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Original Research Article

Effect of Accounts Receivable Management on the Performance of Selected Business Organizations in Nigeria

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Abstract

Accounts receivable of a firm is a legally enforceable claim for payment from a business to its customers / clients for goods supplied and / or services rendered in execution of the customer's order. The purpose of the study is to establish how Accounts receivable management tries to minimize the amounts of money tied up in form of accounts receivables and thus takes the organization back to its original set goals. Their accurate monitoring and proper management are also important dimensions in organization. This study examined the effects of receivables management on manufacturing companies in Nigeria using Nestle Nigeria Plc. and Cadbury Nigeria Plc. as case study. The study further examined the effects of sales growth on corporate performance and the effects of bad debt on company's profitability. The study used secondary data collected from the annual reports of both companies for the period 2000-2011 using bad debt, accounts receivable and sales growth as variables. The Hypotheses were analyzed using regression analytical tools. The result showed that accounts receivable directly affects the profitability of the company having a negative relationship. It was advised that companies should create credit extension policies.

Keywords: Organizations, Accounts receivable, Management Effects

INTRODUCTION

Accounts receivable are credit in the provision of goods or services to a person or entity on agreed terms and conditions where payments are to be made later with or without interest. The primary goal of accounts receivable management is to maximize the value of the enterprise by striking a balance between liquidity, risk and profitability (Hrishikes, 2008). Business organizations in their attempts to make profit adopt several strategies and one of which is allowing credit to customers. Trade credit arises when a firm sells its products or services on credit and does not receive cash immediately. It is an essential marketing tool, acting as a bridge for the movement of goods through production and distribution stages to customers.

Accounts receivable management refers to the set of policies, procedures, and practices employed by a company with respect to managing sales offered on credit. It encompasses the evaluation of client credit worthiness and risk, establishing sales terms and credit policies, and designing an appropriate receivables collection process.

Accounts receivable are found on the balance sheet of a company, and are considered a short-term asset. Effective management of accounts receivables is of great importance as it, by increasing cash flows, leads to sound financial health and flexibility of a business entity.

There are various reasons for setting accounts receivables in a business organization: when goods or services are provided on credit, a business records receivables that in turn increases the revenues. The objective is to survive in the market or to increase the sales. Besides, there are times when a business entity, depending upon the goodwill of the clients or customers, it is willing to help them and hence, providing goods or services on credit, establishes receivables and maintains it in accordance with the established policies. In short, establishing and managing accounts receivables is a universal practice.

Gills (2011) assert that the main objective of accounts receivable is to reach an optimal balance between cash flow management components. Cash flow management is the process of planning and controlling cash flow both into and out of a business, that is, cash flows within the business and cash balances held by a business at a point in time (Samilogu, 2008).

Account receivable as a component of cash flow has a direct effect on the profitability of a business .Cash flow management refers to the management of movement of funds into and out of a business and involves the management of accounts payable, accounts receivable, inventory as well as the cash flow planning (Joshi, 2007).Efficient firms maintain an optimal level of cash flow that maximizes their value.

Accounts receivable management is a dynamic financial management process and its effectiveness is directly correlated with a firm's ability to realize its mission, goals and objectives. Despite the role cash flow management plays, many firms have not implemented effective cash flow management practices and the results can be dire, Ahmet (2012). Even profitable firms can go bankrupt if they fail to manage their accounts receivable effectively, particularly, if they operate in rapid-growth or seasonal industries. For a credit policy to be effective it should not be static but requires review periodically to incorporate changes in a firms strategic direction and risk tolerance as well as to ensure that the firm operate in line with competition to ensure sales and credit departments are benefiting (Eliots 2009).

A business organization grants credit in order to protect its sales from competitors and to attract the potential customers to its goods and services at favorable terms and to cultivate an atmosphere of mutual relationship between itself and its customers. Granting of credit no doubt leads to bad debts. In the words of Pandey, a credit sale has three characteristics:

i. It involves an element of risk that should be carefully analyzed.
ii. It is based on economic value. To the buyer, the economic value in goods or services passes immediately at the time of sale, which the seller expects on equivalent value to be received later on.
iii. It implies futurity. The buyer will make the cash payment for goods or services received by him in a future period.

