ST.MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF ACCOUNT RECEIVABLE MANAGEMENT PRACTICE IN CASE OF COMMERCIAL NOMINEES PLC

BY

FIKREMARYAM TSEGAYE BIRATU

JUNE, 2023

ADDIS ABABA, ETHIOPIA

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

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of the university. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

NAME FIKREMARYAM TSEGAYE BIRATU SIGNATURE ------------------------

ST.MARY' UNIVERSITY, ADDIS ABABA JUNE, 2023

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 --------------------------------

ST.MARY' UNIVERSITY, ADDIS ABABA JUNE, 2023

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LIST OF ACRONYMS/ABBREVIATION

CN	Commercial Nominees
CBE	Commercial bank of Ethiopia
AR	Account Receivable
ARM	Account Receivable Management
SPSS	Statistical Package for the Social Sciences

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 commercial nominee's plc. a case study and to suggest possible solutions that may address the problem in the area of receivable management. Sample of 75 respondents were selected using Toro Yamane's sampling model from 93 of total population. Primary & secondary data was collected using questionnaire and analysed it using SPSS 20 version software, a descriptive type of research method and mixed research approach was used in conducting the case study. The result of this study evidences that commercial nominee's plc. 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-up to improve the liquidity problem, so; the company shall be achieve better performance.

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Account receivable is the amount of money owed to a company or business enterprise by customers. The management of account receivables comprises of five steps (Wu, Olson & Luo, 2014). The first step involves the determination of who to extend trade credit. The second step involves the establishment of a payment period while the third step is about monitoring of collections. The fourth step involves the evaluation of receivables liquidity and the fifth step involves the issuance of receipts to the accounts receivables holders (García-Teruel & Martínez-Solano, 2010). Most companies globally increase their service delivery by offering trade credits to their customers, but by being too generous with trade credits, they may extend trade credit to risky customers who may fail to pay. On the other hand, if company's trade credit policy is too tight it may lose service delivery. The management of account receivables is a global problem, with many service delivery firms showing high levels of account receivables as compared to their total assets. Accounts receivable (AR) management is the practice of obtaining customer payment within a given period of time. Organizations that sell products and services on credit use account receivable management to ensure the proper tracking and management of every step involved in collecting payment after the customer places an order. (Julius 2019) for most receivables the amount of money to be received and the due date can be reasonably determined. Accountants thus are faced with a relatively certain future inflow of cash, and the problem is to determine the net amount of this inflow. (Mosich, 2020) The task of Account Receivable manager should be to manage the receivable effectively and maximize the value of the firm. The Account Receivable manager should consider costs, profit, risk factor and smooth operation of a business as a whole based on Account Receivable theory, procedure and polices of the business. A number of factors must be considered in the valuation of prospective cash inflow. One of the factors is the probability that a receivable actually will be collected, for any specific receivable, the probability of collection might be difficult to establish; however, for a large group of receivable a reliable estimate of collectability generally can be made. The possible un-collectability of receivable is an example of a loss contingency because a future event (inability to collect) confirming the loss is probable and the amount of the loss can be reasonably estimated. If the estimate of possible uncollectable accounts can be made within a range, but no Single amount appears to be a better estimate than any other amount within the range, the financial accounting Standards Board recommended that the minimum amount in the range be accrued. Another factor to be considered in the valuation of receivables is the length of time until an amount collection of money due at some future time is not worth as much the same as an amount due immediately. The longer the time to maturity, the large is the difference between the maturity value and the present value of a receivable. When the time to maturity is long most contracts between debtor and creditors require the payment of a fair rate of interest, and the present value of such contract is equal to its face amount of the present value of any non-interest-bearing receivable is less than the amount that will be received on the due date if the time to maturity is short, the difference usually is ignored. (Mosich, 2020) consider Account Receivable need much attention by managers at all levels because effective Account Receivable management is crucial to the performance of any organization. Therefore this paper tries to investigate monitoring receivable management is important, because without it receivable will build up to excessive levels, cash flow will decline, and bad debts will offset the profit service charge. Corrective action is often needed, and the only way to know whether the situation is getting out of hand is to set up and then follow a good receivables control system.

1.2. Background of the Organization

Commercial nominees (CN) P.L.C were established in 1965 by commercial bank of Ethiopia (CBE) and the former constriction and business bank (CBB). Initially, the company performed its task as an integral part of CBE. In that standing, it was mainly engaged in the business of share subscription agency, share registration and handling and administering of staff pension account of CBE and insurance brokerage.

CN began operating as an independent business entity after the shareholder's, in their ordinary meeting held on 29 July 1993, decided to re-organizing and redefine its role on the basis of the recommendation of an ad-hoc committee established in 1991 in order to make detail studies of the company's role and structure in light of the changing situation . Its current business purpose as redefined by shareholders in their general meeting in the year 1997 reads as: "To engage in various service rendering businesses, trust administration, commission agent, and brokerage."

In addition, the current company's major shareholder is CBE. In line with these business purpose, CN is thus currently engage in 29 existing branches on the businesses of employment service, compensation payment , providence fund /trust fund administration, real estate and property administration Agent banking (CBE birr) and outsource services (cleaning and security guard service).

1.3 Statement of the Problem

Sound Account Receivable management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. According to Gitman (1997), the probability of bad debts increases as credit standards are relaxed. Firms must therefore ensure that the management of receivables is efficient and effective .Such delays on collecting cash from debtors as they fall due has serious financial problems, increased bad debts and affects customer relations. If payment is made late, then profitability is eroded and if payment is not made at all, then 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, 2019). 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, 2019). 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, 2018). 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 bill when they are due. The downside is that there will inevitably be customers who will either delay paying their bill or will never pay. The latter are referred to as bad Debts (Joffe, 2019).

CN has been operating profitable in service area but however facing challenges in settling its quality service deliver, achieving desired level of plant availability and collection of the maximum revenue. The researcher seeks to bring about a solution through the assessment of the Account Receivables management practices being applied and provide recommendations to ensure that the financial performance improves and also there is no previous research was done on this area in CN. It came across many problems related to uncollectable. This resulted in interruption in the provision of service and which in turn has an effect on the smooth operation of the organization.

1.4. Guiding Research Questions

1) Does the company 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 company?

4) Does the credit service affect the liquidity of the company?

5) What the remedies have been taken to reduce the uncollectable of the company?

1.5. Objective of the study

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

1.5.1 General objective

The general objective of the study is to evaluate and analyse receivable management practice in Commercial nominee’s plc.

1.5.2 Specific objectives

The specific objectives of the study are:

1) To investigate the credit policy that the company applied.

2) To examine how credit service affect the receivable management of the company

3) To evaluate the follow-up & collection efforts applying in the company

4) To assess the effect of credit service & receivables on liquidity of the company

5) To examine what remedies has been taken to reduce the uncollectable of the company

1.6 Delimitation of the study (Scope of the Study)

The study conducts to investigate the receivable management practice of CN in the range of 2017/18 -2021/22. The research confined all branches of CN for the purpose of in-depth analysis with the genuine investigation on the challenges and effectiveness.

1.7. Limitation of the Study

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

1.8. Significance of the Study

The study achieves its objectives and delivers quality services a company must evaluate its performance and take necessary action. The result of the study assist the management of CN to manage uncollected money and to improve financial strengthen of the company in addition to help the policy makers will come up with well-versed decision making.

