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Account Receivables Management: Insights From An Apparel Company

Amarvanjitha S¹ Suresh Kumar R²

Student¹, Professor²

Master of Business Administration¹²

Panimalar Engineering college¹²

Ponnamallee, Chennai.

Abstract: The purpose of this study is to find the Account receivables management practices. Main aim of this study is to analyse the aging of debtor's, impact of receivables on profitability, evaluate key performance indicators of receivables and identify the cash collection trend. Ratio analysis, trend analysis, aging analysis were done to analyze the account receivables. It is suggested to accelerate the collection by making credit policies strict. As a result, it is found that the variables are negatively correlated, terms related to cash collection were analyzed using charts to know the trend of collection, aging analysis for overdue receivables is also investigated.

Key words: Receivables, Net Profit, Debtor's, Working Capital, Current Assets.

1. INTRODUCTION

Receivables are the amounts that are due to the company as a result of goods or services sold during business operations. Claims of the company towards its clients form receivables of the firm. It comes under current assets. Receivables are otherwise called accounts receivables, trade receivables, customer receivables or book debts. The receivables are made for the client's conveniences. Customer are said to be given trade credit when a business provides goods or services and does not immediately get payment in cash. Thus, trade credit generates book debts and receivables that the company should be able to collect soon.

It involves huge cost considerations. It is essential consideration when it comes to maximizing volume of firm. Since sales increases, simultaneously the profits show an upward trend as well. Another cost that is associated with receivables management. Therefore, receivables management would include the choices a company makes based on its debtors.

2. OBJECTIVES OF THE STUDY

- To study the account receivable management practices
- To analyse the aging of debtor's from collectibles.
- To understand how account receivables impact the profitability.
- To evaluate the key performance indicator that are mainly associated with receivables.

3. NEED FOR THE STUDY

- Receivable management is a critical aspect of financial management that focuses on optimizing a company's accounts receivable to maintain cash flow and profitability. It involves setting credit policies, evaluating customer creditworthiness, monitoring outstanding invoices, and implementing collection strategies to minimize bad debts.
- This study is useful for comprehending the company's financial status and for setting guidelines for increasing its amount of funds through efficient receivables management, which Includes obtaining the necessary receivables from the sale of goods on credit basis.

4. REVIEW OF LITERATURE

1. **Ojum, Ekeoma, and Gospel J, Chukwu. (2025).** The profitability of manufacturing companies was examined in this study in relation to trade receivables management. Results indicated that profitability was negatively impacted by the size of accounts receivable, the time it took to collect them, and the turnover of accounts receivable. Therefore, in accordance with transaction cost theory, the study suggested reducing the quantity of accounts receivable, the time it takes to collect them, and the turnover of accounts receivable.
2. **Preethi, R. (2023).** The purpose of this study was to look into the connection between accounts receivable management and profitability. Analyzing data extracted from annual financial statements, the research found a significant relationship between efficient receivables management and increased profitability. The study suggests that companies should implement robust credit policies and effective collection strategies to enhance financial performance. It comes to the conclusion that maintaining profitability requires proactive accounts receivable management.

5. RESEARCH METHODOLOGY

This study uses analytical research by using secondary data. Analytical research has been used to determines the relationships between two or more variables that are causal. Balance sheet and profit & loss for the year 2019-24 has been collected as secondary data for this research purpose. Various tools and techniques such as ratios, correlation, cash collection trend, aging analysis has been used in this study.

5.1 Debror's turnover ratio

YEAR	CREDIT SALES	AVERAGE DEBTOR'S	RATIO
2019-2020	18,90,23,915	5,57,72,902	3.39
2020-2021	11,80,05,409	6,41,23,226	1.84
2021-2022	16,06,16,322	6,42,16,500	2.50
2022-2023	17,43,26,347	5,81,98,000	3.00
2023-2024	22,03,35,010	4,26,88,000	5.16

FINDINGS

From the above table it is found that the debtor's turnover ratio for 2019-20 is 3.39, for the year 2020-21 is 1.84, for the year 2021-22 is 2.50, for the year 2022-23 is 3.00, for the year 2023-24 is 5.16.

INTERPRETATION

The Debtor's turnover ratio of the company for the period 19-20 to 23-24 has increased from 3.39 to 5.16. 2023-24 has the peak ratio of 5.16 which satisfied the ideal debtor's turnover ratio of 5 to 10 times, this implies that the company collects its average receivables 5 times a year.