Many business organizations in Nigeria make their sales on credit and they might be unable to collect the money as at when due and this causes a great problem on the performance of the organization especially as a going concern. No business wants to sell its goods or services on credit to a customer who is not capable of paying his or her debts when due. But still, the sales department will always want to increase the sales turnover and hence and will have to increase credit sales to customers. If debts resulting from credit are not collected when due, the following problems might arise:

It can lead to bad debts because there is no guarantee that the customers will pay back even though he plans to pay, any event can happen which may make the debt irrecoverable and also loss of income/capital because bad debt is a loss of income as well as loss of capital you have invested in buying goods. If you keep losing your capital, it will only take a short period before you will be out of business.

Also giving out credit sales can lead to liquidity problems especially when the seller is not enjoying the same credits from your suppliers and some companies are not efficient in debt collection, inefficient accounts receivable leads to the winding up of business.

Management of Account receivable is made by the fact it involves credit control, sales, marketing and finance functions of the business (Cooper 2009). If these important functions are not effectively managed, the company can be exposed to potentially fatal long-term losses.

An effective management of accounts receivable is necessary for the overall performance of an organization, thus, the main objective of this study is to examine the effect of accounts receivable management on the performance of a business organization. The study will

i. Examine the effect of sales growth on the performance of company.
ii. Examine the effect of bad debt in the company's profitability.
iii. Relate how effective accounts receivable affect the profitability of the company.

Statement of Hypotheses

Hypothesis 1

H_0: Sales growth does not have significant impact on the profitability of the company.

H_1: Sales growth has significant impact on the profitability of the company

Hypothesis 2

H_0 : Bad Debt has no significant impact on the profitability of the company.

H_1: Bad Debt has significant impact on the profitability of the company.

Hypothesis 3

H_0: Account Receivable has no significant impact on the profitability of the company.

H_1 : Account Receivable has significant impact on the profitability of the company.

LITERATURE REVIEW

The goal of accounts receivables management is to maximize shareholders wealth. Receivables are large investments in firm's asset, which are, like capital budgeting projects, measured in terms of their net present values (Emery et al., 2004). Receivables stimulates sales because it allows customers to assess product quality before paying, but on the other hand, debtors involve funds, which have an opportunity cost. The three characteristics of receivables - the element of risk, economic value and futurity explain the basis and the need for efficient management of receivables. Firms would rather sell for cash than on credit, but competitive pressures force most firms to offer credit. The extension of trade credit leads to the establishment of accounts receivable. Receivables represent credit sales that have not been collected. As the customers pay these accounts, the firm receives the cash associated with the original sale. If the customer does not pay an account, a bad debt loss is incurred[1]. According to Berry and Jarvis (2006) a firm setting up a policy for determining the optimal amount of account receivables has to take in account the following:

i. The trade-off between the securing of sales and profits and the amount of opportunity cost and administrative costs of the increasing account receivables.
ii. The level of risk the firm is prepared to take when extending credit to a customer, because this customer could default when payment is due.

According to Chambers and Lacey there are three primary issues in the management of accounts receivable: to whom to extend credit, what the terms of the credit should be, and what procedure should be used to collect the money. Extending credit should be based upon a comparison of costs and benefits. The analysis must build in uncertainty because we are uncertain of future payment, and we will handle this by computing the expected costs and expected benefits through payment probabilities. The potential cost of extending credit is that the customer will not pay. Although there is a temptation to compute this cost as the full price of the product, it is almost always more appropriate to use the actual cost of the product. The potential benefit of extending credit is not just the hope for profit on the one transaction; rather, it is the potential value of the customer for a long-term relationship. The decision of how much credit to offer must be made when the customer initially requests credit and when the customer requests additional credit.

The total amount of accounts receivable is determined by two factors: the volume of credit sales and the average length of time between sales and collections. The credit terms offered have a direct bearing on the associated costs and revenue to be generated from receivables.

