investment in receivables increases and, thus, the problem of liquidity is created. On the other hand, a stringent credit policy reduces the profitability but increases the liquidity of the firm (The Institute of India, 2010).

2.5. Benefits of Maintaining Receivables

Firms would, in general, rather sell for cash than on credit, but competitive pressuresforce most firms to offer credit for substantial purchases, especially to other businesses. Thus, goods are shipped, inventories are reduced, and an account receivable is created. Eventually, the customer will pay the account, at which time (1) the firm will receive cash and (2) its receivables will decline. Carrying receivables has both direct andindirect costs, but selling on credit also has an important benefit: increased sales (Ehrhardt and Brigham, 2011).

a.Increase in Sales - Except a few monopolistic firms, most of the firms are required to sell goods on credit, either because of trade customers or other conditions. The sales can further be increased by liberalizing the credit terms. This will attract more customers to the firm resulting in higher sales and growth of the firm.

b.Increase in Profits - Increase in sales will help the firm (i) to easily recover the fixed expenses and attaining the break-even level, and (ii) increase the operating profit of the firm. In a normal situation, there is a positive relation between the sales volume and the profit.

c.Extra Profit - Sometimes, the firms make the credit sales at a price which is higher than the usual cash selling price. This brings an opportunity to the firm to make extra profit over and above the normal profit (**Institute of India, 2010).**

2.6. Objectives of Receivable Management

According to (Hrishikes, 2007), the primary objective of accounts receivable management is to maximize the value of the enterprise by striking a balance between liquidity, risk and profitability. A significant part of accounts receivables management involves the proper selection of customers, because every credit sale involves the risk of delayed payment or non-payment of the value involved.

The goal of receivables management is to maximize the value of the firm by achieving a tradeoff between risk and profitability.

For this purpose, a finance manager has: to obtain optimum (non-maximum) value of sales; to control the cost of receivables, cost of collection, administrative expenses, bad debts and opportunity cost of funds blocked in the receivables; to maintain the debtors at minimum according to the credit policy offered to customers; to offer cash discounts suitably depending on the cost of receivables, bank rate of interest and opportunity cost of funds blocked in the receivables (The Institute of India, 2010).

Periasamy, 2009, as sighted in (Waweru, 2010) the main purpose of maintaining receivables is not, sales maximization nor is it for minimization of risks involved by way of bad debts. Had the main objective been growth of sales, the concern would have opened credit sales to all sorts of customers. Contrary to this, if the aim had been minimization of risk of bad debts, the firm would not have made any credit sale at all. That means a firm should indulge in sales expansion by way of receivables only until the extent to which the risk remain within an acceptably manageable limit. The basic target of management of receivables is to enhance the overall return on the optimum level of investment made by the firm in accounts receivables. This optimum investment is determined by comparing the benefits to be derived from a particular level of investment with the cost of maintaining that level.

Thus the objectives of management of accounts receivable may be viewed as to; attain not maximum but optimum volume of sales, exercise control over the cost of credit and maintain it on a minimum possible level and to keep investment at an optimum level in the form of accounts receivables (Periasamy, 2009).

(Periasamy, 2009).Granting of credit and its proper and effective management is not possible without involvement of any cost. These costs include administration costs, capital costs, production and selling costs, delinquency costs, default costs and opportunity cost. Barad, 2010 as sighted in (Waweru, 2010), these costs cannot be possibly eliminated altogether but should essentially be regulated and controlled. Elimination of such costs simply mean reducing the cost to zero i.e. no credit grant is permitted to the debtors In that case a firm would no doubt escape from incurring these costs yet the other face of the coin would reflect that the profits foregone on account of expected rise in sales volume made on credit amounts much more than the costs eliminated. Thus a firm would fail to materialize the objective of increasing overall return on investment.

2.7. Characteristics of Account Receivables

Most companies use the accrual basis of accounting since it better reflects the actual results of the operations of a business. Under the accrual basis, a merchandising company that extends credit records revenue when it makes a sale because at this time it has earned and realized the revenue. The company has earned the revenue because it has completed the seller's part of the sales contract by delivering the goods. The company has realized the revenue because it has received the customer's promise to pay in exchange for the goods. This promise to pay by the customer is an account receivable to the seller(Edwards, and Maher,2011).

Accounts receivable are amounts that customers owe a company for goods sold and services rendered on account. Frequently, these receivables resulting from credit sales of goods and services are called **trade receivables**(Edwards, and Maher,2011).

When a company sells goods on account, customers do not sign formal, written promises to pay, but they agree to abide by the company's customary credit terms. However, customers may sign a sales invoice to acknowledge purchase of goods. Payment terms for sales on account typically run from 30 to 60 days.

Companies usually do not charge interest on amounts owed, except on some past-due amounts. Because customers do not always keep their promises to pay, companies must provide for these uncollectible accounts in their records (Edwards, and Maher,2011).

Employees need to spend a significantamount of time on the administration of accounts receivable. In fact, perhaps nothing differentiates accounts receivable from other current assets more than their day-to-day administration (Joffe, 2009).

We continue our tour of current assets with the firm's *accounts receivable.* When one company sells goods to another, it does not usually expect to be paid immediately. These unpaid bills or **trade credit**compose is a bulk of accounts receivable. The remainder is made up of **consumer credit,** that is, bills that are awaiting payment by the final customer (Franklin, 2001**).**

Since Accounts receivable arise when a firm sells goods or services to another without receiving immediate payment for the goods, this asset have two common salient characteristics.

Firstly, the existence of credit risk element. Credit risk is the potential loss that may arise out of failure by the credit customers to honor their obligations as and when they fall due (Kalunda*etet.al.* 2012). When a firm sells goods on credit to another, it assumes a risk since it is not certain as to whether the customer will pay for them in good time or ever at all.

The second common characteristic of account receivable is the time value of money. The value of the money received later for goods supplied now is lower due to factors such as inflation and loss of investments opportunities for the money held by the trade debtors in form of accounts receivable.

According to (Atril&Miclaney, 2010), Account receivable is one of the three elements of current assets; these are Inventories, Account Receivable, & Cash. The difference between current asset & current liability is working capital.

The management of working capital is an essential part of the business's short-termplanning process. It is necessary for management to decide how much of each element should be held. There are costs associated with holding either too much or too little of each element. Management must be aware of these costs, which include opportunity costs, in order to manage effectively. Hence, the potential benefits must be weighed against the likely costs in an attempt to achieve the optimum investment (Atril&Miclaney, 2010).

Working capital management requires a clear specification of theobjectives to be achieved. The two main objectives of working capital management are to increase the **profitability** of a company and to ensure that it has sufficient **liquidity** to meet short-term obligations as they fall due and so continue in business.

Profitability is related to the goal of shareholder wealth maximization, soinvestment in current assets should be made only if an acceptable return is obtained. While liquidity is needed for a company to continue in business, a company may choose to hold more cash than is needed for operational or transaction needs, for example for precautionary or speculative reasons.The twin goals of profitability andliquidity will often conflict since liquid assets give the lowest returns.

Even if, a company is operating profitably, overtrading can result in a liquidity crisis, withthe company being unable to meet its debts as they fall due because cash has been absorbed by growth in non-current assets, inventory and trade receivables. Serious and sometimes fatal problems can therefore arise for a company as a result of overtrading.We can see that the 'liquid' current assets do not quite cover the current liabilities, so the business may be experiencing some liquidity problems (AtrilandMclaney, 2006).

2.7.1. Accounts Receivable Controls

There are various ways of organizing, presenting and managing accounts receivable information, some of the information can be used to implement sound control policies. In

other words, there is no value in collecting all that data unless it is used to better manage a company's accounts receivable (Joffe,2009).

To ensure optimal investment in receivables, a firm requires an appropriate credit policy. Kakuru (2000) define credit policy as a set of policy actions designed to minimize costs associated with credit while maximizing benefits from it. It is aimed at having optimal investment in receivables. Optimal investment is that level of investment where there is a trade-off between the costs and the benefits associated with a particular investment. A firm's credit policy should maximize the firm's value.

The firm's value is maximized when incremental rate of return is equal to incremental costs of funds used to finance the investment (ACCA Financial management, paper F9, 2009).

Indeed, this is the purpose of internal controls – to help a company get the most out of one of its largest and most crucial assets. We will look specifically at how a credit policy can serve as a control mechanism to ensure that the accounts receivable asset is managed, protected and maximized in value (Joffe,2009).

2.7.2. Credit Controls

Many companies set their credit policies to provide for acertain percentage of uncollectible accounts. (In fact, many feel that failure to reach thatpercentage means that they are losing sales due to overly restrictive credit policies(Kieso,nd).

One of the first issues a company should consider when establishing a credit policy is whether to adopt a lenient or restrictive approach to providing credit. Two broad factors can influencesuch a decision: the company's own financial position and its market position relative to the competition (Joffe,2009).

The evaluation of credit quality involves more than simply assessing a company's ability torepay loans. Credit analysts also evaluate debt management strategies. For example, if a company is already financially constrained, it probably cannot afford to extend credit to

customers at risk. Similarly, low sales volumes for custom-made products leave a company with less room to extend generous credit terms (Kieso,et.al 2012).

Decisions involving credit terms can have a significant impact on sales volume. The more lenient company's credit policy, the more likely it is to generate additional sales. It provides potential customers with the incentive to buy goods without having to pay for them immediately. Therefore, a more competitive market environment, homogeneous products and high sales volumes provide a company with greater incentive to extend more lenient credit terms to customers (Joffe,2009).

2.7.3. Credit Approval

Credit-worthiness is an important consideration in making a credit sale because it bears directly on a potential customer's ability and willingness to ultimately make payment. Various credit bureaus (such as Dun & Bradstreet and Equifax) provide credit ratings and other information for this purpose. Selling only to customers with high credit ratings, however, will not necessarily maximize profits (Diamond,2000).

Providing payment terms to customers involves making unsecured loans to the customers so that they can buy the company's product or service. Instead of automatically offering these terms, a company can implement various measures to better understand their customers and follow up when necessary. This is the essence of credit approval. It can involve having the customer complete a credit application and update the information regularly. The company can also request a customer's financial statements to ensure that it is in a position to pay its bills (Joffe,2009).

