SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 403
SUBJECT NAME: WORKING CAPITAL MANAGEMENT

TOPIC NAME: MANAGEMENT OF RECEIVABLES

MEANING:

- The term receivables refers to debt owned to the firm by the customers resulting from the sale of goods or services in the ordinary course of business. There are the funds blocked due to credit sales.
- Receivables management refers to the decision a business makes regarding to the overall credit, collection policies and the evaluation of individual credit applicants.
- Receivables Management is also called trade credit management.

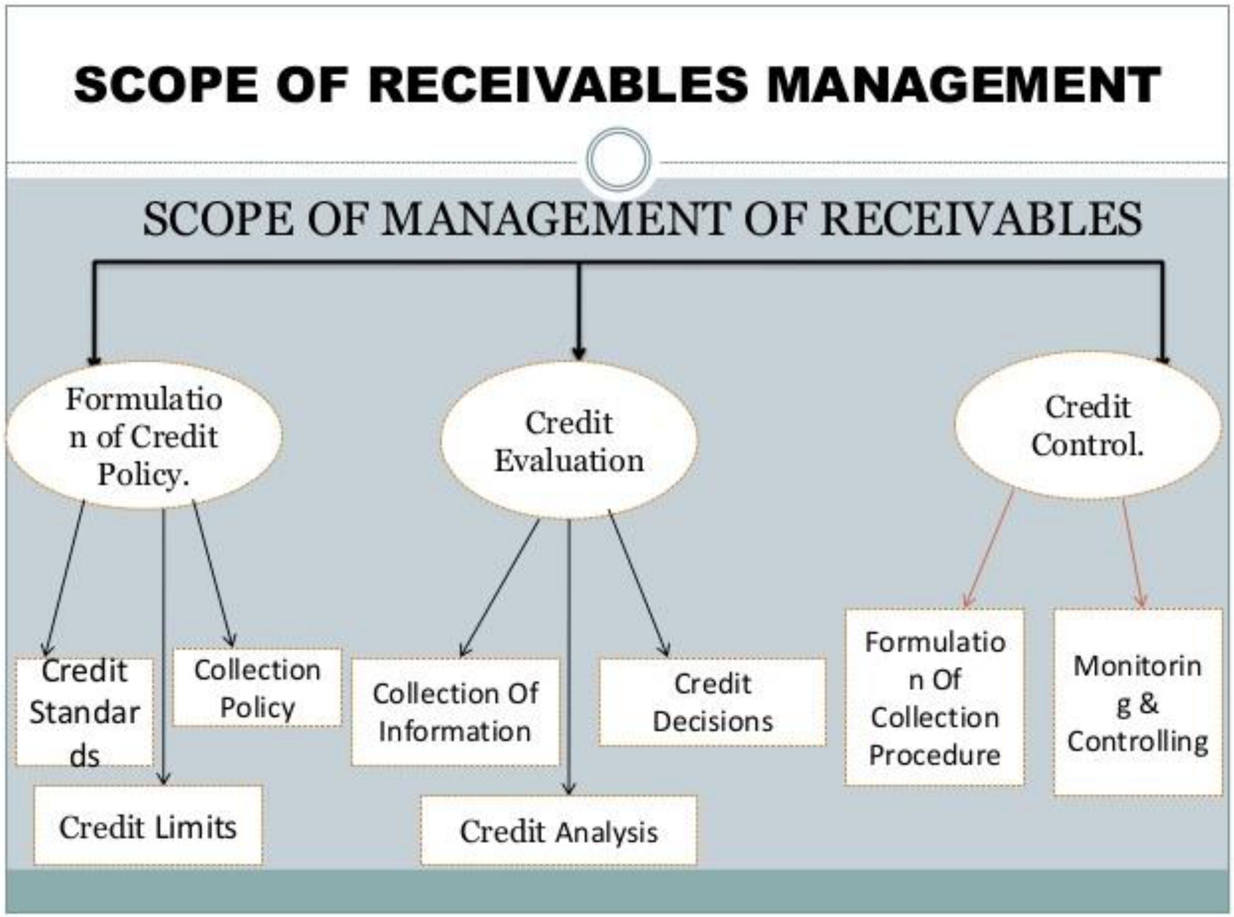
- Receivables are amounts owed to the company by the customers to who company sell goods or services in the normal course of business. The main purpose of managing receivables is to meet competition and to increase sales and profits.
- Receivable management is the process of making decisions relating to investment in trade debtors. Certain investment in receivables is necessary to increase the sales and the profits of the firm. But at the same time investment in this asset involves cost consideration also

