

MANAGEMENT OF ACCOUNT RECEIVABLES: BEST PRACTICES

Presentation by:

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“Leveraging safely”

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Presentation Outline



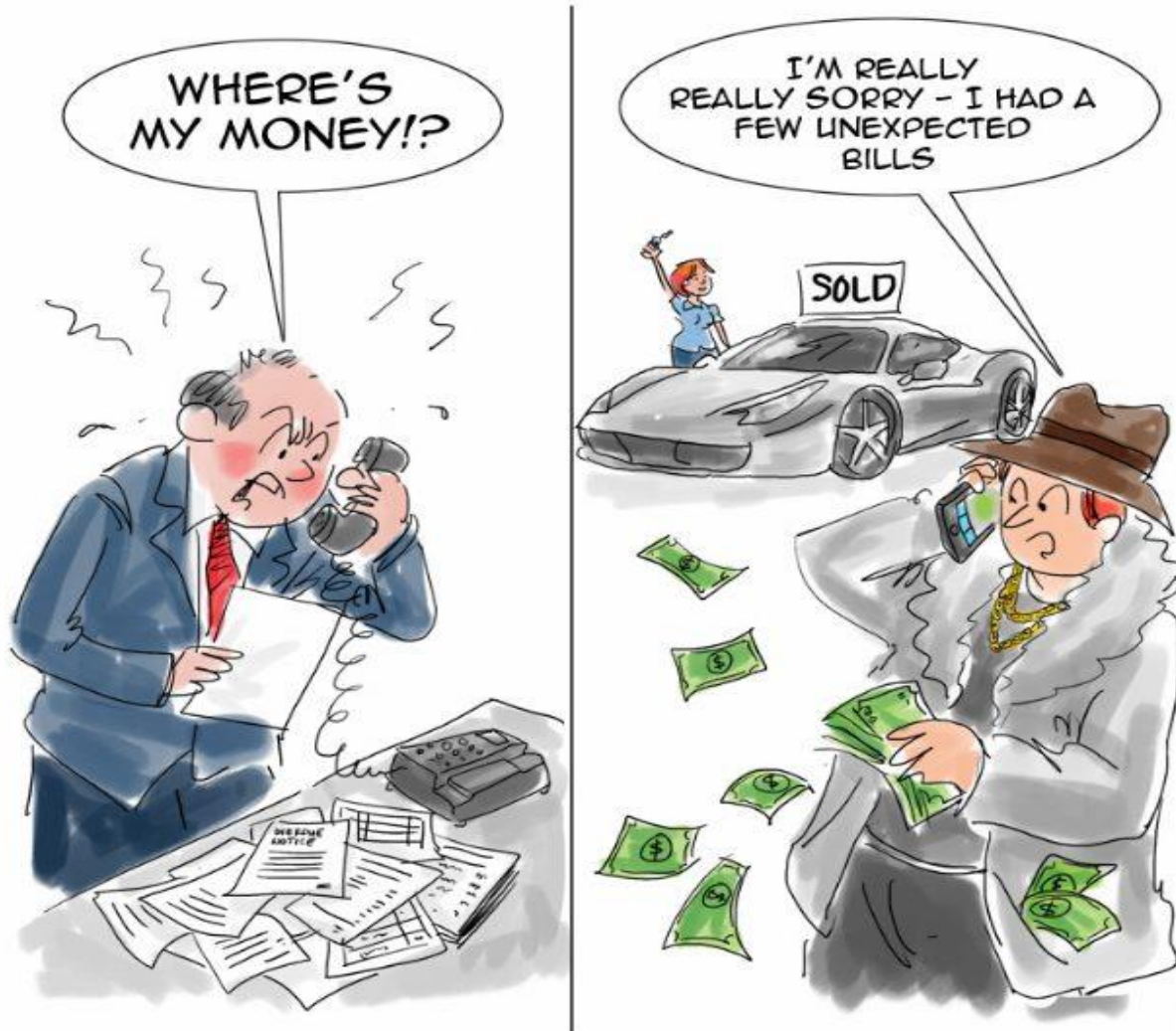
- At the end of the presentation we should appreciate:
 - ❑ Operating cycle
 - ❑ Collection practices
 - ❑ Account receivables pitfalls
 - ❑ Analysis of account receivables
 - ❑ Best practices in account receivables

Importance of Cash



“Cash is King” is it and why?