2.7.4. Credit Information

Of course, customers may not always be completely open about their financial health or ability to pay their bills. Companies therefore get independent credit information about

customers from credit reporting agencies, financial institutions and even from other vendors. Credit agency reports can be very useful in getting up-to-date information on current and potential customers. They can provide payment history, claims against the customer, banking information, existing credit granted, a record of recent inquiries as well as any credit ratings (Joffe,2009).

2.7.5. Terms of Sale

Another credit control at a company's disposal is setting the terms of sale. A certain period, such as 30 days, can be used and enforced against all customers.

2.7.6. Credit Policy

The only way credit sales can be controlled is by making alterations in the firm's credit policy. A firm therefore requires credit policy in its operations since a proportionately large amount of sales are made on credit and credit policy variables are the ones in the control of the manger (Kakuru, 2001).

Credit policy is designed to minimize costs associated with credit while maximizing the benefits from it. Credit policy is either lenient or stringent.

- **Lenient Credit Policy**

This policy tends to give credit to customers on very liberal terms and standards. Credit is granted for period of time even to those customers whose credit worthiness is not fully known or whose financial position is doubtful. Credit is granted at high discount rates.

- **Stringent Credit Policy**

A stringent credit policy gives credit on highly selective basis only to customers whose credit worthiness has been ascertained and is financially strong. Credit periods are shorter and discounts are lower. It involves low costs but may be detrimental to sales returns. A firm needs to formulate a credit policy which is optimum.

2.8. Credit Risk Analysis and Evaluation

The chief aim of debtor's management is to ensure minimum or optimum investment in accounts receivable and considerable reduction in bad debt losses. To achieve this, the financial manager should follow clear cut principles and procedures to evaluate the credit worthiness of the applicants regarding how much credit can be extended and for how long (Periasamy, 2009).

Clerke, 1999, as sighted in (Waweru, 2010) Granting credit is a journey, the success of which depends on the methodology applied to evaluate and to grant credit. The journey starts from the application for credit through acquisition of credit sales and ends at the time the debt is fully paid.

A business offering credit runs the risk of not receiving payment for goods or servicessupplied. Thus, care must be taken over the type of customer to whom credit facilities are offered. When considering a proposal from a customer for the supply of goods or services on credit, the business must take a number of factors into account. The following five Cs of credit provide a business with a useful checklist (Atril and Mclaney, 2006).

Capital**:** The customer must appear to be financially sound before any credit is extended. Where the customer is a business, its financial statements should be examined. Particular regard should be given to the customer's likely future profitability and liquidity. In addition, any major financial commitments (for example, capital expenditure, contracts with suppliers) must be taken into account.

Capacity**:** The customer must appear to have the capacity to pay amounts owing. Where possible, the payment record of the customer to date should be examined. If the customer is a business, the type of business operated and the physical resources of the business will be relevant. The value of goods that the customer wishes to buy on credit must be related to the customer's total financial resources.

Collateral**:** On occasions, it may be necessary to ask for some kind of security for goods supplied on credit. When this occurs, the business must be convinced thatthe customer is able to offer a satisfactory form of security.

Conditions**:** The state of the industry in which the customer operates, and the general economic conditions of the particular region or country, may have an important influenceon the ability of a customer to pay the amounts outstanding on the due date.

Character: It is important for a business to make some assessment of the customer's character. The willingness to pay will depend on the honesty and integrity of the individual with whom the business is dealing. Where the customer is a limited company this will mean assessing the characters of its directors. The business must feel satisfied that the customer will make every effort to pay any amounts owing.It is clear from the above that the business will need to gather information concerning the ability and willingness of the customer to pay the amounts owing at the due dates.

2.9. Factors Affecting Receivable Management

According to (Mishra, 1975)there are three factors that affect accounts receivable that should be the main focus in account receivable management, in order to add profitability, soundness and effectiveness to receivables namely: Forming of credit policy, Executing credit policy & Formulating and executing collection policy.

2.9.1. Forming of Credit Policy

For efficient management of receivables, a concern must adopt a credit policy. A credit policy is related to decisions such as credit standards, length of credit period, cash discount and discount period, etc.

A credit policy is the blueprint used by a business in making its decision to extend credit to a customer. The primary goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. The credit policy for larger businesses can be quite formal while that of a small business tends to be quite informal with a number of small business owners relying on their instincts (Miller, 2002).

(a) **Quality of Trade Accounts of Credit Standards:** The volume of sales will be influenced by the credit policy of a concern. By liberalizing credit policy the volume of sales can be increased resulting into increased profits. The increased volume of sales is associated with certain risks too. It will result in enhanced costs and risks of bad debts and delayed receipts. The increase in number of customers will increase the clerical work of maintaining the additional accounts and collecting of information about the credit worthiness of customers. There may be more bad debt losses due to extension of credit to less worthy customers. These customers may also take more time than normally allowed in making the payments resulting into tying up of additional capital in receivables. On the other hand, extending credit to only credit worthy customers will save costs like bad debt losses, collection costs, investigation costs, etc. The restriction of credit to such customers only will certainly reduce sales volume, thus resulting in reduced profits (Miller, 2002).

(b) **Length of Credit Period:** Credit terms or length of credit period means the period allowed to the customers for making the payment. The customers paying well in time may also be allowed certain cash discount. A concern fixes its own terms of credit depending upon its customers and the volume of sales.

The competitive pressure from other firms compels to follow similar credit terms, otherwise customers may feel inclined to purchase from a firm which allows more days for paying credit purchases. Sometimes more credit time is allowed to increase sales to existing customers and also to attract new customers. The length of credit period and quantum of discount allowed determine the magnitude of investment in receivables.

(c) **Cash Discount:** Cash discount is allowed to expedite the collection of receivables. The concern will be able to use the additional funds received from expedited collections due to cash discount. The discount allowed involves cost. The discount should be allowed only if its cost is less than the earnings from additional funds. If the funds cannot be profitably employed then discount should not be allowed.

(d) Discount Period: The collection of receivables is influenced by the period allowed for availing the discount. The additional period allowed for this facility may prompt some more customers to avail discount and make payments. This will mean additional funds released from receivables which may be alternatively used.

At the same time the extending of discount period will result in late collection of Fundsbecause those who were getting discount and making payments as per earlier schedule will also delay their payments.

2.9.2. Executing Credit Policy

After formulating the credit policy, its proper execution is very important. The evaluation of credit applications and finding out the credit worthiness of customers should be undertaken.

(a) **Collecting Credit information:** The first step in implementing credit policy will be to gather credit information about the customers. This information should be adequate enough so that proper analysis about the financial position of the customers is possible. This type of investigation can be undertaken only up to a certain limit because it will involve cost. The sources from which credit information will be available should be ascertained. The information may be available from financial statements, credit rating agencies, reports from banks, firm's records etc.

Financial reports of the customer for a number of years will be helpful in determining the financial position and profitability position. The balance sheet will help in finding out the short term and long term position of the concern.

The income statements will show the profitability position of concern. The liquidity position and current assets movement will help in finding out the current financial position. A proper analysis of financial statements will be helpful in determining the credit worthiness of customers. There are credit rating agencies which can supply information about various concerns. These agencies regularly collect information

about business units from various sources and keep this information up to date. The information is kept in confidence and may be used when required.

Credit information may be available with banks too. The banks have their credit departments to analyses the financial position of a customer.
In case of old customers, business own records may help to know their credit worthiness. The frequency of payments, cash discounts availed, interest paid on overdue payments etc. may help to form an opinion about the quality of credit.

(b) **Credit Analysis:** After gathering the required information, the finance manager should analyze it to find out the credit worthiness of potential customers and also to see whether they satisfy the standards of the concern or not. The credit analysis will determine the degree of risk associated with the account, the capacity of the customer borrow and his ability and willingness to pay.

(c) **Credit Decision:** After analyzing the credit worthiness of the customer, the finance manager has to take a decision whether the credit is to be extended and if yes then up to what level. He will match the creditworthiness of the customer with the credit standards of the company. If customer's creditworthiness is above the credit standards then there is no problem in taking a decision. It is only in the marginal case that such decisions are difficult to be made. In such cases the benefit of extending the credit should be compared to the likely bad debt losses and then decision should be taken. In case the customers are below the company credit standards then they should not be out rightly refused. Rather they should be offered some alternative facilities. A customer may be offered to pay on delivery of goods, invoices may be sent through bank. Such a course help in retaining the customers at present and their dealings may help in reviewing their requests at a later date(Cavalrylanedelhi, nd).

2.9.3. Formulating and executing Collection Policy

The collection of amount due to the customers is very important. The concern should devise the procedures to be followed when accounts become due after the expiry of credit period. The collection policy termed as strict and lenient. A strict policy of collection will

involve more efforts on collection. This policy will enable the early collection of dues and will reduce bad debts losses. The money collects will be used for other purpose and the profits of the concern will go up. A lenient policy increases the debt collection period and more bad debts losses. The collection policy should weigh the various aspects associated with it, the gains and losses of such policy and its effects on the finances of the concerns. The collection policy should also devise the steps to be followed in collecting overdue amounts(Cavalrylanedelhi, nd).

2.10. Factors Considering the Receivable Size

According to Institute of India (2010), receivables size of the business concern depends upon various factors. Some of the important Factors are as follows:

I. Sales Level

Sales level is one of the important factors which determine the size of receivable of the firm. If the firm wants to increase the sales level, they have to liberalize their credit policy and terms and conditions. When the firms maintain more sales, there will be a possibility of large size of receivable.

II. Credit Policy

Credit policy is the determination of credit standards and analysis. It may vary from firm to firm or even some times product to product in the same industry. Liberal credit policy leads to increase the sales volume and also increases the size of receivable. Stringent credit policy reduces the size of the receivable.

Although such a policy would minimize receivables that prove to be uncollectible, a number of potentially profitable sales might be eliminated and the profit on these sales may well overshadow the expense of uncollectible accounts. Thus, a firm must decide how much credit to grant and to whom credit should be offered. Selecting a credit-rating cutoff in some middle range is probably optimal (Diamond, 2000).

III. Credit Terms

Credit terms specify the repayment terms required of credit receivables, depend upon the credit terms, size of the receivables may increase or decrease. Hence, credit term is one of the factors which affect the size of receivable.