FACTORS AFFECTING THE SIZE OF RECEIVABLES:

- Level of sales.
- Nature & condition of Business.
- Credit policy of the firm: Credit policy means the policy adopted to extend credit sales.
- The terms of credit: A firm's investment in receivables is a function of volume of credit sales and the collection or credit period (in terms of days). E.g.: Firm's credit sales- Rs. 50,000 per day. Credit period for payment of dues – 40 days Average investment in accounts receivable= 50,000 * 40 = 20 lakhs.

OBJECTIVES OF RECEEIVABLES MANAGEMENT:

- The objective of Receivables Management is to promote sales and profits until that point is reached where the return on investment in further funding receivables is less than the cost of funds raised to finance that additional credit i.e. cost of capital.
- To obtain optimum volume of sales.
- To control the cost of credit & keep it at minimum.
- To cope up with competition.


SCOPE OF RECEIVABLES MANAGEMENT
SCOPE OF MANAGEMENT OF RECEIVABLES
Formulation of Credit Policy.
Credit Evaluation
Credit Control.
Credit Standards
Collection Policy
Credit Limits
Collection Of Information
Credit Decisions
Credit Analysis
Formulation Of Collection Procedure
Monitoring & Controlling

BENEFITS OF RECEIVABLES MANAGEMENT:

- Growth in sales.
- Increase in Profits.
- Capability to Face competition.
- Helps to increase customer satisfaction.
- Takes control of sales processes.

IMPORTANCE OF RECEIVABLES MANAGEMENT

- Credit policy helps to meet the competition.
- Credit sales help to attract not only existing customers but also the new customers but also the new customers.
- It helps to minimize bad debts.
- Liberalised credit policy helps to increase the growth of sales.
- Helps to increase the operating profits because of more credit sales.
- It ensures higher investment in trade debtors, which will produce larger sales.
- It gives guidance to the management for effective financial planning and control.
- It helps to make effective coordination between finance, production, sales, profit and cost.

DETERMINATION THE APPROPRIATE RECEIVABLES POLICY:

- Our aim is to derive a techniques which the company can apply in order to determine an optimum credit policy. We can gain a greater appreciation for the credit granting process if we know the sequence of events initiated when a business makes a credit sales. While determining the credit policy the firm has to decide the following two things:
- Whether or not to extend credit to a customer.
- How much credit to extend.

The following steps must be taken in determining the appropriate receivables policy:

- Credit Standards: The term credit standards represent the basic criteria for the extension of credit to customers. The quantitative basis of establishing credit standards are:
- Credit Ratings
- Credit References
- Average Payment Periods
- Financial Ratios

The following factors are considered while deciding the credit standards:

- Collection Costs
- Investment in receivables or average collection period
- Bad debts expenses
- Sales Volume
- The effects of relaxed or tightened credit standards can be proved with an example in two manners.
- Long-Term approach
- Short-Term/ Marginal Approach

COLLECTION METHODS USED IN RECEIVABLES MANAGEMENT:

- Post-dated cheques.
- Bank drafts.
- Debt Collector.
- Bills of exchange.
- Pay orders.
- Collection through staffs or agents.
- Lock-box system.
- Factoring.
- Concentration banking.