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ISTANBUL AYDIN UNIVERSITESI
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**THE ANALYSIS AND MODELLING OF ACCOUNTS RECEIVABLE
MANAGEMENT: AN APPLICATION FROM THE HEALTH CARE
INDUSTRY**

THESIS

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FOREWORD

While accounting is considered as a constantly changing and developing sphere, I could not avoid such important issue and task as accounts receivable management which is dealt by all accounting departments all over the world.

This thesis is written with purpose to determine the main aspects of accounts receivable management processes, its common issues, weak, strong points and the various approaches that are applied in accounting. Besides that, I tried to prepare a clear model of actions that any accountant responsible for accounts receivable management may apply in real life working processes which was tested by myself as well.

I would like to thank Assist. Prof. Hülya Boydaş Hazar who was constantly guiding and motivating me while preparing this thesis, which was a big honour for me. I would also like to thank my family who believes in the success of all my beginnings.

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Arzu TAHIRLI

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THE ANALYSIS AND MODELLING OF ACCOUNTS RECEIVABLE MANAGEMENT: AN APPLICATION FROM THE HEALTH CARE INDUSTRY

ABSTRACT

Over the history it was clearly observed how healthcare industry plays an important role not only in the physical and mental state of society but in economic sphere as well. Unlike most other businesses taxation and privileges applied in healthcare industry differ depending on their political, social and economic influences. If we look at the budget of one country we will be able to observe how big proportion of the budget funds fall under healthcare industry sector, and it includes both healthcare implementing (clinics, hospitals, test centres, etc.) and development services (institutions, scientific projects, etc.)

If we look at the definitions the term receivables stand for the due funds that should be received by one side for the services and/or products provided to the other side. In accounting it is included in balance sheet and consider all debts owed to the company (contractor company, services and/or products providing side). For company's managerial level employees, receivables are one of the most important dues of their job and it is reasonably considered as the power that makes company keep going. Despite the size of the company all the company owners/managers observe receivables as their top priority.

In this thesis paper the importance of receivables management for a unit of healthcare industry would be shown, by presenting some samples on private clinic located in Baku, Azerbaijan. The experience of accounting team will help to understand the true meaning of receivables, what they depend on, what they control and influence, how it should be managed and how company should react on the changes within the company and the country in order to keep the receivables flow in proper condition.

Below we will firstly observe the main aspect of proper receivables management procedure and see them on the examples shown on private clinic model. Besides that, the purpose of this thesis is to show algorithm of steps that should be taken in possible situations that can be met in some healthcare industry unit.

Keywords: *Accounting, Receivables, Healthcare.*

ALINAN HESAPLARIN ANALİZİ VE MODELLENMESİ: SAĞLIK BAKIMI ENDÜSTRİSİNDEN BİR UYGULAMA

ÖZET

Tarih boyunca, sağlık endüstrisinin yalnızca toplumun fiziksel ve zihinsel durumu değil, aynı zamanda ekonomik alanda nasıl önemli bir rol oynadığı açık bir şekilde görülmüştür. Çoğu diğer işletmelerin aksine, sağlık sektöründe uygulanan vergilendirme ve ayrıcalıklar, politik, sosyal ve ekonomik etkilerine bağlı olarak farklılık gösterir. Bir ülkenin bütçesine bakarsak, bütçe fonlarının büyük kısmının sağlık sektörü sektörüne girdiğini gözlemleyebileceğiz ve hem sağlık hizmeti uygulamalarını (klinikler, hastaneler, test merkezleri vb.) Hem de geliştirme hizmetlerini (kurumları , Bilimsel projeler, vb.)

Tanımlara bakarsak, alacaklar bir tarafın diğer tarafa sağlanan hizmetler ve / veya ürünler için ödenmesi gereken fonları ifade eder. Muhasebede bilançoda yer alır ve şirkete borçlu olan tüm borçları (yüklenici firma, hizmet ve / veya sağlanan taraflar) dikkate alır. Şirketin yönetsel düzeydeki çalışanları için, alacaklar, işlerinin en önemli yükümlülüklerinden biridir ve şirketin devam etmesini sağlayan makul olarak kabul edilir. Şirketin büyüklüğüne rağmen, tüm şirket sahipleri / yöneticileri, alacaklarını öncelikli olarak gözlemlemektedir.

Bu tez çalışmasında Bakü, Azerbaycan'da bulunan özel klinikte bazı örnekler sunularak bir sağlık sektörü birimi için alacak yönetiminin önemi gösterilecektir. Muhasebe ekibinin deneyimi, alacakların gerçek anlamını, hangi maddeye bağlı olduklarını, neyi kontrol ve kontrol ettiğini, neyi nasıl yönetileceğini ve şirketin şirket içindeki ve ülkedeki değişikliklere nasıl tepki vereceğini anlamaya yardımcı olacaktır. Alacaklar doğru akıyor.

Aşağıda, öncelikle uygun alacak yönetim prosedürünün ana unsurunu gözlemleyeceğiz ve bunları özel klinik modelde gösterilen örnekler üzerinde göreceğiz. Bunun yanı sıra, bu tezin amacı, bazı sağlık sektörü birimlerinde karşılanabilecek muhtemel durumlarda alınması gereken adımların algoritmasını göstermektir.

Anahtar Kelimeler: *Muhasebe, Alınan Hesaplar, Sağlık Endüstrisi*

1. INTRODUCTION

1.1 Purpose of the Thesis

The purpose of this thesis is to simplify the mechanism of account receivable management through making this process understandable. All around the world accountants and companies in general have hard time by trying to collect the funds that actually do belong to them but they cannot reach them when they want or at all. In order to be able to collect all the receivables in time the accounting team has to get through number of procedures. Besides that, as per the international accounting principles each accountant has duty of care, i.e. is responsible for correct preparation of all the documents, realisation of duties and prevention of all possible situations that may somehow harm the company. In case an accountant fails to realise any of his duties and responsibilities, the duty of care would be broken, then an accountant and his/her actions would be investigating for further decisions that may bring up to the fines, employment contract termination and/or a court case. Duty of care of an accountant does not include only the duties and responsibilities mentioned in his/her employment contract but it also includes any cases where the accountant could neglect the work, mistreat any suspicious signals within the work frame and does not take corresponding actions when it is needed (informing the upper management). Once an accountant has any certificate and/or diploma in accounting sphere, it automatically considered that that particular person has accepted the duty of care in the corresponding sphere.

In the case of Accounts Receivables Management first of all, the accounting department as part of its duty of care should be aware of the particular client, according to all the information mentioned in the contract. All this information should be passed from sales and marketing departments. Once the contract is analysed the accounting department should add all the client data to their database in order to avoid any misunderstanding within the company. As per world practice it was determined that, unfortunately, in account receivables failure there is only some part of poor accounting principles. Most of the times the accounts receivables failure, i.e. bad debts occur due

to poor marketing, contractor and other departments' performance. This thesis will show which mistakes should be avoided in order to be clear in accounts receivables management.

One of main purposes of the thesis is to determine which part of an accountant's duty of care is vital for proper accounts receivable management. Once we have clear picture of this unit we will be able to understand our true targets. These targets will not only explain which factors are important for proper Accounts Receivables Management, but in case of absence of any of them this will notify the company about and urgent and important problem within the company.

The final purpose of this thesis is to show how a company may avoid bad debts and have only good ones paid in time. This is the problem of all companies, as none of them would like to provide some services/goods without payment for them, i.e. for free. The root of this problem lies in the fact that most of the times companies do not really know which company may reject payment for certain services/goods. This thesis will explain which indicators can tell a company that a certain company would not pay for its debts. These actions will involve other departments of the company that would explain once more the significance of Accounts Receivables Management.

2. ACCOUNTS RECEIVABLE

2.1 Accounts Receivable Definition

The accounts receivable term stands for the outstanding funds that a company still have not collected for the services/products already provided to the client company. In other words, Account receivables represent services and products sold on credit. Due to numerous reasons companies sign contracts within which the payment is normally done not immediately, but within certain period of time. All the details of terms are included in the contract and repeatedly mentioned on the invoices as per proper accounting principles.

Before deciding which company would be paying for the services and products within certain time frame only after the realisation of services/products there are certain reasons why a company would make such decision. This part of decision making falls on marketing and sales departments as there is always a risk to accept contract where the payment will be made only after the services/products are provided by the contractor company to the client company. Every company has to make its own list of terms for deciding whether the company is reliable or not. However, there are certain criteria that is internationally approved and tested. In the further units we will overview those terms and indicate which client is reliable and which should better pay for the services/products beforehand or immediately.

Once a company accepted a client as reliable one and gave it opportunity to cover the debts later on, the invoices for this client are considered as Accounts receivable units. It means that a company would spend certain time on waiting for the payment, claiming for it and then finally proceeding/receiving it.

When a company has Accounts receivable it should permanently keep in mind the time value of the money. The time value of money is the principle that money which we have today has more value than the same amount in certain future. It is the concept of value of money, instead of amount of money. In other words, 1 dollar today is not the same as 1 dollar tomorrow, it may be 1,2 or 1,5 and more. This principle has been

tested on many long years and it is accepted as a theory. The time value of money brings up to conclusion that later you get your debts paid to you, less you really get in value, even though the amount of money would be the same. On this theory bank loans, credits, mortgages, investments and other processes are built. (Chekijian 2015 p.45-90)

The accounting team is responsible for timely receivables collection as every company at the same time has to pay for its own expenses, including monthly fixed costs, such as rents, salaries (partially) and variable costs such as production, maintenance expenses, office supplies and other. In order to be able to fulfil all the expenses and come up to net income the company has to get its receivables in time and with full power. Otherwise the company would stay without net income that in long period make the existence of company useless or simply live through loss which will bring up to bankruptcy.

In order to have a proper team that would be properly working and implementing all the corresponding steps for keeping the accounts receivables in proper state, each company has to have a clear image why they need to collect money. This quite a simple question actually is the most important part, the root of accounts receivables.

Each company should make a clear budget line and targets of how much receivables should be collected in order to cover its payables, i.e. expenses and get a net income. How much each company needs depends on the size of the company and the size of its receivables. (Chekijian 2015 p.45-90)

If a company does not put targets before itself, i.e. before its employees the team would not have a clear image what they actually need to do, why, what depends on their actions and what is their responsibility in general.

Below on the scheme we can see each step that Account receivables consist from.

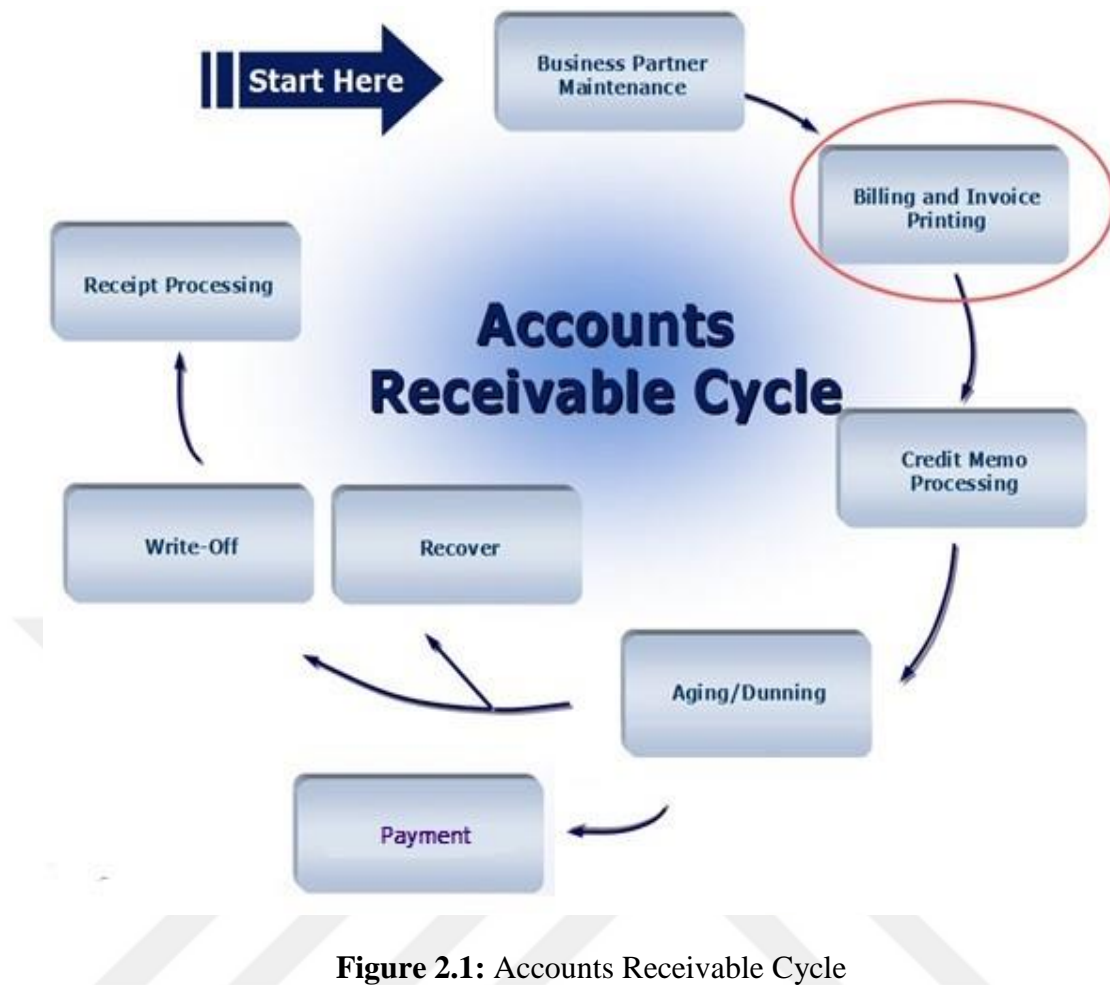


Figure 2.1: Accounts Receivable Cycle

Source: (Chekijian 2015 p.65)

Step 1: Business Partner Maintenance.

Contractor company provides services/products the client company, which comes after Marketing department and Sales department procedures, that will be explained later. Unfortunately, the actions of Marketing and Sales departments cannot fully be controlled, changed or influence by accounting department directly as these are totally different departments. However, it is duty of care of accounting department to make all efforts by informing the upper management (CEO, General manager, etc.) about any issues that are out of their range, including issues that the determined within Marketing and Sales departments. Accounting department's work depends to their decisions and that is why it is extremely interested in proper proceedings of those departments' duties. Once the client is approved by these department, i.e. the contract is signed between the client and contractor companies, contractor company has to create an account for them in their system as per bookkeeping principles. This function

will let them “recognise” the client and keep their account separately in proper condition.

Step 2: Billing and Invoice printing

At this step, pure accounting department duties start. Billing and invoicing is the process of providing the client with a bill that states all its duties for certain service/products as it was earlier agreed within the frames of contract. After, this bill/invoice is issued, approved and signed by corresponding responsible employee, then sent to the client in hard copy/soft copy form (depending on the requirement of the client company and as mentioned in the contract).

Below we can see the information that must be mentioned on the invoice:

1. Date of issue
2. Invoice number
3. Name of invoice issuing company
4. Address and contact details of invoice issuing company
5. Name of invoice recipient company
6. Address and contact details of invoice recipient company
7. Description of services/products with detailed information
8. Total sum, including the rates and other specifications
9. Bank details in case of wire transfer, recipient details in case of check payment and etc.
10. Due date for payment

The invoices that are issued for services differ from the ones that are issued for products and below we will view both cases in order to understand how invoices really look, what they include and why.

In case the invoice is not including the mentioned above information or data shown on invoice is wrong (technical mistake, incompliance to the contract or accounting principles, wrong calculation, description, date, number) the client company may not accept it and return it back to the supplier/contractor company. In that case the contractor company would have to correct the old invoice and send corrected one to the client company again. The client company may start counting the days till due from the date when the final correct invoice is received.

As we can see above mentioned information lets us understand how significant proper billing and invoicing is for the company.

Below we may see how an invoice looks for the provided services.

Table 2.1: Invoice for services sample

<p>[Your Company Name] <i>[Your Company Slogan]</i></p> <p>[Street Address] [City, ST ZIP Code] Phone [(509) 555-0190] Fax [(509) 555-0191]</p> <p>TO: [Name] [Company Name] [Street Address] [City, ST ZIP Code] [Phone]</p>	<p>INVOICE</p> <p>INVOICE #[100] DATE: OCTOBER 9, 2011</p> <p>FOR: [Project or service description] [P.O. #]</p>
--	---

DESCRIPTION	HOURS	RATE	AMOUNT
TOTAL			

Make all checks payable to [Your Company Name]
 Total due in 15 days. Overdue accounts subject to a service charge of 1% per month.

Thank you for your business!

Source: (Best, N., 2015 p.45)

This sample invoice is specific for service provision, as in description it shows the hours and rate per hour, that helps us clearly see what service was provided with all needed information.

Also, below we may see another sample of how an invoice looks for the provided goods/products.

Table 2.2: Invoice for goods sample

<p>Your company Name <i>[Your Company Slogan]</i></p> <p>[Street Address] [City, ST ZIP Code] Phone [509.555.0190] Fax [509.555.0191]</p> <p>TO: [Name] [Company Name] [Street Address] [City, ST ZIP Code] [Phone]</p>	<p>INVOICE</p> <p>INVOICE #[100] DATE: OCTOBER 9, 2011</p> <p>SHIP TO: [Name] [Company Name] [Street Address] [City, ST ZIP Code] [Phone]</p>																												
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Source: (Best, N., 2015 p.32)

Unlike the invoice that is issued for the service provision, above mentioned invoice for product provision has unit information, information about specific goods, price per unit and specification.

In both cases the description must be clearly mentioned and normally it would also include Purchase Order number.

Purchase Order is a document sent by a client to the provider company requesting some specific good or services and it would be a backup reference for a company while issuing an invoice.

Backup documents have to be attached to the invoice and sent to the client all together.

Backup documents include below:

1. Purchase Order – document where details of request are mentioned
2. All significant corresponding mails and emails that are related to the subject
3. Third party documents – if a company provides any product or service of reimbursable charges, i.e. that was also provided to them by some other company, they have to add that information as well along with official bills (copies only).
4. Prove that the services/products were provided, which is normally a document where all agreed service/products are listed and that is signed by client company representative as confirmation of purchase completion.

There are maybe addition specific documents requested by the client company as mandatory addition to the invoice that should also be mentioned in the contract for compliance.

In some cases, when a contractor company makes some kind of mistake in calculation, so that the issued invoice has bigger values that it was supposed to and the client company does not wish to cancel whole invoice in order to get new one, it may simply request a Credit Note for the difference amount.

Credit Note is a type of invoice that is issued with negative value, i.e. it will decrease the receivables (In further units we will see how it is recorded). While issuing a Credit Note the company should clearly mention against which invoice it is issued, i.e. the one where the initial mistake was made. When a client company makes a payment for

clearance it also should mention its credit note that that all accounts are properly matched.

Below we can see an example of how credit note looks.

Table 2.3: Credit Note sample

Company Name		Credit Note	
Address			
To	VAT No.	
Address		VAT Invoice No.	
		Credit Note No.	
		Your Order No.	

Description			
Description	Quantity	Rate	Amount Credited

VAT ----- %

Authorised by :		
Name _____	Signature _____	Date _____

Source: (Best, N., 2015 p.24)

It barely differs from the normal invoices, but it has 2 significant differences:

1. The value (total sum) of credit note is always a negative number
2. In description it should fully reflect which invoice and services it is against.

Once the invoice or credit note is properly issued and all the corresponding backup prepared the invoice should be signed and approved by the responsible person, which is either chief accountant or financial manager. By signing and approving this document the company passes through another checking that will decrease the risk of making mistakes. Besides that for the client company such invoice would be evaluated as legal one. However, in some countries and some companies this phase is not significant, some may be very attentive to the signatures and request hard copies in order to witness the truthfulness of the document. This final step of invoicing and billing is invoice sending, which is the easiest step, however it should be done with big attention as invoices are considered as confidential information and the documents should be properly handled/passed to the corresponding recipient.

Step 3: Credit Memo Processing

Once a company issue certain invoices to the client companies it has to bring its accounts in proper condition by inputting all the information.

Each company chooses its own way how to manage their accounts, including Account Receivable. There are numerous world famous computer programs that let the company manage its bookkeeping in the easiest and fastest way that will be reviewed in further units. Once all the information is input in the company accounting systems the company may issue Credit Memos.

Credit Memo is a document that is provided by the service/product provider to the client where all the outstanding invoices, i.e. the last updated receivables are shown. This document is similar to IOU note, however Credit Memo is an official document that is signed either by the seller company or by both companies. The purpose of this document is to present full list of debts to the client company and make sure that the client company is aware of its debt and due days.

Credit Memo may be issued as per below requests and situations:

1. Credit Memo may be sent by contractor company on monthly, quarterly basis as per request of any of sides.

2. Credit Memo may be sent along with each issue invoice in order to keep an immediate update of accounts.
3. Credit Memo may be sent to the client when any payment is done or any credit note is issued as an update note as well.

As per international accounting standards Credit Memo has to reflect below information:

1. Date of issue (i.e. the Credit Memo should be updates as per that particular date)
2. Name and contact details of Credit Memo issuer
3. Name and contact details of Credit Memo recipient
4. All outstanding receivables (invoices) with corresponding description and value
5. Total sum of due

Below we can see an example of how Credit Memo looks.

Table 2.4: Credit Memo sample

CREDIT MEMO

No: 123-456 **Date:** January 21, 2015 Debit Credit

<p>COMING FROM</p> <p>Company Name Here Stree address of the company City, State, Zip Code, Country Phone: 123 456 7890 Fax: 444 555 6666 Email: example@email.com</p>	<p>GOING TO</p> <p>Company Name Here Stree address of the company City, State, Zip Code, Country Phone: 123 456 7890 Fax: 444 555 6666 Email: example@email.com</p>	<p>OTHER DETAILS</p> <p>Invoice # 4455778 Order # 455588-5 Salesperson James B Payment Terms Net 30 Shipping Date: 10-Jan-15</p>
---	--	--

Item #	Descriiption / Comments	Unit Price	Quantity	Total										
45445	Items description here	\$140.00	2	\$280.00										
44587	Another items's description here	\$25.00	7	\$175.00										
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%; border: 1px solid black; height: 30px; vertical-align: top;">Other Notes (if any)</td> <td style="width: 20%; border: none;"></td> </tr> </table>				Other Notes (if any)										
Other Notes (if any)														
				<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Sub Total:</td> <td style="text-align: right;">\$455.00</td> </tr> <tr> <td>Total No. of items:</td> <td style="text-align: right;">9</td> </tr> <tr> <td>Salex Tax:</td> <td style="text-align: right;">\$45.99</td> </tr> <tr> <td>Others:</td> <td style="text-align: right;">\$11.45</td> </tr> <tr> <td>Grand Total:</td> <td style="text-align: right;">\$512.44</td> </tr> </table>	Sub Total:	\$455.00	Total No. of items:	9	Salex Tax:	\$45.99	Others:	\$11.45	Grand Total:	\$512.44
Sub Total:	\$455.00													
Total No. of items:	9													
Salex Tax:	\$45.99													
Others:	\$11.45													
Grand Total:	\$512.44													

Authorized Signature

Source: (Chekijian 2015 p.57)

In our sample the Credit Memo is issued only for one invoice that includes number of services or products. This normally happens when a client company has due for only one invoice. In the case when a company has debt that consists of numerous invoices, all those invoices will be included in one Credit Memo.

This step of receivables cycle may look as some technical procedure, but in reality it is one of the ruling factors of accounts receivable management. We should keep in mind that all the companies are ruled by different employees and no matter who they human factor is applicable to them. Sometimes the employees may simply forget about debts that should be covered which means receivables of contractor company would not be covered in time. To avoid such issues an accounting department of contractor company should make sure that the client company is always aware of the debt. In some other cases it is possible that the client company can simply lose some of the invoices and by sending Credit Memo, the contractor company would simply notify of whole list of invoices and if there is something missing it would be fixed in time. Besides that, if a client company gets constantly reminded about the debt.

Step 4: Aging/ Dunning

At this step the company needs to divide its receivables into the groups as per their age. These groups are divided as per below:

1. 0 - 30 days
2. 30 - 60 days
3. 60 – 90 days
4. 90 – 120 days
5. 120 + days.

The procedure of how these groups get used, their meaning, purpose and assistance to the accounting department will be shown in further unit. However, the division of these groups is depending on the date of invoice issue for the uncovered invoices. Normally a consumer company has number of invoices and dividing its receivables into the groups lets it understand about the risky situations and what should be immediately chased.

1st group the least risky and the newest invoices while 5th group is the riskiest. As per this principle the contractor company defines all the invoices form the riskiest group

to the least risky one, determines the companies and then it prepares letter with payment request.

Each company has its own mechanism of sending notifications to the clients. Some companies prefer using computer programs that with one click generate emails with all relevant information and send notification emails with payment reminder and requests. This method is widely used among the different companies all around the world, however, it may not be very effective if a company needs to be a bit stricter on its chasing policy. At that point the company would need to generate specific email for each company and proceed as per them. As it was mentioned before in further unit we will deeply analyse all possible method of receivables collection depending on different situations. (Chekijian 2015 p.102-130)

Step 5: Payment

At Step 5 the company collects all the payments that the client companies make to it. Once a company finishes the billing and invoicing, then memo processing and aging, it is obvious that certain clients would be paying during that period, which means that receivables would decrease can certain changes should be recorded. Once this step is also done, the company would see the updated list of invoices that are still not covered and after that the further steps would be taken in order to resolve those cases as well.