IV. Credit Period

It is the time for which trade credit is extended to customer in the case of credit sales. Normally it is expressed in terms of 'Net days'.

V. Cash Discount

Cash discount is the incentive to the customers to make early payment of the due date. A special discount will be provided to the customer for his payment before the due date.

VI. Management of Receivable

It is also one of the factors which affect the size of receivable in the firm. When the management involves systematic approaches to the receivable, the firm can reduce the size of receivable(Institute of India, 2010).

2.11. Optimum credit policy

A firm should establish receivables policies after carefully considering both benefits and costs of different policies. These policies relate to:
(i) Credit Standards, (ii) Credit Terms, and (iii) Collection Procedures.
Each of these has been explained below:

I. Credit standards

The term credit standards represent the basic criteria for extension of credit to customers. The levels of sales and receivables are likely to be high if the credit standards are relatively loose, as compared to a situation when they are relatively tight. The firm's credit standards are generally determined by the five "C's". Information about the five C's can be collected both from internal as well as external sources. Internal sources include the firm's previous experience with the customer supplemented by its own well

developed information system. External resources include customer's references, trade associations and credit rating organizations. It also supplies credit reports about different firms on request.

An individual firm can translate its credit information into risk classes or groups accordingto the probability of loss associated with each class. On the basis of this information, the firm can decide whether it will be advisable for it to extend credit to a particular class of customers.

II. Credit terms

It refers to the terms under which a firm sells goods on credit to its customers. As stated earlier, the two components of the credit terms are (a) Credit Period and (b) Cash Discount. The approach to be adopted by the firm in respect of each of these componentsis discussed below:

(a) Credit period - Extending the credit period stimulates sales but increases the cost on account of more tying up of funds in receivables. Similarly, shortening the credit period reduces the profit on account of reduced sales, but also reduces the cost of tying up of funds in receivables. Determining the optimal credit period, therefore, involves locating the period where the marginal profits on increased sales are exactly offset by the cost of carrying the higher amount of accounts receivable.

(b) Cash discount - The effect of allowing cash discount can also be analyzed on the same pattern as that of the credit period. Attractive cash discount terms reduce the average collection period resulting in reduced investment in accounts receivable. Thus, there is a saving in capital costs. On the other hand, cash discount itself is a loss to the firm. Optimal discount is established at the point where the cost and benefit are exactly offsetting.

III. Collection procedures

A stringent collection procedure is expensive for the firm because of high out-of-pocket costs and loss of goodwill of the firm among its customers. However, it minimizes theloss on account of bad debts as well as increases savings in terms of lower capital

costs on account of reduction in the size of receivables. A balance has therefore to be stuck between the costs and benefits of different collection procedures or policies.

2.12. Costs of Maintaining Receivables

Allowing of credit to customers that mean giving fund for the customer's use. The concern incurs the following cost on maintaining receivables:

(1) ***Cost of Financing Receivables*****:** When goods and services are provided on credit then concern's capital is allowed to be used by the customers. The receivables are financed from the funds supplied by shareholders for long term financing and through retained earnings. The concern incurs some cost for collecting funds which finance receivables.
(2) ***Cost of Collection***: A proper collection of receivables is essential for receivables management. The customers who do not pay the money during a stipulated credit period are sent reminders for early payments.

Some persons may have to be sent for collection these amounts. All these costs are known as collection costs which a concern is generally required to incur.

(3) ***Bad Debts:*** Some customers may fail to pay the amounts due towards them. The amounts which the customers fail to pay are known as bad debts. Though a concern may be able to reduced bad debts through efficient collection machinery but one cannot altogether rule out this cost.

2.13. Accounting for Credit Sales

The analysis of credit sales is quite straight forward. The credit sale of merchandise for $100 would increase accounts receivable and shareholders' equity. Notice that revenue is recognized when the sale is made. The collection of cash does not result in the recognition of revenue. Rather, it merely transforms one asset (accounts receivable) into cash(Diamond,2000).

Not all sales involve credit. For example, if you are supplying goods to a wide variety of irregular customers, you may demand cash on delivery (COD). And, if your product is

custom-designed, it may be sensible to ask for cash before delivery (CBD) or to ask for progress payments as the work is carried out(Franklin 2011).

2.13.1. Credit Sales

Many firms, however, make a significant portion of their sales on credit. They do so because customers prefer deferring their payments. Credit transactions enable purchasers to use their cash for a longer period of time before paying the seller. Moreover, credit transactions permit the purchaser to inspect and actually use the goods prior to payment. Industry practices and competitive pressures force many firms to sell on credit, and credit sales to customers in the ordinary course of business give rise to accounts receivable (trade receivables). Before making a credit sale, the credit standing of the customer should be assessed (Diamond,2000).

2.14. Credit and Collection Policy

2.14.1. Credit Policy

The success or failure of a business depends primarily on the demand for its productsas a rule, high sales lead to larger profits and a higher stock price. Sales, in turn, depend on a number of factors: some, like the state of the economy, are exogenous, but others are /advertising and the firm's credit policy. Credit policy, in turn, consists of the following four variables.

1. **Credit period.**A firm might sell on terms of "net 30," which means that the customer must pay within 30 days.

2. **Discounts.**If the credit terms are stated as "2/10, net 30," then buyers may deduct 2% of the purchase price if payment is made within 10 days; otherwise, the full amount must be paid within 30 days. Thus, these terms allow a discount to be taken.

3. **Credit standards.**How much financial strength must a customer show to qualify for credit? Lower credit standards boost sales, but they also increase bad debts.

4. **Collection policy.**How tough or lax is a company in attempting to collect slow paying accounts? A tough policy may speed up collections, but it might also anger customers and cause them to take their business elsewhere.

The credit manager is responsible for administering the firm's credit policy. However, because of the pervasive importance of credit, the credit policy itself is normally established by the executive committee, which usually consists of the president plus the vice presidents of finance, marketing, and production.

2.14.2. Collection policies

A business offering credit must ensure that amounts owing are collected as quickly aspossible. Various steps can be taken to achieve this, including the following (*Atril and Mclaey,2006).*

1. **Develop customer relationships**

For major customers it is often useful to cultivate a relationship with the key staffresponsible for paying sales invoices. By so doing, the chances of prompt paymentmay be increased. For less important customers, the business should at least identifykey staff responsible for paying invoices, who can be contacted in the event of a paymentproblem (*Atril and Mclaey,2006).*

2. **Publicize credit terms**

The credit terms of the business should be made clear in all relevant correspondence, such as order acknowledgements, invoices and statements. In early negotiations withthe prospective customer, credit terms should be openly discussed and an agreementreached (*Atril and Mclaey,2006).*

3. **Issue invoices promptly**

An efficient collection policy requires an efficient accounting system. Invoices (bills)must be sent out promptly to customers, as must regular monthly

statements.Reminders must also be dispatched promptly to customers who are late in paying. If acustomer fails to respond to a reminder, the accounting system should alert managersso that a stop can be placed on further deliveries(Atril and Mclaey,2006).

2.15. Converting Accounts Receivable into Cash

One indication of a company's financial health is its ability to collect receivables in a timelyfashion. Money cannot be put to productive use until it is received. For that reason, companies work to encourage payments being made as quickly as possible. Furthermore, as stated previously, the older a receivable becomes, the more likely it is to prove worthless. Saylor URL: http://www.saylor.org/books

Having too many customers isn't paying on time, or not at all, can create serious problems for a company's cash flow and working capital. Certain measures can be taken to convert a company's accounts receivable into cash in the most efficient manner possible.Setting Firm Credit Terms Perhaps most important, a company should try to assess whether its collection period is stringent enough. Accounts receivable should not be extended more than 10 or 15 days beyond the credit terms.

Industry standards differ, so assessing what the competition is doing, then setting a benchmark to meet or surpass those expectations, may be a wise business strategy. Setting a high standard and routinely enforcing it might improve the collection of accounts(Joffe, 2009).

2.16. The effect of Credit Cost on Profit

Selling goods or services on credit will result in costs being incurred by a business. These costs include credit administration costs, bad debts, and opportunities forgonein using the funds for more profitable purposes. However, these costs must be weighedagainst the benefits of increased sales resulting from the opportunity for customers todelay payment(Atril and Mclaey,2006).

Once companies record receivables in the accounts, the next question is:How should they report receivables in the financial statements?Companies report accounts receivable on the balance sheet as an asset.But determining the **amount** to report is sometimes difficult because somereceivables will become uncollectible(Williams et.al. 2012).

2.17. Uncollectible Accounts

We have stated that accounts receivable are shown in the balance sheet at the estimated collectibleamount called *net realizable value.* No business wants to sell merchandise on account to customers who will be unable to pay. Nonetheless, if a company makes credit sales to hundreds perhaps thousands of customers, some accounts inevitably will turn out to be uncollectible.

A limited amount of uncollectible accounts is not only expected it is evidence of a sound credit policy. If the credit department is overly cautious, the business may lose many sales opportunities by rejecting customers who should have been considered acceptable credit risks.

Each customer must satisfy the credit requirements of the seller before the credit sale is approved. Inevitably, though, some accounts receivable become uncollectible. For example, a customer may not be able to pay because of a decline in its sales revenue due to a downturn in the economy.

Similarly, individuals may be laid off from their jobs or faced with unexpected hospital bills. Companies record credit losses as debits to **Bad Debts Expense** (or Uncollectible Accounts Expense).

Such losses are a normal and necessary risk of doing business on a credit basis. Two methods are used in accounting for uncollectible accounts: (1) the direct write-off method and (2) the allowance method.

2.17.1. The direct write-off method

Under the **direct write-off method**, when a company determines a particular account to be uncollectible, it charges the loss to Bad Debts Expense. Under this method, Bad Debts Expense will show only **actual losses** from uncollectible. The company will report accounts receivable at its gross amount.

Under the direct write-off method, companies often record bad debts expense in a period different from the period in which they record the revenue. The method does not attempt to match bad debts expense to sales revenues in the income statement. Nor does the direct write-off method show accounts receivable in the balance sheet at the amount the company actually expects to receive. **Consequently, unlessbad debts losses are insignificant, the direct write-off method is not acceptablefor financial reporting purposes.**

2.17.2. The allowance method

The **allowance method** of accounting for bad debts involves estimating uncollectible accounts at the end of each period.This provides better matching on the income statement. It also ensures that companies state receivables on the balance sheet at their cash (net) realizable value. **Cash (net) realizable value** is the net amount the company expects to receive in cash. It excludes amounts that the company estimates it will not collect.Thus, this method reduces receivables in the balancesheet by the amount of estimated uncollectible receivables.

