DPBS(PG) College, Anoopshahr

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Receivable Management

Cash flow is the blood line for any business. Business can survive lack of profits, but cannot survive lack of Cash flow. Managing receivables is one of the most important parts of any Small or large businesses. Hence it is important to know about receivable management solutions.

When we start the business, the thing that looks most difficult is Sales. But once we have done Sales, then we are revealed to more difficult part – Receivables. Yes, collecting the due payment from our Buyers is a bigger task, sometimes than the Sales itself.

Receivable Management or 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.

There are very few businesses, which have the luxury of receiving money before selling, i.e. Selling for advance payments. Most of the Companies sell their offerings on a credit. Which means that they will collect the money after selling.

Although it looks very simple on the face of it, Managing receivables from Debtors can be a very complex task depending on the nature of our business. As our business grows and as our offering gets complex the process of collecting the payments needs to be designed accordingly.

So the entire process of defining the Credit Policy, Setting Payment Terms, Payment Follow-ups and finally a timely collection of the due payments can be defined as 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:

1. Payment Collection.
2. Collection Management.
3. 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.

These are receivable management objectives.

- 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 Receivables management

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

2. 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.
3. 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. Bad collections can mean higher working capital requirements. Which means higher interest costs for the company.
4. A reliable and predictable Receivables will ensure steady cash flow management of the organization. Amounts receivables with no due dates are useless.

Benefits of Accounts Receivable Management

1. 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.

2. Lower Working Capital Requirements.

    Effective receivables management ensures that our Working Capital requirements are kept at a minimum.

3. Lowered Interest costs.

    Working capital is also fixed capital, which attracts interest. Lower Debtors will reduce our Interest burden.

4. 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.

5. 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. Nonreceipt or delayed receipt is the biggest profit leakage any company can have.