Step 6: Recover or Write-off

Step 6 totally depends on the outcome of Step 4 and 5, i.e. the results of all the methods that were used in order to realise the collections. If a company had already sent notifications to the company, then there are two ways of what may happen to the receivables. There is a big chance that the client company would pay its debts, i.e. cover the receivables of the contractor company or they would reject the invoice, and the receivables would happen to be bad debt already.

If a contractor company has a chance of getting their receivables or if the company had already confirmed that the debt would be paid, it means that company would be able to recover its payments.

If a contractor company is already sure that the client company would not pay its debts, and the contract would be terminated since that, then the company would need to write-off its receivables, which is considered as the worst scenario of any selling company.

The criteria when and why company decides that the debt would not be paid differs for each company as per its internal policy, as per contracts and per each corresponding situation.

Step 7: Receipt processing

This step is the last step in the Accounts receivable cycle. This is the step when the confirmed payments get paid and a company allocates it with its accounts receivables. This is one of the most important steps as at this moment it is very important to fully and properly allocate all the received payments.

First of all, we should see what report depend in the proper realisation of this step:

1. Tax reports
2. Audit reports
3. All internal reports, including monthly and aging reports.

During state tax control procedures, the information about all paid invoice, i.e. covered receivables will be carefully analysed and this is one of main reasons why this data should be correctly filled. The same data would be requested during audit control/checking and this information would let fully evaluate the financial situation within the company and its relations with the clients. (Frazer 2010 pg.55-102)

For allocation of the payments the accounting department first of all would request payment information from the bank. In nowadays there are number of different ways to get information about the payments immediately, such as internet banking, mobile banking and etc. If the payment is done within one bank the transfer is usually realised immediately, however if the transaction is done between different banks of one country it would take some time. Usually each bank authorises such transfers twice or thrice a day, and once it is done, the bank account holder would see any transactions, i.e. payments in our case. If the payment is done to the bank from abroad bank, the transfer may last up from 3 days till 5 days depending on the policies of the country monetary and banking policies.

Once the payment is realised and accounting department sees the information in electronic or physical way (on bank statement and receipts) the accounting department has to allocate all the received payments with the receivables.

Usually when a payment comes on the bank account, besides numerous electronic systems that give all necessary information (Payee name, date, amount, and description) to accountant about the payment, the company has to request bank SWIFT document and Bank Statement. (Edmonds 2012 pg.90-103)

SWIFT document is an official bank document that contains below information:

1. Date of payment/transfer
2. Name of payer (full company name)
3. Name of payee (full company name)
4. Bank account details of payer (IBAN number, SWIFT code and branch, address optionally)
5. Bank account details of payee (IBAN number, SWIFT code and branch, address optionally)
6. Total sum of transfer
7. Bank charge if applicable
8. Taxation if applicable
9. Net sum of transfer (after bank charge and taxation)
10. Currency
11. Description (the area where payer mentions what the company pays for)
12. Various codes that bare bank internal reference numbers

Below we can see a sample of such SWIFT document:

```

#### 02 #### FT ERCD #### FT INCOMING          ### NORMAL MSG/MOCTG ENTRY ###
(3100) Sender: 029999999 FIRST BRONX NY      (2000) AMOUNT: $34,000.00
(3400) Receiver: 119999999 COMBOBANK        (3600) Bus Function Code: CTR
(1510) Type Code:                          1000
(5000) Originator:                          DUNEDOWN
                                             FRANK MD USS
                                             DBA STEAK PALACE
                                             WOCILLIANSTRASSE 38
                                             MUNICH, GERMANY
(6000) Org to Brf Info:                     BRY T. EDWARDS $34,000 US
                                             $10,000 INVT TTS 2 CASES TEXAS T'S
                                             BAR-B-Q SAUCE, $24,000 FRANCHISE
                                             FEE FOR TEXAS T'S SECRET RECIPE
(5100) Originators' FI:                     BRKDEEZ
                                             BLACKFOREST BK
                                             MUNICH, GERMANY
(4200) Beneficiary:                         DL23456
                                             T. EDWARDS
(4000) Intermediary FI:                     F028888888
                                             FIRST BANK X02
(4100) Beneficiary FI:                     F117777777
                                             BILLY BO BANK
                                             RODEO ROAD BRANCH
                                             AUSTIN, TX.
(6100) Receiving FI Info:                   PER BLACK FOREST BANK BRY
                                             IMMEDIATELY. DO NOT DEDUCT ANY
                                             RELATED FEES FROM THE TRANSFER.
                                             AMOUNT-CHARGE FEE SEPARATELY
(1520) INWD:                               19960105BLQ3947D001537
(3320) Sender Ref:                          13125
(1110) Timestamp:                           091413M5FTIG
(1120) QNRD:                               19960105KIK1234001517

```

Figure 2.2: Bank SWIFT sample

Source: (Chekijian 2015 pg 67)

As we can see first there is bank name of payer, including bank details, below there would be information of sender, the date and hours (optionally). All mentioned information would be reflected in the SWIFT document. This document is not easily readable as information accessed in internet banking or mobile banking systems, however the SWIFT message contain specific information that may not be understandable for the user, i.e. account holder, but bank administration would now its meaning and can help the fund receiver in further investigation in case any mistake occurred.

SWIFT documents vary from bank to bank and country to country, that depends on bank internal policies and country's banking legislation.

Below we can see another sample of such SWIFT code that totally differ from our previous example and contains much less information in comparison.

```
{1:Z01BANKTTITTABCD0000000000}  
{2:I103RTSXKBV2TTTTTM}{2:{219:2642814131219N00}}{9:  
  
:60:1234567890  
  
:87Z:CRED  
  
:56B:231587CAD845  
  
:77K:/1234567890  
FLYWIRE UNIVERSITY  
  
1 MAIN STREET  
BOSTON MA US 11111  
  
:76Z:BANKCATBCH  
:87Z:NND CPLKAXXX  
:68:/87654321  
  
C/O CURRENCY EXCHANGE CO  
:94:FLYWIRE UNIVERSITY  
-  
REG123456789  
  
:76B:ABC  
-  
}
```

SAMPLE SWIFT DOCUMENT

Figure 2.3: Bank SWIFT sample

Source: (Edmonds 2012 pg. 90-103)


Once a company received SWIFT documents and makes all proper allocation it still needs another proof for the convenience and for meeting proper accounting principles. Another needed document is bank statement which also provided both electronically and physically that shows all the transitions for the period including all the payment from the company and to the company, all the charges, opening and closing balances and further corresponding information. Bank statement is official bank document

formed in list of all transaction movement with one's bank account. (Fraser 2010 pg 66)

Bank statement bares below information:

1. Bank account holder information (name, bank details, address)
2. Bank branch information.
3. Period opening date
4. Period closing date
5. Opening balance
6. Closing balance
7. Each transaction on separate line with date of transfer, amount, name of payer, type of transfer (credit/debit)
8. Total sum of incoming (debit) amount
9. Total sum of outgoing (credit) amount
10. Currency

Below we may see a sample of Bank Statement: (Edmonds 2012 pg. 90-103)



CrawfordTech Bank Statement Sample

Mary Jane Smith
100 Pine Street
Metro, AA 09371

Account Summary

Opening Balance	\$5,234.09
Withdrawals	\$2,395.67
Deposits	\$2,872.45

Closing Balance on Apr 18, 2010 **\$5,710.87**

For Mar 15, 2010 to Apr 18, 2010

Account Number
00-123456

Branch Transit Number
098765

Contact Information

1-800-222-0123
Contact us by phone for questions, on this statement, change of personal information, and general inquiries. 24 hours a day, 7 days a week



TTY for the hearing impaired:
1-800-123-0007

Outside North America:
+1-123-4567

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Metropolis, AA
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Your Transaction Details

Date	Details	Withdrawals	Deposits	Balance
Apr 8	Opening Balance			5,234.09
Apr 8	Insurance		272.45	5,506.54
Apr 10	ATM	200.00		5,306.54
Apr 12	Internet Transfer		250.00	5,556.54
Apr 12	Payroll		2100.00	7,656.54
Apr 13	Bill payment	135.07		7,521.47
Apr 14	Direct debit	200.00		7,321.47
Apr 14	Deposit		250.00	7,567.87
Apr 15	Bill payment	525.72		7,042.15
Apr 17	Bill payment	327.63		6,714.52
Apr 17	Bill payment	729.96		5,984.56
Apr 18	Bill payment	223.69		5,710.87
Closing Balance				\$5,710.87


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In the sample above we may see some very important information for an accountant dealing with it.

First of all, an accountant should check the recipient name and details in order to be sure that this statement relates to their company. Then opening and closing period should be noticed in order to define which period this statement covers. Below in separate lines information of all transactions within mentioned period is written with short details. Also, opening and closing balances are also mentioned, along with total sum of receive and paid amounts.

In our example we can see that however this report covers the period from 15.03.2010 till 18.04.2010 the first transaction in this period happened on 08.04.2010 which means

that from 15.03.2010 till 08.04.2010 there were no transaction movements in the account.

Once a company received both SWIFT document and bank statement the accounting department has a full provision of paid funds. However, most of the reports within company happen in soft copy version, i.e. electronically, in order to fulfil accounting principles, the accounting department has to have all back up in hard copy version as well.

Each payment should have attached invoice for which the amount is paid, filed in the folder in chronological way with addition bank statement as the end date of each period. Once the company lives through tax, internal or any other audit besides requesting reports in electronic version, hard copy of the document would be mandatory requested as well.

Once all above steps are done the accounts receivables cycle is done and it correspondingly starts over every time for each case.

2.2 Accounts Receivable Structure, Double Entry, Bookkeeping

Once we are aware of what Accounts Receivable stands for we will need to see how the transactions for this account are recorded. First of all, we should keep in mind that there are 2 different type of recording, that depends on what was actually sold on credit.

Below we will evaluate both sales of services and products (goods) on credit.

Sales of Services on Credit Recording

Once a company sells some of its services it has to issue an invoice to the client on which base the payment is supposed to be done. Below we can see how it is recorded once the invoice is issued.

Example:

First transaction: On 15th of January 2016 some service in amount of \$20,000 is sold to the DDD company and an invoice AZ2016/0004 is issued (the total sum of issued invoice is \$20,000) to it. We debit \$20,000 from Account receivable, as this is what supposed to paid to the company and credit \$20,000 from sales account as in fact the company sold its services in credit.

	Debit	Credit
Accounts receivable	\$ 20,000.00	
Sales		\$ 20,000.00

Second transaction: The client company pays \$20,000 for the services that were provided to the as per above mentioned invoice.

- a. The payment is paid via bank transfer. We have to debit \$20,000 from the bank as this amount is paid to bank account via transfer and credit \$20,000 from Account receivable as this amount is not awaited any more.

	Debit	Credit
Bank	\$ 20,000.00	
Accounts receivable		\$ 20,000.00

- b. The payment is paid in cash. We have to debit \$20,000 from the cash account as this amount is paid in cash and credit \$20,000 from Account receivable as this amount is not awaited any more.

	Debit	Credit
Cash	\$ 20,000.00	
Accounts receivable		\$ 20,000.00

Sales of Goods on Credit Recording

Once a company sells some of its goods it still has to issue an invoice just as if it sells services. Below we can see how it is recorded once the invoice is issued for goods as well.

Example:

First transaction: On 12th of February 2016 some products in amount of \$40,000 are sold to the EEE company and an invoice AZ2016/0007 is issued (the total sum of issued invoice is \$40,000) to it. We debit \$40,000 from Account receivable, as this is what supposed to paid to the company and credit \$40,000 from sales account as in fact the company sold its services in credit, just as we did when sold the services. However, in addition to these transactions we will need to make additional entries to Cost of goods sold and Inventory accounts. Let us think that goods which were sold for \$40,000 made cost of \$18,000, i.e. company itself had to cover \$18,000 to get those products (or spare parts). In such case we will need to debit \$18,000 to Cost of goods sold account as this is was paid for those products. At the same time we will need to debit \$18,000 from Inventory account as those products were at the same time extracted from company's inventory stock. Below we can see how it looks.

	Debit	Credit
Accounts receivable	\$ 40,000.00	
Sales		\$ 40,000.00
Cost of goods sold	\$ 18,000.00	
Inventory		\$ 18,000.00

Second transaction: The entries that we do when the EEE company pays for the goods look the same as it was with services sold.

Paid via bank transfer:

	Debit	Credit
Bank	\$ 40,000.00	
Accounts receivable		\$ 40,000.00

a. Paid in cash:

	Debit	Credit
Cash	\$ 40,000.00	
Accounts receivable		\$ 40,000.00

Now, once we made above transactions, we may view T-account for accounts receivables. In addition, we will consider that the company also sold in credit some goods and services (including above mentioned ones) as per below, where rest of invoices are still not covered by the client companies.

N o.	Date	Invoice No.	Name of Company	Service	Amount	Status
1	06 January 2017	AZ2016/0 001	DDD Company	Services	\$7,000.00	Not paid
2	11 January 2017	AZ2016/0 002	EEE Company	Goods	\$12,000.0 0	Not paid
3	13 January 2017	AZ2016/0 003	DDD Company	Goods	\$5,000.00	Not paid
4	15 January 2017	AZ2016/0 004	DDD Company	Services	\$20,000.0 0	PAID

5	29 January 2017	AZ2016/0 005	DDD Company	Goods	\$15,000.0 0	Not paid
6	05 February 2017	AZ2016/0 006	EEE Company	Servic es	\$3,000.00	Not paid
7	12 February 2017	AZ2016/0 007	EEE Company	Goods	\$40,000.0 0	PAID
8	14 February 2017	AZ2016/0 008	EEE Company	Goods	\$4,500.00	Not paid
					Total	\$106,500. 00

As per this list we will see how T-account for accounts receivables is seen.

Accounts receivable			
January 1 Balance	\$0.00		
January sales	\$59,000.0 0	\$20,000.0 0	January Collections
January 31st Balance	\$39,000.0 0		
February sales	\$47,500.0 0	\$40,000.0 0	
February 29th Balance	\$46,500.0 0		

As we can see in above, T-account lets us see what really happens in Accounts Receivables, what is the balance, what total payment for the period was and all this information is in one table, which makes it easy to view. T-account play an irreplaceable role in receivables management processes and are very significant for analysis. In our case we can overview that the balance of receivables as of the end of February 2016 is \$46,500.

Also, we should view how T-account looks for bank account. Besides above mentioned transactions we will consider list of below entries (considered only for below T-account examples).

1. Taken loan on 15th of February: \$500,000
2. Rent paid via bank transfer on 25th of January: \$7,000
3. Payment of salaries via bank transfer on 31st of January: \$250,000
4. Rent paid via bank transfer on 25th of February: \$7,000
5. Payment of salaries via bank transfer on 29th February: \$200,000

Bank			
January 1			
Balance		\$0.00	
		\$	
		500,000.0	
January 15th	Bank loan	0	\$ 7,000.00 Rent January 15th
	Sales/Debtors	\$ 20,000.00	
			\$250,000.00 Salaries January 31st

Jan 31st Balance	\$263,000. 00		
February 12th	\$ 40,000.00		
		\$ 7,000.00	February 25th Rent
		\$250,000. .00	February 29th Salaries
Feb 29 th Balance	\$46,000.0 0		

We will still consider that at the beginning of the year balance was zero.

Again, as we can see T-account shows us full picture of what does on in bank account and balance as well, which is \$46,000 as of the end of January 2016.

Next we will see how T-Account for Cash account looks, considering below transactions (considered only for below T-account examples) additional to above mentioned. We will assume that the invoices mentioned above were not paid to bank via transfer, they were paid with cash. Stating balance is \$50.

1. Cash payment for employee transportation (taxi fee) on 07th January 2016: \$20.00
2. Cash payment for parking services for January 2016 on 31st of January: \$70.00

Inventory	
January 1 Balance	\$50,000. 00

Jan 15 th	Inventory entry	\$10,000. 00		
Jan 31 st	Balance	\$60,000. 00		
February 10 th	Inventory entry	\$25,000. 00		
Feb 29 th	Balance	\$67,000. 00	\$18,000. 00	Sold goods Feb 12 th

3. Cash payment for parking services for February 2016 on 29th of February: \$70.00

As was mentioned in previous T-accounts, with cash account we also see all needed data for analysis in one screen.

Now we can see below T- account for inventory account. Starting the balance would be \$50,000.00 and in addition there were some other entries below (considered only for below T-account examples).

1. Entry of new inventory units with the cost of \$10,000.00 on 15th of January 2016
2. Entry of new inventory units with the cost of \$25,000.00 on 10th of February 2016

Cost of goods sold	
January 1 Balance	\$50,000.00
	\$10,000.00 Purchase Jan 15th
Jan 31st Balance	\$40,000.00
	\$25,000.00 Purchase Feb 10th
February 12th	\$18,000.00
Feb 29 th Balance	\$33,000.00

In addition, we would see T-account for Cost of Goods Sold.

Starting the balance would be \$50,000.00 and in addition there were some other entries below (considered only for below T-account examples).

1. Entry of purchases with the cost of \$10,000.00 on 15th of January 2016
2. Entry of purchases with the cost of \$25,000.00 on 10th of February 2016

As per above mentioned T-accounts we can fully see the picture of what happens when a company issues an invoice both for products and services and when the company gets paid for those invoices either via bank transfer or cash.

However, receivables are affected first, we also need to know other transactions that get changed due to the change in accounts receivables.

As we were able to observe above all the accounts are interrelated and that is why it is so significant to make proper inputs and in case there is any mistake all reports and figure would show wrong information. This is one of the reasons why accounting

departments is one of the departments that get checked more often than others, including tax and other internal and external audits.

Once the bookkeeping is properly done, i.e. all the accounts are filled out and all the information is input the analysis stage comes up.

At this stage the company analysis how the receivables are working out as per provided reports.

There are 2 ways of measuring the situation of accounts receivable:

1. The total amount of received funds for certain period
2. Accounts receivable aging figure.

While the counting of total amount received for certain period is quite a simply issue, it is not the main goal of a company. It is obvious that any company would need funds for the company processes but this is not the only figure that matters for the company. (Libby, 2015 pg. 37-49) The other very important indicator of accounts receivable work is Accounts Receivable aging that is a much more complicated process and the one that carries extremely important information for the company management. (Best, 2014 pg. 100-112)

3. EXTERNAL INFLUENCES

3.1 External Influences Definition

External influences are the factors that influence the Accounts Receivables from outside of the accounting department and may interact with them in matter of fund collection in both negative and positive way. (Skousen 2013 p.23-40)

In below chart we may see all external influences that interact with Accounts Receivables management:

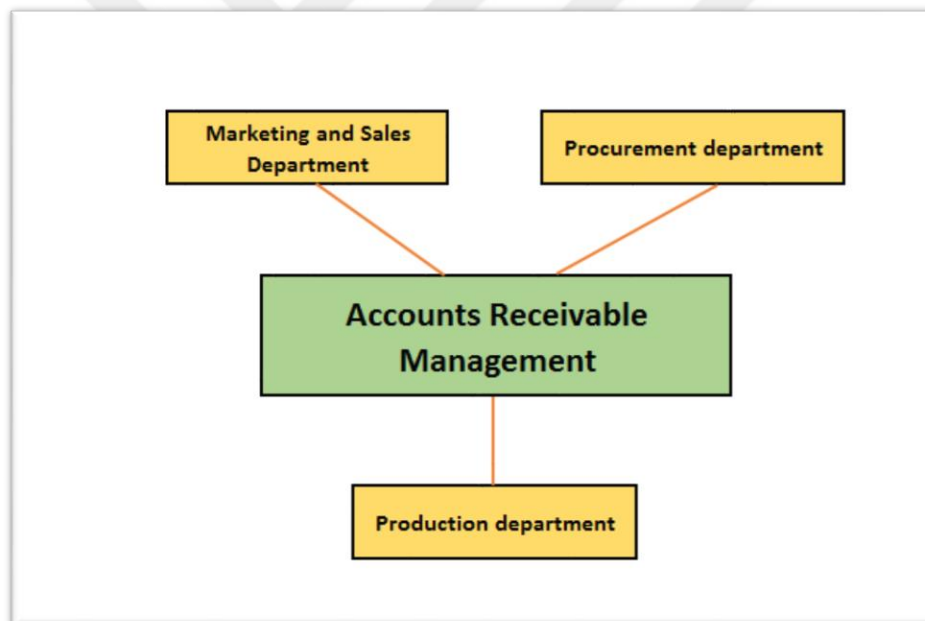


Figure 3.1: External influences

Source: (Best, N 2015 pg.43)

As we may see in figure 3 the main externalities that influence on the Accounts Receivable Management are the performances of Marketing and Sales, Procurement and Production departments.

When the Accounts Receivables processes get influenced by mentioned department it may bring up to negative effects on the performance of accounting department and the

company in whole. When the accounting management is not enough sufficient to prevent such issues it might live through big pressure that would not even bring any positive outcome. (Skousen & Walter 2013 p.56-70)

In below table we may see how the company has a gap in its hierarchy toward Accounts Receivables Management:

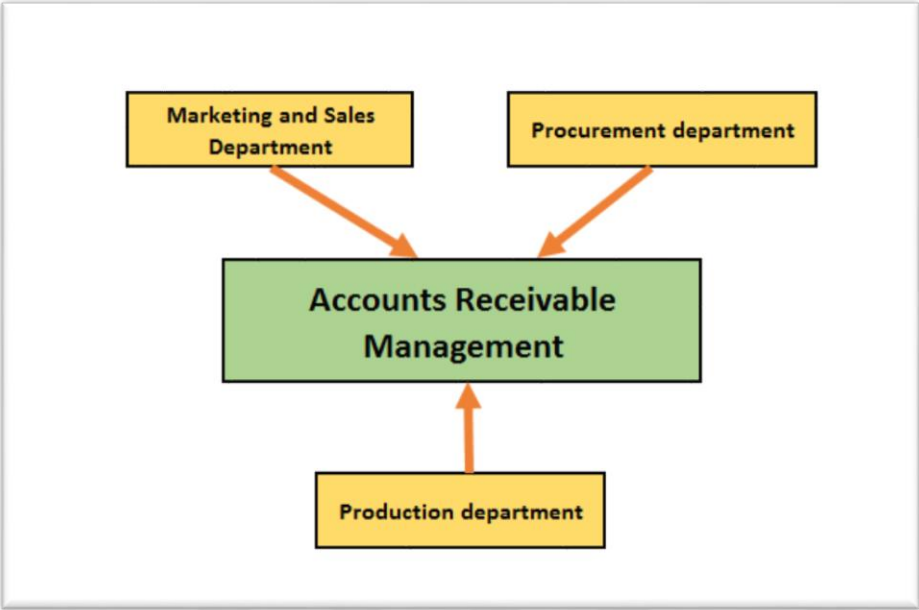


Figure 3.2: Accounts Receivables Management Gap

Source: (Best, N., Nutting, J., Stiff, P 2013, pg 55)

In above figure we may see how all the decisions and performances of external department simply influence the Accounts Receivable Management in one way, which is a wrong job settlement for any company. The Accounts Receivable may not be simply acting as per the instructions and decisions of other department as per accounting principles. The decisions and actions of other department are very important for employees responsible for the Accounts Receivable and accounting department in a whole, however those departments should also keep in mind the interests of accounting department as well while making steps that may influence the performance.

While the mentioned departments may not be willing to consider the interests of other departments, including accounting department as well, it is the duty of management to be able to provide such working conditions when the departments would consider each other's interests in order to represent mutually interested company performance.

During the working process it is not always simple and plain to determine the borders between the duties of the departments and once the information is exchanged or passed among the employees it is significant to be able to keep the proper work ethics as well.

The purpose of the management is to make sure that the decisions and actions of different departments are mutually considered and none of the departments would not have to act under the pressure of the any work load that was set up to them due to the mistreatment of work by other truly responsible department or employee. (Skousen C.J & Walter L.M 2013, pg 25-40)

There are several reasons why the interaction is very important for the company and its implementation would help the company avoid below issues:

1. One department's being responsible for the mistakes of the other one
2. Bad image from outside the company
3. Internal processes failure
4. Service failure

In order to have the company realising proper working principles the management's target for mentioned department's interaction and influence management should be totally mutual. This target may be reached with highly professional communication performance of the team and proper understanding of mutual purposes and aims within the working sphere, that can be realised with true and fair team work of the company employees. (Cabrera, E.B. 2007 pg.15-30)

Below we may see the proper hierarchy between the department in relation to Accounts Receivables Management:

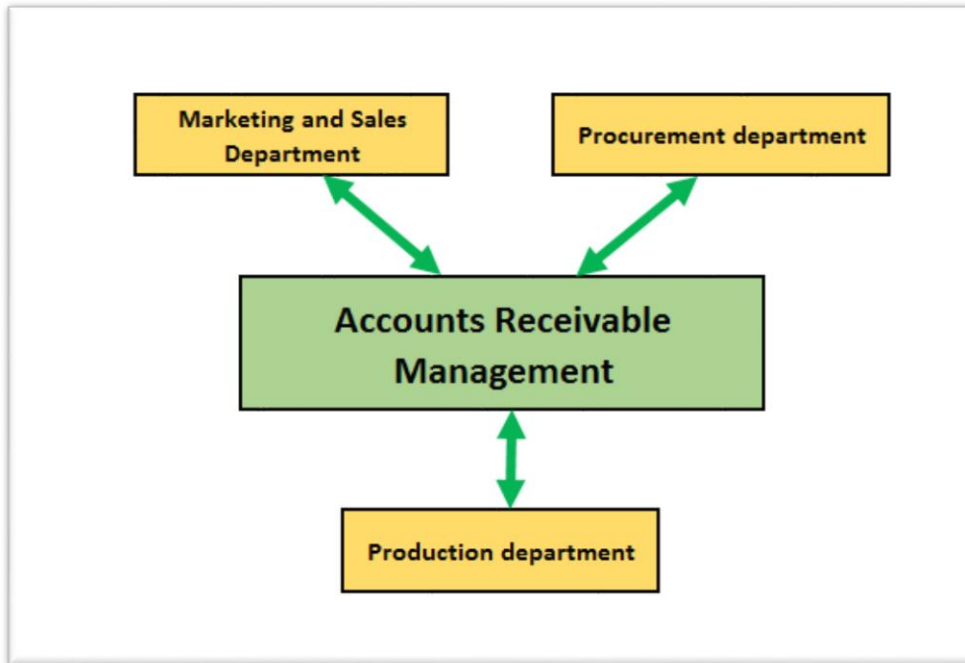


Figure 3.3: Accounts Receivables Proper Hierarchy

Source: Best,N 2015 pg.67

As we may see figure 6 represents the interaction between the departments and mutual interest consideration of performing work. In next units we will overview each department's influences in details and see how the accounts receivables collection depend on that.