GAAP requires the allowance method for financial reporting purposes when bad debts are material in amount.This method has three essential features:

1. Companies **estimate** uncollectible accounts receivable. They match this estimated expense **against revenues** in the same accounting period in which they record the revenues.

2. Companies debit estimated uncollectible to Bad Debts Expense and credit them to Allowance for Doubtful Accounts (a contra-asset account) through an adjusting entry at the end of each period.

3. When companies write off a specific account, they debit actual uncollectible toAllowance for Doubtful Accounts and credit that amount to Accounts Receivable.

2.18. Empirical Studies

Quite a number of studies have been done on the area of working capital management, specifically on accounts receivable management.

In a research on the Accounts receivable, Strategies, Experiences and Intentions, the findings were that lack of efficiency within contemporary accounts receivable departments remain the norm as; cheques are still almost twice as common as electronic forms of payments; the Average Days Sales Outstanding (DSO) for enterprises surveyed exceed 45 days and 87% take more than a day to clear payment through their accounts receivable ledger and 45% of invoices are created manually (Andrew, 2008).

In a study on 'Determinants of accounts receivable and accounts payable management policies: A case of Pakistan textile sector' the researcher found that accounts receivable are affected by the firms incentive to use credit as a means of price discrimination and a level of internal financing. The study also observed that the size of the firm also affects the level of accounts receivable that a firm maintains (Mubashir, 2012).

The study on the effects of receivable management on the financial performance of institutions in Kenya established that there is a positive relationship between receivable management and the financial performance of the institutions. The study also established that a majority of the institutions (77%) had adopted formal receivables management procedures (Nyaga, 2011).

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter provides discussion of the research methodology that the researcher was used in this study. It also outlined the research design with respect to the choice of the design. It has been discusses the population of study, data collection methods, as well as data analysis methods that has been used in the study.

3.1. Research Design

The research design is both qualitative (descriptive) and quantitative in nature. Descriptive statistics is that branch of statistics that deals with the collection, organizing, summarizing and presentation of sample data (Harshbarger and Reynolds, 2007). Descriptive statistics is therefore, critical in quantitatively describing the main features of a collection of information. It enables the researcher to address the research problems. The research was conducted to investigate the practice of account receivable management, ESLSE asthe case study.

3.2. Sample and Sampling Techniques

Coopers and Schindler (2003) define a population as the total collection of elements about which we wish to make inferences.

From 142 of total **population**126 respondents areFinance & Accounts department and 16 from Marketing & Customer Service department. The study conducted interviewto three managers two of them from finance & accounts department one from the marketing department of the company.

The questionnaires were distributed to **sample of 83** respondents,67 from finance &Accounts department and 16 from Marketing & Customer Service department. The sample size wasusingYamane (1967) model.

$$n = \frac{N}{1+N(e)^2}$$

$$= \frac{142}{1+142(0.07)^2}$$

$$= \frac{142}{1.6958}$$

= 83

3.3. Instrument of Data Collection

Both primary and secondary source of data was used to collect the data. The primary data was collected by using questioner and interview. The secondary datacollected from the company audited financial report, from the company's website, and so on. The questionnaire were developed from the model found from internet ''the most frequently asked interview questions and answers''.

3.4. Procedure of Data Collection

The data has been collected by interviewee amanager of the marketing department and two finance managerswho are concerning and managing the credit services one from cash management division and one from accounts division, and questionnaire have been developed for employee of finance and accounts department and marketing department of the firm.

3.5. Method of Data Analysis

The Data was analyzed by using SPSS version 20 program. The analysis made by data analysis method like descriptive statistics.

CHAPTER FOUR

INTERPRITATION & ANALYSIS

4.1. INTERODCTION

This chapter deals with the analysis of data. The data analysis is in harmony with the specific objectives where patterns were investigated, interpreted and inferences drawn on them.

The chapter also dealt with the presentation of results and discussion of the data gathered through Questionnaire and interview, as primary data and the use of secondary data to come up with the necessary data for the topic from the total of 71 respondents.

The data comprises responses from junior professionals, senior professionals and managers of, finance and marketing department of the enterprise under consideration. It provides the practices on receivable management activities operated from 2012 up to 2015 in the Ethiopian shipping & logistics service Enterprise with the ultimate objective of strengthening and management of services.

Having the relevant data on hand enables the author to describe the existing condition and trends of the variables.

4.2. Analysis of the Finding

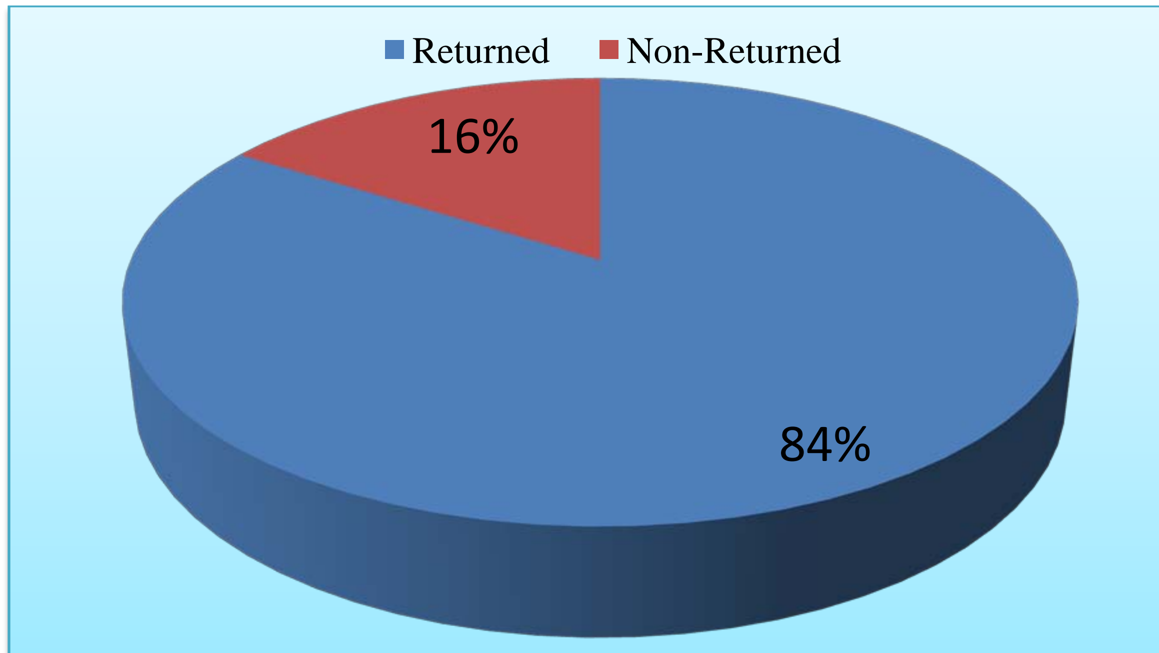
4.2.1. Demographic Information

a) Response Rate

The number of questionnaires, administered to all the respondents, was 83. A total of 70 questionnaires were properly filled and returned from the finance & Marketing department employees. This represented an overall successful response rate of 84%.

According to Babbie (2004), as sighted in Ngugi (2014) asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

Figure1:Response rate of the Questionnaires:



b) Academic Qualification

The table of academic qualification of respondents above shows that 6(9%) of the respondents have diploma and 62 (89%) of the respondents have Bachelor's Degree and the rest of the respondents have Master's Degree.

This information was collected to know the academic qualification of the respondents engaged assigned responsibilities. This helps to show how potential the respondents are in discharging.

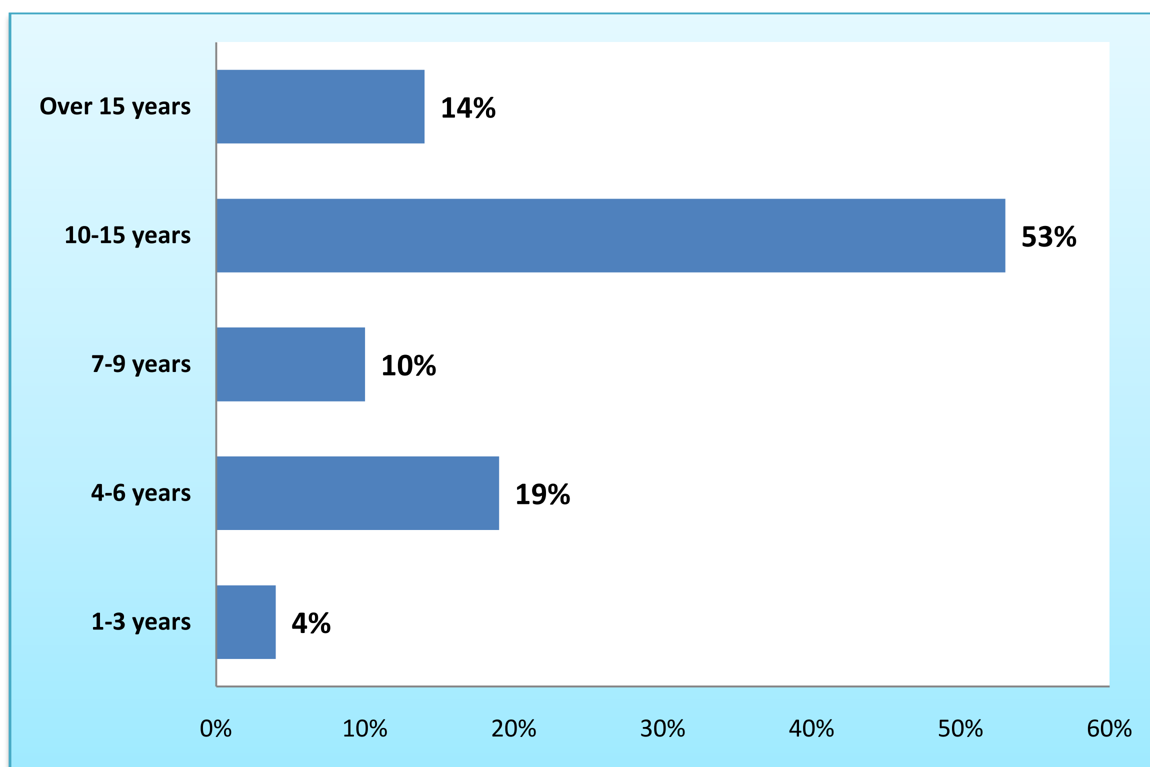
Table 1:Academic qualification of the respondents

Educational Qualification		
	Frequency	Percent
Diploma	6	9%
BA	62	89%
MA/MSC	2	2%
Total	**70**	**100.0**

c) Period Working With Accounts Receivables

The respondents were asked to indicate the period they have been working Results in Table illustrate that 4% of the respondents indicated between 1 to 3 years, 19% indicated 4 to 6 years½ 10% indicated 7 to 9 years, 53% indicated 10 to 15 years and 14% indicated over 15 years,.. The findings imply that the respondents had worked long enough in the accounts receivables hence accurate responses.