In evaluating a potential customer’s ability to pay, consideration should be given to the firm’s integrity, financial soundness, collateral to be pledged, and current economic conditions. Bad debt losses can be estimated reliably when a company sells to many customers and when its credit policies have not changed for a long period of time. In managing accounts receivable, the following procedures are recommended:

i. Establish a credit policy
ii. Establish a policy concerning billing
iii. Establish a policy concerning collection.

The establishment of a credit policy can include the following activities:

i. Marketing factors must be noted since an excessively restricted credit policy will lead to lost sales.
ii. A detailed review of a potential customer’s soundness should be made prior to extending credit. Procedures such as a careful review of the customer’s financial statements and credit rating, as well as a review of financial service reports are common.
iii. As customer financial health changes, credit limit should be revised.
iv. The policy is financially appropriate when the return on

the additional sales plus the lowering in inventory costs is greater than the incremental cost associated with the additional investment in accounts receivable.

The following procedures are recommended in establishing a policy concerning billing:

i. Customer's statements should be sent within 1 day subsequent to the close of the period.

ii. Large sales should be billed immediately.

iii. Customers should be invoiced for goods when the order is processed rather than when it is shipped.

iv. Billing for services should be done on an interim basis or immediately prior to the actual services. The billing process will be more uniform if cycle billing is employed.

v. Accounts receivable should be aged in order to identify delinquent and high- risk customers. The aging should be compared to industry norms.

vi. Collection efforts should be undertaken at the very first sign of customer financial unsoundness.

Theoretical Positions

To understand the concept of Accounts receivable it is important to know the range of alternative credit arrangements that can occur in trade. Depending on the type of credit policy, payment can be made at different times. It can occur before delivery, on delivery or after delivery. In the last case, the seller may or may not offer discounts for prompt payment, depending on trade arrangements. When payment does not occur before or on delivery, trade credit is being extended and the seller assumes the credit risk. Otherwise, accounts receivable is not being offered and the buyer assumes the risk that the product may be of low quality. In the last three decades, several theories and models have appeared to explain account receivable. Most of these theories rely on market imperfections, such as the existence of taxes, transactions costs etc.

Tax Theory

The decision whether or not to accept account receivable depends on the ability to access other sources of funds. A buyer should compare different financing alternatives to find out which choice is the best. In trade between a seller and a buyer a post payment may be offered, but it is not free, there is an implicit interest rate which is included in the final price. Therefore, to find the best source of financing, the buyer should check out the real borrowing cost in other sources of funds. Brick and Fung (2009) suggest that the tax effect should be considered in order to compare the cost of trade credit with the cost of other financing alternatives. The main reason for this is that if buyers and sellers are in different tax brackets, they have different borrowing costs, since interests are tax deductible. The authors' hypothesis is that firms in a high tax bracket tend to offer more trade credit than those in low tax brackets. Consequently, only buyers in a lower tax bracket than the seller will accept credit, since those in a higher tax bracket could borrow more cheaply directly from a financial institution. Another conclusion is that firms allocated to a given industry and placed in a tax bracket below the industry average cannot profit from offering trade credit.

Transactions Costs Theory

First developed by Schwartz (2011), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions. Three sources of cost advantage were classified by Petersen and Rajan 2007) as follows: information acquisition, controlling the buyer and salvaging value from existing assets.