3.2 Marketing and Sales Department Performance Influence

As Marketing and Sales department is responsible for gaining new clients by selling the company's products and services it is obvious that this department is better familiar with the specification of each client than the accounting department or employees responsible for accounts receivable are.

While implementing the duties the Marketing and Sales department has certain criteria and rules how to gain new potential clients, however in between these action they might miss some important factors, negative aspects that may affect the performance of accounting department while implementing accounts receivable collection duties. It is a common issue for the companies when they dare to find new clients with full effort but have big issues when try to get the funds in time or at all for services and products that were provided to them on credit. The duty of the management is to make sure that

both accounting and marketing and sales department know the points where their decisions may influence the mutual duties and try to prevent them in the most possible scale. (Salek J, 2014 pg.45)

Below there are 3 main stages of Marketing and Sales department interaction with the clients when they have to consider the interests of Accounts Receivable Management's interests as well:

1. Client finding/gaining
2. Contract conditions negotiation
3. Contract conducting and realisation

At the stage of client finding/gaining the Marketing and Sales department inventively makes all efforts to attract the clients with the available services and products of the company, however during this process it often forgets about the capability of the company to pay for the services/products provided on the credit. Most of the time Marketing and Sales department considers this issue as a secondary in terms of importance and hardly considers it as part of its own duties. This approach is a very risky type of direct duty implementation by the side of Marketing and Sales department, as this kind of attitude directly put the income of the company under risk as well. In order to be able to collect the receivables, the company should make sure that they agree to provide certain services and goods to the clients that are capable and willing to pay for the provided services and goods in time on constant basis. As Marketing and Sales department is the first department out of the company who really gets familiar with the client, it is their duty to make sure that the client is a reliable payee.

There are certain methods to find out if the potential client is a fair one by researching about the client in the market and among other providers, the information about which may be collected from media and other available sources. Besides that, it is important to make a research about the company image and prosperity in the sphere of its activity. (Salek,J 2014 pg.45-60)

At the same time, it is the management's duty to emphasise the importance of this issue before the Marketing and Sales department in order to escape bad payee issues and to make the collections in time, that would automatically solve the late payment issues that are so significant for Accounts Receivables management.

From the other side, the accounting department and particularly the employee responsible for Accounts Receivables management should bring the issue of poor client attitude to the management in case such kind of issue has occurred.

At the stage of Contract conditions negotiation Marketing and Sales department should also be very sensitive about each unit of the contract to be concluded. It is quite normal when a company makes some term discounts to the clients, however it may not be accepted when such actions harm the company principles. While making all the efforts to find new clients the company should not forget about its own interests. (Schaeffer, M.S 2016, pg 34-78)

There are number of different units and terms of the contract that include the performances of various department of the company, including the accounting/finance department.

Out of all terms that are connected to finance/accounting department there are below terms that relate directly to the Accounts Receivables Management processes:

1. Period allowance for the payment of provided services/products (as it was stated before, this period counts from the invoice delivery date, not internal invoice issue date)
2. Type of invoice delivery (some contracts may include the terms whether the invoice should be issued and delivered in hard copy only, in such case the delivery address may be abroad and the company would lose extra several days on invoice delivery, that would not be counted from the period allowance for the payment; in other cases, the invoices may be uploaded to some online systems that should be instructed in the contract terms as well for the convenience).
3. The contact person that would be dealing with invoices (this term should be mentioned in details, showing email address, mailing address, phone numbers of the specific employee).
4. Bank details of service/goods providing company (the details of payee should be fully shown in the contract so that the payer would not have issues with the invoice payment) (Salek,J 2014 pg.65-90)

While setting the period allowance in the contracts the Marketing and Sales department should be very cautious and consider the accounts receivables aging issue of the

accounting department. Mostly the deadlines for the payment gets set as per the services/goods provided to the clients. As per statistics, when there is a new contract for a new client the company puts shorter deadlines, especially if the provided services/goods have a high cost. The opposite happens with old clients that are tested in reality, the company settles “softer” deadlines for all services/goods provided to them. This practice may be efficient for the Marketing and Sales department from perspective of number of conducted contracts and gained clients, however it may directly harm the accounting department performance and in general fund collection processes of the company. In order to avoid such issues, the Marketing and Sales department should settle up well communication skills with Accounting department in order to be able to make the most optimal and correct decision. It is accepted by both sides to settle “softer” payment allowance deadlines for trusted and reliable clients with the contacts that have big value and will bring big revenue to the company, however this kind of practice should be kept in privacy between the parties as this may bring up to bad practice from the side of other clients. (Schaeffer, M.S 2016, pg 40-68)

Invoice delivery processes also have a big importance for the accounting department performance. As it was mentioned above and world practice there may be international companies – clients with head accounting departments abroad and that may request the provider company to send the hard copy invoices only to somewhere abroad. Some companies do not accept any electronic invoices and request hard copy invoices with manually filed signature and stamp on it. In such cases the time spent on the delivery would not be counted from the payment allowance period of the client, which respectively means that the company would be losing several days from and the payment would automatically be delayed. It is obvious that the company may afford such kind of delay, however at some point it may be critical for the company to receive certain sum in time and this may be a barrier for them. Each company has its own plan for collection in every period and such delay may be playing the critical role for company fund management.

Another important term of the contract from Accounts Receivables Management point of view is the contact person responsible for the invoice receipt, acceptance, processing and payment. This term should be mandatorily mentioned in the contract in order to avoid any misunderstanding or time loss before the contract finally gets reached to the

employee responsible for this duty. As it was mentioned before the time loss may play a critical role in fund collection and may simply destroy all fund collection plans of the company. As Accounts Receivables Controller or other accountant responsible for fund collection it is first of their interest to make sure that this term is included into the contract. In order to make sure that this term falls under the mandatory criteria in contract conducting procedure, the accounting team should rise it up to the attention of top management and Marketing and Sales department with corresponding result. (Salek,J 2014 pg.75-80)

Another term that should be mandatorily included in the contract between the service/product provider and the client is the service/product provider's bank account details. This is a very sensitive information that should be fully and truly mentioned in the contract, so that the payer knows where to pay for the invoices.

Besides that, the importance of bank details shown in contract carry security reasons as well, this will help a company avoid any wrong payment to some "false" invoice that may be provided from some wrong source.

As per above mentioned we may see how important contract terms are for accounts receivables management and as the contract conduction with the clients is Marketing and Sales department's duties it is very important to make sure that certain points are communicated with the accounting department and certainly the accounts receivables representative. Above mentioned samples also showed us how small steps made ahead may help the company avoid the further complications in issues. We should also consider that such issues may harm the relationship between the provider and client company which also confirms the importance of these terms.

For the Marketing and Sales department it is also significant to make sure that the client is not living any problems with the accounting department and is satisfies with the company services in all aspects. This matter also urges Marketing and Sales department positively refer to any communication and negotiation processes with accounting department, which is simplifying their work in the end. We should also keep in mind that in case the company is living through certain issues when these points are not properly considered and accepted by Accounts Receivables employee's and Marketing and Sales department the top management should help to clarify the

situation by giving certain advice or providing corresponding trainings and teambuilding events. (Salek,J 2014 pg.65-90)

Accounts Receivable Controller and Marketing and Sales department should clearly understand that however at the first step the Marketing and Sales department's performance influence the working processes of accounts receivables, in future it may happen the opposite way. Both sides should make sure that this influence would have positive sign only and all company follows one mutual target of company prosperity that lies through timely fund collection and proper client treatment, which are their direct duties.

3.3 Human Resources Department Performance Influence

The influence of Human Resources department to the Accounts Receivable Management processes may seem less connected than Marketing and Sales department's and consist of secondary influencing factors, however it does not consider less importance. This influence has more hidden character than other ones and the influence of Human Resources department to the Accounts Receivable Management processes lies in the very first steps of employee choosing and matching to the position. (Schaeffer, M.S 2016, pg 40-68)

As per accounting principles, when a company hires new employee for accounting department Human Resources department should negotiate it with the accounting department, however the first steps and filtering of all potential employees primarily happens through the Human Resources department and the responsible employees.

As per accounting standards there are certain criteria that the Human Resources department should rely on while searching for corresponding employee for Accounts Receivables Controller or any assistance position.

Below we may see the educational requirements that should be met by the corresponding nominee for the job:

- international accounting principles knowledge
- knowledge of regulatory standards and compliance requirements
- general office administration and procedures knowledge
- accounts receivable knowledge
- general bookkeeping procedures knowledge

- corresponding computer software programs knowledge
- general math skills
- good data entry skills
- good analytical skills
- high degree of accuracy

The employee may not have experience if it an entry position, however she/he should have certain theoretical knowledge of above mentioned units.

Besides that, below we may see list of standard job responsibilities that are mandatorily required for the corresponding position of Accounts Receivables Controller or any assistance position:

- Accounting reconciliations
- Payers' information monitoring, follow-up and other corresponding actions
- Payment discrepancies research and resolution
- Payment collection
- Payment allocation
- Management of up-to-date billing system
- Customer communication
- Invoice issuing and sending
- Reporting of billing, collection and allocation within certain deadlines
- Aging analysis implementation
- Accounts receivables aging review in order to ensure compliance
- Accounts receivable customer personal files and records management
- Compliance and following of settled and established procedures for processing receipts, cash etc.
- Credit card payments processing
- Bank payments processing
- Customer issues solving
- Fixational and correctional activities
- Development of a relevant recovery system in order to initiate collection efforts
- Period-ending closing implementation
- Statistical reports on weekly/monthly/quarterly/annual basis
- Receivable planning and budgeting organisation

- Constant compliance to accounting standards updates (Weygand, J.J 2010, pg. 47-58)

Even though the accounting department has a decision-making power in choosing the candidate for the position of Accounts Receivables Controller or any assistance one, it is the Human Resources department's responsibility to provide as many potential and sufficient candidates as possible in order to widen the choice for the Accounting department. The Human Resources department should be aware that the candidate they are searching for Accounts Receivables Controller or its assistance position should differ from the one for any other position in Accounting department. Even though some characteristics of suitable candidate for Accounts Receivables Controller or its assistance position may be similar to the characteristics of other accountants, Human Resources department should emphasise the key requirements that are outstanding for the mentioned position.

Below we may see key competencies that are required from the suitable candidate:

- proper information management
- team member
- sense of importance and urgency
- good customer service skills
- good organizational skills
- stress management and tolerance
- high task management skills
- detail and accuracy oriented
- good verbal and written communication skills
- problem analysis and problem solving skills
- target oriented
- high statistic management skills

The Human Resources department should consider above mentioned requirements during its searching processes for the corresponding employee. Once the Human Resources department provides list of possible candidates to the Accounting department the second phase of the interviews starts and it is highly important for the Accounting department to have enough sufficient candidates, so that they can shoes the best suitable one for them. The proper work of Human Resources department does

not ensure that the chosen candidate would be the best suitable one but it is their duty to search for the best sufficient ones. The position of Accounts Receivables Controller or its assistance ones are one of the key positions of the Accounting department and the company in whole as they are responsible to such important task as receivables collection.

In order to have proper results Human Resources department interviews the candidates before the Accounting department which lets them better evaluate the candidate and decide if they wish to pass him/her to Accounting department for consideration. We should also consider that the candidates for Accounts Receivables Controller or its assistance positions are interview and tested either by Chief Accountant or Financial Manager as top management representative. (Salek,J 2014 pg.55-60)

As Accounts Receivables Controller or its assistance positions are one of the key position within the accounting department, most of the time the company finds it as a better suitable decision to promote existing employee to the needed position, instead of hiring from outside. Respectively, such employee must have several corresponding trainings for a while to be able to get all needed skills. There may be several reasons why a company may prefer internal promotion instead of hiring new employee, including internal company politics, wish to avoid internal information spreading and others.

In certain cases the companies may live through the issue when the Human Resources departments simply was not aware what the need to look for in each searched candidate and as result of this issue the company has updated Human Resources procedures and changed several internal procedures. This case was not a mistake of some exact department, however it happened due to a big gad in Human Resources department's procedures that directly influenced the accounts receivables processes. Due to this mistake the clinic missed certain time, i.e. missed some receivable collection that could be done in time if all proper steps were taken. From the other side the company could simply make a wrong choice of employee of per initial list of the Human Resources department, even though they could choose the best person from the list, that person could be not as good as it could be. The wrong chosen employee could bring up to time loss in the accounts receivable collection which respectively ends with the loss of the funds.

As per above mentioned units we may see how important the work of Human Resources department is for the Accounting processes, particularly when it is related to the Accounts Receivables Controller or its assistance positions. The proper negotiation and communication between Human Resources and Accounting departments can bring up to the higher work sufficiency and effectiveness which is a key to prosperity of any company.

3.4 Production Department Performance Influence

The influence of Production department to the Accounts Receivable management is one of the most important issues within the working process. Despite the fact, that as per the general managerial principles the accounting and production processes should be totally divided isolated from each other, the performance of Production department has some strong and direct connection to the accounts receivables processes. (Spiceland J.D 2016 pg. 35-45)

On certain points accounts receivables processes, may face barriers when client company may refuse to pay for certain invoices due to the lack of services/products that are shown in the invoice. The client company has a full right to refuse to pay for the whole invoice in case there is a unit that actually is not presented to them by the provider company.

Accounts receivables controller or other employee has two possible solutions to such issue:

1. To issue a credit not for the service/product not provided to the client at all or provided with certain issue.
2. Contact the Production department and ask to fix the issue within the mentioned invoice in order to have the payment for whole invoice fully processed.

In case the company chooses to proceed as per the first solution, the employee would not escape the issue in full, as the company would still have to issue invoice for the amount it had credit noted for. This would delay the issue of the invoice and the receivables would be collected later than it could be. In addition, the employee responsible for the accounts receivables would still have to contact the Production department in order to communicate with them about the issue, reason why the invoice

was credit noted indeed. As a result, such kind of action may simply help the accounts receivables management in short term, but would delay the accounting department work in general, which is not proper accountant performance to show. (Spiceland J.D 2016 pg. 35-45)

However, in case the accountant refers to the Production department and asks them to fix the issue as soon as possible, then the invoice would still count valid and the payment would happen in a faster way. We should keep in mind that this is not the direct duty of an accountant dealing with the accounts receivable management and fund collection, however this action simplifies the collection process in the end. From the production department perspective the well communication skills between them and accounts receivables manager is a good practice in order to avoid their own complications and issues as well.

It is a one case when the client company detects some issue in invoice due to Production department performance, the declines the payment, which directly makes a delay in receivables collection and at that point accounts receivable controller simply directly communicates with the production team in order to fix it among each other and eliminate the issue as soon as possible.

The other case is when a client company detects some issue in invoice due to Production department performance, then respectively declines the payment and then accounts receivable controller decides to credit not either the whole invoice, or only problematic part, report is as Production department's mistake and then it would have to be fixed and then new invoice has to be issued to the client again. In this case this issue would be also fully seen by the top managerial employees in the report and it will delay the fund collection of the company in final.

If the Production department and accounts receivable controller do not agree on the second way of issue solving, they both will face below issues:

1. Production department would be reported for the mistake in their performance
2. The company would have a delayed payment for the services that was provided much earlier, which would harm the accounting department performance as well

Besides that the irresistible wish of accounts receivable controller to report the Production department for any of its performance failure may detect below negative factors within the company:

1. Both parties (the accounts receivable controller and the Production department) may have some issue among each other, which would be considered by top management as a negative influence to company internal processes and image
2. Accounts receivable controller would look to eager to have good figures in the accounts receivable aging report by acting in a non-company-oriented way
3. Production department would seem as a poor-performance department that would bring up to internal investigation by top managerial employees

The issue with the decision making in the case is not connected to right or wrong decision as both of the decisions are right and would comply to the company procedures and standards, however this issue carries a comparative character. The second, choice of communication between the department may be a harder one, as the employee responsible for accounts receivable would act out of the frame of his/her duties, but it will surely benefit the company. From the other side this kind of action would benefit Production department as it would appreciate the accounts receivable controller's being open to the communication and not reporting their issues to the supervisors. This kind of cooperation would positively influence the performances of both parties and this is why the second type of decision is considered and the most optimal one. In such case both Accounting and Production department would have a WIN-WIN situation and this kind of mutual interest would also benefit the company in a whole. (Spiceland J.D 2016 pg. 55-75)

Besides that, we should keep in mind the way companies' top managerial employees always appreciate the good communicational skills and emphasise how the companies should cooperate with each other in order to come up to common success.

As per the world experience it stated that the Production department may significantly influence the vital processes of accounting department and particularly the accounts receivable management.

Even though most of the time both of the parties are initiative in building a well-structured communication between each other, in some cases there may be some issues within the department that might end up with decline to cooperate in this process.

However, it is obvious that this approach would not be a reasonable step in working process, there is always a chance that human factor may intervene in such communication due to certain personal factors. In such case as it was mentioned before it is the management's duty to ensure the organisation of proper communication among the team. The driving power for this communication from perspective of both Production department and accounts receivable management is the WIN-WIN conclusion of both team performances.

3.5 Underestimation of External Influences

As per above mentioned units we could evaluate how three totally different oriented departments within the company had influence on accounts receivables management. However, these influences were not direct and mostly had behind the scene character, their strength cannot be ignored or avoided.

Old type company management approaches do not consider any actions that would be dealing with the influence of the different departments within one company on the accounts receivable performance. However, nowadays, this influence is clearly seized and felt, that brings up to a need to deal with those factors and manage it. (Usikova, E.N, 2006 pg.30-41)

Modern management theories consider any influence from inside and outside of the company, however the hidden influences of certain department performances on one particular accounting duty is not fully estimated and analysed as it should be.

Usually, company managerial employees rely on the teamwork of the company and by organising special trainings and teambuilding events try to bring up a strong team with high level communication skills that would be able to deal with their internal problems. However, the company management most of the times misses details that can ruin all the work without any certain alarms.

Such as above mentioned indirect influences consider deep analysis which should be seized through communication with corresponding employees, asking about the implications that they face and how they deal with them. (Salek,J 2014 pg.65-70)

For each department there is a list of factors that manager should pay attention to in order to seize what influences the employees of different departments experience. In

this particular case these below questions should be asked to the employee responsible for accounts receivables management:

1. What duties take the most of the time?
2. Which actions within the work scope depend on your work fully?
3. For which actions, do you need to receive external information from inside or outside of the company?
4. How much time is spent on waiting for certain internal or external data? (mentioned with details for each case)
5. How many invoices are rejected/retuned by the clients?
6. What are the reasons for rejection/return?
7. How are these issues dealt?
8. Which clients constantly pay in time?
9. Which clients constantly delay the payment?
10. Which clients delay the payment without any reasonable argument?

Before asking these question to the employee the manager should clearly state that this is not an audit control where the employee's mistakes and targeted in order to value the employee's performance. These questionnaire organised in order to determine all the weak points of working process and its aim is to build up a proper working model along with the employee that would help him/her in future working process and save both efforts, power and time, which brings up to saving the funds as well. (Best, N, 2014 pg.44-55)

By asking each question the manager would receive answers that would settle certain picture of the situation within the department. Those answers would lead up to the influences that the accounts receivable controller experiences from other departments of the company.

When the accounts receivables controller at the clinic was asked the 1st and 2nd questions, she told about regular routine duties that gave some entrée general information to the manager. However, at the 3rd question the controller named a list of documents that should be billed to the clients by the medical department. Even though the duty of sending the corresponding back-up of invoices to the clients is the responsibility of other accountant, the accounts receivable controller needs to know the list of needed back up document for each client. However, the accountant issuing

invoices sends all the requested documents in time to the clients, when accounts receivable controller gets in touch with the client for the payment, she is the one who hears about mistakes/incomplete information and other complications regarding the receivables. The target to get receivables paid in time makes the accounts receivable controller follow all needed steps for soonest payment realisation. We may see how answer to the 3rd question brings up to direct connection with the medical (production) department of the company, that involuntarily delays the fund collection of the company, that cannot be accepted by the accounts receivable controller.

By answering the 4th question, the employee lets the manager know how much time is lost on collection of missing information/documentation, i.e. this answer lets the manager measure the scale of the problem, that respectively lets understand how big and significant the problem is for the receivable collection of the company. It answers to the main question if this issue big enough to be valued as barrier for timely payment of services/goods provided to the client on credit.

When the accounts receivable controller answers the 5th question the manager gets an answer for the scale of invoices that is monthly rejected or returned. Most of the companies have a certain limit of rejected/returned invoices within each month that should not overlap 10-12%. When a company exceeds this limit the company gets a signal that there are some serious issues within the company that should be immediately investigated.

Even in the cases when this limit is not exceeded the company management should work on the mistakes they had that lead to any invoice rejection/return.

By answering the next, 6th question about the reason of invoice rejection/return the management may have a deeper analysis of what caused any invoice inconsistency. The answer to this question would show the exact roots of the mistakes that may delay the receivables collection processes. In the process of determining the issues, their causes and connected departments that were related to the mistakes both employees and management may seize the direct connection between receivables management issues and the factors that cause them.

When an employee answers the 7th question about the ways how mentioned above issues are solved within the company manager gets quite a transparent view of how communication processes within the company are organised. In case the late receivable

collection happens due to the mistakes of the other departments, the technique of how these mistakes and issues are liquidated. The process of any issue solving leads up to showing whose initiation is to fix the problem, who is involved and who declines any participation in correction of mistakes. Once the manager gets the answer, he/she starts to better understand what barriers the company faces while trying to collect the funds for the services/products that were indeed provided while ago.

The answers to questions 8 and 9 have a similar character and the aim of those questions is to show the company its problematic clients, that delay the invoice payment due to certain reasons. Respectively, the reasons are also reflected in the answers that helps the company determine if the invoice rejection/return happens due to the wrong contract conduction that was done by Marketing and Sales department or due to the poor service/product provision that was presented by Production department. In both cases the manages seizes the scale and depth of the problem in order to present certain actions for the solution of the occurred issues.

The 10th question is asked with direct purpose to determine the clients who delay the payments in the disrespectful way to the provider company's contract terms. The manager would consider them as the outcome of bad contract conduction which is considered as mistake of Marketing and Sales department. The management of the company would evaluate both the size of the revenue brought by such client companies and all negative influences that it makes the company face. As per the result of a deeper and wider analysis the company usually decides how to deal with such companies in the most optimal way.

These ten questions are basic questions that help the company seize the week points of its accounts receivable management processes and it has a teaching character rather than punishing one. Respectively, the company may have bigger list of questions, which is decided by the company as well as the form of asking them.

The world practice showshow important it is to analyse the factors that delay the accounts receivable collection processes. It should be accepted that even though the accountants issue the invoices and the accounts receivables management team collects the funds, it may not be always their mistake when the invoice payment is delayed due to the provider company's internal failure. There may be various reasons why a company may be late with fund collection and it is another reason why the company

should have a strong team of employees, that would work for the mutual interest of company success.

The company management should understand how import the influences are in the process of fund collection and what happens behind the scene of fund collection. Bu detecting each influence type and the way it should be dealt the company get an irreplaceable experience of how the issues would be dealt inside the company so that their performance level does not fall.

Besides that, it is very significant for the company to ensure they do not emphasise on the punishment for the mistakes, but make certain training and experience sharing events that would help their employees increase their productivity and raise the level of proficiency. This kind of attitude of management to the employees would respectively be more appreciated than any punishing actions and it would lead up to the initiation of the employees to voluntarily follow the instructions and advises of the management. All these actions would bring up to the final product of accounts receivable management improvement, that is the main target of the company in this matter. (Penman,S.H 2010, pg 68-90)

Below we may see a scheme what lies beneath each delayed payment:

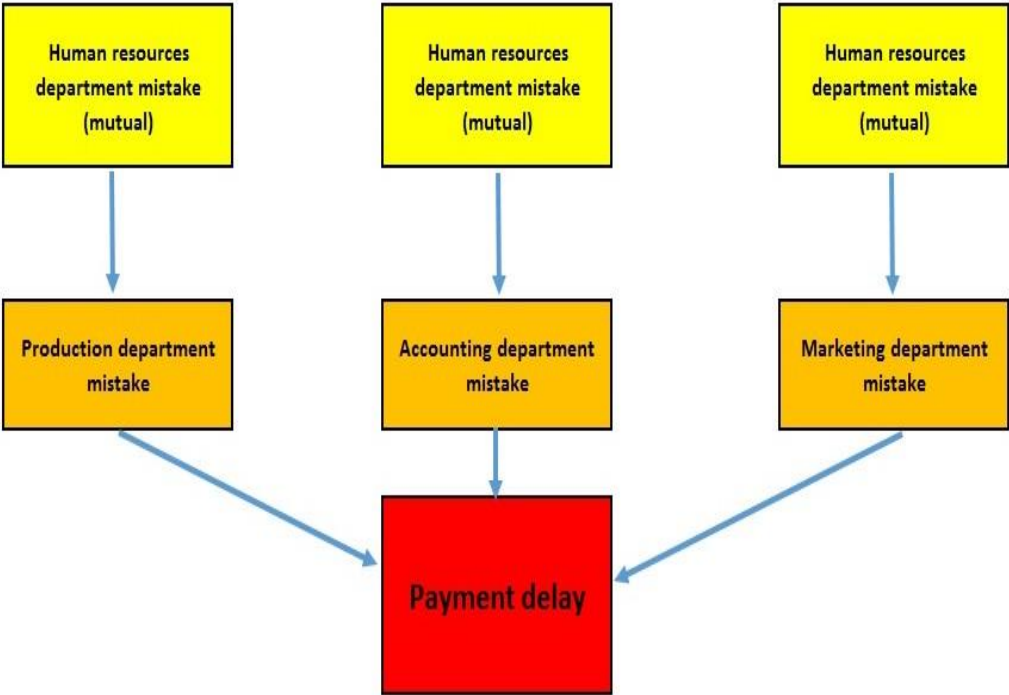


Figure 3.4: Payment delay reasons

Source: Best,N 2014 pg.45-65

As per above mentioned chart we may see the reasons why a payment delay may occur. When the payment is delayed and the company has issues with accounts receivable management as per chart and above mentioned units the roots of the problem lie mainly in the performances of three main departments. However, in the problem of each department happens on constant basis due to the poor work quality of certain employees, it means that the mistake was made when Human Resources department made mistake with choosing employee along with each corresponding department, as each hired employee chosen by both of them. Due to this such kind of mistake is considered to be mutual.

