ST. MARY'S UNIVERSITY

BUSINESS FACULTY

DEPARTMENT OF ACCOUNTING

CREDIT SALE MANAGEMENT PROBLEMS IN NATIONAL MOTOR CORPORATION P.L.C

BY

HADRA MOHAMMED

HAYAT KEDIR

SEMIRA ALEWI

JUNE, 2014

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IN NATIONAL MOTOR CORPORATION P.L.C

A SENIOR RESEARCH SUBMITTED TO THE
DEPARTMENT OF ACCOUNTING

BUSINESS FACULTY
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A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF BACHELOR OF ART IN ACCOUNTING

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APPROVED BY THE COMMITTEE OF EXAMINERS

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DEPARTMENT HEAD   SIGNATURE

_____   _____

ADVISOR   SIGNATURE

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INTERNAL EXAMINER   SIGNATURE

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EXTERNAL EXAMINER   SIGNATURE

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Tank you God
Bless you!!!

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Acronyms

NMC   National Motor Corporation

TATOR   Total Asset Turnover Ratio

CHAPTER ONE
INTRODUCTION

1.1. Background of the Study

Business firm use different mechanism to attract clients. The firms may sells goods and services on cash basis by giving credit to client it enables the firms to use the company product without having to keep any stock in the company. The clients as it saves their money and it its good for the suppliers as they sell the product sooner rather than have to store it on their own premises. When the firm sold its good on account then the firm is said to be having granted credit to customers.

This credit creates receivable account which the firm is expected to collect in the future. Investment in receivables involves costs thus, the collection of its receivables without incurring any bad debt losses essential to safeguard the investment of the firm. The firm has to choose its customers before extending credit and has to be extended only to those customers who have the ability to repay their debts. In order to know about the ability of the customer, the firm uses many sources of information like financial statements, bank references and trade references. Once a firm decides to grant credit to its customers it must then establish guidelines for determining who will and who will not be allowed to buy on credit.

National Motors Corporation Founded in 1993G.C, it has been one of the leading automobile importers in Ethiopia for the past 17 years. Initially, the company was established under the name "National Freight and Transport Company" by two share holders, Said H. Ali and Busseiri Keyoum, for the purpose of meeting the growing rural and urban need for commercial transport two founders were joined

by Hassen H. Alamoudi and sometimes later the company's name was changed to National Motors Corporation (NMC) with a broadening of its objectives. Its head office is located in Addis Ababa near Mexico Square. It also maintains a heavy vehicle garage and a bonded warehouse at Akaki and kality areas. Currently it has about 240 employees working for the company. National Motors Corporation is a sole agent for Chevrolet, Opel Cars and Renault Trucks and buses as well as an authorized dealer for Isuzu vehicles in Ethiopia. It also provides the best maintenance service available to all the cars and trucks it import.

NMC has established a close, formal working relationship with prominent automobile manufacturers from the United States of America, France, Germany, Japan and other Asian countries. These relationships have enabled National Motors Corporation represent these companies and provide its customers with a large selection of well engineered vehicle of all types (company information).

1.2. Statement of the Problem

The importance of credit management has been gradually recognized throughout the developed countries. However, in developing countries including Ethiopia it is still poor.

Identifying strength and weakness of the credit management procedures helps mangers to perform their activities effectively and efficiently. Due to this and other reasons, having clear and detail information about how the company manages its credit helps the management of National Motors Corporation in many aspects. From the preliminary interview made with the management body of NMC the existence the following were identified as they arise from inefficient and ineffective credit management of the organization.

- ✓ Poor record documentation by the organization about companies who receive goods on credit basis including the amount of credit
- ✓ The criteria that have to be used to assess the customers performance before granting credit would not be followed correctly
- ✓ The collection follow-up procedures will not be performed (followed) by the employees of the organization properly.

Therefore in this study an attempt was made to identify problems related to application of the procedures used to grant credit and to examine how effectively and efficiently National Motors Corporation manage collection of its receivables by raising the following basic questions.

1. What are the procedures the company follows in order to grant credit to its customers?
2. What are the mechanisms the company uses to minimize the risk resulting from credit   sales?
3. What are the weaknesses of the company in credit collection?
4. What kind of collection procedures the company uses?
5. What are the mechanisms the companies use to reduce the impact of uncollectible receivable on the performance of the company?

1.3. Objectives of the Study

1.3.1. General Objective

The main objective of the research was to assess problems associated with credit management in the case of National Motors Corporation.

1.3.2. Specific Objectives

➢ To identify the procedures followed by the company in order to grant credit to its customers.

➢ To assess the mechanisms use by the company in order to grant credit to its customers.

➢ To assess weakness of the company in credit collection.

➢ To assess the procedure that the company use in credit collection.

➢ To assess the impact of uncollectible receivable on the performance and profitability of the company.

1.4. Significance of the Study

The researchers believed that the research paper would have its own contribution on the following points:

➢ Other researchers can use the research paper as a spring board to conduct their research.

➢ The study will help the researcher to full fill one of the requirements of the bachelors of art on Accounting.

➢ Based on the research out put the organizations will take corrective actions.