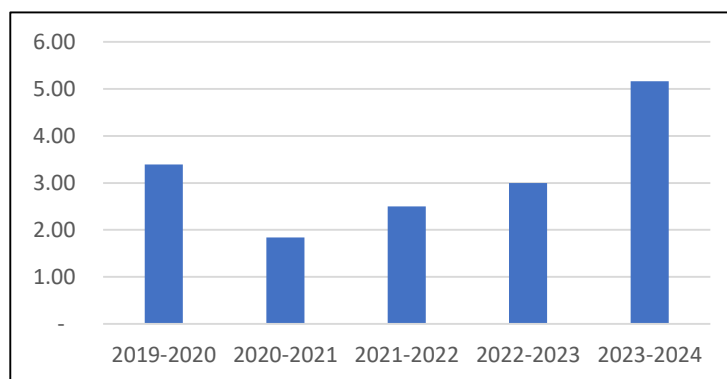


Chart showing debtor turnover ratio

5.2. Average Collection Period

YEAR	DEBTOR'S TURNOVER RATIO	RATIO
2019-2020	3.39	107.70
2020-2021	1.84	198.34
2021-2022	2.50	145.93
2022-2023	3.00	121.85
2023-2024	5.16	70.72

FINDINGS

From the above table it is found that the Average collection period for 2019-20 is 107.70, for the year 2020-21 is 198.34, for the year 2021-22 is 145.93, for the year 2022-23 is 121.85, for the year 2023-24 is 70.72.

INTERPRETATION

The Average collection period of the company for the period 19-20 to 23-24 has declining trend by slight fluctuations that ranges between 198.34 to 70.72 which is a healthy sign for the business, as the business is trying to collect payments faster year by year. 2020-21 has the peak ratio of 198.34, this refers that the business takes 198 days to collect payments on average, within a month to a month and a half of making a sale. Generally, 30 to 45 days is considered to be healthy for the business, but here it clearly shows that the business having more than the ideal one.

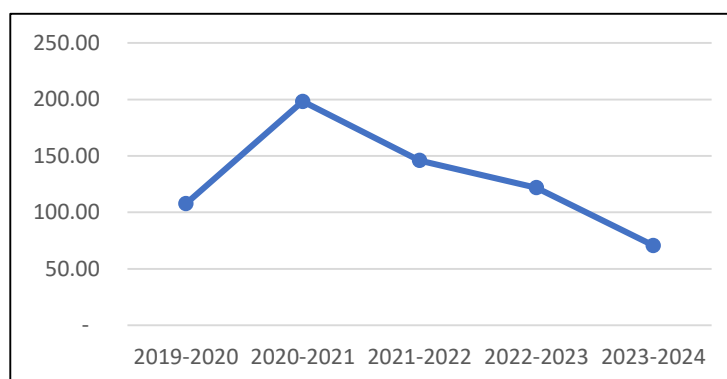


Chart showing Average Collection Period

5.3. Receivables To Current Assets

YEAR	RECEIVABLES	CURRENT ASSET	RATIO
2019-2020	6,30,15,858	9,54,73,722	0.66
2020-2021	6,52,30,594	10,77,99,543	0.61
2021-2022	6,33,02,000	14,69,57,000	0.43
2022-2023	5,31,94,000	15,36,92,000	0.35
2023-2024	3,21,82,000	15,84,14,000	0.20

FINDINGS

From the above table it is found that the Receivables to current asset ratio for 2019-20 is 0.66, for the year 2020-21 is 0.61, for the year 2021-22 is 0.43, for the year 2022-23 is 0.35, for the year 2023-24 is 0.20.

INTERPRETATION

The receivables to current assets ratio of the company for the period 19-20 to 23-24 has declined from 0.66 to 0.20. Ideal ratio of receivables to current assets is 0.1 to 0.3 which is good for the company. 2019-20 has the peak ratio of 0.66, this implies that too much of capital is tied up in receivables. But then company had tried better to achieve the ideal ratio in 2023-24 which is 0.20 by extending credit but still maintaining a balanced asset mix.