1.9. Organization of the Paper

This research comprises by five chapters. The first chapter deals about the introductory part of the thesis which includes: background of the study, background of the organization ,statement of the problem, research questions, research objectives, significance of the study, delimitation of the study (scope of the study), and limitation of the study. Chapter Two will focus on the discussion of the various concepts, related literatures, theories, empirical studies, the research gaps and conceptual frameworks. The third chapter is deals with the research methodologies like descriptions of the study area, sources and methods of data collection, sampling and sampling technique, and sample size determination. The fourth chapter is deals about discussion and data analysis of the survey. The last and the fifth chapter solely devoted to summary, conclusion and recommendation on the basis of the findings of the research.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter covers the existing literatures linked to the accounts receivable management in an entity, and how it practice its performance, and the various researchers and critiques of the relevant literatures for this study. This section has been presented into two main sections. The first one covers the relevant theories and models of accounts receivable management while the second one presents empirical literature on accounts receivable management and its effects on the performance of an entity.

2.1 Accounts Receivable Management

Accounts receivables of a business organization are created in two major ways. On one hand, the firm may advance payments to the suppliers of inventories to ensure timely supply, especially when the supplier hold a monopolistic position or when materials are in short supply or a firm desiring to develop a captive supply base or for short term financial and profitability considerations. On the other hand accounts receivables are created by a firm selling its output on credit, popularly termed as sundry debtors. Trade credit influences preferences of both sellers and the customers. The functions of accounts receivables management are intended to set out credit terms, selection of credit worth customers, installing an appropriate collection and monitoring system and financing the receivables for maximizing the firm's value (Bhattacharya, 2006). According to Preve and Sarria Allende (2010) firms invest in financing clients when their core business is not related to lending money or providing financial services because of various reasons. These reasons include, gaining competitive advantage, redistribution where firms with greater access to financing redistribute the available capital to clients facing credit constraints, information asymmetry where suppliers with close customer relationships have an advantage over financial creditors in obtaining information about their customers‟ credit worthiness, as they are able to observe customers‟ orders, and payments, among others. This information advantage lowers suppliers‟ credit risk and in turn increases their willingness to finance customers. In addition, suppliers often offer credit because they want to maintain long-term business relationships with their clients. According to Kontus, (2013) accounts receivable management includes establishing a credit and collection policy. The policy includes, credit period, discounts for early payment, and credit standards specifying to whom credit should be extended, the terms of the credit and the procedure that should be used to collect the money. Lower accounts receivable ratios may indicate that average investment in accounts receivable is unsuitable and the company's credit policy is too stringent. This may lead to loss of business with the company failing to tap into the potential for profit through sales to customers in higher risk classes. Investment in accounts receivable represents the cost of capital tied up in those receivables. Therefore, a company has to weigh the profit potential against the risk inherent in selling to more marginal customers. The profitability on additional sales generated must be compared with the amount of additional bad debts expected, higher investment and collection costs, along with the opportunity cost of tying up funds in receivables for a longer period of time. According to Pandey and Jaiswal (2011) accounts receivable conversion period is the average time taken to convert debtors into cash, represented by the average collection period. It is calculated by dividing the product of accounts receivable figure and 365 days by credit sales. When establishing a credit policy, finance managers must consider three main variables; credit standards and analysis, credit terms, and collection policy and procedures (Pandey, 2007). Credit standards are the criteria to be followed in selecting customers worthy of credit extension. The three Cs, Character of customer, Capacity to pay and prevailing economic Condition are important considerations. Credit terms stipulate conditions under which the firm sells on credit to customers. They specify the credit limit, credit period and the cash discount. Lastly firms should follow a well-documented collection policy and procedure to collect dues from customers. If the credit period is over and the customer has not yet paid, for example, the firm can send a polite letter reminding the customer, the firm sends progressively strong-worded letters followed with telephone reminders if the customer intentionally fails to pay or may proceed with court action. Trade credit is an important source of finance for firms. Investment in accounts receivables is an important part of a firm’s balance sheet. Trade credit granted by firms to customers can have important implications for firm’s value and profitability. Suppliers extend credit mainly to enhance sales and consequently may result in higher profits, mitigate customer’s financial frictions; trade credit enables price discrimination, by varying the period of credit or the discount for prompt payment. In the long run trade credit might give future profits by establishing and maintaining permanent customer relationships (Martinez-Sola et al, 2014). Many companies are too passive when it comes to collecting overdue invoices. The money customers owe the company plays a big role in the monthly cash flow, therefore it is important to develop a solid technique for tracking who owes the firm money, how much they owe and when the payment is due. Accounts receivable staff must take a proactive approach to collecting unpaid bills. Periodic reports showing the total amount outstanding, along with an explanation of why those payments have not been received is recommended. Building an accounts receivable database is one of the best ways to keep track of what the company is owed (Damodaran, 2012).

2.2. Control over Receivables

As is the case for all assets, the broad principles of internal control can be used to establish procedures to safeguard receivables. These controls would include the separation of the business operations and the accounting for receivables, so that the accounting records can serve as an independent check on operation. Thus the employee who handles the accounting for notes and account receivable should not be involved with credit approvals or collection of receivable. Separation of these functions reduces the possibility of errors and embezzlement. The controls would also include the separation responsibility for related functions, so that the work of one employee can serve as a check on the work of another employee. For example, the handling of the account receivable ledger and the general ledger should be separated, in this way; the work of the account receivable clerk can be checked by comparing the total of the individual account balance in the account receivable subsidiary ledger with the balance of the account receivable

Controlling account that is maintained by the general ledger clerk. Adequate control over account receivable begins with the approval of the sale by a responsible company official or the credit department, after the customer's credit rating has been reviewed. Likewise adjustments of account receivable, such as for sales returns and allowance and sales discounts, should be authorized or reviewed by a responsible party, effective collection procedures should also be established to ensure timely collection of account receivable and to minimize losses from uncollectible accounts. The proper use of the controlling account and the account receivable ledger also increases the effectiveness at the control over account receivable. Account receivableis the largest asset on the balance sheet. This is concerned to be expensive asset. Even though, this is short term in nature. This has long term impact on the organizations working capital and financial structure, consequently. The prerequisite for an effective management system the most important objective of receivables management is to maximize the significance of the endeavor by striking stability between liquidity, risk and profitability. (Smith, 1992) Even though the credit and collection process is aggressive in an organization, some a collected amounts from customers would exist inevitably. The transformation of receivables into cash is daunting and a divisive task. (Mian, 2020,).