1.5. Scope of the Study

The study was concerned with credit management problem in National Motors Corporation. Due to lack of time and financial resources our study was restricted on the man branches that located around Mexico branch, not assess other branch, the time period covered by the study (2008 - 2012 G.C), year 2013, not included because we didn't get information.

In this study the researchers try to assess the company's capacity regarding receivable management. This research study identifies problems and their consequences associated with credit management and evaluate the performances of National Motors Corporation and indicate the possible solution for the concerned party.

1.6. Research Design and Methodology

1.6.1. Research Design

The study uses descriptive research method. Because it depends more on the existing data i.e. financial statement and it helps to generate adequate information about the major challenges of credit management problem in NMC.

1.6.2. Population and Sampling Technique

The population of the study was employees of the National Motors Corporation are 14(9 of the respondents were from sales department and 5 of the respondents were from finance department) who have direct relation with the study. Judgmental sampling technique would be employed to select the sample. Judgmental sampling technique is a non-probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment. The process involves nothing but purposely handpicking individuals from the population based on the authorities or the researcher's knowledge and judgment.

1.6.3. Source of Data

Both primary and secondary sources of data would be used in order to achieve the real and factual result out of this study.

Primary sources of data would be used obtained by questionnaire and interview. While secondary sources of data would be collected from annual financial report and other related document.

1.6.4. Methods of Data Collection

The primary data was conducted by interviewing parties associated with the credit management and questionnaire would be used to collect data from employees of the organization. The secondary data was obtained from the financial record and documents found in the company and also books and other references materials like researches conducted by other researchers.

1.6.5. Method of Data Presentation and Analysis

The collected data were presented using statement type of data presentation and descriptive method of data analysis technique was applied.

1.7. Limitation of the Study

When conducting this study, there were constraints of time, money and to have access to data necessary for the study. Despite all these facts, the researchers exerted the maximum effort to get valuable and valid data to reflect the significance of the paper.

1.8. Organization of the Paper

The paper was organized under four chapters. Chapter one contains background of the organization, background of the study, statement of the problem, objective of the study, significances of the study, scope of the study and methodology. Chapter two deals with literature review gathered from different sources. Chapter three consist data analysis and discussion and finally the last chapter gives conclusions and recommendations.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.1. Definition of Credit and Credit Management

Credit is the ability of an individual or a firm to obtain economic value, on faith return for an expected payment of equivalent economic value, usually at some specified future time. Trade credit arises when a firm sells its products or services on credit and doesn't receive cash immediately. It is essential marketing tool, acting as a bridge for the movement of goods through production and distribution stages to customers (Pandey, 1999:843).

A firm grants trade credit to protect its sales from the competitors and to attract the potential customers to buy its products at favorable terms. Trade credit creates receivable or book debts which the firm is expected to collect in the near future. The book debts or receivable arising out of credit has three characteristic. First, it involves an element of risk which should be carefully analyzed. Cash sales are totally riskless, but not credit sales as the cash payment is yet to be received. Second, it is based on economic value. To the buyer, the economic value in goods or services passes immediately at the time of sale, while the seller expects an equivalent value to be received later on. Third, it implies futurity. The cash payment for goods or services received by the buyer will be made by him in a future period. The customer from whom receivable or books debts have to be collected in the future are called trade debtors or simply as debtors and represent the firms claim or asset (Ibid, 1999:843).

2.2. Credit Policy

Credit policy is a very essential thing for any company. As stated by Nikolai and Beazley (2000:236), a credit policy reflects the need of credit and degree of risk a company is willing to accept in order to increase sales. Therefore, the firm should critically thinking about the degree of risk it is willing to accept before making credit sales.

As stated by (Pandy, 1999:850) the main credit policy variables include the following;

- ❖ Credit standards
- ❖ Credit analysis
- ❖ Credit term
- ❖ Collection policy and procedures.

2.2.1. Credit Standards

Credit standards are the criteria, which a firm follows, in selecting customers for the purpose of credit extension. A pivotal question in the credit policy of a firm is: what standards should be applied in accepting or rejecting an account for credit granting? A firm has a wide range of choice in this respect. At one end of the spectrum, it may decide not to extend credit to any customer, however strong his credit rating may be. At the other end, it may decide to grant to all customers irrespective of their credit rating. Between these two extreme positions lie several possibilities, often the more practical ones (Pandy, 1999: 851).

In general, liberal credit standards tend to push sales up by attracting more customers. This is, however, accompanied by a higher incidence of bad debt loss, a larger investment in receivables, and a higher cost of collection. Stiff credit standards have opposite effects. They tend to depress sales, reduce the incidence

of bad debt losses, decrease the investment in receivables, and lower the collection cost (Chandra, 1993: 203).

2.2.2. Credit Analysis

As stated by (Pandy, 1999:851) credit standards influence the quality of the firm's customers, there are two aspect of the quality of customers.

    i. The time taken by customer to repay credit obligation

    ii. The default rate.

The average collection period determines the speed of payment by costumers. It measures the number of days for which credit sales remain outstanding. The longer the average collection period, the higher the firm investment in accounts receivables. Default rate can be measured in terms of bad- debt losses ratio the proportion of uncollected receivable. Bad debt losses ratio indicates the default risk. Default risk is the likelihood that a customer will fail to repay the credit obligation.