The aim of the management is to build up a team in proper way from the very beginning, i.e. by hiring professional employees that would be loyal to their profession and job. Such employees would be a key factor to the success of the company, particularly to timely and full fund collection in the mentioned case.

The worst scenario of management is considered to be the same mistakes that happen on periodic basis and that cannot be liquidated from the working process. These kinds of issues get a chronic character that leads up to constant collection problems. In order to deal with this issue for once, the company should analyse each mistake and learn on its mistakes by sharing the experience with the accounting department. The company should be able to decrease same type issues to the minimum, that would help it save time and collect the receivables in time.

In addition to all the actions for the issue liquidation, the company top management should fully emphasise the team work among the employees that may be a driving power in work implementation processes.

As it was mentioned before, the analysis of mistakes would bring up to the detection of real problems within the company and it will save time for the company while dealing with performance failure rather than if the company tries to solve each issue every time it occurs without solving its basic issues in the root. This kind of practice would help the company avoid same type issues and each new kind of issue would be accepted as experience for the employees and the team in general, that would be wisely used for next issues. (Fridson, M.S & Alvarez, F 2012, pg.26-72)



4. ACCOUNTS RECEIVABLE MANAGEMENT

4.1 Accounts Receivable Management Definition and Significance

Accounts receivable management is the process of proper collection of the funds on timely basis with compliance to the accounting principles.

Below we may see the main processes of Accounts Receivables Management:

AR Management Process:

1. Collect, process timesheets
2. Generate, Print and Mail Invoices
3. Receive, Process and Deposit Payments
4. Past due follow-up with customers
5. Daily Updating of Financial Data
6. Daily Invoice and Deposit Reports

In above list we may see the general divisions of the duties that an employee responsible for accounts receivable management should implement. Unlike Accounts Receivable cycle, this list shows exact functions of the employee that target to manage the account. Accounts Receivable management should not be considered as simple fund collection, it considers all the primary and afterwards steps that ensure how all the processes within accounts receivable processes are realised in the most optimal and correct way. The management of accounts receivable considers the analysis of the client attitude as well and projects the closest receivable collection assumptions of the company. It also includes then planning the employee should realise considering the needs of the company and duties before other parties, including the employees of the company as well. (Salek, J.G 2014 pg. 90-105)

In order to be able to understand all duties and requirement settled within the scope of accounts receivable management we should have a deeper look into each section of the scheme mentioned in above list.

4.1.1 Collect, Process Timesheets

At this stage the accountant responsible for these duties has to collect all corresponding needed documents proving the provision of services/products. As per accounting principles before issuing any invoices to the clients, the accountant should make sure that the services/products were really provided to the client. In order to have this proved the accountant should collect all needed documents from the corresponding departments. The collection and processing of timesheets also ensures the existence of the prove for the client in case any additional questions occur. The term timesheets consider all needed back up documents proving the provision of services/products, including purchases of orders as well.

4.1.2 Generate, Print and Mail Invoices

At this stage the accountant simply prepares all the invoices as per the procedure, prints them if necessary, then sends them to the clients. As per the procedure the companies have to keep the copy of all issued invoices in hard copy (as per mandatory procedure). Even if the invoice is electronically issued and sent to the clients, the company is obliged to print a copy and file it. Later on it would be archived within reasonable time period. As it was mentioned before the date of invoice issue and delivery should be recorded that is very significant for accounts receivable aging.

4.1.3 Receive, Process and Deposit Payments

This stage directly depends on the payments that the company receives. Once the invoice is sent to the client, approved and paid the company may allocate the payments with the invoices that would mean that the invoice is closed. The closed invoice is the one that passed through the whole cycle and considers the services/product that is actually paid for. The processing and depositing the payments considers the allocation of the payments with the corresponding invoices. As it was stated before it is very important to make clearance on the funds that a provider company receives from the client company and know for sure which invoices are paid and which not. (Fridson, M.S 2012 pg.26-72)

4.1.4 Past Due Follow-up with Customers

At this stage the company has to filter all paid invoices from non-paid ones and detect the open, outstanding invoices. These invoices are the matter of interest of accounts receivable management processes at this stage. The employee responsible for the accounts receivable management must continue on working on the outstanding invoices by following up on their payment.

Follow-up processes consider communication with the customers/clients on below issues:

1. When the invoices are planned to be paid
2. Why certain invoices are not paid within the deadline
3. Invoices with certain issues that cause payment delay and what should be done in addition for invoice payment
4. Any other issues that cause payment delay

The main purpose of the accountant responsible for accounts receivable management is to ensure that the invoices is actually paid within the closest future. In order to achieve this target the accountant should liquidate all the matter that cause any issues to the corresponding processes. In further units all the follow-up methods and steps would be defined and explained.

4.1.5 Daily Updating of Financial Data

This stage also directly depends on the payments that the company receives from its clients, however this stage considers the management of bank account or cash information and reporting to the management about the daily balance of company. Daily update is considered very significant for the company and it depends on the accounts payable and daily payment processes of the company as well. Reasonably the payment information asper bank and cash accounts should be matched and reflected with all pain invoices information provided by the accountant responsible for the accounts receivable management.

4.1.6 Daily Invoice and Deposit Reports

This process considers the report of all outstanding invoices and paid invoices as of daily update for reference. Some companies may require this procedure on weekly basis, however there are cases when the companies require this procedure on daily basis, which is respectively realised by the accountant responsible for the accounts receivable management. (Fridson and Alvarez 2012, pg.26-72)

As per above mentioned we overviewed the technical processes that the Accounts Receivable Management considers, however those units do not consider the various aspects that the employee responsible for the accounts receivable management faces.

Accounts receivable management considers all legal steps for timely fund collection within certain timeframe.

Risk factor

The risk factor is a very important aspect for the accounting processes of the company including the Accounts Receivables Management. There is always a risk that some funds would not be collected in time in the needed amount. It is considered that some processes may eventually happen without any risk but the company has to consider any possible risk in order to avoid any gaps and failures.

The risk factor is considered to be one of the main ones that should be analysed in detail and counted with the most probable accuracy.

In case the company undervalues the risk calculations the company may live through number of issues including lack of sufficient funds for realisation the planned actions that may bring up to the failure of whole company in general.

In case the company overvalues the risk calculations the company would experience less issues, and the net income of the company would be bigger in amount. However, from the other perspective high level of risk that would be lied on the company may keep the company employees under unreasonable stress that would bring up to the doubtful attitude of the company employees to the risk factors calculation. Meanwhile the mistreatment of risk factor is bringing more risk to the accounts receivable processes as well, which should be liquidated.

This task of risk factor calculation in collection category lies on the accounts receivables management and plays one of the main roles in budgeting of the company

as well. There are number of factors that depend on risk management in accounts receivable management and all of them should be carefully analysed and detected in order to gain enough experience to deal with corresponding issues in future.

Below we may see the main reasons for risk occurrence that the Accounts Receivable Management faces:

Inherit Risk in Receivables:

Primary risk in net receivables will be overstated, because either receivables have been overstated, or the allowance for uncollectible accounts has been understated.

Risk affecting receivables include:

- a. Sales of receivables recorded as sales rather than financing transactions
- b. Receivables pledged as collateral
- c. Receivables classified as current when likelihood of collection is low
- d. Collection of receivable contingent on uncertain future events
- e. Payments not required until purchaser sells the product

Sales of receivables recorded as sales rather than financing transactions: this is a technical problem inside the company that may actually transform into the risk and cause the issues in accounts receivable management. The accountant should clearly record all payments and sales on credit that are still not covered by the clients. Once there is a mistake with the recording and categorising of the accounts the company may experience serious issues within the accounts receivable management. (Fridson and Alvarez 2012, pg.26-72)

Receivables pledged as collateral: this is one of the most popular issues that happens within the accounting department of the company. Unfortunately, due to various reasons the accountant responsible for accounts receivable management may unreasonably consider certain invoices less important than others. In such cases it is obvious that the risk of collection failure would be higher for such invoices when the due date comes. As it was mentioned before it is important to deal with each invoice so that the risk of non-payment would be low. (Fraser & Ormiston 2015 pg.45-90)

Receivables classified as current when likelihood of collection is low: these are situations when the invoice is issue on too late date to be expected paid in next upcoming period. This is the reason why the companies are urged to issue invoices as

soon as possible so that client company would surely pay for it within deadline and in case there is some short delay it would still fit the upcoming time period frame. (Oros,B 2014 pg.54)

In case there are invoices that were issued in the end of the periods (accounting reporting) for example on 26th and 28th of January 2017. If the end of period is counted the last day of month and if the client company decides to pay for them within regular payment period of 30 days or on 30th day, then the company would succeed in collection of funds. However, if the client company makes a delay, even a minimal one of 2-3 days, the payment would fall on the next period, which would mean the lack of collections for the current period. This sample emphasises once more the importance of timely invoice issuing and delivery to the client companies. Please note that in the sample it was considered that the invoice issue and delivery dates are the same.

Collection of receivable contingent on uncertain future events: these are the cases when the client company brings an excuse of payment delay which is not related to the accounting department performance in any way. In previous units there were mentioned different factor that may influence the accounts receivable collection performance processes and what steps may be taken. However, there are situation when the time limit is too short and the accountant responsible for accounts receivable management does not have enough time to make all efforts in order to liquidate any externalities. Besides that there may be some cases when client company ask the company to wait for the payment due to the internal issues of client company which put the company in tricky situations. In some cases even when the company is sure that the client would be paying in soonest future, it may not be enough for accounts receivable management as the planned collection may include some funds for current period. Once the amount that is planned to be collected in current period is collected in next period it still means that the company failed to fulfil the collection duties for current period. Even though if the interest rate may be applicable for each delayed date, it would not correct to planning of the company. (Salek, 2014 pg. 35-40)

The company should be very sensitive about planning the collections as per accounts receivable as each client company may have some reasonable excuse that would not still help the accounting processes.

Payment not required until purchaser sells the product: this issue is rarely faced by the companies, however there are some companies that conclude the contract with relevant terms. Usually such companies are new starting companies that wish to prove the High quality of their services/products in fastest way and to gain as many clients as possible. A contract that lets the client company pay for the services and goods only once they sell the final product to their own client and get paid for that is a very attractive condition for the purchaser and it directly liquidates most of their risks. The companies that provide such contracts to the clients usually provide spare parts of some technological equipment or any other raw materials. When a company agrees to provide goods and services on terms of such companies it accordingly agrees on payment without any certain deadline. Normally, the companies live through numerous problems while they have deadlines in their contracts and in such cases the accounts receivable management has a very limited range of actions. Once they do not have strict terms about payment deadlines as per contract condition, they do not have any legal rights on claiming the payment once the company declines to pay for the services and goods as soon as possible on their own will. The company would have to rely on the information provided by the client company on the payment information of their own purchaser. With such contract the company does not have any mechanism to control the situation as they can not access the payment information of the client companies (regarding the payments that are done to them by their own purchasers).

In nowadays, such contracts are rarely conducted, however they still do exist and carry more advertising and marketing character. The companies that conduct such contracts consider the major risk of accounts receivable collection and concentrate on client gaining more. Once such companies gain certain image in the market they start to liquidate such practice and transfer their business to new contracts that have certain deadlines for the payment.

It is important for the company to be aware of all the risks that they may face and knowledge of most of them is normally gained with experience. More detailed risk management would prevent the company for any uncertain points in the future and would help the company cover the planned expenses with planned collections.

Accounts Receivable Management considers planning of receivable realisation, i.e. fund collection the result of which is evaluated and considered at the end of each period. The lack of accuracy of this process may bring up to the issues with company's

planning and duty realisations which shows the significance of these processes.
(Oros,B 2015 pg.56-67)

As it was mentioned before when the companies have certain practice of charging extra funds for the delayed payments. It is usually applied for each delayed date/week/month of payment and is mandatorily reflected in the contract.

Below we may see some small sample of this condition:

“Thank you for your business. We do expect payment within 30 days, so please process this invoice within that time. Please note that there will be a 1.5% interest charge per month on late invoice payments.”

As we may see in above sample, the interest rate is applied for each delayed month in the amount of 1.5% out of total sum.

Sample:

The invoice is issue and delivered to the client on 01/01/2017.

Total sum of invoice: \$2,300.00

The contractual term regarding the payment deadline is 30-day allowance

The client pays on 26/02/2017

The interest rate for each delayed month of payment is 1.3%

As the payment was done in during the second month, 1.3% is applicable for the period of 31/01.2017 – 26/02/2017.

The total due of the company as of the payment date was: \$2,329.90

Extra charge: \$29.30

In the above sample the total sum of invoice is not significantly big and the extra charge happened to make not a big difference, however if the invoice has value of \$550,000.00, then the extra charge would count up till \$7,150.00 which may be not too significant comparing to the whole invoice sum, but in perspective of the company management this sum is counted to be as a pure loss and might invoice some serious internal investigation.

Some companies may not apply such practice even if such term is stated in the contract if the delay is not significant, however almost each company insists on such term to be included in the contract.

The interest rate charging has main two aim as per its characteristics:

1. Compensating lost time and funds (considering time value of money)
2. Urging the companies to pay in time

The first aim of interest rate charging was shown and described above, however the second aim is much more important for the company.

When a company has such term alike the one shown in sample and it constantly and strictly applies it to each delayed invoice the clients get used to this term of the contractor company and try to make timely payment in order to avoid any extra charges. This term would improve the accounts receivable processes and its management would be properly implemented. In such situation, the interest rate application for delayed payments has a behavioural character and it helps the company get its collections in time. The client companies do really regret paying extra charges for the agreed services/goods and this is the driving force that makes them pay in time. If one company has to pay extra charges for the payment delay the company has to make an internal investigation (depending on the amount of extra paid charges) in order to find the reasons why a company made such mistake. Obviously none of the companies would like to experience such issue and this is another reason why company would be interested in timely payment of debts.

This kind of action would automatically decrease the risks of provider company and this totally matches the company politics.

From the other perspective, the application of extra charges for delayed payment may not have too strict character, i.e. the charging rate should be reasonable and affordable, otherwise the company would experience the client loss, which is not acceptable. The balance between client and fund loss should be carefully built by the company management and accounts receivable controller should be involved in this process.

Besides applying extra charges for delayed payments company may also stimulate early payments of the client companies. This may be achieved by motivating the payers with certain discount in case the company covers the debts within certain period, that

is significantly shorter than the deadline period reflected in the contract as per mutual agreement.

This practice is also widely used among the companies as the companies are concerned about time value of money and prefer to get paid faster with discount, than later or much later with extra charge.

This kind of practice is usually positively accepted by Account Receivable Controllers as these actions improve all accounts receivable figures and the funds are collected with less effort. However, other accountants who are concerned about the cost of provided services/goods and their mark-up do not usually appreciate such actions. They consider that in this case the company physically receives less net income. Even though their concern is correct, in long run the time value of money shows its importance and as result the company gains more than loses.

Such kind of term of discount for earlier payment is also usually reflected in the contracts.

Below we may see a sample of such contract term:

“Thank you for your business. We do expect payment within 30 days, so please process this invoice within that time. Please note that there will be a 1 % discount if this invoice is paid within 20 days.”

As per the above sample we may see that the discount on the paid sum for invoices is applied only once the payment is done within 20 days from the invoice delivery, i.e. it is 10 days before the deadline actually comes.

Sample:

The invoice is issue and delivered to the client on 01/01/2017.

Total sum of invoice: \$3,400.00

The contractual term regarding the payment deadline is 30-day allowance

The client pays on 15/01/2017

The interest rate for each delayed month of payment is 2%

As the payment was done within 20 days since the invoice delivery date (on 15th date exactly), 2% of discount is applicable for the period of 01/01.2017 – 15/01/2017 as per contract term.

The total due of the company as of the payment date was: \$3,332.00

Discount: \$68.00

In the above sample the total sum of invoice is still not significantly big and the discount with 2% rate it makes only \$68.00. However if the invoice value is big, the discount amount would be more visible as well for the client company. For example, if the invoice had value of \$300,000.00, then the discount amount of 2% would make \$6,000.00 which may not be very significant comparing to the total amount of the invoice, however it still would be counted as some kind of gain. Such kind of opportunities are positively accepted by the client companies' managers and they urge their employees to use such opportunities as much as possible.

The discounts applicable at early payments for invoices also have two aims as per below:

1. Avoiding fund loss due to payment delay (considering time value of money)
2. Urging the companies to pay in time

As it was stated earlier such kind of actions in a long run make company avoid loss due to time value factor that the funds are experiencing and the companies consider early received funds with discounts as a gain.

The second aim of discounting for early payments is the same as extra charging for late payments. This aim has a behavioural character and targets the attitude of the clients to the matter of debt payment, i.e. receivables closing. Companies appreciate such opportunities and try to pay early, in order to pay less.

This kind of term motivates the companies to pay early so that their company experiences less cost in the end.

Even though not all companies apply such terms in their contracts, this practice is widely used in the world and it's practice has already shown positive outcome that can be used as experience.

From the other side the companies should not get hard on this term and make big discounts for easily reachable targets for clients, as then they may suffer the loss of funds.

For example, if company applies 8% of discount, this may bring up to quite a tangible amount and may end up with lost. In other case, this also may happen of the company

states that discount would be applied for any payments within 25 days while the deadline is 30 days. 5 days is not such a big time period and usually the company may afford to wait for that period, which means that the discounting would not make any sense. There is no reason to get less if the company could get whole amount from client just if it waited some short affordable time.

The accounting advisors suggest using the discounting approach for early payments mostly in the cases when the client prolongs the contract with the provider company. This is mostly applicable to the cases when the client is constantly delaying the payment for certain period and instead of adding extra charges for the delayed period the contractor finds it more useful to make some discount for early payments. It is considered to be useless to provide discounts to the clients that pay in time anyway as per the procedure of the client company. (Oros,B 2016 pg.65-70)

Despite all mentioned above factors and suggestions, it is always hard for the company to decide if they apply discounting or interest rate system to each client and if they decide to do it what percentage should be applied in both cases respectively.

Another important aspect in applying the discounting and interest rate approach to the contracts depend on the contract period. If the contract is concluded for short period then the contractor may decide not to use any of mentioned approaches in order to test the paying attitude of the client company, however if the contract is a long period one, then the contractor may prefer avoid any risk and negotiate on the discounting and interest rate approach. (Quliyev, Kerimov & Fatullayev 2012 pg.22-60)

From the other side, the contractor company may always add appendix to the main contract where the discounting and interest rate approach. Even though the contract conducting and term evaluation is the responsibility of marketing department we may see how it indirectly influences the Accounts Receivable Management processes. (Litneva & Malyavkina 2013 pg.45-55)

The accounts receivable management considers all actions in order to liquidate all possible risks that the company may face during collection period. Reasonably the company cannot liquidate all risks, however it may make deep analysis and detailed prognosis that would help them to deal with this issue in the most optimal way.

Above mentioned approaches help the company decrease all possible risks of late payment or non-payment at all. It is important to keep a flexible attitude to the changes

and issues that may arise during fund collection processes. The individual approach to each company is built upon the historical relations between the companies and it is important for the company to have healthy professional relations in order to benefit each other.

4.2 Accounts Receivable Management Principles

As part of accounts receivable management the company should act per the principles that ensure the correct management of collection processes.

Below we may see the principles of Accounts Receivable Management:

1. Client determination
2. Establishment of a payment period
3. Monitoring the collections
4. Evaluation of the receivables balance
5. Acceleration of cash receipts from receivables (Collins & McKeith 2009 pg.40-75)

Client determination

Before deciding to sell the services and products on credit to the particular client, the company has to determine if the client is trustworthy to become the client of such type. Otherwise the company may decide to sell the services and products for cash payment at place.

If the contractor company feels doubt about the client company's financial state, it may request additional official bank document proving certain balance at the account of the company. However, this kind of action may be considered as not ethical in business relations, some companies apply this approach in order to decrease the risk of any loss.

Besides that the provider company may organise certain analytical actions in order to determine the financial health of the client company on periodic basis to ensure the client covers its debts in time as per contract terms.

Principal of client determination is an important rule for making a stable base of accounts receivable management processes. The company has to make a research before opening a credit for a client and signing the contract.

This principal mostly stands for ensuring that the company would not put its business under the risk that may ruin its work. AS it was mentioned before unreasonable risk may bring up to big financial issues and the company may have hard time with recovering after such problems.

Establishment of a payment period

This principle stands for determining the payment period as per the internal calculations of the company and the strategy of the entity.

As it was mentioned before the company may decide which period to set before the client depending on various factors, including the reliability of the client, awaited revenue from the client, future perspectives that may arise, type of provided services/goods, own financial state of the company and others.

Despite of the length of payment period, the principle states that the allowance period should be negotiated between the sides and the information should clearly be stated before the client company by the contractor.

Besides above mentioned terms this principle represents the choice of settling discounts for relatively early payments of the clients.

In general, this principle urges the companies to determine certain payment period strategy that would be individually determined for each client in order to have the best of accounts receivable management.

As it was mentioned before the payment allowance period should be both based on the internal state of the company and the state of the client company as well.

As per principle the contractor should also analyse the analogical payment period information of competitive companies in order to have reasonable deadlines. The principal states that if the company is not following this approach it may live through the continuous client loss, as each client aims to have the most beneficiary service/good provider and the payment allowance period is one of the critical points for all companies. (Litneva & Malyaykina 2006, pg. 10-27)

In below list, we may see the algorithm of corresponding steps for establishment of main credit terms:

Establishing the Credit Terms:

- After a company decides on its credit standards, next it has to purely establish its credit terms:
 - The length of the payment allowance period (the “net”, mentioned in days period)
 - Should it offer a discount in order to encourage needed early payments
 - If the discount is offered, it would be shown with all details
 - If the company is young and small it would probably follow the practice of other companies.

As we can see above, establishing credit terms consists of both the payment period allowance settlement and certain discount opportunity for early payments.

The principle states that first the company should determine the client that they may rely to open a credit sales contract and then starts the settlement of payment period allowance. As these are the first steps of business relations building with the company from administrative point of view, the company should be very careful and attentive with each made decision. (Litneva & Malyaykina 2006, pg. 10-27)

Monitoring the collections

This principle states that the company has to organise certain reporting system that would contain all the information needed for development of accounts receivable management processes. It is considered that the development of accounts receivable management bases on the monitoring and analysis actions of the company, which makes the reporting structure very valuable.

Accounts receivable aging is also considered as an important key in the accounts receivable management as per principal. It is considered as main part of reporting and its analysis is very essential for the accounts receivable management development.

This principle also considers the technical actions of the employee responsible for the accounts receivable collection realise, which include the phone calls, emailing and other communication tools, in order to receive the funds in time. The principle states that the contractor company should pass all needed steps of communication in order to cover the debts. However, it also includes the legal actions that should be taken in case the client company ignores all notification sent to them by the provider company and no payment or proper negotiation is realised.

Legal actions are considered as last step of accounts receivable management processes, which is taken when all other tries are done.

Another important specification of the monitoring process is experience gained from each case by realisation of special arrangement within the company. The principle states that when some outstanding issue occurs it should be communicated within the company and all proposals should be heard, after which the company management should make the best choice for solution.

Once the issue is solved the solution steps should also be communicated and shared within the company so that the team is acknowledged what should be done in next alike situations. All issues and outstanding points should also be reported along with regular financial reports. (Libby, R 2014 pg.34-56)

One of the main aims of the monitoring principle is liquidation and avoiding the concentration of credit risk, which may happen due to a number of clients that refuse to pay or delay the payments and harm all the process, which is respectively reflected in financial reports, including accounts receivable aging reports.

Also, the company management should be aware of the clients who pay in time and who do not, as this may help the company avoid further issues.

For example: ABC company is not a good paying company and the service/product provider company lives through issues due to this kind of attitude. At the same time the management of company has decided to have some other contract with ABC company for other kind of services and the experience of poor payment attitude of the client company would urge the contractor to have different term in new contract that would help the company to have better collections for the invoices issued for new contract. (Litneva & Malyaykina 2006, pg. 10-27)

This kind of strategical decision may make a big improvement in fund collection processes and it is totally the responsibility of the accountants dealing with accounts receivable management to make all necessary analysis in order to have transparent and fair view of all clients that company providing services/goods to.

Proper monitoring of collections ensures the risk decrease of the company and builds up an image of fair company.

The accounts receivable controller should be able to analyse the change for each client company and each period in order to have a view of attitude change, this kind of diagnostic check could detect some important signals of serious issues or needed developments.