Starting point



Account receivables as current assets



	Trade receivables	Current assets	Rec as a % of sales
APPLE	22,926.00	162,819.00	14%
SAFARICOM	18,126.00	49,959.00	36%
EABL	8,222,994.00	29,602,381.00	28%
EAPC	632,355.00	1,985,639.00	32%
AMAZON	13,164.00	60,197.00	22%
COCA COLA	3,971.00	20,411.00	19%

Operating Cycle



- ❑ It relates to the various stages of cash conversion – from purchase of raw materials, production, sales, payment of creditors and collections from customers
- ❑ It is the length of one complete cycle of cash conversion
- ❑ It is the responsibility of the finance manager to shorten the cash conversion cycle

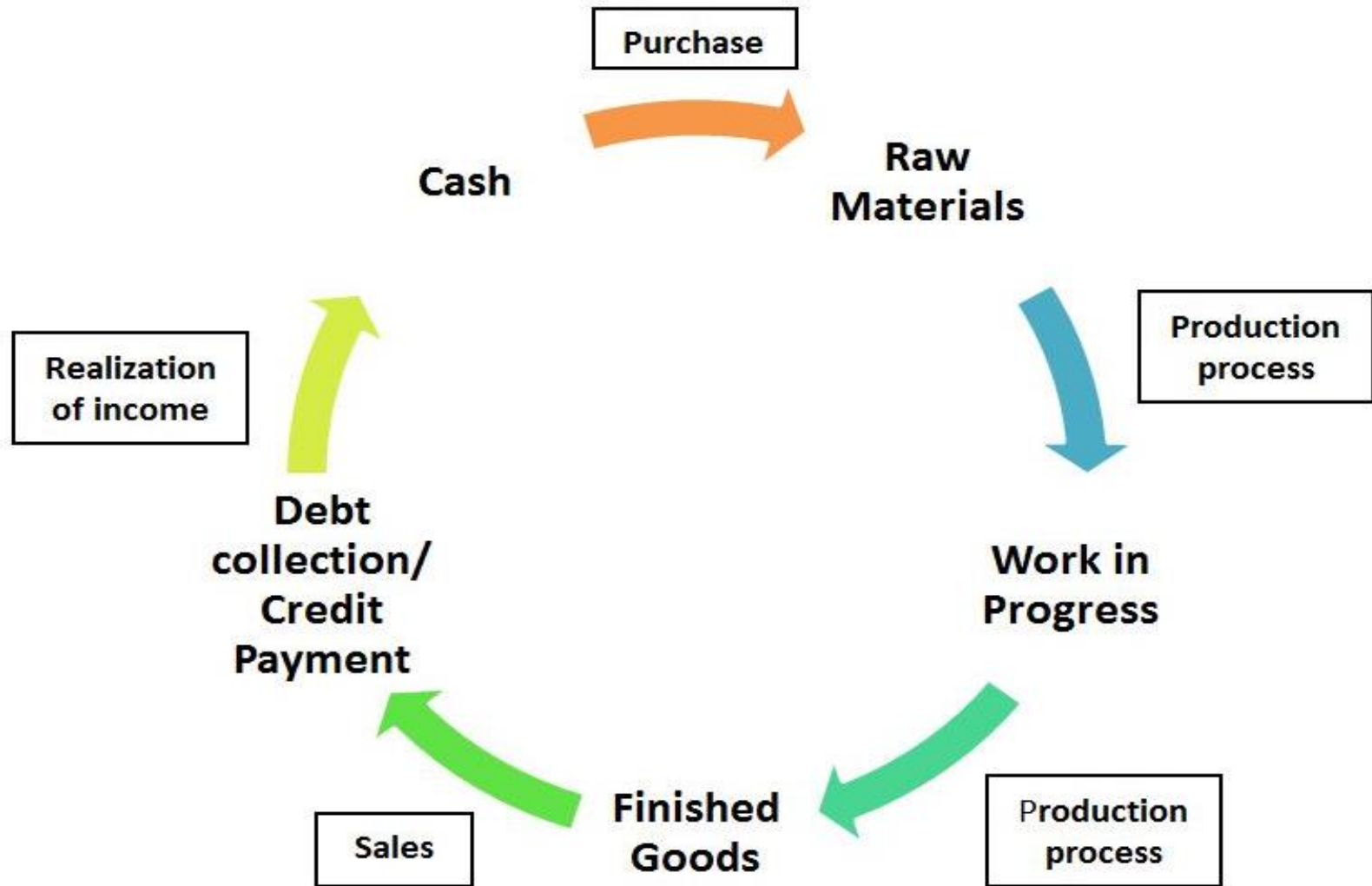
Operating Cycle Cont'd



❑ It is affected by:

- a) Raw materials are not easily available
- b) Processing/production of goods time
- c) Pace of sales i.e. slow or fast moving goods
- d) Credit policy/debt collection strategies

Operating Cycle Cont'd



Need for Management of W.C.



- ❑ Uninterrupted operations
- ❑ Competitive advantage
- ❑ Improved solvency and liquidity
- ❑ It enhances profitability of firms – driving more sales with shorter collection periods
- ❑ Favorable financing conditions by lenders – as a results of strong liquidity
- ❑ Ability to face shocks and peak demand – i.e. survive crises and also manage large orders

Debt Collection Methods



- ☐ Telephone
- ☐ Letters, faxes and emails (including demand letters)
- ☐ Customer visits
- ☐ Collection by sales team
- ☐ Account statement messages
- ☐ Withholding of supplies
- ☐ Legal means of enforcement of debts

Slow payments by debtors



- ❑ Caused by:
 - Debt disputes – disputed invoices
 - Cash shortages on the customers side
 - Customer inefficiency – purchasing department
 - Company policy
 - Uncertainties or disagreements over payment terms

Debt collection sins



- ☐ Having two contact points for customers within your organization
- ☐ Threats to customers on actions you are not ready to take
- ☐ Use of leading questions e.g. yes/no