As stated by Pandy (1999: 851) to estimate the probability of default, the financial or credit manager should consider five Cs: Character, Capacity, Condition, Capital, and Collateral.

Character: It refers to the customer's willingness to pay. The financial or credit manager should judge whether the customers will make honest efforts to honor their credit obligations.

Capacity: It refers to the customer's ability to pay. Ability to pay can be judge by assessing the customer's capital and assets which he may offer as security. Capacity is evaluated by financial position of the firm as indicated by analysis of ratios and trends in firm's case and working capital position. The financial or

credit manager should determine the real worth of assets offered as collateral its security.

Condition: It refers to the prevailing economic and other conditions which may affect the customer's ability to pay. Adverse economic conditions can affect the ability or willingness of a customer to pay. An experienced financial or credit manager will be able to judge the extent and genuineness to which the customers ability to pay is affected by the economic conditions.

Collateral: if the applicant experiences financial difficulty, it may be forced to liquidate. In such a situation the recoveries to trade creditors will depend on (1) the recoveries on assets sold, (2) the amount of debt owed by the firms and (3) the extent to which these debts are secured. Since, in general, it is very difficult for trade creditors to obtain secured position, this means that the recoveries to trade creditors are significantly lower when the applicant has financed by using secured borrowings.

Capital: the evaluation of the applicant's capital to an analysis of the applicant firm's financial position. To assess the capital dimension, the credit analyst considers the data obtained from the applicant's financial statements. The usual procedure is to perform an extensive ratio analysis comparing the applicant's financial ratio to ratios for the applicant's industry and performing trend analysis of the applicant's ratios over time (Bhall, 2001: 258).

2.2.3. Credit Terms

After decides its credit standards, It must next establish its term. The firm decides on the length of the period before payment must be made (the net period) and chooses whether to offer a discount to encourage early payments. If it offers a discount, it must also determine the discount percentage and the discount period if the firm is relatively small (Berk and Harford, 2009: 601).

As stated by Chandra (1993: 204) firm credit term specified the repayment terms required of all its credit customers. The stipulations under which the firm sells on credit to customers are called credit terms. These stipulations include the credit period and cash discount and discount period.

i.   Credit Period: The credit period refers to the length of time customers are allowed to pay for their purchases. When a firm does not extend any credit, the credit period would obviously be zero.

Lengthening of the credit period pushes sales up by inducing existing customers to purchase more and attracting additional customers. This is, however, accompanied by a large investment in debtors and a higher incidence of bad debt loss. Shortening of the credit period would have opposite influences: it tends to lower sales, decrease investment in debtors, and reduce the incidence of bad debt losses.

ii. Cash Discount: Firms generally offer cash discounts to induce customers to make prompt payments. The percentage discount and the period during which it is available are reflected in the credit terms. Liberalizing the cash discount policy may mean that the discount percentage is increased and/or the discount period is lengthened. Such an action tends to enhance sales (because the discount is regarded as price reduction), reduce the average collection period (as customers pay promptly), and increase the cost of discount (Chandra, 1993:205).

iii.   Discount Period: As stated by VanHorne (1981:427) In addition to the size of the discount offered, the length of the discount period also may affect the average collection period. Here the effect is not as clear as before. When a firm lengthens the discount period, two forces influence the average collection period. If the credit period is held constant, certain customers will be tempted to take the discount where previously they did not do so. This practice will tend to shorten the average collection period. On the other hand, customers who have been taking the discount and paying at the end of the discount period will now postpone payment

until the end of the new discount period, thereby lengthening the average collection period.

2.2.4. Collection Policy and Procedures

A collection policy is needed because all customers do not pay the firm's bills in time. Some customers are slow payers while some are non- payers. The collection efforts should, therefore, aim at accelerating collections from slow-payers and reducing bad-debt losses. A collection policy should ensure prompt and regular collection. Prompt collection is needed for fast turnover of working capital, keeping collection costs and bad- debts within limits and maintaining collection efficiency. Regularity in collection keeps debtors alert, and they tend to pay their dues promptly (Pandy, 1999: 863).

The collection policy should lay down clear-cut collection procedures. The collection procedures for past dues or delinquent accounts should also be established in unambiguous terms. The slow paying customers are needed to be handled very tactfully. Some of them may be permanent customers. The collection process initiated quickly, without giving any chance to them, may antagonize them, and the firm may lose them to competitors (Ibid, 1999: 863).

The responsibility for collection and follow-up should be explicitly fixed. It may be interested to the accounts or sales department, or to a separate credit department. The co-ordination between accounts and sales departments is necessary. The accounting department maintains the credit records and information. If it is responsible for collection, it should consult the sales department before initiating an action against non-paying customers. Similarly the sales department must obtain past information about a customer from the accounting department before granting credit to him (Pandy, 1999: 864).

Though collection procedures should be firmly established, individual cases should be dealt with on their merits. Some customers may be temporarily in tight financial position and in spite of their best intentions may not be able to pay on due date. This may be due to recessionary conditions. The collection procedure against them should be initiated only after they have overcome their financial difficulties and do not intended to pay promptly. The firm should decide about offering cash discount for prompt payment. Cash discount is a cost to the firm for ensuring faster recovery of cash. Some customers fail to pay within the specified discount period, yet they may make payment after deducting the amount of cash discount. Such cases must be promptly identified and necessary action should be initiated against them to recover the full amounts.