The monitoring principle urges the companies to make a full analysis of any available information so that the employees responsible for accounts receivable management may be able to have a fair evaluation of any problem and find the roots why the company has issues with payment collection and take the corresponding steps for improvement of collection actions.

Monitoring principles strongly emphasise the communication processes between the contractor company and its clients, which directly urges the company keep monitoring processes separate and not to invoice the clients in it. The client companies should not be notified for any change that the contractor company may seize from the monitoring processes and only when there is a clear signal of risk the contractor company should make sure that the client company is properly communicated. The aim of all these processes is to solve the problem that anyhow delays the collection processes. (Chekijian 2015 pg.56-78)

Evaluation of the receivables balance

Evaluation of the receivables balance principal states that the company has to make a kind of budgeting according to all the debts it has, as per the invoice it issues for the services/goods it provided.

As per the principal the company has to make below two arrangements for each upcoming period and a financial year respectively at the end of each year. (Litneva & Malyaykina 2006, pg. 45-87)

Below we may see these two arrangements:

- Amount that would be received
- Amount that is under the risk to be not received (dubious)

“Amount that would be received” arrangement divides on two types as per below:

- The one that is done for each upcoming period/month
- The one that is done for each upcoming financial year

The differences between these two categories is that “Amount that would be received” calculation for the each upcoming month is done according to the invoices the company issued during the current month, while yearly one is done on assumptions of all invoice that would be issued during the next financial year. The budgeting processes of the company consider the approximate calculation of future invoices as per the contracts and awaited service/goods to be provided.

As per previous units we saw the way the calculation of the approximate amount that the company has to target for collection is done. That process has different factors and each invoice has an approximate percentage showing how strong the company assume/believes that the sum would be collected. That process is very alike to the “Amount that would be received” arrangement calculation processes, however there is some difference which helps the company keep an objective view of situation.

“Amount that would be received” arrangement keeps an objective eye on the sum that is real to be collected, i.e. as per this principle the company has to make a list of invoice that are most likely to be paid with reasonable base for that. While an accountant makes these calculations, he/she should not think about what the company has to pay for, what are the obligations and needed income, he/she has to make a clear objective analyse of the payments that it not just plans to receive, it will most probably receive. In these calculations, the accountant receivable for accounts receivable management would not write the percentage of probability for each invoice, she/he would only write invoices, client names and the sums that would be paid as per the objective analysis.

The objective analysis is counted to be reasonable with the type of explanations alike below ones:

1. Promised arrangement of payment by client (with approximate payment date) which was notified either orally or in written
2. The attitude of the client which is counted to be a systematic behaviour as per precedent. Example: some client companies notify their contractors that their company makes payment on certain dates of the months and the contactor already knows when to await the payments. This does not mean that the invoice would be surely paid, but once the companies have good communication skills, they may have arrangements that gives a big chance for the payment in promised time.

3. Technical issues that may delay the payment. Sometime the wire transfers of paid debts may last up till 1 week, if the transfer is international (depending on the countries of transferring sides). In such cases the payer (client company) may have already made the payment for debt, but the payee (provider company) would receive it in the time that would fall on the next period. It may also include cheque payments, that is sent via postage and would be delivered in certain time period. (Chekijian 2015 pg.66-98)

There may be some other reasonable explanations as well, depending on the situation that would fairly be accepted as ensured payments.

When this arrangement is done the accounts receivable controller has to compare it with the sum that the company has to collect including all the risk as it was shown in previous units. If the “Amount that would be received” arrangement is equal or more than the amount that has to be collected, then the company is in more beneficiary situation, and there targets would be most probably reached as per plan. When “Amount that would be received” arrangement is less than the amount that has to be collected, then the company should make a better strategy on how to collect the rest needed amount as well.

In both cases the company has to continue making efforts to receive the collections, however in the second case such evaluation give the team a signal to have a better working plan.

This kind of information is a necessary data for the accounts receivable management purposes, that makes it very valuable and urges the company to make proper arrangements for timely target completion.

While the company evaluates all awaited payment from the clients it also keeps in mind the worst scenario, when the payment is actually not done. When the contractor company loses any hope to have certain debt covered by the client company, such debt is called bad debt. In further units bad debt specification would be described and overviewed in details, while in this unit we would evaluate how company bares such risk and how it is managed. (Chekijian 2015 pg.56-78)

Amount that is under the risk to be received considers the amount that the company is not sure about if they would be able to collect it or not. It does not consider that the company would give up one those cases and stop communication with the client

company in order to get the funds collected, it simply means the risk that the company faces.

It is regular for the companies to consider that some of the clients would decline to pay for some invoice due to various reasons and such risk is considered from the company management in the very beginning of business building. Besides that they company management has to make certain plan/strategy how these invoices should be dealt.

As per principal there are two methods how companies deal with dubious payments:

- 1. Direct write – off method
- 2. Allowance method

Direct write – off method considers writing off the debts that are surely accepted as non-coverable. The company accepts that its employees did everything in order to get the collection for the certain invoice but the client still refused to pay and there is no addition chance to be able to collect those funds. Once the contractor company makes a clear decision that the invoice is non-coverable, it considers it as bad debt and writes it off. (Lanen, Anderson, Maher 2009, pg.62-79)

This method is considered the best fitting for the tax purposes and widely used among the companies, especially if invoices have a big value.

Below we may see a small sample of such case:

AZ Company issues an invoice to DEF Holding on 14.05.2015, which never gets paid by DEF Holding without any explanation. It was a single time service. In the end of 2016 year AZ Company finally decides to write off this debt as per below transactions:

Date	Description	Debit	Credit
31.12.2016	Bad debt	\$1,500.00	
	Accounts Receivable: DEF Holding		\$1,500.00

Usually the companies are permitted to make a tax deduction for the uncoverable debts (bad debts) once the problematic (non-coverable) invoice is detected by the company. Due to this reason, most of the companies use this method for their tax return.

Allowance method considers the calculation of estimated risky receivables that the company presents at the end of each period for the next one. This calculation is based

on the client companies' payment attitude and the historical data, however, it is considered as an assumption only. All data is considered as rough and approximate data. Usually, the companies that are well-established are more successful in preparing the allowance for bad debt calculation, unlike young companies, which is directly explained by the experience that a longer period established companies have as an advantage over young ones. (Cabrera 2015 pg.56-87)

Besides that, this method is used as an alternative to the direct write – off method. When a company is still not sure about the debt and has any chance for its coverage, the company management may see it in allowance for bad debt account, which increases the transparency in the company. (Salek 2015 pg.43-56)

Below we may see a sample of such case:

At the end of December 2016 the AZ company has reporting period and makes a report that there is an invoice worth of 5,000.00 USD which most probably would not be paid by DEF Holding, without any explanation made by the client company. It was a single time service. As per mentioned invoice the company make an allowance for bad debts for next period of 2017 year.

In below chart we may see how this transaction would look:

Date	Description	Debit	Credit
31.12.2016	Bad debt expense	\$2,000.00	
	Allowance for bad debt		\$2,000.00

Allowance method is considered to be the best one from the financial statement perspective as it shows all sufficient information to the managers.

Both methods are widely used around the world and as mentioned before follow the principals. It is up to the company which one they prefer to choose in their work implementation processes, that is totally depends on the company strategy and policy.

Acceleration of cash receipts from receivables

This principal states that it is the contractor, service/goods provider company's interest to make all reasonable actions in order to get the collections for the receivables as soon as possible.

Below we may see two main reasons that explain this principal:

1. Time value of money fall with each waiting day and the service/goods provider company respectively wishes to get the collections as soon as possible. Long waiting period makes the awaited funds much less valuable comparing to the time service/good was provided and invoice was issued to the client.
2. Companies consider that a bird in the hand is worth two in the bush, which means that it is more reasonable to get what you may get now, than to rely on future payments as they may not be realised at all. (Salek 2015 pg.53-76)

Both above reasons consider the actions that the company should make with purpose to accelerate the payment for the debts by the client companies.

Below we may see the types of action that a company may take in order to realise the acceleration of collections from receivables:

1. Discounting
2. Receivables selling/ Accounts receivable financing

The discounting method was explained in previous units, when the company would make certain discount for the payment of receivables within certain period of time, that is shorter that payment allowance period deadline shown in the contract.

However, there is another type of discounting that the company may refer to when it sees that the client company delays the debts for quite a long period. This kind of discounting differs from previously mentioned one with the factor that in such case the issue had already occurred and the company has to deal with it.

In below example this kind of discount would be shown in detailed.

DEF Holding has debt to AZ Company as per below invoices.

No.	Date	Invoice No.	Name of Company	Amount
1	01 January 2016	AZ2016/0037	DEF Holding	\$9,000.00
2	02 February 2016	AZ2016/0095	DEF Holding	\$10,000.00

3	10 April 2016	AZ2016/0120	DEF Holding	\$8,000.00
4	15 May 2016	AZ2016/0174	DEF Holding	\$7,000.00
5	16 May 2016	AZ2016/0175	DEF Holding	\$11,000.00
6	17 May 2016	AZ2016/0183	DEF Holding	\$12,500.00
7	18 June 2016	AZ2016/0210	DEF Holding	\$9,500.00
8	19 June 2016	AZ2016/0211	DEF Holding	\$11,000.00
9	26 June 2016	AZ2016/0212	DEF Holding	\$8,000.00
10	28 June 2016	AZ2016/0217	DEF Holding	\$14,000.00
11	19 June 2016	AZ2016/0211	DEF Holding	\$14,000.00
12	02 July 2016	AZ2016/0271	DEF Holding	\$15,500.00
13	02 July 2016	AZ2016/0272	DEF Holding	\$17,000.00
				\$146,500.00

The payment allowance period for the invoices as per the contract is 30 days from the invoice delivery date. Besides that AZ Company does not imply extra charges for the delayed period as per contract.

On 1st of November 2016 after long and intensive negotiations with the client, AZ Company decides to make a certain proposal to the DEF Holding as per below:

15% discount for the payment of whole debt with condition that the whole amount would be paid before 30th of November 2016. Otherwise the company would be claiming for the whole amount till the end of January 2017 and in case the debt is not covered till then as well, AZ company would take the case to the court against DEF Holding.

Usually, none of the companies prefer suing the clients for debts that they do not cover as it is quite expensive and difficult process. Even though, all expenses would be

covered as per court decision, this is a big issue for a company that may delay other more important processes. In order to avoid such kind of complications the company is ready to make discount it is aware that it has already been losing the funds, as the time value of money decreases with every day. (Schaeffer 2016 pg.27-46) Besides that even if the case goes to the court the company would still lose time for waiting and even if AZ company claims for compensation of time value loss, the company would still prefer getting funds now with discount, than to deal with long lasting matters as mentioned above.

As per the world practice most of the time companies accept such terms and this is why this principal is very important for business management.

From the accounts receivable management point of view the main purpose of the employee responsible for this duty is to make all necessary and legally accepted actions in order to collect the funds and avoid the bad debt issues. As per above mentioned case the company would lose some of its profit, by making 15% discount, but in long run it would save the rest of funds, and would be the cheapest way to save those funds, which is accepted and approved by the accounting principal and company policy/politics (mostly).

Another acceleration of cash receipts from receivables method is selling the receivables of the company to some other company that would be dealing with the client. This kind of action is also called accounts receivable financing.

When a company has some big sized outstanding invoices which cannot be collected by the client company, the contractor company may decide to make an additional agreement with some legal company specialised on debt collections. It happens when a contractor company does not wish to spend time, efforts and funds on certain legal actions against the client company and decides to hire the 3rd party company that would be dealing with it. That 3rd party company would buy the debt from the contractor and then have a direct power to claim for debts from the same client company. This kind of sale happens with all needed legal actions, so that the client officially becomes debtor to other company, the one that bought the debts from the service/goods providing side. Respectively, when the 3rd party company buys debts from the contractor, it does not pay full price of debt, the debt is sold to it with certain discount.

On below example, we would be able to overview such case:

DEF Holding has debt to AZ Company as per below invoices.

No.	Date	Invoice No.	Name of Company	Amount
1	08 March 2016	AZ2016/0111	DEF Holding	\$80,000.00
2	18 March 2016	AZ2016/0135	DEF Holding	\$20,000.00
3	17 May 2016	AZ2016/0200	DEF Holding	\$16,000.00
4	30 May 2016	AZ2016/0227	DEF Holding	\$20,000.00
5	11 June 2016	AZ2016/0293	DEF Holding	\$35,000.00
6	16 June 2016	AZ2016/0310	DEF Holding	\$12,200.00
7	29 June 2016	AZ2016/0354	DEF Holding	\$9,800.00
8	08 July 2016	AZ2016/0550	DEF Holding	\$29,000.00
9	16 July 2016	AZ2016/0598	DEF Holding	\$85,000.00
				\$307,000.00

The payment allowance period for the invoices as per the contract is 30 days from the invoice delivery date. AZ Company does not imply any extra charges for the delayed period as per contract.

On 1st of December 2016 after long and intensive negotiations with the client, AZ Company understands that the only way to get the debts paid by DEF Holding is suing them. However, AZ company does not want to lose efforts and funds on going to court with the case against DEF Holding as considers it too time consuming. In order to deal with the case as soon as possible and without any additional charges the company decides to hire RR Assistance company for accounts receivable financing. The contract that was signed between AZ company and RR assistance had below conditions relating the accountancy:

- \$307,000.00 debt is bought by RR Assistance from AZ company with all corresponding documents and information in reward of 80% from total debt sum.
- Since the 80% payment is done by RR Assistance to AZ company, AZ company does not have any right on sold debts.

Above mentioned conditions mean that RR Assistance buys the debt of \$307,000.00 from AZ company and pays only \$245,600.00 to AZ company. Then RR Assistance would directly deal with DEF Holding by implementing all legal actions and would be able to get whole sum of \$307,000.00.

From the RR Assistance perspective, the company would make a revenue of \$61,400.00 that would partially cover all the costs and bring them certain income. Respectively, if any legal company buys such kind of debt, like the one from AZ company, it had already made it analyse and control over all the documentation and truthfulness of invoices, that causes such issues for AZ company.

From the AZ company perspective, it loses \$61,400.00 but receives \$245,600.00 immediately and closes the debts from DEF Holding. Respectively, AZ company would not have any business relations with DEF Holding after such kind of incident.

These transitions would be recorded by AZ company as per below:

Date	Description	Debit	Credit
01.12.2016	Bank	\$245,600.00	
	Accounts Receivable: DEF Holding		\$245,600.00

Date	Description	Debit	Credit
01.12.2016	Bad debt	\$61,400.00	
	Accounts Receivable: DEF Holding		\$61,400.00

As we may see in table above, AZ company had to write-off \$61,400.00 as bad debt due to poor payment attitude of DEF Holding and complications of accounts receivable management processes.

We may not consider such scenario and the best possible one, however it helped the company receive 80% of debt and it is considered as some alternative way, when a client company shows poor communication skill regarding debt payment.

However, we should consider that this kind of action would bring up to loss of a client in most of the cases which mostly is not matter of case as none of the companies would like to have such kind of client.

Receivables selling option is counted to be an additional action of accounts receivable management processes for implementing with highly risky clients that may bring up some dangerous loss to the company. In other words, receivables selling option is usually used when a company has some client with non-coverable debt that has a big financial value.

Accounts receivable management principles ensure the truthfulness of steps that the employee responsible for these duties takes. While the employee follow the corresponding principles he/she may be sure that the company would be on right way to its targets. (Sundt 2015 pg.44-55)

4.3 Accounts Receivable Manager's Duties

By considering the accounts receivable manager any employee who has the main responsibility for accounts receivable is counted. This position may be called either accounts receivable manager or accounts receivable controller, or any other name. Meanwhile at some point senior accountant may also perform the duties of mentioned type. (Lanen, Anderson, Maher 2009, pg.62-79)

Below we may see the main duties of the accounts receivable manager (controller, supervising position)

- Accomplishment of all needed actions as per plan that should be realised by the employees who have any connection to the accounts receivable processes.

- Meeting accounts receivable financial standards by providing annual accounts receivable budget information; periodic expenditure monitoring; identification of differences; corrective actions implementation.
- Ensuring the company confidentiality by keeping all corresponding information secure and safe.
- Internal accounting/finance control implementation, provision of all actions in order to secure the payments from the clients.
-
- Meeting the accounts receivable operational standards by providing with all necessary information to strategic plans and reviews; implementation of production, customer-service standards, quality issues and productivity, problem solving; targeting and identifying the system improvement actions.
- Supporting financial planning, budgeting by forecasting and planning the upcoming payments.
- Updating the receivables by coordinating and monitoring bank movements with all needed back-up documentation and communications.
- Keeping up the accounts by providing the monthly reconciliation and invoice payment information.
- Using all educational opportunities that would modify the knowledge of particular employee and the team, timely upgrading of all standards and approved methods in order to have progress in fund collection processes with corresponding ethical compliance as per accounting principles.
- Accomplishment of organizational missions by completing needed results as reaching settled targets that should be updated as per situation within the company and market of corresponding business.
- Collection of accounts by referring to the corresponding employees for the client company side; investigating of issues; negotiating and resolving conflicts; follow-up actions regarding the payments. (Warren, Reeve, Duchac 2016 pg.45-67)

Above mentioned list of duties may vary from company to company, however above mentioned ones are mandatorily required duties. As per world experience and international standards companies are highly advised to have a separate employee for mentioned duties, i.e. the employee who is responsible for account receivable

management should not be dealing with any other matters within accountant. Reasonably usually there are several accountants who are involved in accounts receivable processes, number of which depends on the size of complicity of work of specific company, however there should be a head of the accounts receivable duties implementing team that should be full time dealing with the corresponding matter. It is considered that when the manager/controller of such type activity should be fully concentrated on this task. (Lanen, Anderson, Maher 2009 pg.62-79)

Unlike the duties that were shown in previous units for the employees dealing with accounts receivable processes, these duties are required for the supervising position, i.e. the one that would totally control the activity of other employees involved in corresponding duty.

Besides above mentioned duties below we may the main qualities that the employee implementing supervisory duties of accounts receivable management should have:

- Supervision: the mentioned employee should be a good team leader that would be able to set targets before the team and ensure their proper and timely implementation as per accounting standards
- Staffing : the accounts receivable manager should be able to build a team of strong and qualified employees that would be able to implement the settled duties and reach needed targets in proper way.
- Financial Software: the accounts receivable manager should be able to use the accounting programs that would help the team to speed up and simplify their work. Besides that the manager should be able to choose the best fitting software program for the team and assist with the settling up of the system (team teaching, fitting and changing as per company interests and needs, contestant integration and upgrading)
- Forecasting: the accounts receivable manager should be able to make a forecast for upcoming period, i.e. budgeting the future receivables as per various factors, including previous period data, statistics, future sales and others.
- SFAS Rules: the accounts receivable manager should be aware of Statement of Financial Accounting Standards, ensure that whole team is acting as per the standards and guarantee that the company would not be doing any activities out of SFAS Rule frame, as it respectively is capable of harming the company image.

- Confidentiality: the accounts receivable manager has to comply the confidentiality rules of both the company inside information and the client information as well. The team should also be trained regarding the confidentiality issues and these matters should be constantly watched and updated.
- Managing Processes: the accounts receivable manager should have good decision making skills, be able to make the best (not just correct) decisions from the company's perspective and act on the side of company in all matters. Besides that the manager has to carry responsibly for all self-made and team-made decisions. It means that any mistake made by the supervised employee fall under the responsibility category of accounts receivable manager.
- Developing Budgets: the accounts receivable manager should be constantly working on the budget improvement, that can be directly achieved by timely fund collection which is firstly required within accounts receivable processes scope.
- Accounting: the accounts receivable manager is an employee of accounting team, which means that all accounting specification are required from her/him as well, and the corresponding employee should be complying all accounting standards as well.
- Thoroughness: accuracy is highly requested from the supervisors that are responsible for such kind of detailed and strict information that is necessarily needed for accounts receivable management, including its all main processes.
- General Math Skills: this is a standard requirement that is required from any employee working in the accounting department, which is counted the basic requirement from the matching employee.

Accounts receivable manager is a position that has a critical meaning for the company and its value may not be underestimated by the top management of the company. Due to this it is the management's interest to keep the account receivable manager constantly motivated and upgraded.

As per the world practice such kind of attitude would ensure the proper implementation of all mentioned above duties by the account receivable manager.

The accounts receivable management is the main responsibility of account receivable manager and the company must have enough qualified, responsible, target and work

oriented employee that would ensure the implementation of all needed tasks that would guaranty timely cash flow of the company.

The account receivable manager should be fully responsible for the fund collection and have enough power for the implementation of his/her direct duties, even though it may include the activities of other departments, that should be respectively permitted by the company management fitting the company's interests.

In addition, we may see the statistic showing the years of experience and the educational levels of employees working as accounts receivable managers in below charts:

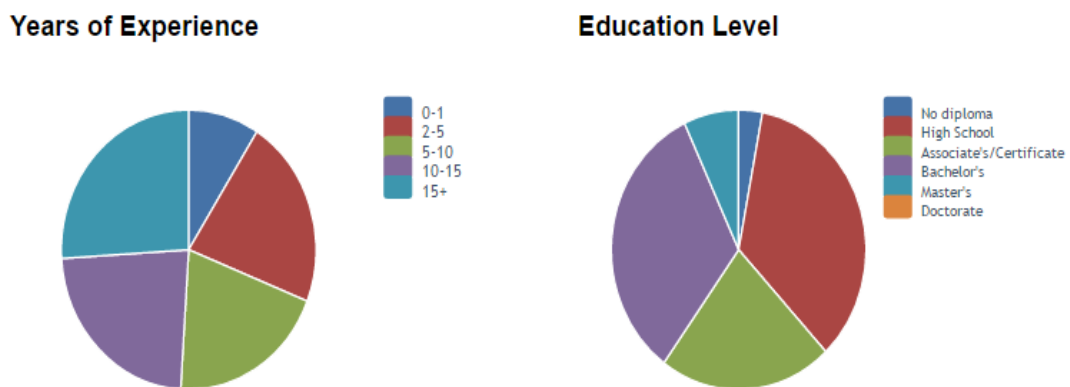


Figure 4.1: Employee skills statistics

Source: Lanen, Anderson, Maher 2009 pg.62-79

4.4 Accounts Receivable Management Failure

While the employees responsible for the accounts receivable management make all efforts to get the collections in time there is always a risk that something important would get wrong and the accounts receivable management would fail.

Below we may see two categories of accounts receivable management failure:

1. Collection failure
2. Accounting principles and ethics failure

Collection failure is considered to be below types:

- a. The company fails to reach the accounts receivable collection target and the achieved collections are much below the targeted point, which would be 15-40% less than targeted amount, depending on the company policy.
- b. The company fails to collect the receivables for certain invoice despite all efforts and decides to write it off as a bad debt.

The first type mentioned above includes all cases when company has issues with cash flow and the collected funds are much less than the forecasted and planned sum. It also includes big issues with accounts receivable aging results, as it is considered interrelated to the collections meanwhile. In above units there were described all the actions that should be done by the company in order to avoid such failure, however the risk always exists and it is not always dependable on the employees on accounting department of the whole company sometimes.

The second type mentioned above includes all cases when the company finally gives up on the invoice collection and has no other option than to write it off. It does not include small value invoices as in such cases the opportunity cost of spent efforts, employee power and time may exceed the value of that very invoice. In such cases the financial/accounting managers mostly urge their employees to write off such kind of invoices.

Example: A company may have an agreement with the client to issue separate invoice for some kind of service, which may have a small value, for example \$15.00, while other invoices have the least value of \$15,000.00. Most of the time, the accounts receivable controller does not consider it as significant one and would not spend much time on its collection and would rather agree to write it off than to spend extra \$7.00 on its printing and delivery, even excluding the time and power value spent on it.

The bad debt definition would be shown in next unit in details with explanation samples.

As per above mentioned types the collection failure is strictly related to the collection issues of the company. However, it is not the only type failure that the accounts receivable management processes may face.

Accounting principles and ethics failure is considered to be a much serious issue and its failure is considered to be a critical issue. This category includes the mistakes that the employees do while they aim to collect all receivables. These mistakes may be

done on purpose or without proper knowledge of accounting principles and ethics. Some of them may be considered as illegal actions and should be strictly avoided. (Abbasov Q. 2010 pg.13-29)

Below we may see main mistakes or illegal actions that the company employee make, which fall under accounting principles and ethics failure category:

1. Bribery of any kind
2. Rude attitude with the client company representatives
3. Harassment
4. Illegal manipulations

Bribery of any kind

Bribery issues are widely spread among the companies and many of them are not done on purpose. When we consider bribery issues, it does not include only bribery in money form, it also includes provision of any valuable presents for certain services.

In some cases, the accountants responsible for accounts receivable management may present certain gifts to the accountants from the client companies for the timely payments of the corresponding invoices. The accounts receivable controller may decide that is quite an easy way to solve the issues when the invoice value is quite big and the delay of its payment may harm the collection results. However, this is strictly considered as pure bribery and accounting principles and ethics harming. The employees of companies that have contractor – client relations may not exchange any valuable gifts in order to perform the duties that they have to do or any other ones.

The duties of the employees follow them as long as they work for certain companies and may not be misused and abused by these employees.

Such kind of attitude is a typical sample of accounting principles and ethics harming due to number reasons that are shown below:

- a. The payment of invoices is the duty of the accountant from the client company and it cannot be additionally paid or gifted by the contractor company in any way. The employee may be kindly asked but nothing further than that.
- b. One company may not present any gifts to the other company value of which exceed certain amount due to transparency principles. The limit of applicable gifts should be determined by the company as per its policy and in case any

employee receives any gift, it should report it to the supervisor. Usually the value of applicable gift varies between 30-50\$ and cannot be exceeded. Besides that, such a gift may be presented on certain occasions, such as holidays and special days for companies.