2.3 Accounts Receivable Management and Organizational Profitability

Deloof, (2003) studied the effect of average collection period on corporate profitability using a sample of 1,009 large Belgian non-financial firms. His correlation and regression tests, revealed a significant negative effect of average collection period of firms on the gross operating income. He suggested that managers could increase corporate profitability by reducing the average collection period. Padachi (2006) found a negative effect of accounts receivables" days on profitability. Likewise, Gill et al, (2010) found that a slow collection of accounts receivables is correlated with low profitability. Managers can improve profitability by reducing the credit period granted to customers. After studying a sample of 50 non-financial Nigerian firms quoted on the Nigerian Stock Exchange, Falope and Ajilore (2009) found a significant negative correlation between net operating profit on one hand and the average collection period and average payment period on the other hand. Mathuva (2009) examined the influence of receivables management on corporate profitability by using a sample of 30 firms listed on the Nairobi stock exchange (NSE) for the periods 1993 to 2008. After data analysis he found a highly significant negative correlation between the average collection period and Profitability of firms. Ramana et al (2013) found a mixture of good and poor receivables management in their study of cement companies in India. The study showed a significant impact on accounts receivables management on working capital management and profitability. Similarly Padachi, (2006) found that accounts receivable days correlated negatively with profitability. Madishetti and Kibona (2013) studied 38 Tanzanian SMEs for the period 2006 to 2011. They used regression analysis in determining the impact of average collection period on gross operating profit. The results indicated a significant negative correlation between average collection period and profitability.

2.4. Cash Management Practices

Cash management is the process of planning and controlling cash flow in to and out of business and cash balance held by an organization at each point and time (Waithaka, 2019). In addition, Nyabwanga et al (2019) asserted that there is need to maintain optimal level of cash to hold considering the trade-off between the opportunity cost of holding cash and the reading cost of holding too little to ensure that efficient management of cash is achieved. The study by Nyabwanga et al (2020) revealed that there is need to ensure efficient management of cash through use of cash budgets as the problem is cash management not the shortage of cash. The cash budget helps in ensuring that the sufficient amount of cash is in hold at any given time and also Cash and treasury management seem to be an important function in most firms (kytönen, 2004). Accordingly, Cash management should maximize equity and holder return. Maximizing profit can be obtained from investing cash and keeping an appropriate level of liquidity (Ward, 2010). In such respect it is much expected to identify the role of financial transaction in cash management process as its add value to the firm, and has seen a direction of change in firms behavior (kytönen, 2004). For a firm to experience a successful financial transaction costs, a tight cash management policy plays a key role. According to Briggs and Singh (2000), the ability of a firm holding small amount of cash depends upon its access to money and the capital market or a possible sale of assets (kytönen, 2004). In the order face of taught, a firm holding too much of cash than what is expected will lead to an opportunity cost of money. With the transactional model a firm's cash management policy tries to minimize the adverse effect of opportunity cost, thereby maximizing the profit on cash management (Briggs & Singh 2000). Cash management forms an aspect of working capital management which encompasses the manner in which cash under goes different process and procedures of handling a firm's liquidity in it monitoring and planning, (Lamberg & Vålming, 2009). An effective monitory of cash management ensures an improved profit margins and higher earnings ratio which in turn can lead to higher profitability, (Larsson & Hammarlund, 2005). The figure below gives an over view of how cash is converted from its inflow to an outflow of a firm. In such regards the shorter cash convention the better for the company (Maness & Zietlow, 2005). Such changes in the time line critically depend on management in their critical understudy of its timeline.

2.6. Receivables Management Practices

Waithaka (2019) asserted that efficient management of receivables influences growth rate of the business and it plays a major role in financial performance of an organization. Kwenda and Matanda (2019) outlined that accounts receivables management entails determine and implementing of firm's credit policy, length of credit to clients and the offering of cash discount instant rather than experiencing late payment. Dennis and Jennifer (2020) supported the use of strong policies on accounts receivable which are channeled towards the collection of receivables and minimization of debtor written off. The study revealed that debtors should be closely monitored to ensure maximum revenue collection as it impact on the performance of the organization. However, Kwenda (2020) is of the opinion the strict credit policies on receivables results in loss of potential customers hence it ultimately affects the financial Performance of the organization negatively.

2.7. Uncollectible Receivable

When merchandise or services are sold without the immediate receipt of cash, a part of the claims against customers usually proves to be uncollectible. This situation is common, regardless of the care used in granting credit and the effectiveness of the collection procedures used. The operating expense incurred because of the failure to collect receivables is called expense orals from uncollectable accounts, doubtful accounts, or bad debts. There is no single general rule for determining when an account or a note becomes uncollectable. The fact that a debtor fails to pay an account according to a sale contract or dishonors a note on the due date does not necessary mean that the account will be uncollectible. Bankruptcy of the debtor is one of the most significant indications of partial or complete worthlessness of a receivable. Other evidence includes closing of the debtor's business, disappearance of the debtor failure of repeated attempts to collect, & the barring of collection by the statute of limitations. (Warren. The collection policy remains an imperative element in credit transactions as it facilitates effective as well as efficient management of credit sales since the buyers have a tendency of failing to honor the terms of credit by defaulting in paying their debt as and when due. Among the main aims of a collection policy is to accelerate collections from the slow-paying customers and thus reduce the incidence of losses arising from the bad debts written off. The maximum amount of credit that the company can grant the buyer at a point in time is called the credit limit. Therefore, when at entity decides to grant the credit to a given customer, the value and the credit duration have to be set. A good collection policy is one that ensures and facilitates prompt and regular collection. Prompt collection is important as it facilitates fast working capital turnover, which in turn maintain the collection efficiency and keep the collection costs and bad debts low. Regularity implies that the debtors are kept alert, thereby tending to pay promptly) (Nandiri, 2020).

2.8. Collection and Monitoring

Collection and mentoring department is the place where experience of the firm in handling receivables are pooled which, when properly organized, provide important inputs for periodical review of the credit policy. (Fhartacharya, 2020)

2.9. Monitoring and Control

Several methods of monitoring and control of aggregate accounts receivable have been involved over a period of time. Some methods have limited applicability while some others have inherent difficulties. When sales of an enterprise are more or less uniform every month, therefore that an enterprise, while choosing a particular method, must see the control mechanism itself is not faulty, which may give wrong signals to the credit department. (Chartacharya, 2020)

2.9.1. Trade or non-trade receivables

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.(Mosich, 2020 ,p.345) . 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.

2.9.2 Account receivable

Account receivables are amounts owed by customers for goods and services sold in the firm’s normal course of business. These receivables are supported by sales invoice or other documents rather than by normal written promises, and they include amounts expected to be collected either during the year following the balance sheet date or within the firm's operating cycle, whichever is longer. Individual accounts receivable from customers with credit balances are reclassified and reported as liabilities. The credit balances are not netted against other accounts receivable. The average age of receivables is an important statistic to analysis. (Intermediate Accounting Dyckman, volume 1 p. 326). Account receivables are recognized only when the criteria for recognitions are fulfilled. They are valued at the original exchange price and less adjustment for cash discounts which is frequently offered for payments received within a designated period, sales returns, and allowances and uncollectible accounts, yielding an approximation to net realizable values the amount of cash expected to be collected. These account receivables are classified on the balance sheet as part of current asset. (Fees warren, principle of Accounting 16th ed. P. 317).