In practice companies may take certain precautions vis-à-vis' collections. Some companies require their customers to give pre-signed checks. Unfortunately, it is not very popular with a number of companies. Some companies provide for penal rate of interest for debtors who fail to pay in time (Ibid, 1999: 864).

2.2.5. Cost of Credit Policy

If sales expand within the existing production capacity, then only the variable production and selling cost will increase. Note that a tight credit policy means rejection of certain types of accounts whose credit worthiness is doubtful. Administrative costs: two types of administration costs are involved when the firm loosens its credit policy: (a) credit investigation and super vision costs and (b) collection costs. The firm is required to analyze and supervise large number of accounts when it loosens its credit policy.   Bad-debt losses: it is a cries when the firm is unable to collect its accounts receivable. The size of bad- debt losses depends on the quality of accounts accepted by the firm. This firm tends to sell to

customers with relatively loss credit standing when it loosens its credit policy. The firm can certainly avoid or minimize these losses by a doubting a very tight credit policy (Pandy, 1999:846).

The evaluation of a change in a firm's in credit policy involves analysis of:
- Opportunity cost of lost contribution
- Credit administration costs and bad-debt losses

Since trade credit is a source of funds, the terms of credit must be analyzed from stand point of the costs involved in using trade credit as to the purchasing corporation. First, there is an implied financing costly when cash discounts are offered and forgone. Second, delaying payments beyond the net period can reduce the corporation's credit rating and make it more difficult and expensive to obtain financing (Neveu, 1985: 210).

2.3. Credit Evaluation

For effective management of credit, the firm should lay down clear cut guideline and procedures for extending credit to individual customer (Pandey, 1999: 864).

Not all categories of customers should be treated equally; each customer needs to be fully examined before offering any credit facility. Moreover, collection procedures may differ from customer to customer. The credit evaluation procedure of the individual account as described by (VanHorn, 1994: 398) should involve the following steps:

    1. Credit Information

    2. Credit investigation and analysis

    3. Credit limit and

    4. Collection efforts

2.3.1. Credit Information

Credit information is a means of gathering information about the borrower's credit worthiness and general background. When a customer desiring credit approaches a business, the credit department typically begins the evaluation process by requiring the applicants to fill out various forms that requires financial and credit information and references such as the purpose of the advance, the source of repayment, the profitability of the transaction and the security offered if any. It is also important to insure that the borrower has the necessary legal capacity to purchase on credit. It may be necessary to obtain the customer statement of his asset and liability. Often it will be found that qualified accountants are preparing this account annually. If not it should be prepared by asking the client the necessary information regarding what he/she is having in the business which is your own, how much is with others. If the firm has previously extended credit to applicants, it will have its own information on the applicant's payment history (Gitman, 1997: 554).

Working from the applicant, the firm obtains additional information from other sources thus information about the credit worthiness of an applicant and general background can be obtained from different sources internally and externally. Internal information sources includes, the credit applicants himself or herself, their application and if firms has previous extended credit to the applicant, it will have its own information on the applicant's payment history. As stated by (Gitman, 1997: 555) the major external sources of credit information are the following:

Financial Statements: to assess the financial position and financial performance of a customer, the firm can scrutinize the financial statements of customers business. The financial statements, e.g.; balance sheet, profit and loss account and additional information about seasonal sales, if any, should be sought from the customers. Generally, it is better to insist on the audited financial statements.

Bank Reference: The necessary information can be collected from the bank in which its customers maintain their accounts. This can be done directly and confidential enquiry with the bank or the firm can insist on his customer to instruct the bank to provide the necessary information to the firm. Generally, the bankers will not provide any clear cut information to the enquiries made by the firm. However, the information collected from this source may be supplemented with other information collected from other sources.

Trade References: to obtain credit information, the firm can ask its customers to give the names of a few persons of firms engaged in his line of business. The said persons or firms should be reputed and should have current dealings with the firm's customers. After obtaining trade references, the firm can seek information from them directly and personally. While doing so, the firm should make his exercise seriously and it should not be treated simply as a formality.

Credit Rating and Reports: the two sources of credit information-bank reference and trade reference can provide biased information. To overcome this limitation, the firm can obtain credit reports and ratings from external agencies, like credit bureaus. These credit bureaus specialize in providing comprehensive and correct information about the customers and their current credit standing. The credit reports prepared by these credit bureaus contain a brief history of the firm or customer, the nature of the business, certain financial information and as to whether payments made by them are prompt or not, etc.

The Company's Own Experience: In addition to these sources, a company's own experience with an account is extremely important. A study of the promptness of past payments, including any seasonal patterns, for example, is very useful. Frequently, the credit department will make written assessment of the quality of the management of a company to whom credit may be extended. For a prospective customer, the salesman is frequently able to supply useful information based on his impression of the management and operations. Caution is necessary in

interpreting this information, however, because a salesman has a natural bias toward granting credit and making a sale.