- c. Once some employee is threatened the way it was shown in the example and receives certain gift for the work, he/she may be expecting gifts for further payment as well, which is not acceptable. This is another proof why such kind of attitude may not be permitted in any way and should be strictly prohibited.

Rude attitude with the client company representatives

This is another widely spread issue among the companies that cooperate. Despite any issues that can be experienced among the companies, all employees have obligation to keep polite communication skill and show the best ethics. In accounts receivable processes there may be various reasons why one side may become impatient with the other one, but nobody has any right to show rude behaviours to the opposite side.

Example: The accountant receivable controller may be contacting the client company for payment for several times and every time the accountant responsible for payments may be promising the payment on certain dates, however the payment still would not be realised. Despite the fact that the accountant of client company give promises of payments that indeed do not happen, the controller should be calm in her/hiss attitude and ensure the polite communication with the employee of client company.

As solution to above mentioned example the employee responsible for the accounts receivable management may ask the financial manager to contact the financial manager of the client company and notify about the issue with the payment delay and insist on its solution in soonest future. As an optional solution the accounts receivable controller may send an official letter to the client company (not only one specific accountant), asking for acceleration of payment in frames of contract terms.

It is also the company management's responsibility to provide special trainings to the employees that would train them how properly communicate with the colleagues both inside and outside the company. These kind of trainings are mostly emphasising the stress management of employees, that bring up to rude attitude respectively.

Harassment

This failure is a ruder and more serious form of above mentioned failure type. In the working process some responsible employees may seem too demanding in relation to the client side and due to this it is important to keep professional relations among the companies' employees. The controller should not contact the client company too often and should understand the privacy of the opposite side.

Example: The accountant from client company may ask the accounts receivable controller contact them later and in such situation the controller should let some time pass or ask when exactly the accountant should be contacted. The controller should not be calling the client company every five minutes or try to find him/her in any other way, such as social media, office visits, etc. Even if the accountant from the client company is avoiding the accounts receivable controller on purpose, the controller should not chase that employee and take legal actions, such as sending email to the email, complaining about some employee is not responding to the requests deliberately and such issue should be sloved by the supervisor of that specific employee.

Any annoying actions that are done by one side in a systemit way would may be considered as harassment and in case the employee is over harassed he/she may take legal actions again the harassing party. (Penman, 2016 pg.57-66)

The acknowledgment of employees regarding the edges of permitted actions is also the responsibility of the company. This is another reason why the company has to make timely meetings in order to discuss the cooperation with clients. As usually, in such cases the management may detect if an employee is acting annoying toward to client company, or it is regularly permitted working process actions.

Illegal manipulations

This is one of the most critical points of accounts receivable management processes. At some point the accounts receivable controller may get disappointed with the promises that the accountant from the client company makes regarding payments and make some critical actions that may not be accepted in any way. (Lanen, Anderson, Maher 2009, pg.62-79)

Below we may see some samples of such actions:

- a. Suspension of the clients – the accounts receivable controller may state to the accountant of the client company that in case the invoice is not paid in time, the service/goods provision would be stopped. This may be a bluffing trick to

accelerate the payment, however it is quite a risky step, as the client may actually suspend the contract on purpose because of different reasons. In such case the accounts receivable controller would be guilty in client loss and probably would not be able to turn this situation back. The employee may state about the suspension of the contract with the client only if the company management had decided to make this statement in one of the meetings with the team. This kind of decision may not be made by one employee only, even if he/she is accounts receivable controller or manager.

- b. Adding extra charges to the delayed invoice, that would exceed the interest rate shown in contract. The accounts receivable controller may not state that the client company would be charged some additional amount of money that would exceed the rates shown as per contract term. Even though the client company would detect it once it looks through the contract terms and no additional sum would be paid, the accounts receivable controller or any other employee may not make such wrong statement, unless it is just a human factor mistake. Such kind of attitude is considered to be ethical failure and can directly harm the company image which is not acceptable.
- c. Dismissal of certain employee in case the payment is delayed. This action is considered to be the least harming one, however it is considered to be as wrong attitude as well. There are two main reasons for this:
 1. This kind of statement is a popular “lie” among the companies
 2. Such statements harm the image of the company. The company that “acts” in such way with the employees would be negatively considered by the client company.

Above mentioned samples of manipulative actions are the most common ones that may be met in the working process, however there are other ones existing as well. The main problem with manipulations is the way the company employees become unfair toward their clients and this kind of attitude would never be appreciated. The client company would detect such kind of issues and may delay the payments comparing to other clients for couple days. It may not be significant in number of days, but it may play a critical role for collection results of the service/goods provision company.

Both collection and accounting principles and ethics failure represent a big risk for the company as the collections are the driving power of the company processes. The main

purpose of the employees responsible for accounts receivable management is to avoid the failure issues and still be able to collect the receivables timely and with full power. It may be considered as an unreachable target, however if the employee follows all instructions and know exact contract terms, the target may be reasonably reached.

4.5 Reporting

Accounts receivable reporting as any other kind of reporting has the purpose to determine the state of company regarding certain information that is significant for the company, can detect high and low points, forecast the future actions and fund movements, help the management make certain decisions in order to have better results in next, upcoming reports. (Atashov, Novruzov 2009 pg.20-31)

Accounts Receivable reporting may have various formats as per below categories.

Period:

1. Daily
2. Weekly
3. Monthly
4. Quarterly
5. Semi annual
6. Annual

Type:

1. Accounts receivable report
2. Open credit report
3. Financial charge report
4. Customer statement reports
5. Refund report
6. Receivables forecast
7. Bad debt report

Besides above mentioned reports the information that is provided by the accounts receivable management is used in number of other reports, including financial statement and recompilation reports.

Accounts receivable report provides full information about all invoices, payments and their balances. This report includes all invoices for certain period, including new ones and all non-covered ones left over from previous closed periods.

Such kind of report is a detailed statement about the invoice payment processes and usually updated on periodic basis depending on the company size. If a company is a big one and has big turnover the company management may request such report to be sent on daily basis.

Below we may see a sample of such report:

Table 4.1: Periodic report sample

05/11/2007 12:20:37 PM		XXX Company		Page 1 of 1													
Printed By: Supervisor		AR Status Report															
Invoice #	Customer #	Inv Date	Due Date	Salesperson #	Inv Amt	Em.ChgAmt	Paid Amt	Disc Appl'd	Adj Appl'd	Bal Debt	Curr	Gain/Loss	Balance				
30032	ARC1	01/16/2006	01/16/2006	LINDA	1,660.08	16.60	0.00	0.00	0.00	0.00	0.00	0.00	1,676.68				
30035	AD13	02/02/2006	03/04/2006	LINDA	2,005.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,005.00				
30036	DEC03	01/10/2006	02/09/2006	LAUREEN	3,665.00	0.00	3,000.00	0.00	50.00	0.00	0.00	0.00	615.00				
30037	DEC03	01/10/2006	02/09/2006	LAUREEN	2,650.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2,650.00				
30038	DEC03	02/05/2006	03/07/2006	LAUREEN	6,633.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,633.75				
30039	BAT1	02/10/2006	03/12/2006	ARTHUR	3,936.48	0.00	1,000.00	0.00	0.00	0.00	0.00	0.00	2,936.48				
30040	CAM1	02/10/2006	03/12/2006	ALBERT	1,383.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,383.70				
30041	AER1	02/11/2006	03/13/2006		1,290.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1,290.22				
30043	ING45	02/03/2006	03/05/2006	KATE	973.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	973.50				
Report: 9 Record(s)					Total for this Report :					24,397.73	16.60	4,000.00	0.00	50.00	0.00	0.00	20,364.33

Source: (Penman 2015 pg.98)

Open credit report shows the credit balance of each company (if it exists). The open credit balance is meant to be either prepayment or overpayment that the client company made for for certain services and goods. In other words, such kind of report shows what company providing services and goods “owes” to the client company in fund form. This kind of report shows to the accounts receivable controller and management how much money they have in their balance beforehand the provided services and goods. In other words, for the management this report shows what their company would have to provide “for free” in next period, as the funds for it are already collected in previous period. In financial interpretation, it is counted to be the debt of the contractor company to the client one.

Below we may see a sample of such report:

Table 4.2: Open Credit report sample

11/10/08 08:45:34 AM Printed By: Supervisor	XXX Company			Page 1	
	Open Credit Report				
<u>Type</u>	<u>Inv/Rcpt#</u>	<u>Inv/Rcpt Date</u>	<u>Inv/Rcpt Amt</u>	<u>Cur Gain/Loss</u>	<u>Open Cr Amt</u>
Customer #: ACC1 (Access Communications, Inc.)					
Sales Return	300070	03/02/08	3,145.00	0.00	3,145.00
<i>ACC1: 1 Record(s)</i>			Total for ACC1:	0.00	3,145.00
Customer #: ADI3 (ADI Auto Transport)					
Payment	1000000.53	01/05/08	15,000.00	0.00	15,000.00
<i>ADI3: 1 Record(s)</i>			Total for ADI3:	0.00	15,000.00
Customer #: AER1 (Acme Emporium Retail)					
Sales Return	300043	01/26/07	1,950.83	0.00	1,250.32
<i>AER1: 1 Record(s)</i>			Total for AER1:	0.00	1,250.32
Customer #: BAT1 (Bates Marketing)					
Sales Return	300054	07/25/07	2,750.96	0.00	2,800.96
<i>BAT1: 1 Record(s)</i>			Total for BAT1:	0.00	2,800.96
<i>Report: 4 Record(s)</i>			Total For This Report:	0.00	22,196.28

Source: (Penman 2015, pg.56-78)

Financial charge report is the report that shows all charges that company made against the client company for the delayed payment period as per contract terms. The charge may differ in percentage depending what interest rate was agreed and reflected in contract. This report shows to the accounts receivable controller and the management what the company gained in addition to compensate the late payments and to show against the time value loss of the funds. (Atashov, Novruzov 2009 pg.20-31)

Below we may see a sample of such kind of report:

Table 4.3: Financial charge report sample

11/07/08 11:48:34 AM Printed By: Supervisor	XXX Company	Page 1		
Finance Charge Report				
<u>Customer #</u>	<u>Company</u>	<u>Invoice #</u> <u>Inv Date</u>	<u>Date Charged</u>	<u>Finance Chg Amt</u>
ACC1	Access Communications, Inc.	0 12/31/06	01/31/07	31,065.65
ACC1	Access Communications, Inc.	0 12/31/06	10/30/08	31.63
ACC1	Access Communications, Inc.	300062 01/12/08	10/30/08	85.46
ACC1	Access Communications, Inc.	300065 02/04/08	10/30/08	85.67
ACC1	Access Communications, Inc.	300074 01/28/08	10/30/08	36.91
ACC1	Access Communications, Inc.	300077 02/01/08	10/30/08	108.63
ACC1	Access Communications, Inc.	300086 02/02/08	10/30/08	1,210.50
<i>ACC1: 7 Record(s)</i>			Total for ACC1 :	32,624.45
ADI3	ADI Auto Transport	0 12/31/06	01/31/07	1,163.66
<i>ADI3: 1 Record(s)</i>			Total for ADI3 :	1,163.66
AERI	Acme Emporium Retail	0 12/31/06	01/31/07	15,526.50
<i>AERI: 1 Record(s)</i>			Total for AERI :	15,526.50
APO1	American Printing Organization	0 12/31/06	01/31/07	2,261.26
<i>APO1: 1 Record(s)</i>			Total for APO1 :	2,261.26
<i>Report: 10 Record(s)</i>			Total For This Report :	51,575.87

Source: (Penman 2015 pg.77)

Customer statement reports are the reports that company provide for each company and can be directly sent to the client company as a memo of outstanding invoices. In the service/goods providing company this kind of report is normally used within the accounting department for the reference and payment tracking, demanding purposes. (Edmonds, McNair, Olds 2015 pg.25-67)

Usually, the management of the company does not need such document unless there is a serious issue with the payment delays or rejection and such report may be needed for legal actions. Such report is very useful for accounts receivable management purposes as it has a form of statement and shows the user combined information of outstanding receivables for each client. The accounts receivable controller normally uses it each time he/she communicates with the client company in order to reconcile the invoices, payments and claim for the rest of payments as per provision.

Below we may see a sample of such statement report:

Table 4.4: Customer statement report sample

XXX Company
 3300 Howard Street
 San Francisco, CA 94103
 USA

Telep hone : 415-333-1000

Customer Information

Acme Emporium Retail
 5233 Main St
 Menlo Park, CA 94025
 USA

Contact : Ray Chester

Telep hone: 800-214-5897

Statement Date	01/31/2006
Customer No.	AER1
Date Paid	
Check No.	
Amt Remitted	

Statement Date	01/31/2006
Customer No.	AER1
Amt Remitted	

Statement

Please Detach and Return
 This Portion with your payment

If Paying By Invoice - Circle
 Individual Invoices Paid

Invoice No.	Invoice Date	Due Date	Amount	Finance Charge	Balance	Invoice No.	Amount Due
30031	01/12/2006	01/12/2006	-240.00	0.00	-200.00	30031	-200.00
30045	01/20/2006	02/19/2006	2,091.38	0.00	2,091.38	30045	2,091.38
30048	01/26/2006	01/26/2006	-730.37	0.00	-730.37	30048	-730.37
***** P A Y M E N T S *****							
Paid Date	Paid Reference		Paid Amount				
01/07/2006	Check #		1,000.00				
***** R E F U N D S *****							
Rfnd Date	Reference		Rfnd Amount				
01/11/2006	OR.#10000251		1,000.00				
01/12/2006	DR.#145000125		40.00				

Source: (Penman 2015 pg.34)

Refund report is a report showing any funds that were or would be returned to the client due to various reasons, such as return of goods, overpayment for certain service/goods as etc. This kind of report also shows how much money the contractor company “owes” or returned the company, i.e. did not earn. For management and accounts receivable controller it has more strategic meaning of what actions should be taken in order to avoid any similar problems in future and not to lose a client in case of goods return or service non-satisfaction. At the same time for the controller such data shows what was considered as receivables and then cancelled due to certain reasons.

Below we may see a sample of such report:

Table 4.5: Refund report sample

XXX Company
Refund Report

Refund Date	Trs Type	Refund Type	Void	Inv/Rcpt #	Inv/Rcpt Amt	Customer #	Reference	Refund Amt	
Refund #: 1000000002									
01/11/2006	Payment	CASH	N	1000000019	1,000.00	AER1	OR#10000251	1,000.00	
<i>1000000002: 1 Record(s)</i>								Total for 1000000002 :	1,000.00
Refund #: 1000000004									
02/03/2006	Sales Return	AP Checks	N	30049	2,104.57	ACC1		2,104.57	
<i>1000000004: 1 Record(s)</i>								Total for 1000000004 :	2,104.57
Refund #: 1000000005									
02/03/2006	Sales Return	AP Checks	N	30048	730.37	AER1		730.37	
02/03/2006	Sales Return	AP Checks	N	30031	240.00	AER1		200.00	
<i>1000000005: 2 Record(s)</i>								Total for 1000000005 :	930.37
Refund #: 1000000006									
02/03/2006	Sales Return	AP Checks	N	30047	6,584.00	COR97		6,584.00	
<i>1000000006: 1 Record(s)</i>								Total for 1000000006 :	6,584.00
<i>Report: 5 Record(s)</i>								Total for this Report :	10,618.94

Source: (Penman 2015 pg.34-68)

Receivables forecast report may be called cash flow forecast as well and will show all funds that the company awaits for the upcoming period. In the previous units we have observed the way companies calculate the forecast and once it is done the report should be presented to the management. This report has a big role in the collection processes and it is considered as plan for the most necessary payment collections and the targets should be reached in order to keep the company capable of healthy functioning. (Oros 2014 pg.45-55)

Below we may see a sample of such report:

Table 4.6: Receivable forecast report sample

XXX Company						
Cash Flow Forecast						
December 9, 2018 through January 5, 2019						
	◊ Accts Receivable ◊	◊ Accts Payable ◊	◊ Bank Accts ◊	◊ Net Inflows ◊	◊ Proj Balance ◊	
Beginning Balance	13,500.00	0.00	254,850.46			268,350.46
Week of Dec 9, 18 ▶	0.00 ◀	0.00	32,084.51	32,084.51		300,434.97
Week of Dec 16, 18	0.00	0.00	-15,433.96	-15,433.96		285,001.01
Week of Dec 23, 18	0.00	0.00	0.00	0.00		285,001.01
Week of Dec 30, 18	0.00	0.00	-4,000.00	-4,000.00		281,001.01
Dec 9, '18 - Jan 5, 19	0.00	0.00	12,650.55	12,650.55		
Ending Balance	<u>13,500.00</u>	<u>0.00</u>	<u>267,501.01</u>			<u>281,001.01</u>

Source: (Penman 2015 pg.45)

Bad debt report may be in two types; bad debt allowance report or bad debt write off report. In previous unit we have observed the difference of this approaches and reasons why one of them should be chosen.

Bad debt allowance report is the one that shows the assumption on relievable that cannot be collected due to certain reasons. There is still a possibility that the funds would be collected for these particular invoices, however the risk of non-coverage is much bigger. This report shows the managers what amount the company has risk of non-covering. Besides that it lets the users know the reasons why such issue happened so that the company does not have similar issues in future. Besides that, for controller it is the receivables amount loss while for the manager it is possibly the

Bad debt write off report is the report of the receivables that company could not collect and as final decision it was accepted that these invoices would be written off, which is a report of post factum. This report has the same value for the managers and accounts receivable controller with one difference that they have both confirmed the acceptance of such bad debt, while in bad debt allowance report the decision has not been made yet and it is still on evaluation stage. Examples for both reports have been evaluated in previous units.

As per above mentioned units we may see how reporting is an important process for the management and play main role in controlling and analytical activities. The reports show the managers what the company state is depending on various aspects and help them determine where the weak points are, so that needed steps would be made in order to fix the issues.



5. ACCOUNTS RECEIVABLE MANAGEMENT TECHNIQUES

5.1 Ratio Analysis

Ratio Analysis is a form of Financial Statement Analysis that is widely used for obtaining a quick calculation and detection of a company's financial performance over several main areas.

The ratios are divided as per different below categories:

1. Short-term Solvency Ratios
2. Debt Management Ratios
3. Asset Management Ratios
4. Profitability Ratios
5. Market Value Ratios

The one that is applicable for the Accounts Receivable Management is Assets Management Ratios, which respectively includes Accounts Receivables Turnover and Days Receivables ratios.

Ratio Analysis is considered as certain tool for applying on several important matters. Once the company has a ready financial statement it has all needed information for the ratio calculation. The ratios may be used both with comparison and analytical aim. The management of the company usually compares the performance of the company to the previous periods as per ratio figures as well.

As the Ratio Analysis is based on the accounting information, its effectiveness is limited by the distortions which depend on the Historical Cost Accounting and inflation respectively. The Ratio Analysis should be used as a just first step of financial analysis, it assists the managers and controllers to identify what should be analysed in a more detailed way and what are the weak points.

5.1.1 Accounts Receivables Turnover Ratio

The Receivables Turnover Ratio is an effective way to measure how company is perspective in credit sales management. This figure explains if the company is in right route of company management, if it is still capable to collect its debts/receivables, if it has enough assets for further activities and if it can fairly coordinate them. Another important information that this ration carries is that it helps the managers decide whether they should continue to rely more on credit sales or prefer cash sales.

The formula of Receivables Turnover Ratio calculation is as per below:

$$\text{Accounts Receivable Turnover} = \text{Net Credit Sales} / \text{Average Accounts Receivable}$$

In other words, it is calculated by dividing the net credit sales of company for one period by average accounts receivable that occurred during the same period.

Example:

A company had \$100,000 of net credit sales for year of 2016. Let us suppose that the company had \$14,000 accounts receivable on 01.01.2016 and then it had \$8,000 accounts receivable on 31.12.2016.

As per this information we can calculate the receivables turnover ratio for 2016.

Solution:

$$\begin{aligned} \$100,000 / [(\$14,000 + \$8,000) / 2] &= \$100,000 / (\$22,000 / 2) = \$100,000 / \$11,000 \\ &= \mathbf{9.09} \end{aligned}$$

Literally this number indicates “how many” accounts receivable a company is capable to collect for some period. This ratio can also be used for counting the average accounts receivable turnover. On other words, once you are done with some period the average accounts receivable turnover figure will show you for how many days in average you collected your receivables. It can be calculated as per below.

5.1.2 Days Receivables Ratios

Days receivable ratio, also called DSO analysis (Days Sales Outstanding) is calculated by dividing the number of days in a year (365 days counted as standard) by the Receivables Turnover Ratio as per below:

$$\text{Days Receivables} = 365 / \text{Receivables Turnover}$$

This ratio can also be used for counting the average accounts receivable turnover. In other words, once you are done with some period the average accounts receivable turnover figure will show you for how many days in average you collected your receivables. It can be calculated as per below.

Example:

As per above information in our previous calculations:

Average Accounts Receivable Turnover = $365/9.09 = 40.15$ days.

So, it means that in average company is done with its receivables, i.e. with each invoice issued on credit in 40.15 days.

Ratio explanation

What does Receivables Turnover Ratio figure mean itself? What this number can show a manager and how it is treated and managed?

There are three scenarios what can happen within the company. Receivables Turnover Ratio may either go too high or fall too low and the purpose of the company is to keep it in a middle.

Before showing these scenarios we should clearly understand what really Receivables Turnover Ratio number means.

If we had some other example and Receivables Turnover Ratio resulted in 3, it would mean that the company collects its debts from its clients 3 times a year, i.e. once in 4 months. In other words, a company stays without collections for about 120 days, 3 times a year.

If we had an example with Receivables Turnover Ratio that resulted in 12, it would mean that the company collects its funds monthly. 12 times a year, each 30 days.

Now, we may evaluate scenarios of Receivables Turnover Ratio.

Scenario 1 - High Receivables Turnover Ratio (Oros 2014 pg.20)

If the Receivables Turnover Ratio is too high, it means that the company has more conservative attitude within the company, i.e. the funds are constantly collected by the debtors and responsible, strict accountants fully control receivables account.

Advantages: The company does not have problems with fund collection, time value of money factor does not affect it, accounts receivable aging is in proper condition.

Disadvantages: Strict attitude to immediate invoice/debt payment can make company lose potential clients who may experience temporary difficulties with payments. Such clients would not choose so strict contractors that would not accept any delay in payments. Especially in time of financial crisis such companies are least wanted in the market, as quick payment of debts can be a problematic issue.

Scenario 2 - Low Receivables Turnover Ratio (Oros 2014 pg.20)

If the Receivables Turnover Ratio is too low, it means that the company has weak accounting structure and principles. The company's management is not pushing on timely fund collection and its credit control policy is too soft.

Advantages: This kind of company would be attractive in the market and actually it has big chances for prosperity in case it starts to implement proper credit collection policies by a rising slope, not with full power right away.

Disadvantages: In case company keeps going on with poor credit collecting skills it will naturally result in disrespectful attitude of the clients regarding payment processes and will bring up to numerous bad debts.

Scenario 3 – Neither high nor Low Receivables Turnover Ratio (Oros 2014 pg.20)

The Receivables Turnover Ratio should be a balanced number in order to obtain balanced accounts receivable management. Company should not treat its client in too strict or soft way in order to set up long serving mechanism within the bookkeeping.

5.2 Technological Integration

In present time of technological innovations, the programming industry has developed various widely used computer programs that can be easily implemented into the accounting department work. The main reason of such software implementation is simplification and fastening the processes of accounting department.

Respectively, accounts receivable processes also benefit from such programs and almost each company around the world has found its own solution in this situation.

Below we may see a list of top 10 world accounting software that were chosen for year of 2017 as per voting:

1. Xero
2. Quick Books

3. Zoho
4. ClearBooks
5. FreeAgent
6. OneUp
7. KashFlow
8. Wave
9. Sage One
10. Kashoo

All these software programs has their own weak and strong points depending on the requirements and the size of the company. Besides the mentioned ones, there is a big number of other solutions and in addition some big companies mostly choose to create their own software that would be used only by them, which would respectively respond to all their requirements and need.

However, despite the choice on the software program, all of such software programs have below common points:

- They are all adopted to International Accounting Standards
- Their options are flexible to the changes that are required by the companies as per their internal policies
- Their options let the company manage all accounts the way they prefer
- The specification of these programs let the employees make various templates, i.e. not to lose time on monotonous work
- These programs are equipped with all needed calculation options, which include tax calculations, etc.
- These programs ensure the confidentiality of any input data as per credentials of users settled by the company management

The software programs let the users/employees access the information in the fastest and simplest way by avoiding double work that was usually done by the accountants before the software programs started to be widely used. (Oros 2014 pg.20-50)

The software programs do not ensure that there would be no mistakes, however, they help the company decrease the number of errors, and in case any inconsistent information is input in the software program, it would be easily detected through program check. (Rzayev 2007 pg.45-57)

Besides that, the software programs help the company to keep their accounts as transparent as possible and the summary of all accounts may be easily requested within short period of time.

Each company may choose the available software program as per its need and requirement, which is first of all determined by the size of the company and the information scope, which is normally advise by the software specialist.

The software programs also ensure the accuracy of the recorded information and make the reporting processes happen much faster, unless the input information was primarily mistaken. As mentioned before it does not ensure the truthfulness of all data and all the employees of accounting department who have access to such software program and are entitled to work on it, have to make sure that all the information recorded there complies the bookkeeping rules in order to have true results.

In 2016 there was a survey held among the accounting software users regarding the productivity of the used programs.