- ☐ Taking uncoordinated actions
- ☐ Revealing desperation to your customers
- ☐ Compromise to your staff
- ☐ Discussing your customers with third parties

Debt collection sins cont'd



**“If an invoice is due in 30 days, we pay it in 60 days.
If it’s due in 60 days, we pay it in 90 days. If it’s
due in 90 days, then they probably don’t
need the money anyway.”**

Analysis of Account Receivables



- ❑ What do we check when analyzing receivables?
 - DSO – Daily sales outstanding (debtors days)
 - Ageing analysis
 - Trend analysis
 - Ratio analysis – debtors turnover, collection days
 - **CAMPARI** - Character, Ability to repay, Margin of Finance, Purpose, Amount, Repayment terms, and Insurance
 - **5Cs of credit** - (Character, capital, conditions, capacity, collateral)
 - Altman Z score – predicts corporate failure

Account Receivables Strategies



- ☐ Invoicing promptly
- ☐ Delinquent accounts – getting commitments from overdue accounts
- ☐ Extension/renegotiation of credit
- ☐ Writing off bad debts
- ☐ Use of Demand letters
- ☐ Cash discounts

Management of AR - Best Practices



- ☐ Credit approval process – set limits
- ☐ Technology as a friend – automate appropriately
- ☐ E-invoicing should be prioritized
- ☐ Confirm invoice receipts with customers – “I have never received your invoice”
- ☐ Think beyond the DSO and bad debts written off
- ☐ Develop a clear concise follow up plan
- ☐ Develop team efficiency for staff involved with collections

Management of AR - Best Practices



- ☐ Evolve with your customers – upgrade of systems, online transactions....
- ☐ Consistent policies
- ☐ Adopt a root-cause – analyze the reasons behind collections problems
- ☐ Last resort – stop services
- ☐ Data analytics to obtain important insights from the sales/collections data
- ☐ Factoring of invoices – sale of invoices to a ‘factor’
- ☐ Pledging of debtors – use debtors as collateral

Interactive Session



□ Comments, questions, feedback.....

END



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Parting shot