2.3.2. Credit Investigation

After having obtained the credit information's, the firm has to decide about further matters to be investigated in order to assess the credit worthiness of the customers. Factors which influence the nature of further investigation are:

- ❖ The type of customers, i.e., new or existing
- ❖ The customer business line and related issues involved in his business
- ❖ The nature of the product, i.e., perishable or seasonal
- ❖ Size of customers order and expected further volumes of business (Pandy, 1999: 866).

2.3.3. Credit Analysis

As stated by VanHorne (1981: 437) having collected credit information, the firm must undertake a credit analysis of the applicant and determine if the company falls above or below the minimum quality standard. If financial statements are provided, the analyst should undertake a ratio analysis. In addition to analyzing financial statements, the credit analyst will consider the character and strength of the company and its management, the business risk associated with its operation, and various other matters. He then attempts to determine the ability of the applicant to service trade credit. In this regard, he assesses the probability of an applicant's not paying on time and of a bad-debt loss. On the basis of this information together with information about the profit margin of the product or service being sold, a decision is reached as to whether or not to extend credit.

Analysis of credit file: the firm should maintain accredit file for each customer. It should be updated with the information about the customer collected from the

reports of sales men, bankers and directly from the customer. The firm's trade experiences with the customer and his performance report based on financial statements submitted by him should also be recorded in his credit file. A regular examination of the customer's credit file will reveal to the firm the credit standing of the customer. Whenever the firm experiences a change in the customer's paying habit or receives a request for extended credit terms or large order on credit, his credit file should be thoroughly scrutinized.

The intensity and depth of credit review on investigation will depend up on the quality of the customer's account and the amount of credit involved. A little review will be required in case of the customers who have had clear deals with the firm in the past. But a comprehensive investigation will be required in case of the customers whose quality of account is falling and who have not been able to honor the firms credit terms regularly in the past.

Analysis of financial ratios: the evaluation of the customer's financial conditions should be done carefully. The financial statements submitted by the prospective customer will form a basis to analyze the performance and trends of his business activities. Ratio should be calculated to determine the customer's liquidity position and ability to repay debts. The performance of the customer should be compared with industry average and his nearest competitors. This will be helpful in determining whether his relatively poor performance is due to some general economic conditions affecting the whole industry, or it is due to the internal inefficiencies of the applicant.

Analysis of its business and its management: besides appraising the financial strength of applicant, the firm should also consider the quality of management and

the nature of the customers business. The firm should conduct a management audit to identify the management weakness of customers business.

An over centralized structure of the customers business without proper management systems can degenerate into mismanagement, overtrading and business failure. If the nature of the customers business is highly fluctuating or he has financially weak buyers or his business depends on a few buyers, then it is relatively risky to extend credit to him. The implication of this aspect should be fully understood before extending credit to customers (Pandy, 1999: 867).

2.3.4. Credit Limit

A credit limit is the maximum amount of credit that the firm will extend at a point of time. Ones the firm has taken a decision to extend credit to the applicant, the amount and duration of the credit have to be decided. The decision on the magnitude of credit will depend up on the amount of customer's financial strength.

The firm has not only to determine the amount of credit but also duration of credit and the normal collection period should be determined. Some customers can seek relaxation in the collection period. In this case, a longer collection period involves cost that is the opportunity cost of funds being tied-up for a long period and the cost of possible bad debt losses (Ibid, 1999: 867).

2.3.5. Collection Efforts

The firm should follow a well-laid down collection policy and procedure to collect dues from its customers. When the normal period granter to a customer is over, and it has not made its payment, the firm should send a polite letter to him/her reminding that the account is overdue. If the customer does not respond, the firm may send progressively strong worded letters. If receivables still remain

uncollected, letter may be followed by telephone, telegram, and personal of the firm's Representative. If the payment is still not made, the firm may initiate a legal action against the customer. Before taking the legal action, the firm must examine the customer's financial condition. If it is weak, legal action against him/her will simply hasten his/her insolvency. The firm will not be able to get anything from the customer. Under such situations, it is better to be patient and wait, or accept reduced payment in the settlement of the account (Pandy, 1999: 868).

CHAPTER THREE

DATA PRESTATION, ANALYSIS AND INTERPRETATION

This chapter is mainly concerned about presenting, analyzing, and interpreting data that is collected from questionnaire and interview which is presented as the primary data collection tools for this study purpose. The respondents are the manager and employees of NMC out of 14 questionnaire distributed all are properly filled and returned; description of data collected is also presented under each table as follows.

3.1. Analysis of Respondents Background

Table 3.1. Background Information of Respondents

No.	Items	Option	Respondents	Percentage
1	Sex	Male	9	64
		Female	5	36
		Total	14	100
2	Educational status	Certificate	-	-
		Diploma	4	29
		First degree	8	57
		Above first degree	2	14
		Total	14	100
3	Work experience	Below 2 years	3	21
		2-4 years	7	50
		Above 4 years	4	29
		Total	14	100

Source: Primary Data

Table 3.1 shows the general characteristics of respondents. As it can be seen on item 1 of table 3.1, 9(64%) of the total respondents are male, the rest 5(36%) are female respondents. From this one cab conclude by saying there is dominance of make respondents in number compared with female respondents.

Regarding educational status shown on item 2 of table 3.1 4(29%) are diploma holders, 2(14%) are above first degree holders, the majority of respondents 8(57%) are first degree holders. This indicates most of the respondents are educated.