2.9.3. Notes receivable (Promissory notes)

Is a written promise to pay a specified amount of money on demand or at definite future date Notes are usually used for credit periods of more than 60 days, as in sale of equipment on installment plan, and for transactions of relatively large dollar amounts. Notes may in used in segment of an open account (account receivable) and borrowing or lending money. (Fees warren, 2019 principle of accounting 16th ed. P. 318). Using a note to the creditor has its own advantage. From these: A note is strong legal, claim than an open account as a debtor acknowledges the debt by signing. It is more liquid than an open account because the holder can transfer ready to a bank or other financial agency in exchange of cash. In the banking and commercial credit fields, notes are the typical form of credit instruments used to support lending transactions. Concerning valuation of notes Receivable, as in the case of account receivable, the proper valuation of notes receivable and similar credit instruments is their current fair value (or present value) at the time of acquisition. Notes receivable can be valued because their terms generally provide reliable evidences or the rights inherent in them. Except for questions of collectability, there is a little uncertainty with respect to the amounts that will be received and the dates on which the amounts will be received. Notes receivable just as trade account receivable may prove to be uncollectible. If a business enterprise uses notes as a regular credit medium and has a large volume outstanding, the amount of probable uncollectible notes may be estimated, and an allowance for such notes established by procedures similar to those for accounts receivable. Strictly speaking, there is no such thing as a non-interest bearing note; there are only notes that contain a stated provision for interest and notes that do not. The time value of money is present in any case, because the present value of a fixed or determinable date is not as large as the amount to be paid at maturity. The so called noninterest bearing note has a lower present value than its face amount by an amount equivalent to an interest charge. In contrast, if a note bears affair rate of interest, its face amount and present value are the same on the date of issuance. (Fees warren, 2019 principle of Acct.16th ed. P.320)

2.9.4. Other Receivables

Other receivables include;-

- Interest receivables: - receivable on interest for lending money
- Loan to affiliated companies
- Loan to officers and employees All receivables that are expected to be realized in cash within a year are presented in the current section of the balance sheet, whereas receivables that are not currently collectable, such as long term loans should be listed under the caption “investments” below the current asset section. (Fees warren, principle of Acct.16th ed. P.317)

2.10. Internal Control over receivables

Frank & Maksimovic (2020) the internal controls that apply to receivables include the separation of responsibility for related functions, so that can serve as a check on the work of another employee. The principles of internal control for all assets can be used to established procedures to safe guard receivables. The controls include

- Separation of the business operations and the accounting for receivables, so that the accounting records can serve as an independent check on operations. Thus, the employee who handles the accounting for notes and account receivable should not involve with approvals or collection of receivables.
- Separations of responsibility for related functions, so that the work of one employee can serve as on the work of another employee, say the handling of the account receivable ledger and the general ledger should be separated.

- Supporting the general ledger notes receivable account by a notes receivable register if there are numerous notes. The register would contain details of each note. Frequent reference to the due date section directs attention to those that are due for payment. In this way the maker of the note can be notified when the note is due, and the risk the maker will overlook the due date can be minimized.
- Authorizing and assigning responsibility for key tasks related to receivables, like approval of credit seals after a customer rating, adjustments of accounts receivable such as sales return and of allowance and sales discount.
- Establishing effective collective procedures to ensure timely collection and to minimize losses for uncollectible accounts.
- Proper use of controlling account and account receivable ledger. This increases the effectiveness of the control over account receivable.

2.11. Expensive credit policies

Also known as the lenient (loose) credit policy, it is where the company fails to pay much attention on the customers' credit worthiness and ends up granting them credit liberally. This policy has been associated with increased sales that translate into higher profit margins. However, the expansive credit policy exposes an entity to a number of risks that include a rise in liquidity risk since money is tied on sales, bad debts level, and higher general administrative costs. Apply this policy where they supply water on credit liberally to customers without assessing their creditworthiness. Gill, et al (2020) stated that to minimize the default and bad debts levels, a company should solely extend the credit based on the creditworthiness of a customer. Weston and Copeland (2020) stated that there are six Cs of credit on which the credit issuance decisions should be based on and include: capital, collateral, condition, character, capacity, and contribution. These Cs are crucial as they help companies to better assess the customers' ability and creditworthiness leading to low default rates.

2.12. Empirical Literature Review

Various studies have been conducted in relation to accounts receivables management both globally and locally. This section presents a review of empirical studies conducted on the effect of credit policies, technology, staff competence and company characteristics on accounts receivable management.

2.12.1. Credit Policies

Policies and procedures of each of the functions within receivables management are very important. Policy documents outline the formal posture on each function (credit policy addresses risk tolerance) (Love et al., 2007). Procedures in an organization delineate the steps and actions to be taken for each operation. Clear policies are required as part of strong internal controls. They also provide guidance to employees charged with performing the functions. Detailed procedures serve as a reference for experienced employees in performing their job functions and procedures are excellent tools for initial and refresher training of newer employees (Mathuva, 2010). Michalski (2012) carried out a study on the determinants of accounts receivable level: portfolio approach in firm's trade credit policy. The study found that accounts receivable management decisions are very complex. On one hand, too much money is tied up in accounts receivables, because of an extreme liberal policy of giving trade credit. This burdens the business with higher costs of accounts receivable service with additional high alternative costs. Additional costs are further generated by bad debts from risky customers. On the other hand, the liberal trade credit policy could help enlarge income from sales. This problem is linked to the operational risk of purchasers interested in receiving trade credit who, as separately considered groups, may characterize too high risk level.

In Kenya, Waweru (2013) conducted a study on the principles and Practice of Effective Accounts

Receivable Management in Selected Manufacturing Firms in Thika Municipality and found that factors that affected the management of accounts receivable such as lack of a formal credit policy, delayed or non-review of the credit policy manual, inconsistency on credit risk analysis procedures and haphazard variation of credit terms. The study also found that there was erratic fluctuation in the average collection period and significant amounts of bad debts written off.

2.12.2. Technology

Advances in information technology have allowed firms to structure information sharing process with varying degree of customized reporting, real time access, data access frequency, access levels and software integration. Software's enable automated, integrated and collaborative processes for receivables management (Makori & Aagongo, 2013). Accounting departments can then better manage collections and disputes, streamline billing, and lower customer credit risk. As a result, accounting decreases the amount of cash and effort tied up in disputes and collections, days sales outstanding and bad debts write offs, helping to ensure that cash is on hand to fund business operations and new growth opportunities (Akoto, Awunyo & Angmor, 2013). Technology ensures real time insights, credit limits could be set in the system and risks monitored. On the other hand, if something goes wrong with technology and an error is made, then receivables may be incorrect. Ramaswamy et al. (2011) carried out a study on the impact of information technology innovations on financial transaction processing including account receivables management. The study found that with information technology innovations there was movement of information without hindrance across corporate boundaries, time zones, and systems. The study also found that automating all processes beginning with when a purchase order is generated to when both new efficiencies and reduced costs by providing better visibility of all aspects of financial transaction processing. In Kenya, Ngugi (2014) conducted a study on the determinants of Accounts Receivables Management in the Hotel Industry in Kenya and found that technology was playing a great role in determining accounts receivables management in Kenya's hotel industry. The technology facilities quality embraced in the hotels is important as it influences accounts receivables management and therefore improves the hotel performance at large. The results also indicated that hotels keep receivable accounts records, and utilize technology to advance invoices and Electronic processing through electronic data interchange (EDI), of accounting data.