The first source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer's orders give suppliers an idea of the client's situation; the buyer's rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do. In his model, Smith (2010) concludes that in two-part credit terms with a high interest rate, those buyers that do not choose to take advantage of the discount can be identified as high risks, because they may be having financial difficulties. Recently, Burkart and Ellingsen (2009) argued that the suppliers' monitoring advantage applies exclusively to input transactions. They posit that the source of suppliers' advantage is the input transaction itself. According to the authors, an input supplier does not incur in monitoring costs to know that an input transaction has been completed, but other lenders do. The main argument supporting the authors' proposition is the difference between cash and input. While the former is easily diverted, i.e., its use does not maximize lenders' expected return, the latter is not easily diverted and its liquidity facilitates trade credit. The second source of cost advantage arises from the power of the seller to threaten buyers. In other words, in some cases there are only a few alternative suppliers for the product needed and, consequently, buyers have very restricted choice. In this case, suppliers can threaten to cut off future supplies if they note a reduction in the chances of repayment. Compared with suppliers, financial institutions do not have the same threatening power. This advantage can become stronger when either the buyers represent only a small part of the supplier's sales or the supplier is part of a network and future community sanctions can be made by a group, which makes this threat much stronger (Kandori, 2010). Empirical evidence supporting this hypothesis can be found in McMillan and Woodruff (2009). Another interesting finding in this strand of literature was provided by Petersen and Rajan (2007), whose empirical results suggest that debtors are less willing to repay a distressed seller. Their argument is that threats of cutting off future supplies made by a supplier with financial problems are not so credible.

The seller's ability to salvage value from existing assets is the third source of cost advantage. In the case of buyer default, the seller can seize the goods that are supplied; of course financial institutions can reclaim the firm's assets as well. The difference between them is that since the firms trading are very often from the same industry, the supplier already has a network to sell the goods and consequently repossessing and resale costs would be lower. Mian and Smith (2008) and Petersen and Rajan (2007) provide two interesting approaches related to this cost advantage. The former obtain evidence supporting the idea that the more durable the goods, the better collateral they provide and the greater the credit offered by the suppliers. The latter point out that the extent to which the customers transform the product is also very important. The less they are transformed, the easier it will be for the supplier to repossess and sell the asset using the same channel.

Another important point refers to the relative value of the goods. Ng et al. (2013) consider that the value of a product differs between firms and financial institutions; i.e., if a product has more value as collateral to a seller than to a financial institution, the seller may have a cost advantage in recuperating the product and selling it again. In this situation, suppliers tend to offer cheaper credit than financial institutions because of the reduction of the credit risk.

Another paper related to transactions costs is Emery (2011); this author hypothesizes that there is a positive relation between demand variability and credit offered. This hypothesis is based on the following argument. When demand fluctuates, a firm has two traditional reactions (production or price adjustment); however, both are very costly and a better decision could be taken in that the seller could change trade credit terms according to demand. Terms can be relaxed when demand drops and tightened when demand increases.

In this case, trade credit can be seen as an operational tool. Long et al. (2008) obtain empirical evidence supporting this hypothesis. Their results show that firms with variable demand extend more trade credit than firms with stable demand.

Liquidity Theory

This theory, first suggested by Emery (2009), proposes that credit rationed firms use more trade credit than those with normal access to financial institutions. The central point of this idea is that when a firm is financially constrained the offer of trade credit can make up for the reduction of the credit offer from financial institutions. In accordance with this view, those firms presenting good liquidity or better access to capital markets can finance those that are credit rationed.

Several approaches have tried to obtain empirical evidence in order to support this assumption. For example, Nielsen (2012), using small firms as a proxy for credit rationed firms, finds that when there is a monetary contraction, small firms react by increasing the amount of trade credit accepted. As financially unconstrained firms are less likely to demand trade credit and more prone to offer it, a negative relation between a buyer's access to other sources of financing and trade credit use is expected. Petersen and Rajan (2007) obtained evidence supporting this negative relation.

Product Quality Theory

Accounts receivable gives rise to two problems. Firstly, sellers do not usually know the real credit-worthiness of their buyers and; on the other, buyers do not properly know the quality of the product that is being acquired. To solve the first problem, Smith (2010) suggests a model where sellers offer two-part credit terms because they can recognize potential defaults faster than financial intermediaries. There are many other arguments supporting the idea that suppliers have cost advantages in acquiring knowledge about a buyer's financial situation. Regarding the second problem, Smith (2010) also claims that with asymmetric information about product quality, sellers offer trade credit to allow buyers to verify product quality before payment. Other options to reduce the cost of the above-mentioned problem are to offer money back guarantees and warranties. Trade credit has some advantages when compared with these two. First, in a case of money-back or warranties, if the seller is not in business any more, the buyer can be damaged. Second, when payment is made at the time of sale, a client who wants to obtain the advantages of the money-back system must try to convince the seller that the quality of the product is not as promised. As pointed out by Smith (2010), one of the major purposes of trade credit is to allow clients to assess product quality prior to payment; however, this is not true for some categories of product. Therefore, this theory works better in some industries whose product quality is unknown at the moment of purchase. According to this argument, sellers will extend more trade credit when selling products where quality is indefinite at a prior moment and the purchase is not frequent. On the contrary, sellers will extend less trade credit when trading perishable items where acquisition is very frequent.