Regarding work experience as indicated on item 3 of table 3.1, the majority of respondents i.e. 7(50%) have served in the company from 2-4 years, the rest 3(21%) and 4(29%) have served in the company below 2 years and above 4 years respectively. This implies that most of the respondents have better work experience.

3.2. Analysis of Questions directly Related With the Study

Table 3.2. Reasons Behind Granting Credit

Item	Options	Respondents	Percentage
What are the reasons behind granting credit in your company?	To protect sales from competitors	5	36
	To attract potential customers	9	64
	Total	14	100

Source: Primary Data

Table 3.2 shows the reasons behind granting credit in the company 5(36%) choose "to protect its sales from competitors" 9(64%) choose "to attract potential

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customers," from this the student researcher conclude that the company gives credit to protect its sales from competitors and It help the company to survive and to get dominance in the market.

Table 3.3. Consideration of Credit Granting Procedure

Item	Options	Respondents	Percentage
Does the financial manager or credit manager consider the five C's in order to grant the credit?	Yes	9	64
	No	5	36
	Total	14	100

Source: Primary Data

Table 3.3 shows respondents answer to the question "Does the financial manager or credit manager consider the five C's in order to grant the credit?" 9(64%) of the total respondents choose 'yes' and the rest of them 5(36%) said 'no'. So from this the student researchers understood that the company's performance in considering the five C's when granting credit requires improvements. From the interview the student researcher understood that, there are credits granting procedures which are written on paper but there are problems in making practical. Like in the case of holding collateral there is no balancing between the collateral hold and the down payment left.

Respondents that chose 'no' were further asked to give their reason based on most of the respondents reason it can be inferred the company's performance in considering the five C's when granting credit requires improvements.

Table 3.4. Mechanisms to Minimize Default Risk

Item	Options	Respondents	Percentage
Does the company use effective mechanism to minimize the default risk?	Yes	3	21
	No	11	79
	Total	14	100

Source: Primary Data

As per Table 3.4 response of the company's employee's it can be inferred that the company's performance in using effective mechanism in order to minimize the default risk is at a lower level. Since the majority of respondents i.e. 11(79%) said 'no' to the question "Does the company use effective mechanism to minimize the default risk?" only 3(21%) said 'yes'. So the student researcher understood that the mechanism used by the company not effective and the company doesn't have proper follow-up method and give less attention to polices in approving credit established and clear communication to credit customer which causes the major problems.

Table 3.5. Reason Behind Default Risk

Item	Options	Respondents	Percentage
Is there default risk in your company? If there is what are the reason behind the default risk.	Bankruptcy	-	
	Liquidation	6	43
	Reluctance	8	57
	Total	14	100

Source: Primary Data

On table 3.5 respondents were asked to give the reason behind the default risk in the company i.e. 6(43%) said the reason is liquidation, the majority of respondents

8(57%) choose reluctant to be the reason. This indicates the major reason for default risk within the company is reluctance; the company should give attention to credit collection procedures and train the responsible employee about credit collection to reduce the default risk.

Table 3.6. Collection Policy of the Company

Item	Options	Respondents	Percentage
Does your company have a collection policy to reduce uncollectable receivable?	Yes	14	100
	No	-	-
	Total	14	100

Source: Primary Data

On Table 3.6 all of the respondents 14(100%) said 'yes' to the question "Does your company have a collection policy to reduce uncollectable receivable?" indicating the company does indeed incorporate a policy that allows to reduce uncollectable receivables and the presence of collection policy helps the company to control the credit customer easily by holding signed and approved credit sales agreement, signed postdated cheques and collaterals for further reference.

From the interview collected in relation to the question in table 3.6 are the following: collection begin with obtaining full documents from sales department such as signed credit application, credit reference of the customer valid license, a registration, and location of business so on, credit sales invoice, credit sales agreement signed and approved, signed post dated chques and collaterals. Then the customer allowed to pay regularly for subsequent collection deposited the post dated cheques timely. The account receivable section provides report every month for outstanding receivable and if there is any default customer remaining with

phone and letter on in written notice, finally if the customer failure to repay for the two successive payments his account is turned over to legal action.

Table 3.7. Communication with Credit Customer

Item	Options	Respondents	Percentage
Are the policies for approving credit established and clearly communicated to credit to credit customer of the company?	Yes	5	36
	No	9	64
	Total	14	100

Source: Primary Data

From table 3.7 stated as it can be inferred that the company doesn't clearly communicate its policies for approving credit for credit customers, on account of response gathered from respondents' i.e. only 5(36%) said 'yes' to the question "Are policies for approving credit established and clearly communicated to credit to credit customer of the company?" the rest 9(64%) said 'no'. From this one can conclude by saying there is lack of proper communication regarding credit policies of the organization. Clear communication with credit customer help to creditors to understand the company policy and procedure and to follow it properly.