2.12.3. Staff Competence

Managers usually fail to adequately anticipate the required training and instructions for the employees in order to equip their employees with the skills required for the implementation of strategy (Sanders, Wold & Sullivan, 2009). Competency is measured in terms of academic level, experience, skill and the effort of staffs for continues professional development and determines the efficiency of the staff in setting a systematic and disciplined approach to evaluate and improve the effectiveness of accounts management, control, and governance processes (Enzhu, 2008). Distribution Companies must be able to effectively recruit, retain, and manage highly skilled staff. One of the main factors affecting account receivables management is the accuracy of the staff working in the accounts receivable department. Staffs that make errors in ledgers, invoices and other accounts receivable paperwork make it more difficult to plan and control the company's financial information (Akoto, Awunyo & Angmor, 2013). Invoices sent out with incorrect information force the company to either accept the incorrect information or ask the customers for more money. To keep accurate records, the staffs should be trained to follow exact procedures in the accounts receivable department (Makori & Aagongo, 2013). Ismail and Abidin (2010) carried out a study on the impact of workers' competence on their performance in the Malaysian private service sector. The study was based on a sample of 1136 workers who are either executive, manager or professional from three service sub-sectors, namely, education, health and information and communication technology (ICT) in Selangor, Federal Territory of Kuala Lumpur, Penang and Johor collected in 2007/2008. The study found that the competence of the workers has a positive and significant influence on their performance. Besides, human capital and workers' characteristics also determine workers' performance in the service sector.

2.12.4. Company characteristics

Valipour, Moradi and Farsi (2012) conducted a study on the impact of company characteristics on working capital management including account receivables management. The company characteristics included were company size, current ratio, quick ratio, operating cash flow, profitability, sale growth, and debt ratio. The sample of the study was 83 firms listed in Tehran Stock Exchange between the year 2001 and 2010. Pearson's correlation analysis and multivariate regression analysis were used to test the hypothesis. The results indicated that the effective factors in great companies were profitability, operating cash flow, and debt ratio and sale growth. The effective factors in average level companies were profitability, company size, sale growth and debt ratio. The effective factors in small companies were profitability, sale growth, current ratio, quick ratio and debt ratio. In Sweden, Rimo, Panbunyuen and Nilsson (2010) conducted a study on the effect of company characteristics on working capital management including account receivables. The sample of the study was 40 companies in the large cap investment segment listed on Nasdaq Omx Stockholm Exchange. Using a multiple regression analysis, the results indicated that profitability, operating cash flow, company size and sale growth affect the company's accounts receivables management ad cash Conversion cycle. The study also found that cash conversion cycle has significant negative relationship with operating cash flow, company size and sale growth. In Kenya, Ngugi et al. (2014) did a study to evaluate the influence of size of organization on trade accounts receivables management and found that size of the organization had a positive and significant influence on trade account receivables management in the service delivery Companies.

2.13. 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 forgone in using the funds for more profitable purposes. However, these costs must be weighed against the benefits of increased sales resulting from the opportunity for customers to delay 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 some receivables will become uncollectible (Williams et.al. 2012).

2.14. Uncollectible Accounts

We have stated that accounts receivable are shown in the balance sheet at the estimated Collectible amount 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.

2.14.1. 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, unless bad debts losses are insignificant, the direct write-off method is not acceptable for financial reporting purposes.

2.14.2. 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 balance sheet 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 to allowance for Doubtful Accounts and credit that amount to Accounts Receivable.

2.15. 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.

2.15.1. 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 payment.

2.15.2. 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).

2.16. Collection Policy and procedures

The collection policy remains an imperative element in credit transactions as it facilitates effective as well as efficient management of credit sales since the buyers have a tendency of failing to honor the terms of credit by defaulting in paying their debt as and when due. Among the main aims of a collection policy is to accelerate collections from the slow-paying customers and thus reduce the incidence of losses arising from the bad debts written off. The maximum amount of credit that the company can grant the buyer at a point in time is called the credit limit. Therefore, when at entity decides to grant the credit to a given customer, the value and the credit duration have to be set. A good collection policy is one that ensures and facilitates prompt and regular collection. Prompt collection is important as it facilitates fast working capital turnover, which in turn maintain the collection efficiency and keep the collection costs and bad debts low. Regularity implies that the debtors are kept alert, thereby tending to pay promptly.

2.17. Converting Accounts Receivable into Cash

One indication of a company's financial health is its ability to collect receivables in a timely fashion. 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: The effect of Credit Cost on Profit 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). 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 forgone in using the funds for more profitable purposes. However, these costs must be weighed against the benefits of increased sales resulting from the opportunity for customers to delay payment (Atril and Mclaey,2006).

2.18. Research gap

Despite the studies on Account Receivable practice that have been carried out by various scholars, such as Gul et al. (2020); Akoto et al. (2018); Umenzekwe et al. It is instructive to note that there is still ambiguity regarding the appropriate assessment that might serve as proxies for Account Receivable. These studies do not provide a clear-cut direction of the relationship between AR and a firm’s credit policy. Further examination of these studies reveals that there is little empirical evidence on AR and its impact on the company credit policy. So, the current study tries to fill this gap by estimating the relationship between Account Receivable and company credit policy.

2.19. Definition of Operational Key Terms

- **Accounts receivables Management** is the process of ensuring that customers pay their dues on time. It helps the businesses to prevent themselves from running out of working capital at any point of time. It also AR is a vital corporate finance component as it directly influences the firm’s liquidity, profitability and growth of an organization.
- **Credit Policies** is a set of terms that lays out how your company will issue credit to its clients and collect unpaid debts. It also specifies which team members in your company have the authority to grant credit or change the terms of credit.
- **Technology** is the application of scientific knowledge to the practical aims of human life or, as it is sometimes phrased, to the change and manipulation of the human environment. And also use Automation of Collections and Payment Follow-ups (Monitoring) One of the great advantages of using technology is that it allows improving the collection follow-ups and payment processes. Thanks to technology, the information on the debts of each client are registered online and payments.
- **Company Characteristics in AR** is an intermediate level job. It is the role responsible for collecting all payments on behalf of the company, financial officer, the accounts receivable department and staff in the organization. It also includes skills and gives Training like ensuring company policy is adhered to and payment deadlines are met.
- **Staff competencies** are a list of skills and behaviours that are specific and well defined and are used to layout an organization’s performance expectations for a job or the organization’s culture as a whole. There are many resources out there for the HR

professional to help them develop and customize a list of competencies their organization can call their own. Like the company experience Strong math, typing, and computer skills, especially with book keeping software. Excellent communication, research, problem-solving, and time management skills. High level of accuracy, efficiency, and accountability. Attention to detail.

- **Bad Debts** are the term used for any loans or outstanding balances that a business deems uncollectible. For businesses that provide loans and credit to customers, bad debt is normal and expected. There will likely be customers who can't pay their debts back
- **Statement Accuracy** means a statement that, to the best of the knowledge and belief of the person making it, the information contained in the document to which the statement relates is accurate.
- **Cash flow** means to determine the ability of a business to pay its suppliers, employees, lenders and owners on time.
- **Cos**t refers to the monetary value of expenditures for raw materials, equipment, supplies, service labour, products, etc. It is an amount that is recorded as an expense in bookkeeping.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter described the research plan which guides the investigation. It covered the study area, research design, research approach, nature of variables and data type, sampling design, research instrument, data processing, data analysis, constructs measurement, validity and reliability and ethical consideration.

3.2 Research Design

Research design is actually a detailed sketch and analytical strategy of completing a research and answering each research question validly and accurately (Kumar, 2020). According to Selltiz, Wrights man & Cook, (2019), a research design is framed to formulate methods of collecting and analysing data in order to achieve research objectives. Besides, based on Kothari (2019), research design provides a conceptual structure for conducting the research and a blue print for collecting, measuring and analysing the data.