Below we may see short statistics of held survey:



Figure 5.1: Software Survey statistics

Source: (Oros 2014 pg.55)

As we may see there are various issues that the user still experience with accounting software programs relating to Customer Relationship Management, i.e. the employees experience problems that are related to the non-compliance of the software programs to their need in full power. This is another reason why many big companies prefer using software programs that are specially designed for them. In such cases the accounting software programs are totally fitting the company needs and do not contain any external options, that are useless for them.

Companies that may afford good accounting software system provide it to their employees in order to rise the productivity of the company by simplifying routine work and concentrating the team on problem solving and decision making processes. In other words, the company prefers that its working force would be spending more time on strategical issues rather than mechanical work.

Among the various options and modules that the accounting software programs have there are some special ones that are very useful in accounts receivable management processes.

Below we may see some of them with specifications:

1. Accounts receivable aging division: above mentioned software programs have options of calculating the available data and dividing it to the accounts receivable aging groups that happens automatically and the employees do not need to have special spreadsheets to count them.
2. Payment statistics: above mentioned software programs may automatically count all previous data payment statistics and rate the client companies depending on their payment attitude, mention their high and low points during certain period and all these options may be chosen as per requests of users/accountants.
3. Debt concentration report: above mentioned software programs can automatically calculate the big concentration of debt for certain period and urge/notify the user/accountant about such issue.
4. Notification emails sending: some of accounting software programs have a module letting the company sending the notification emails to the client companies with certain conditions. Below we may see some of them:

- When the debt overlaps certain limit: the company may settle a certain limit of debt and when the debt of some client overlaps that amount the software program automatically sends an email to the client notifying the company about the debt and payment conditions respectively.
 - When the invoice overlaps the payment deadline limit: the company may settle a certain deadline as per contract conditions and when the invoice of some client overlaps that payment allowance period the software program automatically sends an email to the client notifying the company about the debt and payment conditions respectively.
 - On certain dates of month: the company may decide to send automatic debt review on certain date of each month as notification to the client which depends on the company internal policy.
5. Monthly collection reports: the accounting software systems can provide an overall information about collected data for each period as per user's decision, evaluate the differences, compare with other periods so that at the end the user/accountant would only need to analyse the full information that is provided to him/her.

Above mentioned specifications are the main reason why accounting software systems are extremely valuable for the accounts receivable management processes. The capability of these systems let the employees have more time on analytical monitoring of data and forecasting of future receivables. By spending more time and efforts on forecasting of future payments the employees have more time to get into contact with the clients that helps to improve the collection processes. As per statistics, about 40-60% of payments could be delayed if the client company would not have been communicated by the service/goods providing company for reminding and checking the outstanding invoices. (Oros 2014 pg.60)

It is the company top management responsibility to communicate with the employees and as per their needs and requests supply the team with the most optimal and effective accounting software system that would meet all requirements of the company, as this would benefit the company in whole.

The company management should consider the accounting software system buying and implementation as a good company investment in its business as it would directly affect the collection processes of the company. At first point, the company would need

to adopt to certain system that would include learning, training processes, adaptation under company requirements and then it would pass to stage of implementation that would start to show its benefit to the company. It is also very important to keep the accounting software system constantly upgrading and shaping depending on the company changes and needs, so that the program would be fitting the team in the best way. (Rzayev 2015 pg.45-65)

5.3 Budgeting

Budgeting is considered to be a strategical planning of the fund management for the certain period of time. It is the process of balancing the receivables and payables in the scope of company management.

The main purpose of the budgeting is to have sufficient receivables realisation that would cover the payables realisation for the certain period. The budgeting technique is widely used among the companies, as it efficiently helps them determine the minimum amount that the company has to cover in order to be able to cover the expected expenses.

It may be considered that the purpose of the company is to collect all funds as soon as possible, however this aspect has a deeper meaning. Time has a different understanding for accounts receivable management as the purpose is not to collect all funds in soonest future, but to collect reasonable amount within reasonable timeframe. When accompany issues certain invoices it considers the fact that only certain part of it would be collected within next period and the rest would be negotiated in next upcoming period. Each company decides for itself the portion of funds that it relies to receive within corresponding time period and it depends on the budgeting processes of the company.

Below we may see a sample of such planning:

Jan-17

No	Date	Invoice No.	Name of Company	Service	Amount
1	01 January 2017	AZ2017/00 01	AB International	Medicines	\$15.00
2	02 January 2017	AZ2017/00 02	AB International	Medicines	\$20.00
3	10 January 2017	AZ2017/00 03	CD Construction	Medical trainings	\$450.00
4	15 January 2017	AZ2017/00 04	EF Holding	Medicines	\$75.00
5	16 January 2017	AZ2017/00 05	EF Holding	Medicines	\$50.00
6	17 January 2017	AZ2017/00 06	AB International	Medical trainings	\$900.00
7	18 January 2017	AZ2017/00 07	CD Construction	Medicines	\$85.00
8	19 January 2017	AZ2017/00 08	EF Holding	Medicines	\$125.00
9	26 January 2017	AZ2017/00 09	CD Construction	Medical trainings	\$1,450.0 0
10	28 January 2017	AZ2017/00 10	CD Construction	Medical trainings	\$1,800.0 0

	\$4,970.0
Total	0

Before we consider the information mentioned in table above we need to consider the planned payments of the company to its suppliers and other wages for February 2017.

Below we may see what the company considers as planned payments for February 2017:

1. Salary: \$1,000.00
2. Production wages: \$400.00
3. Rent: \$200.00
4. Other wages, including taxes: \$200.00

Note that all the payments may be done till the end of month.

The total amount of the planned payments of the company for February 2017 would be \$1,800.00. Respectively the company would like to have net income and considering this the receivables for February 2017 are planned.

First of all the company has to estimate the probability of payment for each invoice, which would look as per below:

Jan-17

N o.	Date	Invoice No.	Name of Company	Service	Amou nt	Probab ility	Await ed
1	01 January 2017	AZ2017/ 0001	AB International	Medicines	\$15.00	90%	\$13.50
2	02 January 2017	AZ2017/ 0002	AB International	Medicines	\$20.00	90%	\$18.00
3	10 January 2017	AZ2017/ 0003	CD Construction	Medical trainings	\$450.0 0	70%	\$315.0 0

4	15 January 2017	AZ2017/ 0004	EF Holding	Medicines	\$75.00	90%	\$67.50
5	16 January 2017	AZ2017/ 0005	EF Holding	Medicines	\$50.00	90%	\$45.00
6	17 January 2017	AZ2017/ 0006	AB International	Medical trainings	\$900.0 0	80%	\$720.0 0
7	18 January 2017	AZ2017/ 0007	CD Construction	Medicines	\$85.00	90%	\$76.50
8	19 January 2017	AZ2017/ 0008	EF Holding	Medicines	\$125.0 0	90%	\$112.5 0
9	26 January 2017	AZ2017/ 0009	CD Construction	Medical trainings	\$1,450 .00	65%	\$942.5 0
10	28 January 2017	AZ2017/ 0010	CD Construction	Medical trainings	\$1,800 .00	40%	\$720.0 0
					\$4,970		\$3,030
					Total	.00	.50

As it was mentioned before the company considers the payments to be received in February 2017. It automatically means that the invoices issued in the first twenty days of the month have a big probability to be paid. Normally, as per proper company procedures, the client companies are already contacted for checking the state of invoice and the invoices are respectively confirmed by the client company, otherwise there would be credit notes issued.

Due to this below invoices issued within 1-20th of January 2017 are considered to have 90% probability of payment:

1. AZ2017/0001
2. AZ2017/0002
3. AZ2017/0004
4. AZ2017/0005

5. AZ2017/0007
6. AZ2017/0008

However, invoice AZ2017/0003 has only 70% and AZ2017/0006 has only 80% probability for payment and it is explained with the amount of invoice which is considered significantly bigger than other invoices, as it makes the company decrease the probability for 20%. As we may see, invoices AZ2017/0001, AZ2017/0002, AZ2017/0004 have comparatively a small value and due to this their payment probability is so high.

Besides that the previous payment behaviour of the client company also plays quite a significant role in this planning as once a company have some systematic action behaviour in relation to the provider company, the client company is considered more reliable in timely payments than other. This factor explains why invoice AZ2017/0003 has only 70% while AZ2017/0006 has 80% of probability for payment, even though invoice AZ2017/0006 was issued 7 days later after invoice AZ2017/0003.

Lastly we should evaluate invoices AZ2017/0009 and AZ2017/0010. These two invoices were issued on 26th and 28th of January 2017 respectively and as February 2017 has only 28 days as per calendar, the due date of the invoice payment deadline falls on almost last days of the month. The company may make a minimal payment delay and the payment would fall on the next month collections that cannot be counted as February's collections. Besides that, even if the client companies make the payment within the deadline, but on the last days, due to bank transaction procedures the payment may still fall on the March 2017 collections. However, there is still a possibility that the company would make the payment a bit earlier and then the company would get the collections in February and due to this the probability of the payment is 65% and 45% respectively. We should also consider that the amount of mentioned invoices is relatively big and that is why the company puts a low hope on the collection of those funds in time.

From the other perspective the total sum of awaited amount as per probability calculations makes 61%, i.e. \$3,030.50/\$4,970.00.

Meanwhile this amount covers all the planned expenses, which was \$1,800.00 and respectively it means that the company would have \$1,230.50.

Even though the awaited amount of realised receivables totally covers the planned payments for expenses, there is always a risk that the expenses would occur in bigger amount than had been planned. Usually the companies consider such risk in variety between 10-20% depending on the company internal policy and practice.

In the case as per above if we add the 10-20% risk to the planned payables for February 2017 we will have below awaited expenses including the risk factor:

10% risk: \$1,980.00

20% risk: \$2,160.00

The above calculation means that the awaited payments for February 2017 would vary between \$1,980.00 and \$2,160.00 including the risk factor.

If we consider the risk factor for the payments, then the net awaited income for February 2017 would vary as per below:

10% risk (payments): \$1,050.50

20% risk (payments): \$870.00

Besides the risk factor that is applicable for the planned payments the company also must observe the risk applicable for the receivables. Unfortunately the company does not always succeed in collection of all funds as per probability that they calculate for the period also has some risk. Usually the risk factor for the receivables collection also varies between 10 % and 20% which is respectively related to the company policy and strategy.

Below we may see the calculation as per above mentioned case:

10% risk: \$2,727.45

20% risk: \$2,424.40

The above calculation means that the awaited collections for February 2017 would vary between \$2,727.45 and \$2,424.40 including the risk factor.

Respectively if we consider the risk factors for both categories (payables and receivables) the net income would be as per below:

10% risk (receivables) and 10% risk (payments): $\$2,727.45 - \$1,980.00 = \$747.45$

10% risk (receivables) and 20% risk (payments): $\$2,727.45 - \$2,160.00 = \$567.45$

20% risk (receivables) and 10% risk (payments): $\$2,424.40 - \$1,980.00 = \$444.40$

20% risk (receivables) and 20% risk (payments): $\$2,424.40 - \$2,160.00 = \$264.40$

As we may see the net income as per above case and calculations vary between \$264.40 and \$747.45. We should consider that these figures consider the risks for both categories varying between 10 and 20%.

Obviously, it is observed that the worst scenario is considered to be 20% risk application for both categories when the net income is \$264.40.

Respectively the best scenario is considered to be 10% risk application for both categories when the net income is \$747.45.

As we could see in above sample the budgeting method can sufficiently help the accountants responsible for the accounts receivable collection to plan their collections based on approximate information they may get regarding planned payments.

5.4 Customer Profiling

Customer profiling is considered to be a method of analysing the information the company already has about its customers and their attitude of receivables coverage. The company by using all the previous payment data makes an approximate forecast for the future payments and then realises the collection. In other words the employee responsible for accounts receivable management segments the clients and builds up a payment plan awaited from them. The client segmentation lets the accounts receivable controller have a better view of the payment expectation and plan its receivables realisation. (Rzayev 2016 pg.67-87)

Below we may see how the company divides the companies as per corresponding segment categories:

- a. Top clients – the clients that fall under this category are the ones that have an attitude of timely payment despite the sum of outstanding invoices. Such companies have good payment planning internal system and are very sensitive about contract conditions. The service/goods providing company usually does not have any issues with such client companies and do not need to make additional follow up actions in order to ensure the payment.

- b. Average client - the clients that fall under this category are the ones that need to be followed by the accounts receivable controller of service/goods providing company, however, they make payments on timely period, while not all of them are done in time. The contractor company may rely of partial payment of all outstanding invoices from such kind of clients.
- c. Poor clients - the clients that fall under this category are the ones that consider risk for the service/goods providing company. Such companies have a very poor payment attitude and need to be chased on constant basis. The accounts receivable controller needs to make all possible follow up actions toward such companies in order to makes sure that at least some amount is paid in time and none is not paid at all.

Once the company has a clear view of the clients as per the categories they prepare the action plan to realise the payment collection.

Below we may see how the company needs to deal with each category:

- a. Poor clients category – while planning the payment collection from such companies most of the contractor companies prefer using the other company’s service that would collect those debts instead of them, which was described as debt financing in previous units. Respectively such kind of action is applied only once the company has made all other possible follow up actions for timely funds collection and could not succeed. Usually when the accounts receivable controller faces the client company that constantly makes such issues, he/she advises to suspend such client from further potential services and it is mostly approved by the managers.
- b. Average clients category - while planning the payment collection from such companies the main target of the employee responsible for accounts receivable management is to “take” such clients to Top client category. Due to this the controller tries to constantly keep in touch with them and ask for the timely payment, which may improve their payment attitude as result. The account receivable controller would prefer to contact them earlier in order to ensure that the payment would be done in time.
- c. Top clients category - while planning the payment collection from such companies the main target is to keep these clients in the same category. Such clients should be appreciated and the company should express the thankfulness

by sending them special complimentary notifications and corporate gifts that meet the Corporate Governance requirements. Besides that, the goods/services providing company should visit or contact the client company with purpose to check is the client company is satisfied with the services/goods that they are provided, listen to their suggestions and take them into account in further steps and business planning. (Rzayev 2016 pg.45-80)

As per the research such kind of category division which was described above is positively influencing the company accounts receivable management processes and increases the collections in general.

The category division and client profiling is counted to be as a effective way of fund collections and accounts receivable management.

Below we may see an example of a case as per information of payables days for each period, based on which the company plans the further payments of the client company:

	Ja n- 16	Fe b- 16	Ma r- 16	Ap r- 16	Ma y- 16	Ju n- 16	Jul - 16	Au g- 16	Se p- 16	Oc t- 16	No v- 16	De c- 16
ABC Holding	35	25	30	32	31	31	29	28	28	26	22	40

As we may see in the above table it shows exact payment days of ABC Holding company (client). It is considered that the payment allowance period as per contract is only 30 days and the company tries to avoid adding additional interest rate for each delayed day in order to keep up kind and healthy relations with the client.

In order to have a proper analyse the accounts receivable controller would use chart alike below one in order to view the wave of changes:

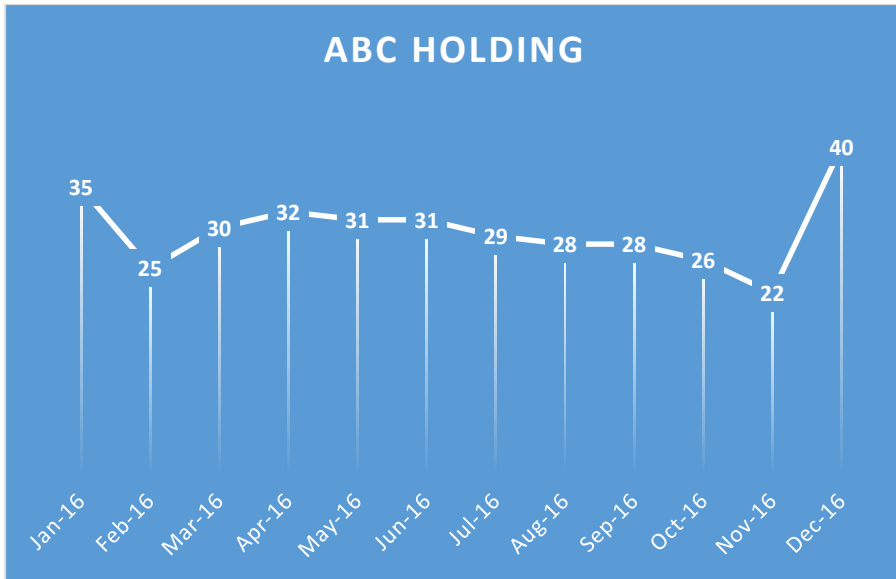


Figure 5.2: Customer profiling chart

Figure 11 indicates in how many days the invoice was paid and in addition below chart in percentage form gives a better view of situation:

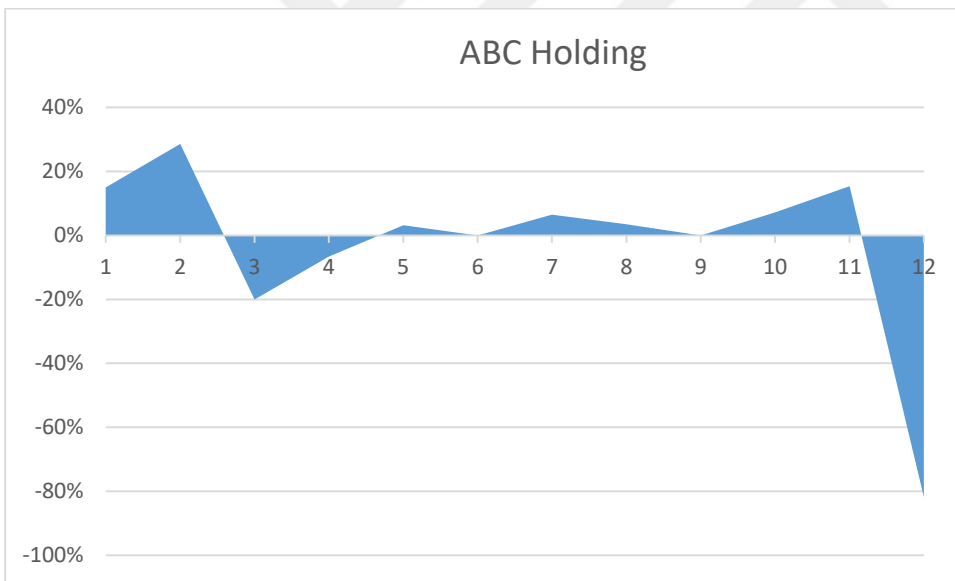


Figure 5.3: Customer profiling chart

Mentioned figure shows an exact progress/regress in the attitude of the client company to the service/good provider.

We may see exact numbers in below table:

	Jan -16	Feb 16	Mar -16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec -16
ABC Holding	15%	29%	-20%	-7%	3%	0%	6%	3%	0%	7%	15%	-82%

Above table shows the percentage of how the collections improved comparing to each previous period.

As we may see in the beginning the ABC Holding company had a 15% improvement of payment processes regarding their contractor comparing to the results of previous period (December 2015).

Later on in February 2016 the payment attitude improved up to 29% that made a speed up of payment for 15 days which is very valuable for the company. However, in March 2016 this attitude made a decrease for 20% relative to February statistics, which is 5 day delay in relation to previous month, but at the same time it is still 5 day improvement in relation to January statistics, which is 30 days. At the same time March 2016 figures still make a 14% increase in relation to January 2016 statistics.

During the next months from April till October the statistics was pretty much stable consisting of small delays and early payments. Then in November 2016 they payment attitude of ABC Holding made some certain progress of 15% comparing to the previous month that respective made a payment 4 days earlier than in October 2016. At the same time it made a 13-day earlier payment than in January 2016 which is even 37% improvement of attitude.

However, in December 2016 ABC Holding company shows big regression in the payment attitude which make 87% decrease in relation to November 2016, which is 18-day longer delay comparing to the correspond period. At the same time this result makes only 5-day delay comparing to the January 2016 results, which is respectively 15% regression only. Despite the fact that they regression was not big in relation to the January month, it is much bigger comparing to November 2016 results, which is a first signal for the accounts receivable controller to be aware that certain issue may arise in future payment attitude of ABC Holding.

The results comparative to the January 2016 of all other months is shown in below table:

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
ABC Holding	15%	29%	14%	9%	11%	11%	17%	20%	20%	26%	37%	-14%

As we may see in this table the worst case happened in December 2016 as the ABC Holding had 14% regression in payment attitude to its contractor.

Below we may see it in the chart as well:

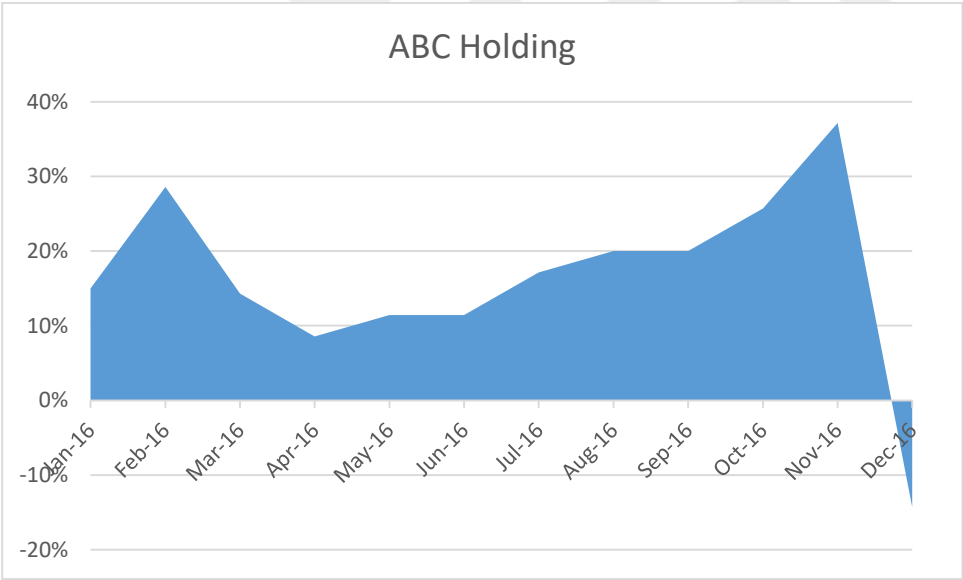


Figure 5.4: Customer profiling chart

In figure 12 we may clearly see the problematic period of December 2016 which was 14% as mentioned before.

Later on, the accounts receivable controller has to evaluate the further periods and in case the ABC Holding company continues this kind of attitude of paying within 40 days, which is 10 days more than the allowance period the company would have to take certain actions in order to solve this issue. As per the monitoring principle, the

company should first of all try the needed ways of communication in order to hear the company's point and reasons why any delays happen and what may be done by both sides in order to have the payment done in time.

In case the company straightens its payment attitude in next periods and the results would fit 30 days payment allowance period then the company may accept the December 2016 results as temporary complication due to year end reporting period or any other internal issues of ABC Holding company.

This kind of analysis should be done for each client in order to have a clear view of situation that would prevent the accounts receivables processes from the risk and collection failure. While such analyse is provided the company may divide the client companies to the categories that were described above.

Monitoring should be realised on monthly basis as each month's statistics may hide symptoms of certain issues with the client company.

It is up to the accounts receivable controller's choice which above mentioned charts and statistics would be best fitting his/her analytical work, however as per principle it is advised to use all charts in order to see all week points and gaps.

The comparing approach of analysing the information within the customer profiling scope is widely spread around the world among accounting departments and it may help the company reach up a stable relationship with the clients and liquidate certain risks which are reasonably regretted by the companies. This approach helps the company define to which category the client company belongs as per customer profiling activities. As we may see in above mentioned case, ABC Holding is considered as Average client, due to the none stable payment attitude, which includes certain payment in time and some delayed ones as well.

5.5 Statistical Analysis

5.5.1 Regression Analysis

Regression analysis is a statistical process which lets estimate the relationships among different variables. In the matter of accounts receivable management the regression analysis may provide information on what variables and conditions effect the fund collection processes.

The proper regression analysis technique that meets the accounts receivable management requirements is the simple regression technique. It considers two-dimensional sample points with only one independent variable and only one dependent variable respectively.

The regression analysis relates Y to a function of X and β. (Skousen & Walther 2015 pg.45-60)

Where:

- β is unknown parameter
- X is the independent variable
- Y is dependent variable

$$Y \approx f(\mathbf{X}, \beta)$$

$$y_i = \alpha + \beta x_i + \epsilon_i.$$

The main target is to find the equation of straight line as per below:

$$y = \alpha + \beta x$$

While the simple regression analysis is applied to the accounts receivable management there are various variables and it is up to the accounts receivable controller to choose what kind of analysis he/she wishes to implement. However, the best applicable for the accounts receivable controller is to find relationship between the collected funds and total receivables in general. The purpose of such analysis is to show how much is collected out of total and with what variable.

Below we may be able to see sample of regression analysis constructed on following information of ABC company:

1. Realised receivables (collection)
2. Total receivables

The below information as per example is provided:

Period	Collections	Total receivables
Jan	\$45,000.00	\$80,000.00

Feb	\$41,500.00	\$75,100.00
Mar	\$39,200.00	\$69,600.00
Apr	\$52,700.00	\$86,000.00
May	\$56,000.00	\$79,800.00
Jun	\$67,900.00	\$95,000.00
Jul	\$45,100.00	\$65,000.00
Aug	\$56,800.00	\$87,000.00
Sep	\$79,500.00	\$96,350.00
Oct	\$66,900.00	\$89,500.00
Nov	\$59,000.00	\$79,900.00
Dec	\$68,900.00	\$87,500.00

The calculation may see simply done with the Excel options that are easily accessed and widely used amount the employees responsible for the accounts receivable management.