Table 3.8. Mechanisms Used to Reduce Uncollectiblity

Item	Options	Respondents	Percentage
Does your company use a mechanism to reduce the impact of uncollectible receivable?	Yes	10	71
	No	4	29
	Total	14	100

Source: Primary Data

On table 3.8 respondents were asked whether the company use a mechanism to reduce the impact of uncollectable receivable. From the total respondents, 4(29%)

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said 'no' the rest of them the said 10(71%) said 'no'. This indicates that the company use mechanisms but it needs still improvement. From the interview the student researcher understood that there are mechanisms to reduce uncollectible receivable, the major mechanism are the following: if the customer cheques bounce from bank for the reason of insufficient fund or failure to repay his obligation for two successive payment his account turned over to legal action with all his supporting documents and secure their outstanding receivable through court decision, Even if it requires additional time and cost of collection.

Table 3.9. Reconciliation Accounts Receivable with Subsidiary Ledger

Item	Options	Respondents	percentage
Is your account receivable subsidiary ledger reconciled periodically with the general in the company?	Yes	10	71
	No	4	29
	Total	14	100

Source: Primary Data

Table 3.9 shows respondents answer to the question "Is your account receivable subsidiary ledger reconciled periodically with the general in the company?" 10(71%) said 'yes', the rest4 (29%) said 'no' from this the student researcher conclude that the company is good in periodical reconciliation and confirms and ensures that everything in the balance sheet is accurate and it also critical for outside advisors such as bakers to evaluate the credit worthiness of the business.

Table 3.10. The Collection Effort used by the Company

Item	Option	Respondents	Percentage
Which is the collection effort or procedures the company uses in order to timely collect receivables?	• Monitoring the state of receivables.	3	21
	• Dispatch of letters to customers whose due date is approaching.	2	14
	• Electronic and telephonic advice to customers around the due date.	4	29
	• Threat of legal against overdue account	5	36
	Total	14	100

Source: Annual Report

Table 3.10 respondents were asked to show what the company does to timely collect receivables. 3(21%) chose monitoring the state of receivables, 2(14%) choose dispatch of letters to customers whose due date is approaching, 4(29%) choose electronic and telephonic advice to customers around the due date, 5(36%) chose threat of legal action against overdue account. This indicates that some of the customer of the company has failure to repay their responsibility over the due date and to make the collections were more effective the company should use all the reminding techniques before the due date.

Table 3.11. Collection Effort of the Company

Item	Options	Respondents	Percentages
Is there any weakness in your company in collecting credit?	Yes	11	79
	No	3	21
	Total	14	100

Source: Primary Data

Table 3.11 respondents were asked if there is any weakness within the company on credit collection. 3(21%) said 'no', and the majority 11(78%) said 'yes'. Respondents that chose 'yes' were asked to list out the weaknesses based on their response the major weaknesses are reluctance, and inefficiency on follow up techniques. From this the student researcher concludes reluctance is the major problem. From the interview the student researcher understood that there are weaknesses in the company credit collection are the following:

➢ In evaluation of customer's credit worthiness, it is difficult to assess the profitability of the company,

➢ To get accurate cash flow statement the customer.

➢ Financial data of the customer.

In addition to this there are no agencies in Ethiopia that provide information about credit customers. Thus it is one of the company weaknesses in credit management.

Table 3.12. Credit Management Evaluation

Item	Options	Respondents	Percentages
How do you evaluate your company credit and credit management in general?	Very good	-	-
	Good	-	-
	Moderate	4	29
	Poor	7	50
	Very poor	3	21
	Total	14	100

Source: Primary Data

Table 3.12 shows how respondents rated the company credit and credit management in general. 4(29%) rated it as moderate, 7(21%) as poor, the rest

3(21%) rated it as very poor. This indicates the overall credit management strategy of the company needs an improvement. Poor credit management affects the company by increasing uncollectiblity of receivables and by reducing profitability performance of the company.

During the study within the company the following problems are discovered as the major problems of the company's credit management which includes:

- Unable to get appropriate information from the credit customer.
- Failure to monitor the collateral of credit customer's collateral.
- Frailer to get appropriate financial statement from the credit customers.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study was intended to assess the credit management problem in National Motor Corporation. In order to investigate the problem, the following basic questions were raised:

- ✓ What are the procedures the company follows in order to grant credit to its customers?
- ✓ What are the mechanisms the company uses to minimize the risk resulting from credit sales?
- ✓ What are the weaknesses of the company in credit collection?
- ✓ What kind of collection procedures the companies use?
- ✓ What are the mechanisms the company uses to reduce the impact of uncollectible receivable on the performance of the company?

To conduct the study the student researchers used both primary and secondary data collection methods, such as, questionnaire, interview, referring annual reports and related books. To collect the necessary data 14 questionnaires were distributed and all of them collected. In addition to these interview was conducted with the manager of the organization.

4.1. Summary

The responses given by the respondents have been analyzed, interpreted and has come up with the following summary of the major findings.

The analysis shows that 36% of the respondents on credit granting procedure of the company require improvement, like in the case of holding collateral there is no balancing between the collateral hold and the down payment left.

Based on the data collected reluctance is the major problem of the company in credit collection by 79% of the respondents and also evaluation of customer credit worthiness, to get accurate cash flow statement and to get financial data of the customer other problems in the company credit collection.

The research finding indicate that the company have collection policy by 100% of the respondents that allow to reduce credit uncollectiblity and it helps the company to control the credit customer by obtaining full documents of the customer such as signed and approved credit sales agreement, signed postdated chques and customer valid license.