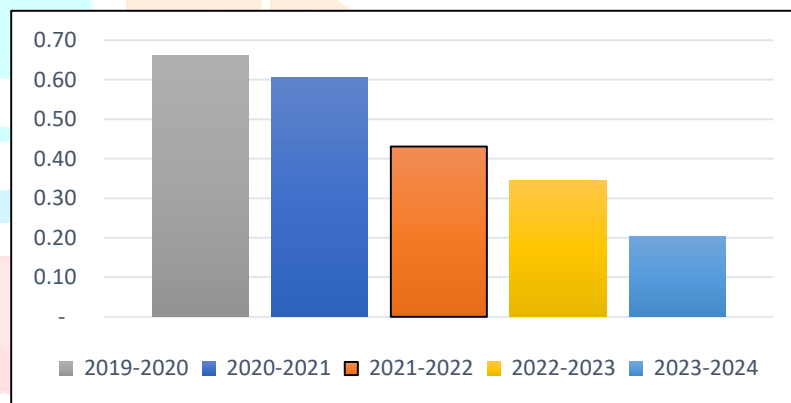


Chart showing Receivables to Current Assets

5.4. Collection Effectiveness Index

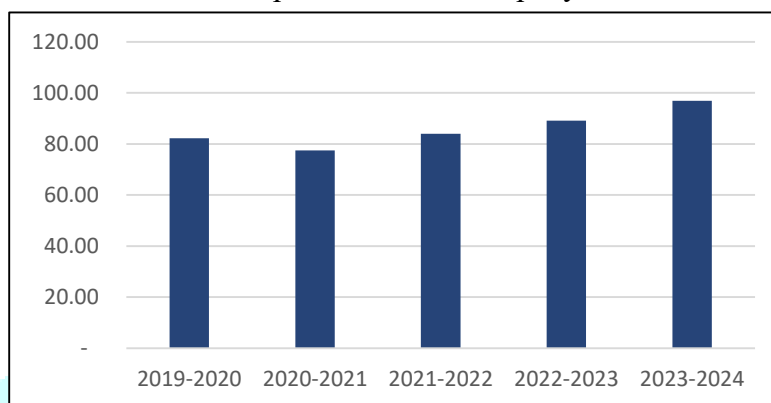
YEAR	BEGINNING RECEIVABLES	CREDIT SALES	ENDING RECEIVABLES	ENDING CURRENT RECEIVABLES	RATIOS
2019-2020	4,85,29,946	18,90,23,915	6,30,15,858	2,52,06,343	82.19
2020-2021	6,30,15,858	11,80,05,409	6,52,30,594	3,15,67,454	77.48
2021-2022	6,52,30,594	16,06,16,322	6,32,02,000	3,20,46,547	83.92
2022-2023	6,32,02,000	17,43,26,347	5,31,94,000	3,08,38,578	89.18
2023-2024	5,31,94,000	22,03,35,010	3,21,82,000	2,44,11,778	96.88

FINDINGS

From the above table it is found that the Collection Effectiveness Index for 2019-20 is 82.19, for the year 2020-21 is 77.48, for the year 2021-22 is 83.92, for the year 2022-23 is 89.18, for the year 2023-24 is 96.88.

INTERPRETATION

The Collection effectiveness Index of the company for the period 19-20 to 23-24 has increased from 77.48 to 96.88. Ideal percentage of CEI is 95-100%. The company has reached highest percentage of CEI in the year of 2023-24 which is 96.88. This implies that the company has reached the ideal percentage by



collecting their most of receivables on time

Chart showing Collection Effectiveness Index

5.5. Aging Analysis

Report

Outstanding Amount

AGING_CATEGORY	N	Outstanding amount (Sum)	Minimum	Maximum
0-180	132	9779101	650	600000
181-360	16	390546	674	90900
361-540	5	73602	3898	40035
541-720	5	246842	2565	212164
721-900	2	12752	5409	7343
901-1300	1	255763	255763	255763
Total	161	1.E7	650	600000

INTERPRETATION

It is found that the most of the outstanding balance (82%) is from the aging category of 0-180 days that has total of 97,79,101 as outstanding dues which is the highest among the overall aging category and has 600000 as maximum, 650 as the minimum due. 181-360 days aging category has the total outstanding due of 3,90,546 by holding 9.9% that has maximum due of 90,900 and minimum due of 674 under the category. 361-540 days aging category has the total outstanding due of 73,602 by having 3.1% where 40,035 is the maximum due and 3,898 is the minimum. 541-720 days aging category has the total outstanding due of 2,46,842 that has 3.1% where the maximum due is 2,12,164 and the minimum is 2,565. 721-900 days aging category has the total outstanding due of 12,752 which hold 1.2% that has maximum due of 7,343 and minimum due of 5,409. 901-1300 days aging category has the total outstanding of 2,55,763 where this is the one and only bill that the aging category hold.

6. SUMMARY OF FINDINGS

- 2023-24 has the peak debtor's turnover ratio of 5.16 which satisfied the ideal of 5 to 10 times, this implies that the company collects its average receivables 5 times a year.
- 2019-20 has the peak Average collection period ratio of 107.70, this refers that the business takes 107 days to collect payments.
- 2019-20 has the peak receivables to current assets ratio of 0.66, this implies that too much of capital is tied up in receivables.
- The company has attained highest percentage of Collection Effectiveness Index in the year of 2023-24 which is 96.88.
- It is found that the aging of 0-180 days has the majority of the outstanding percentage of debtors.

7. SUGGESTIONS

- For the first four research periods, the company's average collection period was higher; but, in the last year, it dropped to 70.72. However, the organization must accelerate their collection process in order to meet the optimal collection period of 30 to 45 days.
- Company should frame their credit policies strict by extending credit to customer based on creditworthiness in order to reduce the risk of bad debts and debtor's with longer unpaid bills.
- Aging category of 900-1300 (2.4 to 3.5 years) has a total outstanding of 2,55,763 which is longer outstanding. Company should write off or take some legal actions against those receivables.

8. CONCLUSION

In conclusion, company has improved its collection process by increasing debtor's turnover, Collection Effectiveness Index and reducing its average collection period where the company is trying better to manage its receivables. Aging category of 900-1300 days still has unpaid dues which should be taken necessary actions, because it is a longer outstanding. Company can avoid delayed collections and unpaid

bills by making their credit policies strict by checking the credit worthiness of customers before approving credit.

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