Therefore, the research design that was adopted in this study is descriptive. The descriptive research design suits to this research study as it enables to describe the relationship of finance and investment Directorate Director Variables to Account receivables and tried to examine the impact on working capital of the company.

3.3 Research Approach

The two basic approaches to research were quantitative and qualitative. The quantitative approach involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion and on the other hand qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behaviour (Kothari, 2020). Quantitative analysis helps to explore, present, describe and examine relationships and trends within our data (Saunders et al. 2019) Therefore, taking into account these concepts the research approach utilized in this study was used quantitative research.

3.4 Target Population, Sample Size, Sampling Technique and Source of Data

The target populations were 93 permanent employees of the company and the target groups are all the departments' permanent employees ranging from management to the lower level employees working Head Office, Addis Ababa braches and outlying branches.

The sampling frame for this study consists of 75 employees. These employees included all permanent staffs from Operational Directorate Director in Head office, Financial and investment Directorate Director, Outsource service Admin and finance in Branches, Auditing Directorate Director. The list from which the sample was drawn was obtained from the HR Department in CN. In order to adapt the aim of the study the researcher used stratified random sampling which is one among the types of probability sampling techniques. It was applied to identify the stratified sampling and their proportions as they are represents in the population and used stratified random sampling technique to collect data from respondents in all departments of the organization because , it had more statistical precision. Malhortra and Peterson (2019) stated that, the larger the sampling size of a research, the more accurate the data generated but the sample size will be different due to different situation. Although Copper (2018) states that a sample size exceeding 5% of population is representative.

The sample size of the research study was determined using the formula adopted from Toro Yamane's (1967).

Thus, the formula used to calculate the sample size is:

n = N/ (1 + (N (e) 2))

Where: - N = the total population

e = the error term

n = the sample from the population

- By taking Sample size 5% the Method will have the following sample size

n = 93 / {1+93 (0.05)2}

n = 93 / (1+0.2325)

n = 93/ 1.2325

n = 75.4 Proof the total sample from the Departments is calculated

n = 75

Table 3.1: Summary of Population and Sample size

S.N	**Departments**	**Population (N)**	**Sample Size (n)**
1	Operational Directorate Director Department in Head office	10	8
2	Financial and investment Directorate Director Department in Head office	23	19
3	Outsource finance and Administration officer in Addis Ababa and outlets	25	20
4	Branch managers in Addis Ababa and outlets	25	20
5	Audit Directorate Director Department in head office	10	8
	Total	**93**	**75**

Source: - Commercial Nominees PLC Human Resource Data June 2022

3.4.1 Primary Source of Data Collection

The primary source of data collection for this study was through Likert type scale questionnaires were used to collect data from the respondents in terms of the two variables. This is a research instrument that extracts or obtains data and information from the respondents. The structure of the questions requires the respondents to check or; sign their choice of answers based on individual differences and character.

Respondents are allowed to freely tick in the line with how the items appeal to them and write their own opinion. In administering the questionnaire, the respondents were selected randomly to avoid any possible biases and the questionnaire is self-administered.

3.4.2 Secondary Source of Data collection

Secondary data sources are files, pamphlets, office manuals, Reports and brochures used to provide additional information where appropriate. Besides, e books, journals/articles, websites were reviewed to make the study fruitful.

3.5 Data Analysis

The research will follow quantitative analysis because it requires an analysis of the Account receivables management practice in the Commercial Nominees PLC. affects The relationships among variables was statistically tested to ensure the accuracy and completeness of the data given by the respondents , the collected data were organized, sorted and coded at the end of the data collection period from the respondents. The collected data will be entered in to SPSS software in line with the objectives of the study is descriptive analysis.

3.5.1. Descriptive Analysis

Descriptive analysis is a set of brief summary of a collected data, which can represent the entire population or sample. According to Peck, et al. (2019), descriptive analysis is the method used for organizing and summarizing data by using table and numerical summaries. It helps to described data in a most simple way.

Under the descriptive analysis applied all the data which collected from the survey questionnaire organized and shown in table form. Data collected has been calculated by using measurement such as Mean, standard deviation, frequencies of distribution, and exhibition of percentage. So, it summarized into simpler forms. Thus, it was easily viewed and has better understood.

3.6 Reliability and Validity

Reliability refers to how consistently a method measures something. If the same result can be consistently achieved by using the same methods under the same circumstances, the measurement is considered reliable so that by this definition my research paper is reliable.

Validity refers to how well the result among the study participants represents true findings among similar individuals outside the study so that by this definition my research paper is valid.

3.7. Ethical Consideration

Every person who involved in this study was entitled to the right of privacy and personal dignity and no personal harm was caused to subjects in the research. Acknowledgement for the works of other authors was given and quoted which used in any part of the dissertation.

Additionally, this research paper has considered the following ethical issues before, on progress and after the research is conducted:-

- ✓ Full consent of participants prior to the study.
- ✓ Respect for the dignity of research participants

- ➢ The protection of the privacy of research participants
- ➢ Existence of offensive, discriminatory, or other unacceptable language in the formulation of Questionnaire.
- ➢ Maintenance of the highest level of objectivity in discussions and analyses throughout the research
- ➢ Any deception or exaggeration about the aims and objectives of the research

CHAPTER FOUR

DATA PRESENTATION, ANAYSIS AND INTERPRETATION

4.1. INTRODUCTION

This part presents the results of the study. Among the issues discussed are the socio-demographic characteristics of the respondents, Account receivable management practice in case of CN Results of Descriptive Statistics.

Totally 80 (Eighty) respondents of the questionnaire were targeted for the study and were distributed to the targeted respondents. However out of this number, out of which 5 were poorly or inappropriately filled and therefore were not used in the analysis. The questionnaire which is used in the analysis is 75 and this indicates that it is adequate for analysis and interpretation of the data.

4.1.2. Descriptive Statistics Result and Interpretation

Table 4.1 profile for Gender, Marital status, Age, Educational qualification, work experience and major credit customer's factors questions are given to the respondents

No	Factors	Category	Frequently	Percentage
1	Gender	Male	32	42.7
		Female	43	57.3
		Total	75	100
2	Marital status	Single	26	34.7
		Married	49	65.3
		Total	75	100
3	Age	< 30	8	8
		30-40	32	42.7
		41-50	28	37.3
		51-60	9	12.0
		Total	75	100

4	Educational qualification	Diploma	12	16
		Degree	45	60
		Masters	18	24
		Total	75	100
5	Work Experience in the organization	1-3 years	3	4.0
		3-5 years	20	26.7
		6-10years	25	33.3
		11 and above years	27	36.0
		Total	75	100
6	Who are the major credit customers of the organization	Commercial bank of Ethiopia	62	82.7
		Private bank	13	17.3
		Total	75	100

Source;-own data from CN on May 2023

Table 4.1 shows that out of 75 respondents, 42.7 % of them were male and the remaining 57.3% were female. Thus, we can infer that the majority of employees that are currently working in Commercial Nominees PLC are females. Regarding marital status of the employees, the study shows that 34.7% of them are single and the rest 65.3 % are married. Based on the information, the majority of employees are married. 42.7 % from total age range 30-40 this implies that the company contains young and energetic employees and 60% of them are first degree holders, Diploma 16%, the remaining 24% have Masters Holder. This indicates the company has an advantage of using the potential of young and well educated human power in order to achieve its objectives related to customs responsibilities. Regarding respondents work experience, 36% have between 6-10 years' work experience; 33% of them have more than 11years work experience and 1-3 are 4% and 26.7% are 3-5 (26.7%) this implies that have a work experience more than six years so that there is a good opportunity to handle Account receivables. A major credit customer of the company is commercial bank of Ethiopia 82% and the remaining 18% are private banks. This indicates that CBE have high share of the market.