Many financial scholars have studied trade credit from this point of view (see, for instance, Lee and Stowe, 2007; Long et al, 2008; Deloof and Jegers, 2012; Wei and Zee, 2013; Pike et al., 2014). In summary, the main results of these authors are as follows.

i. Small firms tend to offer more trade credit than large firms, since small firms still have to establish their reputation about product quality.
ii. Firms with longer production cycles prolong their collection period, since they produce high-quality goods.
iii. Firms selling products whose quality is difficult to measure extend more trade credit because customers must have enough time to assess quality.

Relevance of Theory to Accounts Receivable Management

The researcher will be adopting the transaction cost theory because of its applicability, under the transaction cost theory, three sources of cost advantage were classified by Petersen and Rajan 2007) as follows: information acquisition, controlling the buyer and salvaging value from existing assets. For the first source, sellers can get information about buyers at a cheaper cost because it is obtained in the normal course of business. While for the second source, Suppliers can threaten to cut off future supplies if they note a reduction in the chances of repayment and the supplier can salvage the assets of the customers whereby seizing the assets of the customers. The three sources can help in the management of Accounts receivable which might affect the performance of the organization. In proper and effective management of Accounts receivable, the sources of cost advantages will be used.

Theoretical Explanations

Although many theories have attempted, in different ways, to explain the existence of Accounts receivable, they cannot provide a complete explanation of the topic. The tax theory suggests that firms in high tax brackets tend to offer credit to those in low tax brackets. Some research studies have found empirical evidence to support this, but this explanation does not seem to be enough since it cannot explain the accounts receivable between firms situated in the same tax bracket.

If trade credit is an operational tool and exists to minimize transactions costs, a reduction in the level of trade credit used would be expected since many improvements in transaction technologies have taken place. However, this reduction has not been observed in recent years.

The liquidity theory supposes that credit constrained firms use more trade credit than those with easier access to financial intermediaries. This may be an explanation, but once more, it does not seem to be enough since it does not explain why financially unconstrained firms also use trade credit. The product quality theory argues that trade credit is offered to allow clients to check the real quality of the goods before payment, but it does not explain why firms selling some products and services do not offer credit at all; some firms even require clients to pay in advance.

METHODOLOGY

Research Design

This study used descriptive research design to establish the relationship between accounts receivable and financial performance. It will provide the guidelines that will help the organization manage their account receivable as to guide against bad debt leading to solvency. The research selected for this study is a survey design method which the researcher does not have to control over independent variable affecting the organization because they had already occurred and so they cannot be manipulated by the researcher.

Brief History of Study Organizations

Nestle Nigeria Plc

Nestle Nigeria Plc is part of the Nestle Group, the Nutrition, Health and Wellness company renowned world-wide for its high quality products. Nestle Nigeria Plc began simple trading operations in Nigeria in 1961 and has today grown into a leading food manufacturing and marketing company in Nigeria.

Globally, Nigeria companies are organized into Regional groupings to leverage expertise and the size of the company. In the case of Nigeria the company is part of central and west Africa Limited which is based in Accra.