Figure 2: Work experiences of the respondents



4.2.2. Assessment findings

Through the use of the different data collection methods, the study has identified the practice of receivable management practice of the organization. Based on the specific objectives, the research conducted has assessed and it has also discovered the strengths and weakness of organizational receivable management practice.

1. The first objectives of the study were to investigate the credit policy of the company. What are the components that included in the credit policy, how often it reviewed by the management of the firm, and what is the term of payment?

a) Reviewing The Policy

The respondents were asked to indicate how often the manager reviewed the credit and receivable policy. Table 4.8 indicates that 51% of the respondents indicated there is no review of the policy by the managers, 22% of the respondents indicate the policy reviewed annually. The findings imply that the management never reviewed the policies.

Table 2: Credit Policy review of the company

Policy Review		
	Frequency	Percent
Monthly	4	7.02%
Quarterly	6	10.53%
Semi Annually	5	8.77%
Annually	13	22.81%
No review	29	50.88%
Total	57	100.%

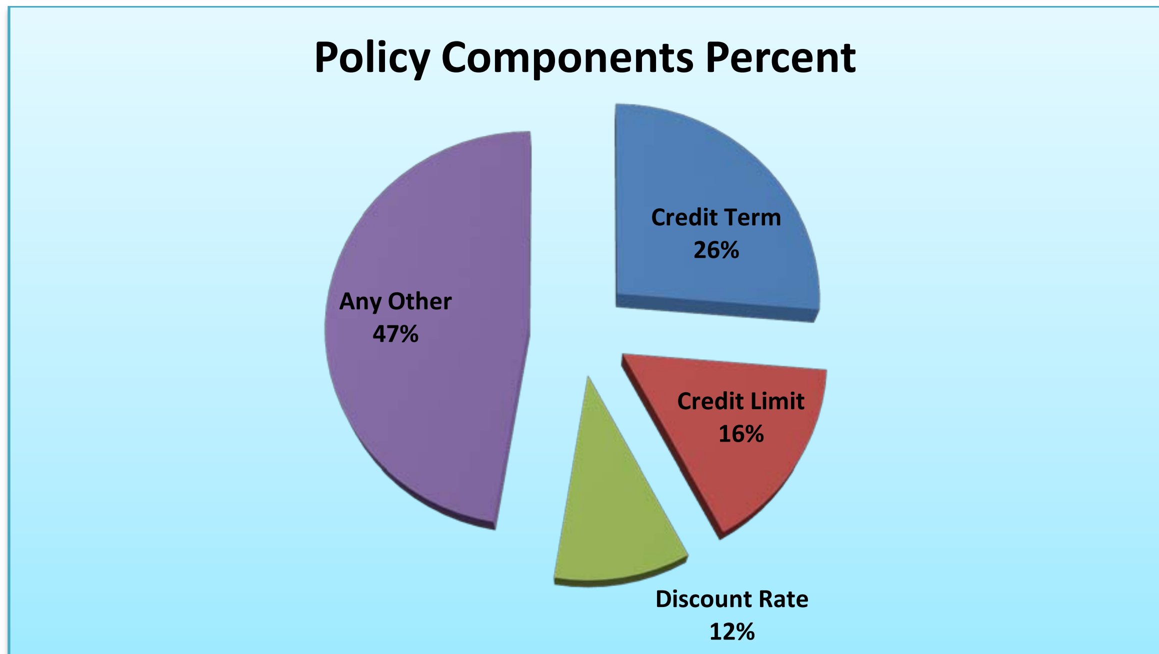
b) Credit policy component

This section tested the knowledge of the respondents on the main components in the credit policy of the firm. Table shows that 26% indicate that the credit term is the component of the credit policy , 16% said it is the credit limit , 12% said that the

component is discount rate and 47.4% of the respondents indicate that they don’t know the components of the credit sales.

The findings imply that the components of the credit policy are not clearly defined for the employees.

Figure 3: Credit policy component



C). **Payment term of the company**

The respondents were asked to indicate the payment term offers to the customers. 15.4% of the respondents indicated it is 14 days, 7.7% said 30 days, 15.4% said 90 days, 61% of the respondents didn’t indicate the payment term. From the finding conclude that the company has no uniform term of payment. And also it indicates that the term of payment is no clearly defined for the employees.

Table 3: Payment term policy

Payment Term		
	Frequency	Percent
14 days	2	15.4%
30 days	1	7.7%
90 days	2	15.4%
Others	8	61.5%
Total	13	100.%

2. The effect of the procedures on receivable management

The second objectives of the study to determine the effect of the procedures takes place on receivable management during granting the credit services , the interdepartmental communications , evaluations of the credit worthiness of the customers , and decision made on granting the credit services and recording the credit services in the ledger after granting the credit services.

a) Internal communication

The table shows that 7% of the respondent said the intercommunication of the organization is very good , 28% agreed it is good , 56.1% of the respondents argue that internal communication is very poor , and 8.8% said it is very poor. The finding implies that the interdepartmental communication within the company is poor in the granting of the credit service and handling the receivables management.

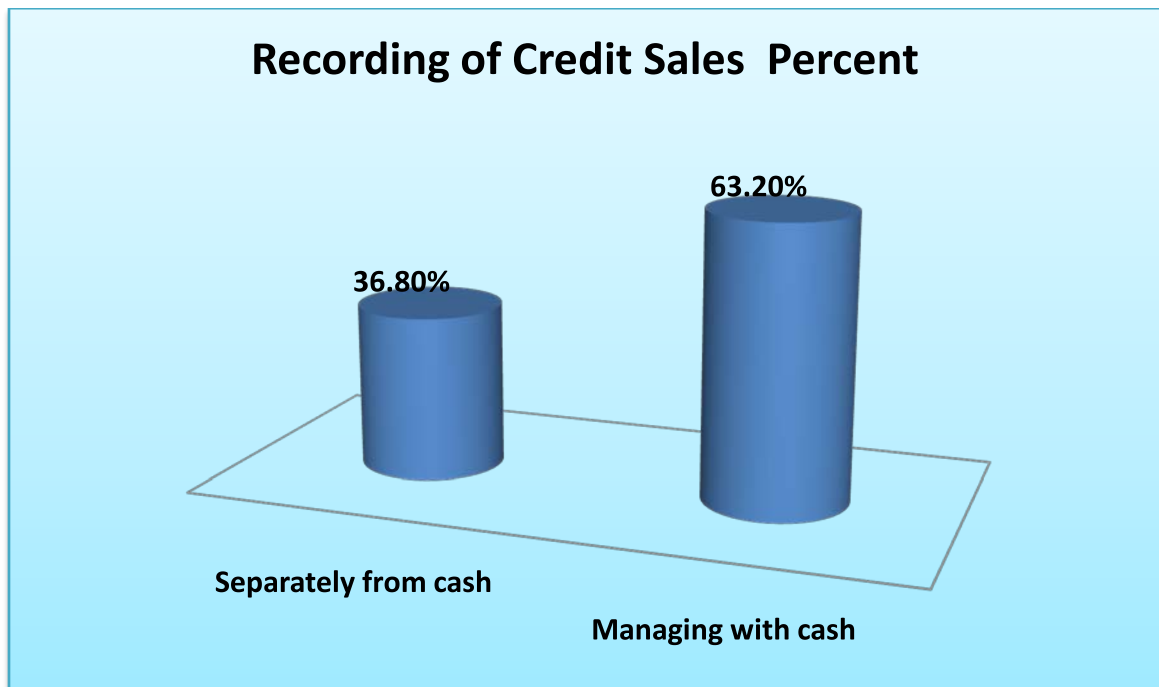
Table 4: Internal communication within the department

Internal Communication		
	Frequency	Percent
Very Good	4	7%
Good	16	28.1%
Poor	32	56.1%
Very Poor	5	8.8%
Total	57	100.%

b) Recording of the credit services

Table shows 36.8% agreed that the recording of the credit services in the ledger is separately from cash sales, 63.2% argue that the recording of the credit service is manage with the cash sales. The finding implies that there is no a system of recording the services given with credit. The finding also implies that it is difficult to identify the balances granted for the credit services in the ledger that should be clearly stated at the end of the service year.

Figure 4: Recording of credit sales in the ledger



C). **Customer investigation of the company**

Table shows 23% agreed that the customer investigation of the firm is based on the credit agents information, 7.7% said that based on bank audited financial statement, 46.2% agreed that there is no any investigation ,and rest has no information. It implies that the firm has no any investigation mechanism to identify the credit worthiness of the customers before granting credit.

Table 5: Customer investigation of the company

Customer Investigation		
	Frequency	Percent
Credit Agent	3	23.1%
Bank/Audited Financial	1	7.7%
No Investigation	6	46.2%
Others	3	23.1%
Total	13	100%

d)**Appraise the application of the customer**

Table shows 15% agreed that the firms uses most to appraise the application of the customer by the Character of the customers, 7.7% is based on the Capacity, 23% said it is based on the Capitaland 53.8% agreed that the firm used the Conditional situation of the economy. It indicates the company gives priority for the general economic conditions.

