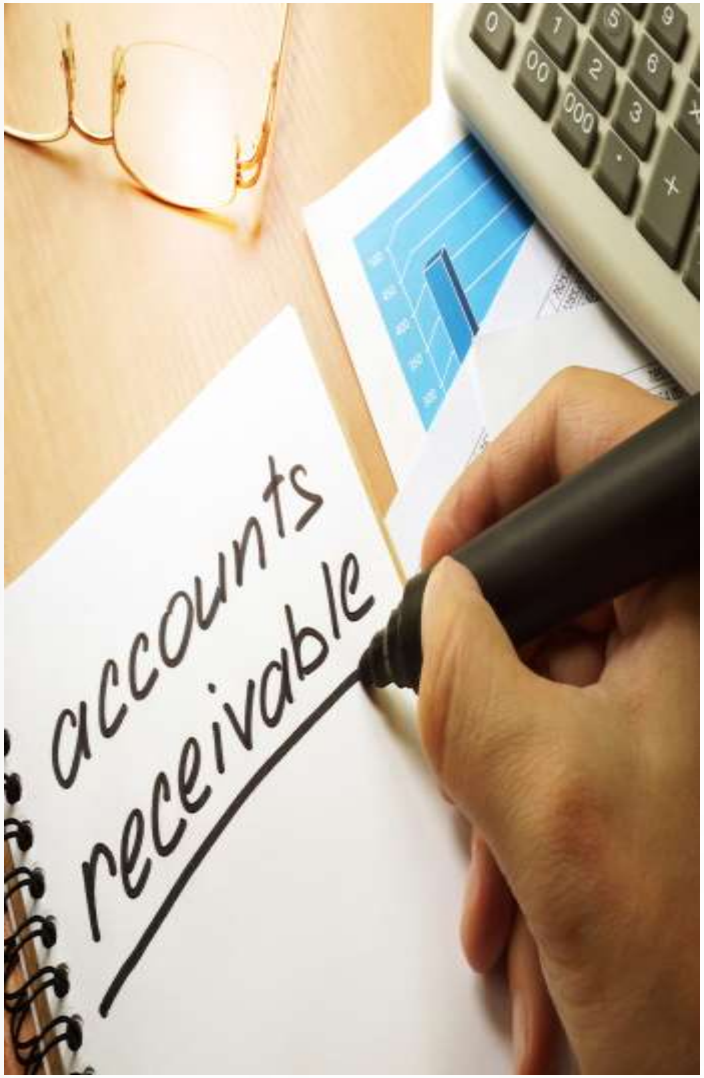
Management of Receivables

SESSION 1



- Receivables are amounts owed to the company by the customers to who company sell goods or services in the normal course of business. The main purpose of managing receivables is to meet competition and to increase sales and profits.

- Managing Accounts Receivables means collecting the payments due for Sales in a timely manner. When we sell any services, products or solutions to our clients or customers, they owe us the money. Collecting that money is called Receivables Management.

- In Accounting terms Our Customers who owe us money are called as “Sundry Debtors”. Yes, they are called Debtors, because they owe us money.

In India, Management of Receivables is also known as:

- Payment Collection.
- Collection Management.
- Accounts Receivables.

Objectives of Receivable Management

In order to keep business running, we need cash. The whole purpose or objective of Receivables Management is to keep the inflow of cash healthy.

- Collect receivables from our sundry debtors.
- Maintain a healthy cash flow for the company, so that it can pay our creditors.
- Have proper Policy for Credit management.
- A working process and mechanism for managing payment follow-ups and timely collection.

Importance of Receivable Management

- Cash flow is always considered as the bloodline of any business organization. Badly managed Receivables can break the company.

- Most of the companies that go bankrupt have Cash flow problems. Companies with a lack of profit can survive, but a lack of cash flow is fatal.

- Working Capital is one of the costliest forms of capital. One of the ways of calculating working capital requirements can be defined as the difference between Sales and Receivables.

- A reliable and predictable Receivables will ensure steady cash flow management of the organization. Amounts receivables with no due dates are useless.

Benefits

- Better Cash Flow.
  - All our Budgets and projections depend on how much we can spend. Predictable cash flow enables us to manage our operations and expansion plans.
- Lower Working Capital Requirements.
  - Effective receivables management ensures that our Working Capital requirements are kept at a minimum.
- Lowered Interest costs.
  - Working capital is also fixed capital, which attracts interest. Lower Debtors will reduce our Interest burden.
- Better Bargaining with Sellers.
  - When we are buying any goods or services, we can bargain mainly on quantity or Payment terms. Having good receivable management provides us with enough cash flow to bargain effectively with our Suppliers.

- Stop profit leakages
  - In case of thin margins, just imagine how much more sales we have to do to recover and adjust just one small bad-debt. Non receipt or delayed receipt is the biggest profit leakage any company can have.