Nestle Nigeria Plc was listed on the Nigerian Stock Exchange on April 20, 1979. Nestle central and West Africa (CWA) Limited is the major shareholder of the company. The Food segment includes production and sale of Maggi, Cerelac, Nutrend, Nan, Lactogen and Golden Morn. The Beverages segment includes production and sale of Milo, Chocomilo, Nido, Nescafe and Nestle Pure Life. It manufactures and markets a range of brands, which include Infant Formula-Nestle Nan, Infant cereals-Nestle Nutrend, Nestle Cerelac, Family cereals-Nestle GOLDEN MORN, Confectionery-Nestle Chocomilo, Bouillon-Maggi Cube, MAGGI Mix'py and Table Water-Nestle Pure Life. Its products include Maggi Star Cube, Maggi Crayfish, Maggi Chicken, Ginger & Garlic, Golden Beef and Classic.

Cadbury Nigeria Plc

The origin of Cadbury Nigeria plc.date back to the 1950s when the business was founded as an operation to source cocoa beans from Nigeria and as a precursor to enable the company's founders tap opportunities for serving the local consumer-market with world-famous. Cadbury-branded products.

In the early 1960s an initial operation was established to re-pack imported bulk products. This packing operation grew rapidly into a fully-fledged manufacturing operation and resulted in the incorporation of Cadbury Nigeria Limited in January 1965. In 1976, the firm became publicly listed company with shares traded locally on the Nigerian Stock Exchange. The company has since grown organically to become one of the leading manufacturers in Nigeria, with a rising profile in the Europe, Middle East Africa (EMEA). Listed on the Nigerian Stock Exchange since 1976, Cadbury is in the top 10 of the 258 quoted equities by market capitalization at the end of 2002. Cadbury Schweppes currently owns 46.3% of the equity, with the balance stock held by about 40,000 individual and institutional shareholders. Cadbury Nigeria is one of the few signatories to date to the Convention on Business Integrity. Its lead brands include Tom Tom, Bournvita and Bubba bubble gum. Other brands include Cadbury Eclairs, Cadbury Chocki, Trebor Mints, Halls Take 5 (vitaminised candy), and Creme Rollers. Cadbury Nigeria also owns a cocoa processing business, the Stanmark Cocoa Processing Company.

Population of the Study

The study focuses on the effect of accounts receivables management on the performance of manufacturing company. It is not easy to carryout research on the entire population because the population of the study is large and it will also consume a lot of time and money.

Sampling Technique and Sampling Size

This is a design plan for obtaining sample from a given population. However for the purpose of this work, case study will be Nestle Nigeria Plc and Cadbury Nigeria Plc as sample to represent the whole manufacturing companies. The result obtained from the sample will adequately present the results which would have been obtained from the whole population and made use of purposive method for the selection of my sample size.

Nature and Source of Data

The study will use secondary data to be extracted from the financial statement of Nestle Nigeria Plc. and Cadbury Nigeria Plc. Data from Annual Reports are proven to be reliable because companies are required to keep accounts that give true and fair view of their company according to Companies and Allied Matters Act (CAMA) of 1990. The data to be sourced will include the statement of comprehensive income and statement of financial position for a period of twelve (12) years starting from 2000 to 2011. The records maintained by the company will be accessed to get the required data.

Research Instrument

The data for this study will be obtained from secondary source. These include the published financial statement of Nestle Nigeria plc and Cadbury Nigeria Plc. covering a period of 12 years starting from 2000 to 2011. The published financial statement will be obtained from the website of Nestle Nigeria Plc as well as the website of the Nigeria Bureau of Statistics (NBS) and the Nigeria Stock Exchange Fact Book.

Validity and Reliability

Validity refers to the appropriateness, meaningfulness and usefulness of data that is used to support the interpretation and relevance of the content of test in measuring what is expected to measure. The data gotten is from the published Account of the case study (Nestle Nigeria Plc. and Cadbury Nigeria Plc)

Table 1. Raw Data for Cadbury Nigeria Plc.