Table 4.2: Company Characteristics on Account Receivables Management

Company characteristics on Accounts Receivables Management					
	N	Min	Max	Mean	Std. Deviation
How does the Company workers Experience in Cash Collection?	75	1	5	2.09	1.199
How does the training on Collection Skill affect in account Receivable management?	75	1	5	2.39	1.404
How does the Currently Rating of Accounts Receivables Management practice in CN?	75	1	4	1.72	.763
How does you evaluate our company accounts receivable management activity?	75	1	5	2.15	1.322
How does Lack of understanding of credit policies affects accounts receivables management?	75	1	5	2.48	1.359
How does you keep proper records for account receivables?	75	1	5	1.91	1.016
Total	75				

Source: own data from CN on May 2023

Table 4.2 shows that there was disagree of the respondent that the Company workers have sufficient Experience in Cash Collection, have scored a mean of 2.09. For workers sufficient Experience of receivables operating procedures is very important. According to Brown (2020), the first step for any company workers has been workers sufficient Experience in case of cash collection. The other statement of company characteristics on AR training on cash collection skill, had scored a mean of 2.3, this means majority of the respondents disagree these imply that the management never reviewed the training policies. According to John G.

Salek, (2020) Training has a direct impact on your organization's productivity and performance. There was strongly disagreement that, current rating of AR management practice in CN has scored a mean of 1.72. It shows lack of empowering that the branches to manage credit. To improve on credit management practices and therefore tackle the debtors"" problem, management must empower the branches and accord (agreement) them a free hand in managing accounts (Onono, 2020) Disagree of the respondent that, the company evaluate AR activates, has scored a mean of 2.1. It shows that the mangers not given enough attention to clear their debts. Naturally customers prefer longer credit periods; if the credit period is extended, the possibility of increasing service associated with increases in both its collection costs and bad debts loss may occur. Thus a firm with long or extended credit periods will tend to have a large size of receivables (Periasamy, 2009). The other statement of company AR Lack of understanding of credit policies, had scored a mean of 2.4, this means majority of the respondents disagree this imply that the workers less awareness the company credit policy. According to John G. Salek, (2020) Policies and procedures should be reviewed periodically (the external auditors can advise how frequently) and updated as needed. and proper records for account receivables, had scored a mean of 1.9, this means majority of the respondents strong disagree these imply that proper records of AR According to Patton (2022) Accounts receivable refer to the money a company's customers owe for goods or services they have properly recorded to use software compatible the Company.

Table 4.3 Credit policies

Credit policies					
	N	Min	Max	Mean	Std. Deviation
How does the credit term of payment in your company?	75	1	5	2.23	1.371
How does a New company use Credit policies to attract and retain customers?	75	1	5	2.24	1.496
How Does Company credit Monitoring and Evaluation Customers payment habits?	75	1	5	2.05	1.077
How does the penalty for dalliance payment customers based on Agreement?	75	1	5	1.84	.945
Total	75				

Source: own data from CN on May 2023

Table 4.3 shows there was disagree of the respondent that the organization has a credit term of Payment Company; have scored a mean of 2.23. 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 Richard C, 2020 in the payment terms, a company specifies which conditions apply to its customers when paying their invoices otherwise it happened shortage of working capital. The other statement of policy that the credit policy to attract and retain customers had scored a mean of 2.23, this means majority of the respondents disagree these imply that the credit policies. According to (Aldo Baietti., 2021). Having a good working relationship with customers is crucial when it comes to both retaining and growing your client base. Offering credit to customers can help create an environment of trust, which can lead to a more positive experience overall for customer and company alike. There was strong disagreeing that Company credit Monitoring and Evaluation Customers payment habits, has scored a mean of 2.05. It shows lack of monitoring and evaluation that the branches to manage credit. According to (Ernest et al.,

2020) Monitoring and Evaluation Customers payment habits should be one of your first steps at the beginning of any business organization relationship with a client or supplier. Evaluating their business credit score against your capacity to manage the risk of non-payment or carrying out due diligence on a supplier is a vital part of protecting your business. Disagree that Company penalty for dalliance payment customers based on agreement has scored a mean of 1.84 this implies that company has been week in lack of power to implement the company Penalty for dalliance Penalty is the punishment imposed upon a company who has violated the law, whether or a contract, a rule, or regulation. Timely collect money highly influenced in working capital in the organization (Decenzo and Robbins: 2020).

Table 4.4 staff competence

Staff competency					
	N	Mini	Max	Mean	Std. Deviation
How does CN is older company, currently is it the better their account receivable management practice?	75	1	5	2.68	1.472
How does Shareholders' decisions to add extra financing affect the credit terms of your business.	75	1	5	4.12	4.252
Total	75				

Source: own data from CN on May 2023

Table 4.4 shows there was disagree of the respondent that currently is it the better their account receivable management practice. It has scored a mean of 2.68. Zuber (2001) Poor accounts receivable management can result in many debts not being collected. It could cause the company to extend credit to companies that are not credit worthy and result in not collecting receivables. It is important to collect accounts receivable as quickly as possible. The respondents are agreeing Shareholders' decisions to add extra financing affect the credit terms of your business. It has scored a mean 4.12 it implies Shareholders essentially own the company, which comes with certain rights and responsibilities. Assessment of Account Receivable Management Practice in

Case of Commercial Nominees PLCThis type of ownership allows them to reap the benefits of a business's success According to (John .G 2020). Shareholder's value can bring a lot of benefits to an organization. It offers the management of a company with a long-term view and based on this. The management can design strategic decisions. It allows the company to emphasize more on the future and its clients and consumers and offers a universal approach as well.

Table 4.5 Technology and Accounts Receivables Management

Technology and Accounts Receivables Management					
	N	Min	Max	Mean	Std. Deviation
How does CN Use of technology to keep Records of uncollected ensures balances accuracy and timely collections?	75	1	5	2.09	1.221
How does the CN uses accounting software	75	1	5	2.03	1.315
How does Is the absence of ERP system results in the accumulation of uncollected service charge?	75	1	5	4.03	4.150
Total	75				

Source: own data from CN on May 2023

Table 4.5 shows there was disagree of the respondent that the CN Use of technology to keep Records of uncollected ensures balances accuracy and timely collections has scored a mean of 2.09. This implies that CN lack of use technology. According to Zaidaton & Bagheri (2020) technology use minimize lack of data integrity, inaccurate ageing and facilitate information inter change. The other CN uses accounting software, had scored a mean of 2.03, this means majority of the respondents disagree these CN high gap use of software. Imply the company weakness use in software. According to Somekh and Lewin (2005) the company use to suitable software applied. There was agree ERP system results in the accumulation of uncollected service charge, has scored a mean of 4.03. It shows the company more benefits of use ERP. (Jones & George 2009) Enterprise resource planning (ERP) refers to a type of software that organizations use to manage day-to-day business activities such as accounting, procurement, project management, risk management and compliance, and supply chain operations.