The finding indicate the mechanism used by the company to reduce the impact of uncollectible receivable requires improvement by 29% of the respondents, the impact of it is controlled by proper collection of receivables through the following the company rules and regulation.

4.2. Conclusions

Based on summary of the findings, the following conclusions can be drawn.

The student researcher understood that the company's performance in considering credit granting procedure requires improvements and also in this study, the researcher identified the problem of the company in granting credit.

Weakness of the company in credit collection is identified as one of the major problem on the company receivable.

The finding identified the company have collection policy and importance of the collection policy of the company.

The finding identified that the mechanism used by the company to reduce the impact of uncollectible receivable requires improvement.

4.3. Recommendations

Based on the data findings and conclusion made, the researchers have forwarded the following recommendations.

In order to select potential and risk taking applicant, the company should have adequate applicant screening criteria's such as credit description or repayment history, current capacity to repay the credit obligation and business experience.

In order to minimize the rate of existence of credit sales problem, the company should focus on internal factors contributing to problems of credit sales which are controllable like understanding more prudent and sufficient study before extending the credit.

The company should give due care in credit customer handling and make more collection efforts as the lending procedures in order to alleviate (reduce) the percentage share of uncollectible.

The managers of NMC should give especial attention to minimize cost relative to credit sale and other operating expenses.

The company should give cash discount to encourage customers to pay their debt promptly.

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APPENDICES

Appendix

St. Mary's University
Facility of Business
Department of Accounting
Questionnaire prepared to be filled by Employees of NMC.

Dear respondent, this questionnaire is prepared to assess the Credit Management Problem in National Motor Corporation (Mexico branch). You are kindly requested to give reliable answer for the following question. The information that you provide is kept confidential and will be used for educational purpose only.

Thank you in advances for you corporation in filling out all question with trust and honesty.

Note

- you can make tick more than once
- No need of writing names.

1. Sex

   Male ☐   Female ☐

2. Educational status

   Certificate/Diploma ☐   First Degree☐   Above first Degree☐

3. Work Experience

   Below 2years☐   Above 4years☐

4. What are the reasons behind granting credit in your company?

   To protect its sales from the competitor☐

   To attract the potential customer☐

   If other please specify_____

   _____

5. Does the financial manager or credit manager consider the five C's (Character, Capacity, Capital, Collateral and Condition) in order to grant the credit?

Yes ☐   No☐

If No Why_____

_____

6. Does your company use effective mechanism to minimize the default risk?

Yes   ☐   No☐

7. What are the reasons behind the default risk in your company.

Bankruptcy☐   Liquidation☐   Reluctance☐

If other, please specify_____

_____

8. Is your company has a collection policy to reduce uncollectable receivable?

Yes ☐   No☐

If No, Why_____

_____

9. Are policy for approving credit established and clearly communicated to credit customer of the company?

Yes ☐   No☐

10. Is your company use a mechanism to reduce the impact of uncollectible receivable?

Yes ☐   No☐

11. If your Answer question number 10 is "Yes" pleas list out the major mechanism to reduce the impact of Uncollectible Receivable?.

_____

_____

_____

12. Is your Account Receivable Subsidiary ledger reconciled periodically with the general in your company?

Yes ☐   No☐

If No, Why?_____

13. What are the collection effort or procedures does company use in order to timely collection of receivables?

Monitoring the state of receivables. ☐

Dispatch of letters to customer whose due date is approaching. ☐

Electronic and telephonic advice to customers around the due date. ☐

Threat of legal action against overdue account. ☐

If other, please specify_____

14. Is there any weaknesses in your company in order to credit collection?

Yes ☐   No☐

15. If your Answer question number 14 is "Yes" please list out the major weaknesses in your company?

_____

_____

16. There is good follow-up technique for uncollectible loans?

Strongly agree ☐   Neutral ☐   Strongly disagree☐

Agree ☐   Disagree☐

17. How do you evaluate your company credit and credit management in general?

Excellent ☐   Very good ☐   Good ☐   Poor☐

18. List any further comments, suggestion or solution you may have in your company about the overall credit and credit management practice.

_____

_____

_____

St. Mary's University
Faculty of Business
Department of Accounting

Interview Guided lines

This interview guidelines is prepared to assess the credit management problem in National Motor Corporation (Mexico branch).

Thank you in advances for cooperation.

1. What are credit granting procedure followed by the company?
2. What are the mechanisms taken by the company to reduce the problem associated with credit granting?
3. What are the weaknesses of your company in granting credit and collection procedures?
4. What are the procedures that the company follows in credit collection?
5. What mechanism the company uses to reduce the impact of uncollectible on performance of the company?

DECLARATION

Advisee's Declaration

We, the underlined, declare that this senior essay is our original work, prepared under the guidance of Ato MESERET KINFE. All resource of materials used for the manuscript have been acknowledged.

      Name   Signature

_____   _____

_____   _____

_____   _____

Place of submission: _____

Date of submission: _____

Submission of Approval Sheet

This senior research paper has been submitted to Department of Accounting in partial fulfillment of the requirements of BA degree with my approval as the university Advisor.

Name: _____

Signature: _____

Date: _____