Years	Return on Asset Ratio	Accounts Receivable ratio	Debt Ratio	Sales Growth Rate (%)
2000	0.200304	1.699728	0.001468	-80.1463
2001	0.225111	0.105478	0.233933	30.41862
2002	0.257688	0.238158	0	21.04079
2003	0.078091	0.250475	0	28.48299
2004	0.184423	0.17217	0	7.661647
2005	0.120165	0.306413	0	32.96009
2006	-0.19427	2.496323	0	-93.4763
2007	-0.16201	0.12335	0	937.5683
2008	-0.11914	0.015954	0	1118.764
2009	-0.09425	0.110462	0	-89.4703
2010	0.006856	0.140663	0	14.01166
2011	0.15077	0.147314	0	16.93494

Table 2. Raw Data for Nestle Nigeria Plc.

Years	Return on Asset Ratio	Accounts Receivable ratio	Debt Ratio	Sales Growth Rate (%)
2000	0.481512	0.036229	0	-95.8007
2001	0.542715	0.038762	0	41.07834
2002	0.538042	0.054848	0	38.39675
2003	0.490925	0.02872	0	25.80868
2004	0.455249	0.040198	0	15.54538
2005	0.468611	0.033442	0	20.64157
2006	0.433563	0.039647	0	11.90268
-2007	0.398252	0.052219	0	14.58703
2008	0.406804	0.083199	0.205094	17.52262
2009	0.311483	0.049805	0.026949	32.03375
2010	0.302325	0.104984	0.130988	17.25981
2011	0.240945	0.087637	0.108809	22.28536

Method of Data Analysis

The data for this study were analyzed using both descriptive and influential statistical tools; the descriptive statistical tools will include percentages, frequency tables and means. The influential statistical tool will include multiple regression analysis

Data Presentation, Analysis and Interpretation

Interpretation

Data analysis Result

Regression

Multi Regression analysis was carried out for the achievement of the objectives.

The regression output F (3, 20) = 3.901, show that the model is fit to predict the independent variables. The r^2 shows that 36.9% of variation in the profit of organization is:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$

Where:

B_0= = Return on asset

X_1=sales growth

$X_{2\,=}$ Bad debt

$X_{3=}$ = Accounts receivable

For the first objective, the tables shows that sales growth is statistically significant in predicting the profit of the organization but the relationship is inverse which means that sales was not contributing enough profit ($t= -2.241$, $\beta = 0.409$,$p< 0.05$) .

For the second objectives, the multi regression shows that bad debt has a negative relationship with profit but is not statistically significant. ($t= 0.056$, $\beta = 0.010$, $p< 0.05$) and this achieves the second objective.

The third objectives, Accounts receivable is statistically significant and the multi regression shows that it has a negative relationship with profit. ($t= 2.938$, $\beta =-5.39$, $p< 0.05$).

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.608[a]	.369	.275	.184788267

a. Predictors: (Constant), Sale_growth_Rate, Debt_Ratio, Account_recievable_ratio

Table 4. ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.400	3	.133	3.901	.024[b]
	Residual	.683	20	.034		
	Total	1.083	23			

a. Dependent Variable: Return_asset
a. Predictors:(Constant),Sale_growth_Rate,Dedt_Ratio, Account_recievable_ratio

Table 5. Coefficientsa

Model		Sig.
1	(Constant)	.000
	Account_recievable_ratio	.008
	Debt_Ratio	.956
	Sale_growth_Rate	.037

a. Dependent Variable: Return_asset

Table 6. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T
		B	Std. Error	Beta	
1	(Constant)	.330	.049		6.685
	Account_recievable_ratio	-.201	.069	-.539	-2.938
	Debt_Ratio	-.032	.579	-.010	-.056
	Sale_growth_Rate	.000	.000	-.409	-2.241

Test of Hypothesis 1

H_0: Sales growth does not have significant impact on the profitability of the company.
H_1: Sales growth has significant impact on the profitability of the company
From the multi regression output, profit (t= -2.241, β = 0.409, p< 0.05) .Therefore we reject the null hypothesis and conclude that sales growth has significant impact on the profitability of the organization. The standard 0.05 is higher than 0.037, therefore, we reject.