Table 4.6 Accounts receivables Management

Accounts receivables Management					
	N	Min	Maxi	Mean	Std. Deviation
How does Is it the main effect with credit service in the last five years on finical performance of the Company?	75	1	5	4.03	1.385
How does the company mange bad debt due from receivable techniques?	75	1	5	2.01	1.370
How does Do you know recognized bad debt in CN?	75	1	5	4.03	1.335
Total	75				

Source: own data from CN 2023

As shown on table 4.6 average score of the main effect with credit service in the last five years on finical performance of the Company shown a grand mean score of 4.02. Indicating the respondents agreed. It implies CN Within five years the company is affected working capital. According to (Onono et al., 2021) include liquidity, profitability, efficiency and leverage ratios. Profitability ratios that include the net profit margins, Return of equity ratio (ROE) and Return of assets ratio (ROA) are the most utilized ratios in measuring financial performance of firm. The other statement the company mange bad debt due from receivable techniques had scored a mean of 2. 01, this means majority of the respondents the CN don't use best mechanisms According to the (Nduta, 2020). Bad debt expense is used to reflect receivables that a company will be unable to collect. Bad debt can be reported on financial statements using the direct write-off method or the allowance method. The amount of bad debt expense can be estimated using the accounts receivable aging method or the percentage sales method. Accordingly, their response recognized bad debt in CN majority has score 4.03 this implies as most of financial officers are information.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

From the five years data collected it was observed that Commercial Nominees PLC has not effectively managing its Accounts receivable from 2017/18 to 2020/21 since the major indicators are accounts receivable to Service charge did not improve during the study period. The management gives responsibility of debt collection without giving adequate training. It can be concluded that staffs that employed no credit department were doing their tasks. This reveals a major weakness in the debt management process. Termination of service is the main debt management tool in the organization but did not efficiently and effectively manage. There is well organization of work disconnection, effective supervision of field work and post disconnection management is efficiently managed it is Effective tool for collection of receivable. The target population for this study consists of various categories of employees working in financial and Audit department the Commercial Nominees plc. descriptive statistics (mean and standard deviation). 98% of CN share is CBE and also 82% main credit customer and other organizations did not paid their debt and also make influence when the organization taking action on its customer. This arises either from the deliberate tendency or CN management members are not committed on the settlement of uncollectable service charge.

5.2. Recommendation

- Credit policies help in ensuring customers discipline in making payments so CN it should organizing training create awareness in the company credit policy.
- Commercial Nominees PLC Were processing invoices using manual Systems and also all collection documents from branches are send to DHL and EMS. This is very challenge to known the collection and uncollected money this system often inefficient is usually characterized by errors that may lead to losses and timely delved the document. This study therefore recommends that all Commercial Nominees PLC branches it should be computerized receivable account system is preferred to manual.
- Commercial Nominees PLC using personal visits in the collection of debts. Personal visits are tries some and often inefficient. The study therefore recommends that Commercial Nominees PLC should starting using emails and telephones in the making follow-ups on debts. These platforms can be used to send reminders to the customers and inform them when their debts are due.
- Accounts receivables management is complicated where a company has many branches. The study also recommends that CN should adopt enterprise resource planning (ERP) system in all branches of CN in order to control the uncollected account receivables and resources of the company.
- The company has to establish an independent Credit department (unit) responsible in the follow- up and collection of receivable.
- 98% of CN share is Commercial Bank of Ethiopia (CBE) and also major credit Customers is CBE so its recommended CN management work closely with CBE management solves the uncollected service charge.

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APPENDICES I– Survey Questionnaire

St. Mary's University

Program MBA in Accounting and Finance

Questionnaire to be filled by Directors /Managers/Professional

The objective of this questionnaire is to collect data from Commercial nominees PLC employees who help me to evaluate the Cause, Consequence and Management of the Account Receivable practice in CN as a partial fulfilment of MBA program in Accounting and Finance. Your cooperation and honesty is valuable in responding to these interview questions. In addition, all responses will be held strictly confidential and no information which could reveal your organization's or your own identity will not be used in any data reporting, nor will it be shared in its individual form with any outside party without your expressed permission to do so. Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the project.

Thank you for your cooperation and timely response in advance.

APPENDIX II: QUESTIONNAIRE

Instruction: please tick in only one of the Circle

PART I – PERSONAL INFORMATION

1. *Gender*

A. Male *B. Female*

2. Age

A. < 30 *B. 30-40* *C. 41-50* *D. 51-60*

- *3. Marital status*

A. Single *B. Married* *C. Divorce*

4. Educational Qualification

A. Diploma *B. Degree* *C. Masters* *D. Above masters*

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

A) Governmental Public Enterprises *B) Commercial Bank of Ethiopia*

C. Private Bank *D) International organizations*

6. Work experience in this organization?

A. 1-3 years *B. 3.-5 years* *C. 5-7 years* *D. > 7 years*

PART II – The Practice of Credit Policies Commercial Nominees plc

Please tick the box that best fits your opinion for each statement.

		1	2	3	4	5
	Credit Policies	*Strongly Disagree*	*Disagree*	*Neutral*	*Agree*	*Strongly Agree*
1	*Do you have sufficient awareness Credit policy in CN?*					
2	*Do you what term of payment do you give to your credit service customers*					
3	*New companies use Credit policies to attract and retain customers*					
4	*Does Company credit Monitoring and Evaluation Customers payment habits?*					
5	*Credit approval is the most important factor in receivables management*					
6.	*There is penalty for dalliance payment customers*					

7	*Do you have recognized bad debt?*					
	Technology and Accounts Receivables Management					
1	*Use of technology for maintaining a customer statement ensures balances accuracy and timely collections*					
2	*Is it the systems aging and reconciliation of accounts receivables is important in accounts receivables management*					
3	*Use of emails and phones improve receivables collections in your business.*					
4	*Is the organization uses accounting software*					
5	*Availability of systems data for accounts receivables assist in the process of granting credit to credit worthy customers.*					
6.	*Is the absence of ERP system results in the accumulation of uncollected service charge?*					

7	*Is it the company use mechanisms techniques to monitor the quality of its receivable management?*					
	Company characteristics on Accounts Receivables Management					
1	*Does Company workers sufficient Experience in Cash Collection*					
2	*Have you ever had training on Collection Skill affect in account Receivable management?*					
3	*Currently the Rating of Accounts Receivables Management practice in CN? A (currently the Rating of Accounts Receivables Management practice in CN*					
4	*Do you evaluate our company accounts receivable management activity?*					
5	*Lack of understanding of credit policies affects accounts receivables management*					
6.	*Do you keep proper records for account receivables*					

7	*Is it the main effect with credit service in the last four years on finical performance of the Company?*					
	Staff competency					
1	*CN is older company, currently is it the better their account receivable management practice?*					
2	*Accounts receivables management is complicated where a company has many branches*					
3	*Shareholders' decisions to add extra financing affect the credit terms of your business*					
4	*The older the company, the better their accounts receivables management*					
5.	*The effectiveness of the organization collection follow up*					
6	*Does the company mange bad debt due from receivable techniques?*					

Thank you for taking your time to respond!!