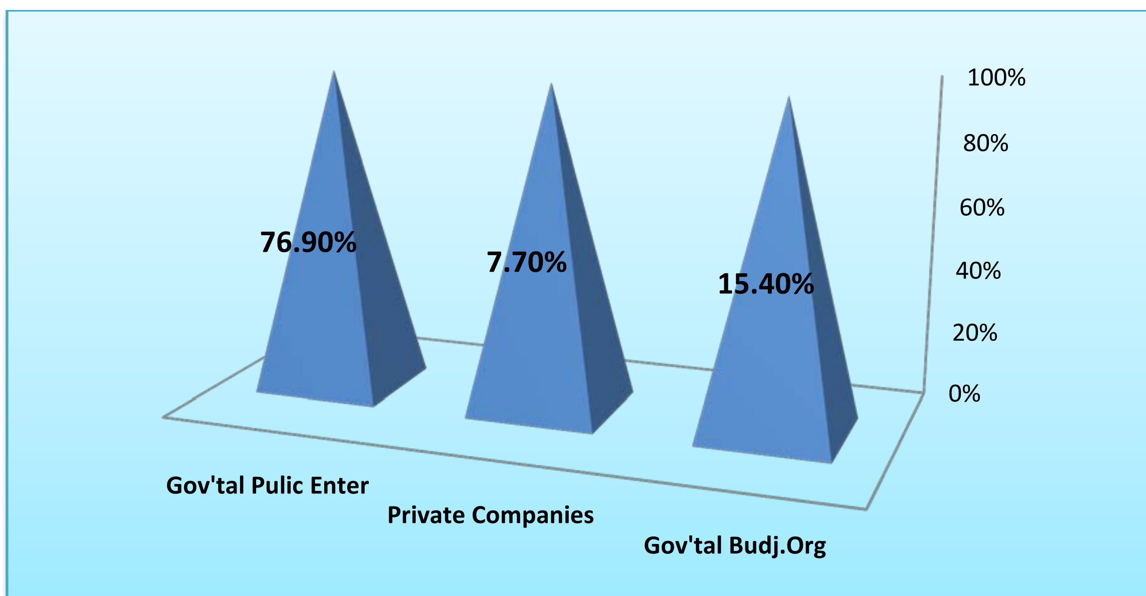
Table 6:**Appraise the application of the customer**

Application Appraisal		
	Frequency	Percent
Character	2	15.4%
Capacity	1	7.7%
Capital	3	23.1%
Conditional	7	53.8%
Total	13	100.%

e). **Major credit customer**

Table shows the respondents were asked to identify the major credit customers of the company 7.7% agreed that Intentional companies, 7.7% said they are Governmental budgetary organizations, 53.8% they are private companies and 30.8% said that they are governmental public organizations. The finding implies thatthe company encourages the private companies.

Figure 5: Major credit customer of the company



f). **Customers with credit Privilege**

Table shows the respondents were asked to identify the credit customers of the companyshould gate privilege inorder to support the national economic condition 7.7% said no information, 30% they are private companies and 15% said that they are governmental public organizations,and 46.2% said they are Exporters. The finding implies that the company encourages the private companies. It indicates that the employees of the company believe that the organization should give support to exporters than the other sectors.

Table 7:Customers with credit Privilege

Customers With Credit Privilege		
	Frequency	Percent
Exporters(Governmental &Private)	6	46.2%
Governmental Public Enter	2	15.4%
Private Com(Industry)	4	30.8%
Others	1	7.7%
Total	13	100.%

3. Assessing the Collection & Follow-up Efforts

a) Independent Credit Department or Unit

The respondents were asked to indicate whether there is an independent credit department or unit. Table indicates 29.8% of the respondents indicate there is no independent credit unit or department, 70.2% of the respondents ascertaining that there is no independent department or unit. This implies that there is no responsible department or unit in the follow up & collection of the credit service granted by the firm.

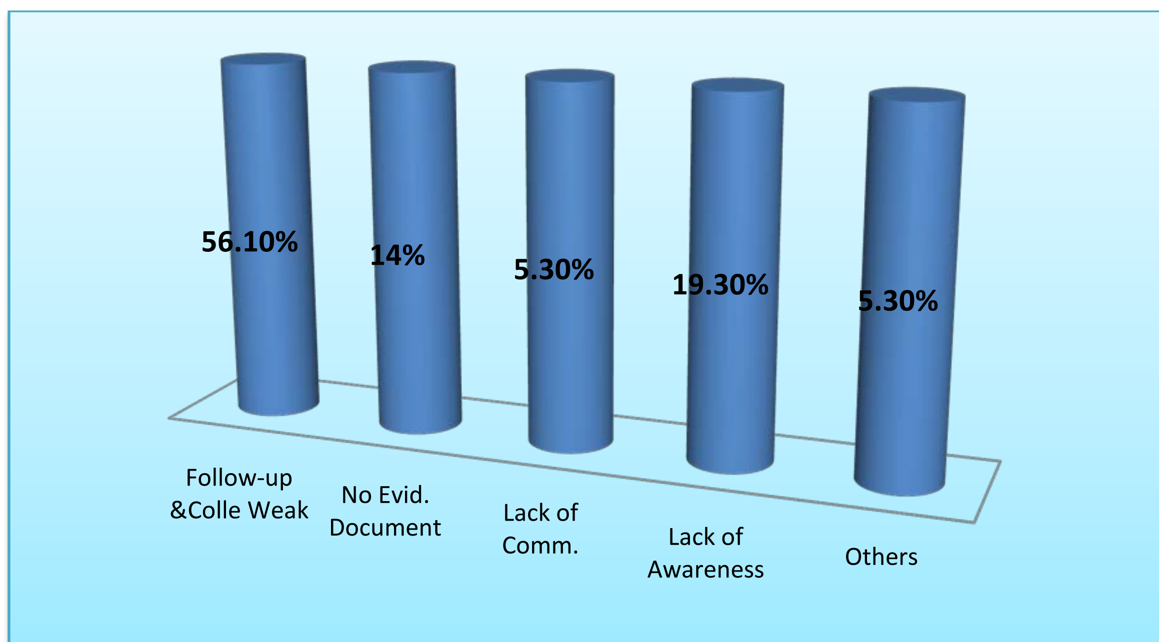
Table 8: Independent credit control department /unit/

Credit Controlling Unit		
	Frequency	Percent
Yes	17	29.8%
No	40	70.2%
Total	57	100.%

b) Reasons for long Outstanding Balance

The respondents were asked to identify the reasons for long outstanding balance of the firm. From the table 56.1% respondents identifies it is follow up and collection weakness, 19.3% respondents agree that the reason is lack of awareness, 14% said that no evidential document. The finding imply that the main reason for long outstanding of the company is follow up collection weakness.

Figure 6: Reasons for long outstanding Balance



c) Customers with long outstanding balance

The respondents were asked to identify the customers with long outstanding balance. From the table 15.4% respondents identifies that they are Governmental organizations, 7.7% said they are Private companies,and 76.9% of the respondents agreed that they are Governmental public enterprises. It implies that there is weak follow up and collection efforts for the governmental enterprises.

Table 9:**Customers with long outstanding balance**

Long Outstanding Customers		
	Frequency	Percent
GovernmentalPublic Enter	10	76.9%
Private Companies	1	7.7%
GovernmentalBudgetary Org.	2	15.4%
Total	13	100%

d). **Reason for not Payment of customer**

The respondents were asked to identify the reasons for customers not honoring their debt on time 15% said that the reason is due to financial capacity, 7.7% saidNon Compliance of rule, 46.2% said it is negligence,15.4% said it is Lack of information, and 15.4% have no idea, The finding imply that there is a gap in the company'sfollow-up of the receivables.

Table 10: Reason for not Payment of customer

Reasons for Not Paying		
	Frequency	Percent
Financial Capacity	2	15.4%
Non Compliance of rule	1	7.7%
Negligence	6	46.2%
Lack of Information	2	15.4%
Others	2	15.4%
Total	13	100%

4. The receivable management practice effect on liquidity

The fourth objectives of the study identify that the effect of receivable management is the liquidity in the availability of working capital to continue activity of the company in the daily transactions.

The effect of the credit services on the financial performance. The next question for the respondents was to identify the financial performance of the company due to granting of credit services and receivable management in the last past four years in the company. Table shows that 21.1% of the respondents agree that it increases the profitability of the firm, 8.8% said that it increases the solvency of the firm, 57.9% of the respondents argue that the credit service increases the liquidity problem of the firm, and 12.3% of the respondent said that it increases he financial efficiency of the firm. The finding imply that the company receivable management is not optimum that managing the receivable striving between profitability and liquidity.

Table 11: Credit effect on financial performance of the company

Credit Effect on Financial performance		
	Frequency	Percent
Increased Profitability	12	21%
Increased Solvency	5	8.8%
Increased Liquidity Problem	33	57.9%
Increased Financial Efficiency	7	12.3%
Total	57	100.%

4.1.Interview Results

Finally, in order to complement the information obtained from managers of the firm interviews also made with the management of both finance & accounts and marketing & customer service departments of the enterprise. Accordingly, their response to the evaluation of the firm’s accounts receivable management activity is that, there are no clear credit policy that enables the managers to make decision enterprise to achieveresults from the credit services provided and it is not regularly reviewed by the managements to make decisions on the issues. There are no provisions of awareness creating programs to the employees on general issues.