Test of Hypothesis 2

H_0 : Bad Debt has no significant impact on the profitability of the company.
H_1 : Bad Debt has significant impact on the profitability of the company.
From the multi regression output, profit (t= 0.056, β = 0.010, p< 0.05) .Therefore we accept the null hypothesis and conclude that Bad debt has no significant impact on the profitability of the organization. . The standard 0.05 is lower than 0.956 , therefore, we accept.

Test of Hypothesis 3

H_0: Account Receivable has no significant impact on the profitability of the company.
H_1: Account Receivable has significant impact on the profitability of the company.

From the multi regression output, profit. (t = 2.938, β =-5.39, $p< 0.05$) .Therefore we reject the null hypothesis and conclude that Accounts receivable has no significant impact on the profitability of the organization. The standard 0.05 is higher than 0.008, therefore, we reject.

Based on the result from the regression analysis, sales growth has a negative relationship on the performance of the companies i.e. profit is inversely related to sales growth. Also, bad debt has a negative relationship on the profitability of the companies i.e. profit is inversely related to bad debt. Accounts receivable has a negative relationship on the profitability of the companies i.e. profit is inversely related to Accounts receivable.

DISCUSSION OF FINDINGS

The study aimed at investigating the effects of effective accounts receivables management on the performance of business organization. The results from the study revealed several factors that affect the management of accounts receivable. With regard to credit extension policy, the study revealed factors such as lack of a formal credit policy, delayed or non review of the credit policy manual, inconsistency on credit risk analysis procedures, lack of clear credit policy objectives and haphazard variation of credit terms which pose a real challenge to the effective management of accounts receivables application of credit collection policy procedures and weak follow up strategies on overdue accounts. Effective management of credit sales has a positive relationship with the operating profit. This implies that for companies to maximize their profit, they should grant credit to trustworthy customers with an appropriate credit control mechanism. It was also discovered that credit sales increase turnover and profitability in the domains of effective implementation of optimum credit policy in the firms. It is now obvious that firms having optimum credit policy help in eliminating bad debts losses and other associated costs of credit.

There is need for companies to maintain adequate liquid assets and eliminate bad debt losses and other associated costs of credit. The study also revealed that the objective of any firm's credit policy is to maximize profit of the firm and at the same time minimize costs associated with credit sales.

CONCLUSION

The study concludes that although there exists some practices guiding extension of credit to customers, their weak implementation as evidenced by lack of formal credit extension policy, delayed or non-review of the policy manual, inconsistency on credit risk analysis pose a challenge to effective management of accounts receivables. The study also concludes that there is either lack of or inconsistent application of credit collection policy procedures and or weak follow up strategies on overdue accounts which hampers effective accounts receivables management. The study further concludes that due to weak or inadequate credit control and monitoring procedures, manufacturing firms continue to face a challenge ineffectively managing their accounts receivables. Finally, the competitive nature of the business environment requires firms to adjust their strategies and apply financial policies to survive and enable growth. Account receivable management is an important face of financial management and its accurate monitoring and proper management is important in an Organization.

RECOMMENDATIONS

From the findings and conclusions of the study, the following recommendations were made;

i. The firms should create a credit extension policy which should be adhered to always and periodically reviewed to see when it should be changed to match with economic conditions. The policy should be able to attract new customers as well as protect the firm from potential bad customers.

ii. Firms should create a credit collection policy setting out the procedures and practices to be used by the company to collect overdue or delinquent accounts receivable. This policy should allow for simultaneous use of a combination of several collection strategies that ensures that the firm not only improves its cash flow by shortened average collection period but also does not suffer bad debt losses.

iii. Management of Companies should ensure the development of adequate and efficient credit policy for their Companies. In order to achieve desired results. Organizations should consider their mission, the native of their businesses, and their business environment before setting up a credit policy and the credit policy should not be disregarded after it is created.

iv. Companies should intensify efforts to engage the services of factoring agents. This will reduce the incidence of bad debts losses and other associated costs of credit.

v. Companies should increases the rate of credit sales to trustworthy customers only despite the fact that credit sales is a marketing tool to maintain or expired sales.

vi. Firms should monitor, review and adjust credit policy from time to time considering the nature of their business and mission.

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