4.2.Secondary Data

a)Table shows Comparison of Uncollectable Accounts Receivables andExternal Cash fund/Loan

years	A/R Ball.	Reasons	loan in Birr	Int. rate	Interest expenses
		For Vessel	5,650,996,528.00		
		For Dry port Cons	856,798,209.00		
		For Heavy Tracks	260,168,599.00		
		Total loan	6,767,963,336.00		
			for 9 years		
			Average Loan per year for		
		Excess loan	9 years		
2012	391,751,974.00	360,243,952.22	751,995,926.22	9.50%	71,439,612.99
2013	432,416,793.00	391,579,133.22	751,995,926.22	9.50%	71,439,612.99
2014	402,080,211.65	349,915,714..57	751,995,926.22	9.50%	71,439,612.99
2015	834,755,086.15	(82,759,159.93)	751,995,926.22	9.50%	71,439,612.99
Total	2,061,004,064.80		3,007,983,704.88		285,758,451.96

Source: Companies Loan Status

Article I. ***Table shows Comparison of Profit with Uncollectable Balance***

year	Revenue (a)	Profit (b)	Percentage of Profit on Revenue %	Uncollectable at the end of the year (loss) (c)	Net profit (d) (d = b - c)	Percentage of Net Profit on Revenue %
2012	4,629,080,156.00	690,133,883.00	0.14	391,751,974.00	298,381,909.00	0.06
2013	10,260,036,666.00	1,023,279,634.00	0.10	432,416,793.00	590,862,838.00	0.05
2014	13,052,741,046.94	1,417,638,653.94	0.10	402,080,211.65	1,015,558,442.29	0.07
2015						
Total (3yrs)	27,941,857,868.94	3,131,052,170.94	0.11 -	1,226,248,978.65	1,904,803,189.29	- -

Source: company financial statement 2015

CHAPTER FIVE

SUMMERY, CONCLUSION AND RECOMMENDATION

Based on the findings of the study, the following recommendations are forwarded for the Ethiopian Shipping & Logistics Service Enterprise in order to contribute for the overall sound receivable management of the enterprise.

Summary of Major Findings

The following points can be major findings of the study. The general objective of the study was to assess the receivables management practices of Ethiopian Shipping &Logistics Service Enterprise**.** One of the key findings was that the company has got liquidity problems and found an external source of finance (bank loan) to fulfill the gap and no means to secure the collections from the already existed receivables management practice.

5.1. Conclusion

On the basis of major findings indicated above the following condition can be drown and concluded that ESLSE enterprise uses a liberal receivables management policy. The way receivables are managed profoundly affects the balance between liquidity profitability.

5.1.1. Findings on the credit policy

The first objectives of the study were to evaluate what credit policy that applied by the enterprise. Results shows that the credit policy of the enterprise did not review by the management of the company, the components in the credit policy are not well known by the employees of the company, the receivable management policy of the company is very poor from the findings. The result shows that the company credit policy is very poor to achieve results from the credit services provide by the organization.

5.1.2. Findings on the credit procedures effect on receivables

The second objectives of the study were to investigate how the credit procedures of the enterprise affect the receivable management system. Results shows that there is no

clearly stated procedures prepared that enables them to make interdepartmental communication among to investigate the credit worthiness of the customers before granting credit services by the firm and also there is no procedures that could be well identified the credit term of the company. The is no a system of credit sales recognized separately from the service grants on cash in the ledger is the other reason to measure the drawback of the receivable management system on the financial performance of the enterprise.

5.1.3. Findings on the efforts made on the follow-up and collection procedures

The third objectives of the study are to evaluate how the receivables management system of the company was effective in the collection and follow-up efforts made. The results shows that the follow-up and collection system was poor due to there are no a system regularly updating the debtors files, there is no using of ratio analysis system of monitoring the quality of the receivable management and the time of limit to prepare invoice after the credit granted is not well known by the employees are the main findings.

5.1.4. Findings on the effect of the credit services on the financial performance

The forth objectives of the study was to identify the main effect of the credit service on the financial performance of the enterprise. Results showthat granting of credit had great contribution on liquidity problem, and it had related results on the solvency problem of the enterprise to settle its debt. And also it had impacts on the net value of the profitability that reported annually on the financial statement of the enterprise at the end of the physical year.Since, profit is the result from the revenue of the enterprise in the physical year from the sum of the services given oncredit and cash. And the uncollectable balance at the end of the year is the loss to the enterprise even though the financial statement shows the company was profitable.

5.1.5. Findings on the remedies taken by the firm

The last objectives were to find out what remedies has been taken by the firm in order to decrease the loss from the ineffectiveness of the receivable management practices. Results show that the enterprise has nothing do conversely the outstanding is becoming increasing year to year.

The researcher emphasizes that receivables constitute a significant portion of the firm's current assets and thus should be managed properly.

5.2. Recommendation

The following recommendation is suggested as possible solutions on the basis of the major findings and conclusion discussed above. The recommendation is given there is based on the objectives of the study. Therefore the researcher recommends that the firmto implement the following points in order to minimize the loss and to minimize long outstanding aged receivables by reviewing the practices.

- ✓ The enterprise should adopt an optimum credit policy that is compatible with other strategic policies, financial policy.
- ✓ The manager should review the credit and receivable policy of the company in order to improve with the company's strategic and financial policy.
- ✓ In the management of receivables, the company should develop a clearly stated credit procedure that enables to investigate the credit worthiness of customers. The costs and risks of maintaining any credit customer should be matched with the returns from such a customer.
- ✓ In the management of receivables, the firm should adopt the system that recognizes the accounts of credit services grants separately from the cash sales services in the ledger. It can be also assists in the updating of customer's files and balances of receivable.
- ✓ The enterprise has to develop the communication system among the departments.
- ✓ The company has to establish an independent credit department (unit) that is responsible in the follow-up and collection of receivables.

- ✓ Since the company is a public enterprise it has responsibility to support the nation's economy, therefore, enterprise has to develop the credit procedures and requirements that give special opportunity for the exporters.

- ✓ The enterprise should adopt a receivable management policy to minimize the uncollectable, the balance between profitability & liquidity of the firm. And also should develop the optimal receivable management policy and receivable management system that fulfill the optimum liquidity balance.

5.3. Limitations of the Study

Since the main purpose of this study was to analyses the practices of receivables management in ESLSE, some employees in the firm considered some information sensitive and confidential and thus the researcher had to convince that the purpose of information is for academic research only and may not be used for any other intentions.

The findings of this study may not also be generalized to all public enterprises but can be used as a reference to companies in developing countries since they face almost the same challenges due to the same prevailing economic situations as opposed to service companies in developed countries.

Accounts receivables keeps on changing from period to period depending on prevailing economic situations and product market demand. The findings therefore may not reflect the true effect of accounts receivables management practices of the firms for a period conducted.

REFERENCES

-Accounting Coach. Q&A. Retrieved from Accounting Coach:

http://www.accountingcoach.com/blog/receivables-accounts-receivable

-ACCA,(2009),), ***Financial Management****, BPP learning media.*

-Berry, A. and Jarvis, R. (2006), ***Accounting in Business;*** *Contavt, Cengage Learning EMEA,*

- Barad, M (2010). ***Analysis of Receivable Management****; Retrieved November 18, 2012 from http.//www.shodganga.inflibnet.ac.ic/bif stream.*

*- Cooper, D & Schindler, P. (2003).****Business Research Method****;7th Ed. New York,*

NY:McGraw-Hill.

-Dare kubickova, (2013). ***Management of Receivable in SMEs in the Czeck Republic****;Europian Research studies.*

*- Donald E. Kieso PhD, Jerry J. Weygandt PhD, Terry D. Warfield ,****Intermediate***

Accounting*, 14th edition,*

-DagnachewAsrat(LL.B.) &AddissieShiferaw (LL.B.), 2009

Law of Public Enterprises and Cooperatives; *Teaching Material,*

-Ernest A. Darko,Samuel Adarkwach, F.Donkor,E.Keyi, (2016). ***Management of***

Account Receivable in Utility Company*; A focus on Electricity Company of*

Ghana.6,11,490.

-*Financial Accounting Foundation, (2014).* ***Financial Accounting Presentation****;401Merit.*

-*Hermanson, Edwards, and Maher, (2011).* ***Accounting Principles****: A* ***Business Perspective, Financial Accounting,****8th edition,Richard D Irwin.*

-*MichaelC.Ehrhardt and Brigham,(nd).****FinancialManagement: Theory and Practice****,13ed.*

-*Megginson, L. Scott, B. (2008).****Introduction to Corporate Finance****; South Western Publishers.*

-*Neville Joffe, (2009).* ***Financial Accounting Principles****; An Introductory Financial Accounting Course, Montrio Canada, Eme Learning.*

-***Financial Management: Theory and Practice****, 13th edition Michael C. Ehrhardt and Eugene F. Brigham.*

-*Jan R. Williams ; Susan F. Haka Michigan ; Mark S. Bettner ; Joseph V. Carcello, (2012).* ***Financial &Managerial Accounting*** *6th Edition.The basis of Business Decision: MC Graw-Hill.*

http://www.saylor.org/books

http://www.accaglobal.com/uk/en/student/exam-support-resources/fundamentals-exams-study-resources/f9/technical-articles/arm.html.

-*Jerry J. Weygandt; Paul D. Kimmel, and Donald E. Kieso,(2010).****Financial Accounting****; 7th Edition.*

Kakuru Julius (2000). ***Financial Decisions and the Business****; (1st edition).The business publishing group Kampala.*

-Kilonzo J.M.(2016), ***Effect of Account Receivable on Financial Performance*** *of Firms Funded by Venture Capital in Kenya. IOSR Journal of Economics and Finance (IOSR-JEF).*

-Kofi Mintah, (2015). ***Assesment of Risk and Challenges of Debt Management Practice*** *in organizations, International Journal Economic Commission & Management 111,9.*

-KsenijaDencicMihajlov, (nd). ***Impact of Accounts Receivable Management on the Profitability During the Financial Crisis****, University of NIS, Faculty of Economics, Serbia.*

*-Kimani Joseph Waweru,(2010).****Principles And Practice of Account Receivable Managementin Kenya****: A Case of Selected Manufacturing firm in Kenya*

-MonoharanKannadhasan, (2011). ***Receivable Management in a public Limited Company****; A Case study, Indian Institute of Management Raipur.*

-Mishra, R. K (1975).Problems of working capital; Bombay: Somaiya Publications P.Ltd

*-Peter Atrill and Eddie Mc. Laney(2006).****Accounting & Finance for non-specialist;*** *5th edition, London: Prentil Hall Europe.*

-Richard A. Brealey, Stewart C. Myers, Franklin, Allen.(2011). ***Principles of Corporate Finance****;10th ed.*

-Raymond, A. Ezejiofar , (2015). ***The Credit Management on Liquidity & Profitability*** *Position of Manufacturing Companies in Nigeria,3,3*

-School of open learning university of delhi 5, cavalrylanedelhi-110007.

-SticeSticeDiamond, (2000). ***Financial Accounting Reporting &Analisis****; 6th edition, South West.*

*-Simon KimaniNigugi,(2014).****Determinants of Accounting Receivablein the Hotel industry in Kenya****; Phd, Business Administration.*

-Institute of Cost & Work Accountants of India, 2010.

-JeryJ.Weygadt ; Paul D. Kimmel ; Donald E. Kieso (2010). ***Financial Accounting;*** *7th edition, USA, George Haffman.*

-TewodrossMehret.,(2014). ***The Concept and Characteristics of Public Enterprise in Ethiopia****;An Overview, A.A.U.*

-Vaidya, R. (2011). ***The Determinants of Trade Credit****; Evidence from Indian manufacturing firms. Indira Gandhi Institute of Development Research, 11(1), 3.*

-Zikmund. Babin& Carr Griffin, (nd). ***Business Research Method 8th Edition****.*

-Salek, J. G. (2005). ***Accounts Receivable Management Best Practice****; 5thEdition John Wiley and Sons Inc. Hoboken, New Jerssey.*

Appendix I: Letter of Introduction

St. Mary's University

School of Graduate Studies

Department of Accounting& Finance

Questionnaire for the Management and Employees of the Finance & Accounts Department of ESLSE

Dear: Respondents*,*

I would like to express my gratitude to your dedicated cooperative. Without your genuine cooperation, the study wouldn't be completed.

I am from St. Mary's University School of Graduate Studies. Currently, I am conducting an academic study under the topic *"**Assessment of Receivable Management Practices in the public enterprises**"*in the partial fulfillment of MBA IN Accounting and Finance. You are therefore requested to allocate little time to answer the provided questions.

Be assured that each individual's response and all data to be gathered through this questionnaire will be used for the purpose of the research with due confidentiality. Therefore, you are kindly requested to respond the questions utmost good faith, freely and to the best of your knowledge. No need of write your name.

Thank you in advance for your Cooperative!

GetuNegusie. Email: gech.kmm@gmail.com ;

Mobile: 0911-546188, Addis Ababa

Appendix II: Questionnaire

This questionnaire is a meant to collect data regarding ***Assessment of Receivables Management Practicesin the Ethiopian Shipping & Logistics Service Enterprise***.

SECTION A: General Information

Please tick as appropriate in the boxes using (√) or cross mark (x)

1. Educational qualification.

a) Diploma b) BA c) MA/MSC d) Above MA/MSC

2. How long have you worked in the Finance & Accounting department (sector)?

a) 1-3 years [ ] d) 10-15 years [ ]

b) 4-6 years [ ] e) Over 15 years [ ]

c) 7-9 years [ ]

3. How often the management reviewed the credit policy & receivable of the enterprise?

a) Monthly [ ]c)Semi-annually [ ]

b) Quarterly [ ]d) Annually [ ]

e) Other (please specify)____

4. Does the enterprise have an independent credit control department or unit?

a) Yes [ ] b) No [ ]

c) If no briefly explain____

5. How is the interdepartmental communication regarding granting of credit service?

a) Very good [ ] b) Good [ ] c) Poor [ ]d) very poor [ ]

6. In your opinion how would you generally rate your company receivable management policy?

a) Excellent [ ]b) Good [ ]   c) Average[ ]d) Below average [ ]

7. Which of the following is the component of your credit policy manual?

a) Credit period [ ]   b) Credit limit [ ]   c) Discount rate & period [ ]

d) Any other (specify)____

8. How is your firm record the credit sales/services/ accounts in the ledger?

a) Separately from cash services [ ]b) Managing with credit services [ ]

9.When do you update a debtor's file (account)?

a) Daily [ ]   b) Weekly [ ]   c) Monthly [ ]

d) Other
(specify)____

10. When do you recognize bad debt?

a) After 2 month [ ]b) After 3 month [ ]   c) After 6 month [ ]

d)..Other
(specify)____

11. What was the main effect with credit services in the last past four years on the financial performance of the company?

a) Increased profitability[ ]   c) Increased Liquidity problem [ ]

b) Increased solvency problem [ ]   d) Increased financial efficiency [ ]

12. What do you think the most reasons for long outstanding receivables of the enterprise in the last past four years? Give rank from 1 to 4.

a) Follow-up and collection weakness. _______

b) Non evidential documents. _______

c) Lack of communication within the department. ______

d) Lack of awareness for the consequence of uncollectable. ______

e) Others____

13. Which technique does your company use to monitor the quality of its receivable management?

a) Ratio analysis [ ] c) Payment pattern monitoring [ ]

b) Aging of account receivable [ ] d) Any other please specify____________

____

14. How do you manage bad debt due from receivables fail to pay?

a) By suing [ ] b) By giving discount [ ]

b) Other (specify)

____

15. In your opinion what are the major problems to manage receivables in the enterprise?

____

____

16. What is your suggestion to improve the existing receivable management system in your organization?____

____

____

Thank you for taking your time to respond to this research questionnaire!!

Appendix I: Letter of Introduction

St. Mary's University

School of Graduate Studies

Department of Accounting & Finance

Questionnaire for the Management and Employees of the Marketing & Customer Service of ESLSE

Dear: Respondents*,*

I would like to express my gratitude to your dedicated cooperative. Without your genuine cooperation, the study wouldn't be completed.

I am from St. Mary's University School of Graduate Studies. Currently, I am conducting an academic study under the topic ***"Assessment of Receivable Management Practice*** "in the partial fulfillment of MBA IN Accounting and Finance. You are therefore requested to allocate little time to answer the provided questions.

Be assured that each individual's response and all data to be gathered through this questionnaire will be used for the purpose of the research with due confidentiality. Therefore, you are kindly requested to respond the questions utmost good faith, freely and to the best of your knowledge. No need of write your name.

Thank you in advance for your Cooperative.

GetuNegusie. Email: gech.kmm@gmail.com ;

Mobile: 0911-546188, Addis Ababa

Appendix II: Questionnaire

This questionnaire is a meant to collect data regarding ***Assessment of Receivables Management Practice*** *in Ethiopian Shipping & Logistics Service Enterprise.*

SECTION A: General Information

Please tick as appropriate in the boxes using **(√)** or cross mark (x)

1. Educational qualification.

   a) Diploma b) BA c) MA/MSC d) Above MA/MSC

2. How long have you worked in the Marketing& Customer Service?

a) 1-3 years [ ] d)10-15 years [ ]

b) 4-6 years [ ] e) Over 15 years [ ]

c) 7-9 years [ ]

3. Does your company apply credit facility for all customers?

a) Yes [ ]b) No[ ]

4. What term of payment do you give to your credit service customers?

a) 14 days [ ] c) 60 days [ ]

b) 30 days [ ] d) 90 days [ ]

e) Other (please specify)____

5. How do you investigate the credit worthiness of your customer before granting credit service in the last past four years?

   a) Credit agent [ ] b) Bank audited f/statement [ ] c) No investigation [ ]

d) Others (specify)____

6. How long after service transaction does your company take to invoice a customer?

   a) One day [ ] b) One week [ ] c) One month [ ]

d) Any other (specify)____

7. Which of the following requirement does your company consider when appraising credit application by customers?

a) **Characteristics** of the customer: customer willingness to pay [ ]

b) **Capacity** of the customer: customer ability to pay. [ ]

c) **Capital** of the customer: financial strength of the customer.[ ]

d) **Collateral** of the customer: the asset that the customer has for securing the credit.[ ]

e) **Condition** of the customer: the impact of general economic environment. [ ]

8. Who are the major credit customers of the organization?

a) Governmental Public Enterprises [ ] c) Governmental budgetary organizations [ ]

b) Private companies [ ] d) International organizations [ ]

f) Others____

9. Which credit customers have long outstanding debt?

a) Governmental Public Enterprises [ ] c) Governmental budgetary organizations [ ]

b) Private companies [ ] d) International organizations [ ]

g) Others____

10. In your opinion, which sector should get priority for credit service regarding the national economic benefit?

a) Exporters (private, government)[ ]c) Private companies (Industry, Agricultures)[ ]

b)Governmental Public Enterprises [ ] d) Others (specify)_____________________

____

11. What are the most frequent customers' reasons presented for not honoring their debt (payment) on time?

    a) Financial capacity[ ]
    b) Non-compliance of rules & regulation[ ]
    c) Negligence (lack of willingness to pay) [ ]
    d) Lack of information/Awareness[ ]
    e) Others____

12. In your opinion what are the major problems to manage receivables in the enterprise?

____

____

13. What is your suggestion to improve the existing receivable management system in your organization?____

____

____

Thank you for taking your time to respond to this research questionnaire!!

Appendix II: Letter of Introduction

St. Mary's University

School of Graduate Studies

Department of Accounting & Finance

Interview questions for the Managements of the
Finance & Accounts Department of ESLSE

Dear: Respondents*,*

I would like to express my gratitude to your dedicated cooperative. Without your genuine cooperation, the study wouldn't be completed.

I am from St. Mary's University School of Graduate Studies. Currently, I am conducting an academic study under the topic ***"Assessment of Receivable Management Practices in the public enterprises in the case of Ethiopian shipping & Logistics Service Enterprise "***in the partial fulfillment of MBA IN Accounting and Finance. You are therefore requested to allocate little time to answer the provided questions.

Be assured that each individual's response and all data to be gathered through this interview question will be used for the purpose of the research with due confidentiality.

Thank you in advance for your Cooperative!

GetuNegusie. Email: gech.kmm@gmail.com ;

Mobile: 0911-546188, Addis Ababa

Dear: Manager

Every firm has its own different issues, but nearly all of them share common accounts receivable management challenges. To help and address our firms' issue of long outstanding (aged) receivables which is high amount of capital tide up, a list of interview questions have been compiled.

Dear respondents, the interview questions are presented in this way by considering your precise time. (Please write as making interview).

Question 1: ***How you evaluate our firm's accounts receivable management activity?***

Question 2: ***How do you evaluate the account receivable management compliance with policy &procedure, and***

are these clearly stated and systematically communicated?

Question 3: ***What are the major factors affecting of receivable management?***

Question 4: ***What are the effective factors to improve receivable management & collection method?***

Question 5: ***Has the company ever received any external cash fund /loan in the past four years?***

Yes [ ] ***No [ ]***

if yes, please list the amount of fund & rate of interest?

Year	Amount of loan	Interest Rate
2012		
2013		
2014		
2015		

Thank you for taking your time to respond!!