Once we input all information and use the function we can see below calculations:

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.867022965
R Square	0.751728821
Adjusted R Square	0.726901704

Standard Error 6550.642835

Observations 12

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	1299279951	1299279951	30.27854	0.000260838
Residual	10	429109215.5	42910921.55		
Total	11	1728389167			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	-37462.5033	17187.95	-2.1795793	0.05428	-75759.645	834.6389	-75759.64543	834.638901
Total receivables	1.138581922	0.206917	5.50259372	0.00026	0.6775414	1.599622	0.677541411	1.59962243

RESIDUAL OUTPUT

<i>Observation</i>	<i>Predicted Collections</i>	<i>Residuals</i>	<i>Standard Residuals</i>
1	53624.05049	-8624.050492	-1.380777535

2	48044.99907	-6544.999074	-1.047905238
3	41782.7985	-2582.798503	-0.413526121
4	60455.54202	-7755.542023	-1.241722576
5	53396.33411	2603.665893	0.416867153
6	70702.77932	-2802.779321	-0.448746761
7	36545.32166	8554.678338	1.369670513
8	61594.12395	-4794.123945	-0.767576517
9	72239.86492	7260.135084	1.162404074
10	64440.57875	2459.42125	0.393772464
11	53510.1923	5489.807701	0.878960895
12	62163.41491	6736.585094	1.07857965

The the main information that is needed to the accounts receivable controller for the analysis is the coefficient of Standard Residual and below charts that show all needed information in a quick and easy form. (Fridson & Alvarez 2012 pg.26-72)

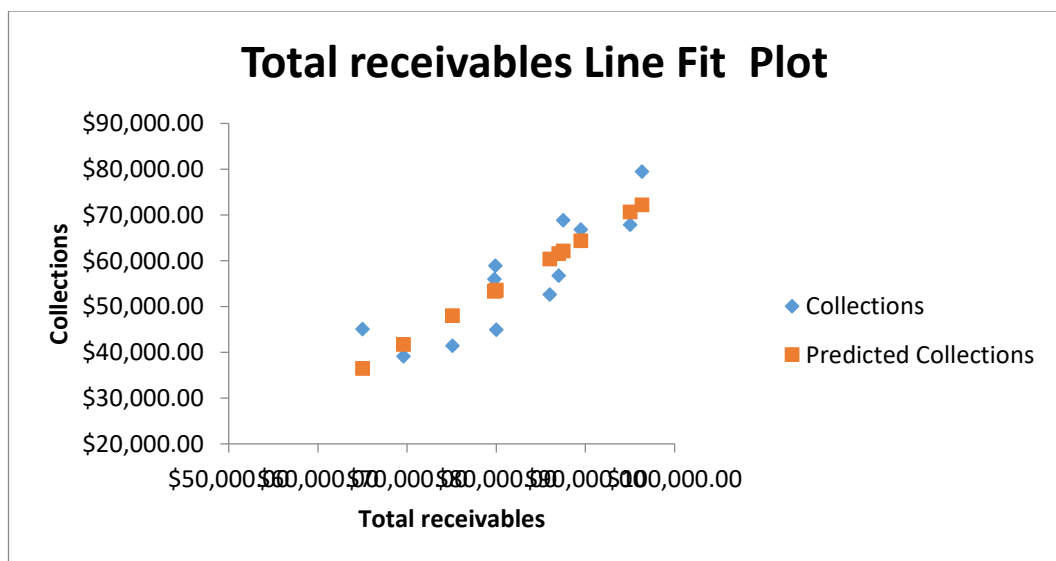


Figure 5.5: Receivables chart

The above mentioned figure represents Total receivables Line Fit Plot that shows the real Collections and Predictable Collections information. While we have the real collections information, the predictable collections information is generated based on the information we have by drawing certain “balance” line of what would be known as stable and reasonable collection performance. However, such kind of information is based on only the information that we only have and it does not include the budgeting plans of the company.

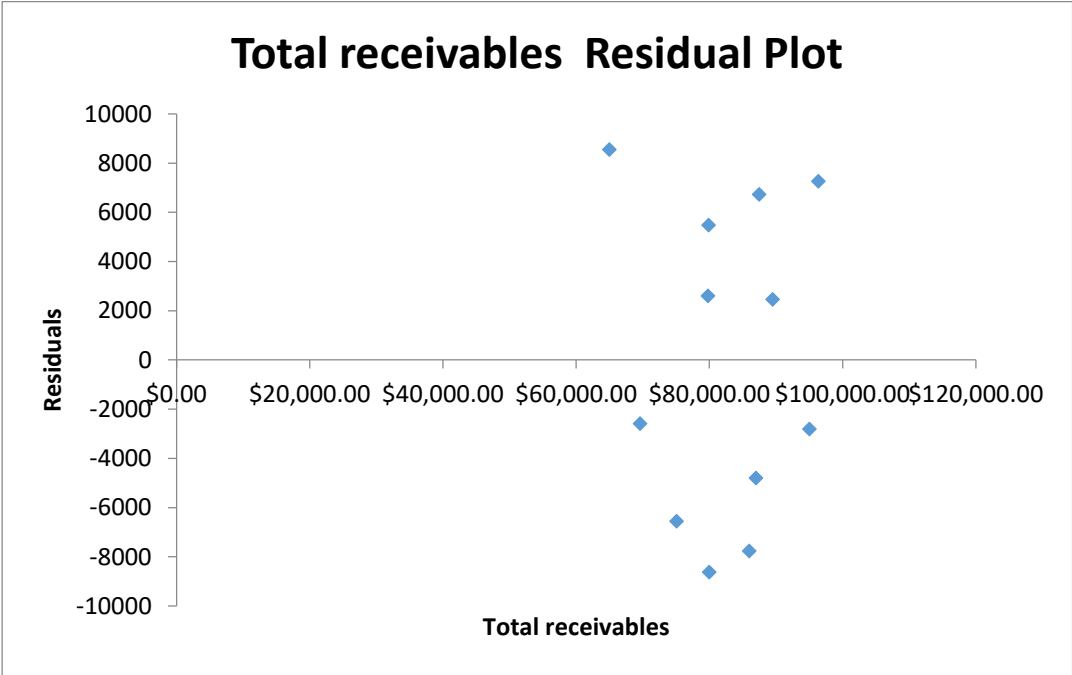


Figure 5.6: Receivables chart

Above mentioned table represents Total receivables Residual Plot which is based on the information that was shown in previous table. This chart shows how big the residual in differentials perspective between real collected funds and predicted collectable funds. (Fridson & Alvarez 2012 pg.26-72)

As we may see per the charts the company was not very successful with the collections and could not manage a stable receivable management techniques.

These chart helps accounts receivable controller understand how much the company was off the plan as much as it is calculated as per Regression analysis. Such kind of analysis is very critical for collection plan understanding of the company and are very helpful for proper accounts receivable management structuring.

5.5.2 ANOVA Analysis

ANOVA analysis is a statistical technique which determines the potential differences in a scale-level dependent variable by a nominal-level variable by having two or more categories. In other words ANOVA determines the differences between different groups of information.

Below we may see the formula that is used for ANOVA calculation:

ANOVA Table for Simple Linear Regression.

Source of Variation	SS	df	MS	$E\{MS\}$
Regression	$SSR = \Sigma(\hat{Y}_i - \bar{Y})^2$	1	$MSR = \frac{SSR}{1}$	$\sigma^2 + \beta_1^2 \Sigma(X_i - \bar{X})^2$
Error	$SSE = \Sigma(Y_i - \hat{Y}_i)^2$	$n - 2$	$MSE = \frac{SSE}{n - 2}$	σ^2
Total	$SSTO = \Sigma(Y_i - \bar{Y})^2$	$n - 1$		

In the case of account receivable management the single factor ANOVA analysis is applicable which would be based on collection and total receivables information as well (as per information shown in Regression analysis unit).

Such calculation is also easily calculatable via Excel as per below:

Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Column 1	12	67850	56541.6	1.57E+0
Column 2	12	99075	82562.5	9111323

ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	4.06E+0	1	4.06E+0	32.73051	9.38E-06	4.3009
Within Groups	2.73E+0	22	1.24E+0			
Total	6.79E+0	23				

The main information that the accounts receivable controllers should rely on from this chart is the coefficient of difference which is shown in SS and F crit column which is quite a big number (more than 1), that indicates instability fact in the collection processes. The collection in the sample had a chaotic character which may not be sufficient for the company management.

Such kind of analysis is very helpful for the accounts receivable management processes and shows the level of collection stability within the company. Just one figure out of such report is enough to indicate the existence of big issues within the collection and accounts receivable management processes.

5.5.3 Cluster Analysis

Cluster analysis is one of statistical analysis methods that is capable of classifying observations in form of groups as per the corresponding information. While the information with similar attributes and parameters are grouped together the information user may access the needed data in a better and easier way. Once the

similar information is grouped together then the main difference between these groups are easily seen by the user of such cluster analysis.

The cluster analysis may be helpfully used in order to determine the clients that have similar payment credentials and divide them as per priority or any other purpose depending on the settled target.

There are various models of cluster analyses and the one that meets the requirements of Accounts receivable management is the group models approach of cluster analysis. With such the accountants provide already counted information which is divided as per certain group (payment period, payment sum, number of invoices) and then while applying the cluster analysis the accountant uses the provided information and this time group them as per the similarities of certain criteria.

On below sample we would be able to make a cluster analysis with following information.

The ABC company has determined what percentage of total debt each company paid to them as of the end of 2016. It is considered that the companies were provided with various service/goods and issued invoices had various value, respectively the number of invoices issued to each client differs.

Then the percentage information was sorted from smallest to largest as per below chart as per example:

Company name	Total debt	Paid Debt	Payment %
N13 Company	\$ 15,000.00	\$ 2,000.00	13%
L11 Company	\$ 75,200.00	\$ 10,500.00	14%
R17 Company	\$ 99,100.00	\$ 20,050.00	20%
C3 Company	\$ 59,000.00	\$ 12,100.00	21%
I9 Company	\$ 56,400.00	\$ 18,640.00	33%
O14 Company	\$ 70,200.00	\$ 30,500.00	43%
E5 Company	\$ 52,800.00	\$ 25,400.00	48%

P15 Company	\$ 48,960.00	\$ 24,090.00	49%
D4 Company	\$ 48,990.00	\$ 30,500.00	62%
K11 Company	\$ 65,400.00	\$ 40,900.00	63%
H8 Company	\$ 47,000.00	\$ 30,100.00	64%
G7 Company	\$ 39,000.00	\$ 27,000.00	69%
A1 Company	\$ 55,000.00	\$ 38,500.00	70%
J10 Company	\$ 84,100.00	\$ 60,200.00	72%
B2 Company	\$ 25,400.00	\$ 18,420.00	73%
Q16 Company	\$ 77,500.00	\$ 69,420.00	90%
F6 Company	\$ 44,200.00	\$ 40,300.00	91%
M12 Company	\$ 20,400.00	\$ 20,000.00	98%

Once the data is sorted the bar chart should be constructed for full view of situation as per below:

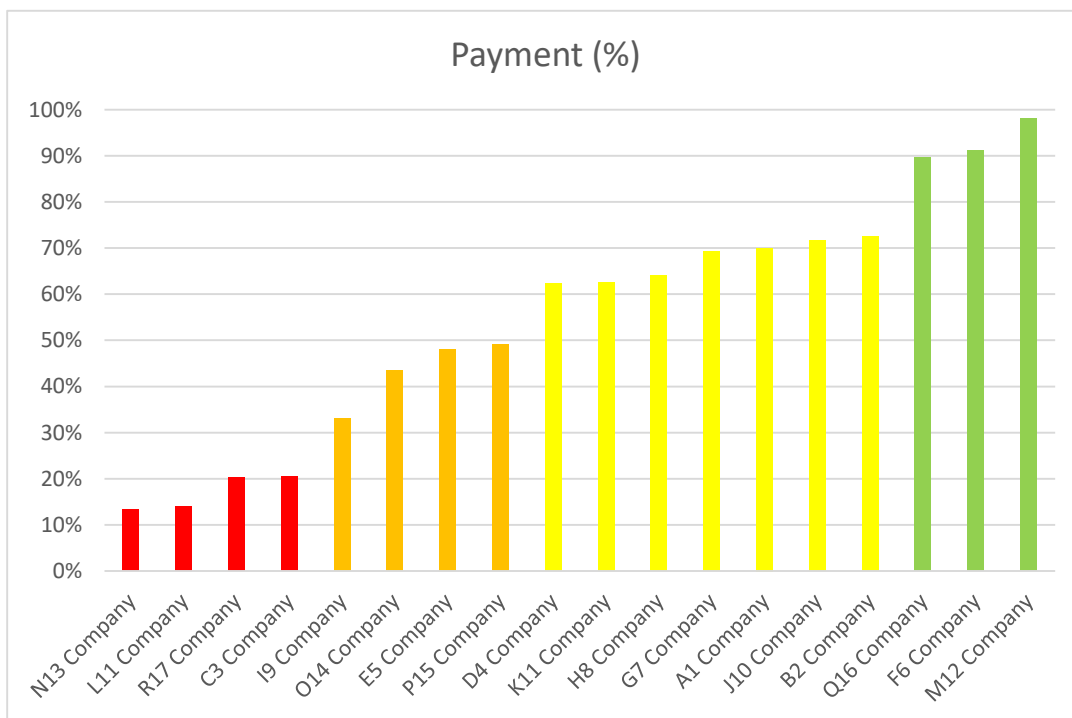


Figure 5.7: Cluster analysis chart

As we may see in above figure the cluster division is clearly seen by naturally appeared breakdown points.

The first cluster group is the one that is marked in red, the most critical group that includes below information from table:

- Collection percentage: 13-21%
- Company names: N13 Company, L11 Company, R17 Company, C3 Company

As we may see this this group has the least collections, which makes it critical from the accounts receivable payment collection perspective. The common criteria for this group is the low collection percentage, that is limited till 21%.

The next cluster group is the one that is marked in orange, a less critical but still risky group that includes below information from table:

- Collection percentage: 33-49%
- Company names: I9 Company, O14 Company, E5 Company, P15 Company

This group consists of payers that are not as critical as previous group, but are still very risky for the company. The credential that is common for the companies of this group is the payment percentage that varies between 33-49%.

The next cluster group is the one that is marked in yellow, which is a group of companies middle payment attitude that includes below information from table:

- Collection percentage: 62-73%
- Company names: D4 Company, K11 Company, H8 Company, G7 Company, A1 Company, J10 Company, B2 Company

This group consists of payers that have a normal (middle) payment attitude and do not consider any serious risk for the company payment collection processes. The specification that is common for the companies of this group is the payment percentage that varies between 62-37%.

The next cluster group is the one that is marked in green, which is a group of companies that have a positive payment attitude that includes below information from table:

- Collection percentage: 90-98%
- Company names: Q16 Company, F6 Company, M12 Company

This group consists of payers that have a good payment attitude and do not consider any risk for the company payment collection processes. The specification that is common for the companies of this group is the payment percentage that varies between 90-98%.

As per above we could see how the cluster analysis divided the information that company has about the payment it received for 2016.

Below we may see a short combined result of such cluster analysis:

Group	Payment percentage	Amount	Outstanding debt
Red	13-21%	\$ 44,650.00	\$ 203,650.00
Orange	33-49%	\$ 98,630.00	\$ 129,730.00
Yellow	62-73%	\$ 245,620.00	\$ 119,270.00
Green	90-98%	\$ 129,720.00	\$ 12,380.00
	Total	\$ 518,620.00	\$ 465,030.00

Above mentioned cluster analysis divided the companies to us in proper groups as per their payment percentage data. Besides that such the cluster analysis tells us which companies are more or less risky and urges the company to treat them in similar way why they try to collect the accounts receivables.

As per above data and cluster analysis the accountant that deals with accounts receivable management would have a statistical view on the accounts receivable management processes that depends on the payment attitude of the clients.

The cluster analysis is widely used by the accounts receivable controllers as such analysis is very useful for the companies that have many client companies and experience lack of time to spend on analyse of each company in separate. Such analysis does not exclude separate analyse for each company, however it simplifies the process in whole.

5.5.4 Correlation Analysis

Correlation analysis is a statistical method that is used in order to study the strength of a relationship between two continuous variables that are measured in numerically way. This kind of analysis is used in order to measure the relationship between the two variables which are chosen by the user. This analysis helps the user to understand how much one variable effects the other variable and if it is important for working process in general.

Generally such kind of analysis is a rough kind of data analysis that shows the user an image of connection graph between the variables.

In accounts receivable management processes the correlation analysis may be built depending on various variables including below samples:

- a. Relationship of collection depending on the number of calls/emails/time spent on communication with the particular clients
- b. Relationship between paid amount and total receivables
- c. Relationship between the payment amount and the payment date (age)

In below sample we would evaluate the information in order to understand the relationship between the payment amount and the payment date (age):

As per above mentioned information we should construct the graph as per below:

Invoice	Invoice amount	Payment date (age)
ABC2016/001	\$ 8,000.00	22
ABC2016/002	\$ 7,100.00	45
ABC2016/003	\$ 2,500.00	55
ABC2016/004	\$ 11,050.00	26
ABC2016/005	\$ 5,400.00	105
ABC2016/006	\$ 2,300.00	90
ABC2016/007	\$ 7,830.00	64

ABC2016/008	\$ 12,500.00	121
ABC2016/009	\$ 550.00	19
ABC2016/010	\$ 4,530.00	39

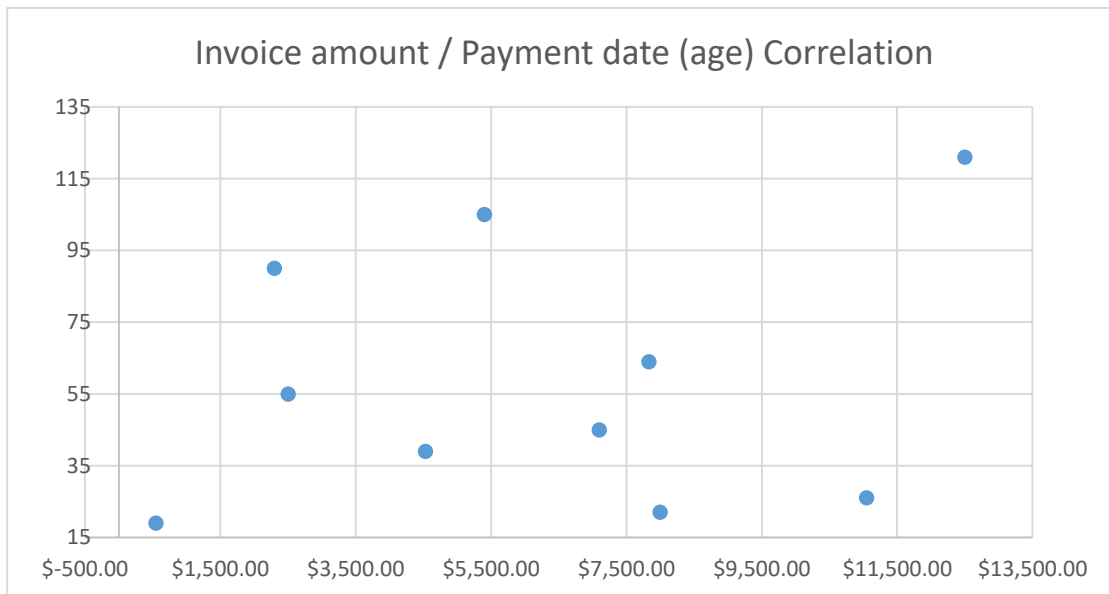


Figure 5.8: Correlation analysis chart

As we may see in above figure the relationship between the amount of invoice and the date it was paid counting from the invoice delivery date.

Such kind of analysis is also widely used in accounts receivable collection processes and assist the accounts receivable controllers understand and seize the connections between such important two variables. The correlation analysis does not urge that the relationship between the variables would continuously repeat, however it may help the user to understand the client's payment attitude.

5.6 Accounts Receivable Aging

5.6.1 Accounts Receivable Aging Definition

Accounts Receivable Aging is one of the main factors of proper receivable management process. Aging term literally stands for the age of invoice, i.e. the period from the date invoice was issued till the date invoice gets paid. (Salek, 2005 pg.15-30)

For example, if you issue an invoice with date 01.01.2017 and it is already 19.01.2017 while the invoice is still not paid, then your account receivables age for this particular age is 18 days, however for the paying side counts it from the date invoice is delivered to them. This unit of contract is very significant and always negotiated between sides, however, usually it is decided that the client counts the days starting from the delivery date. This is why it is very important for the contractor to deliver the invoice to the client at the same date of issue. Once the invoice is paid, the age counting stops, and the final count is the age of account receivables age for that invoice. For example, if you issue an invoice with date 01.01.2017 and it is paid on 25.01.2017, then the account receivables age of that invoice is 24 days final. Of course, a company usually has many invoices and all of them respectively have different dates of issue and payment. In order to get an image of account receivables age position accountants calculate average account receivables age figure. This figure lets them understand financial health of the company and it is a key number for the management as well.

On below excel sheet we will see an example of such step.

There are 8 different invoices issued on different dates, both unpaid and paid with relevant information. In addition, I would like to pay attention to the significant information mentioned in the columns. This kind of information lets the analyser see the issues, weak and strong sides in numbers only, as client names and service descriptions are not shown in this sheet.

Today:	25 February 2017
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No.	Date	Invoice No.	Status	Date paid	Age
1	01 January 2017	AZ2017/0001	Not paid		55
2	15 January 2017	AZ2017/0002	Not paid		41
3	17 January 2017	AZ2017/0003	Paid	02 Feb 2017	16
4	18 January 2017	AZ2017/0004	Not paid		38
5	26 January 2017	AZ2017/0005	Not paid		30

6	06 February 2017	AZ2017/0006	Paid	18 Feb 2017	12
7	13 February 2017	AZ2017/0007	Not paid		12
8	19 February 2017	AZ2017/0008	Not paid		6

Average age:	26.25
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As we can see these 8 invoices have separate age figures which are shown in G column that can be easily calculated with Excel formulas. By calculating the average number of the figures from that column we got final figure of 26.25 that is written in D14 cell. It means that the average accounts receivables age of this company is 26.25 days.

AR aging can also be a detector of relationship between the contractor and the client. In order to observe the situation, we should look up into the contract to see relevant information regarding the allowed period for the invoice payment and consider delivery period of invoices. As per our sample we will consider below data.

As per contract the invoice has to be paid within 30 days counting from delivery date of the invoices to the clients.

Delivery of invoices to the clients takes in average 0.5 – 1 day period time.

30 days period is considered as time permitted for payment in this case, the time after lapping which the client is considered risky. This time period is the most popular one in world practice as 30 days are considered as “current period” time. This term stands for current month of invoice life.

For deeper analysis we also need more information as we can see below:

Today:	25 February 2017
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N o.	Date	Invoice No.	Name of Company	Statu s	Date paid	Ag e
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1	01 January 2017	AZ2017/0001	AB International	Not paid		55
2	15 January 2017	AZ2017/0002	AB International	Not paid		41
3	17 January 2017	AZ2017/0003	CD Construction	Paid	02 February 2017	16
4	18 January 2017	AZ2017/0004	EF Holding	Not paid		38
5	26 January 2017	AZ2017/0005	EF Holding	Not paid		30
6	06 February 2017	AZ2017/0006	CD Construction	Paid	18 February 2017	12
7	13 February 2017	AZ2017/0007	CD Construction	Not paid		12
8	19 February 2017	AZ2017/0008	CD Construction	Not paid		6

Average age:	26.25
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As we can see on 4th and 5th lines of excel sheet, AB International is the company that has due for 41 and 55 days for the payment of services that were provided to their employees. It exceeds the period allowed for payment considering delivery time as well.

Usually, contract between supplier/contractor and client consider the cases when the payment date exceeds the agreed time limit with different actions.

As per the sheet above EF Holding is also a company that already has a due exceeding time limit, however its age is not very critical and depends of future several days.

The next step what management or just an accountant would like to know about this sheet is the kind of services provided and the total sum of outstanding amount.

Today:	25 February 2017
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N o.	Date	Invoice No.	Name of Company	Service	Amo unt	Stat us	Date paid	A g e
1	01/01/2 017	AZ2017/0 001	AB Internation al	Medicine s	\$2,0 00.0 0	Not paid		5 5
2	15/01/2 017	AZ2017/0 002	AB Internation al	Medicine s	\$5,0 00.0 0	Not paid		4 1
3	17/01/2 017	AZ2017/0 003	CD Constructi on	Medical trainings	\$450 .00	Paid	02 /02/201 7	1 6
4	18/01/2 017	AZ2017/0 004	EF Holding	Medicine s	\$75. 00	Not paid		3 8
5	26/01/2 017	AZ2017/0 005	EF Holding	Medicine s	\$50. 00	Not paid		3 0
6	06/02/2 017	AZ2017/0 006	CD Constructi on	Medical trainings	\$250 .00	Paid	18 /02/201 7	1 2

7	13/02/2017	AZ2017/007	CD Constructi on	Medicine s	\$60. 00	Not paid	1 2
8	19/02/2017	AZ2017/008	CD Constructi on	Inpatient	\$1,0 00.0 0	Not paid	6

Avera ge age:	26.25
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As we can see the oldest invoices have the biggest amount and both of them are inpatient treatment services. This data is not directly related to the aging, however it gives a signal that the inpatient treatment services are the most expensive among others and that might be the reason of late payment. Another reason may be bad service provided during the treatment and that is why unsatisfied AB International company refuses to pay the invoices. However, this reason is not related to accounting, chief accountant is responsible to give this kind of analysis report to the CFO in order to fix the issue. Later on liquidation of such problem will directly influence the accounts receivables, as there would be no client with late payments and nothing will spoil the report.

Proper receivables management does not consider only correct reports and timely sent requests for payment, it also includes passing all steps in order to get the invoice paid in time, i.e. fulfilment of the account within settled timeframe. (Sundt, 2008 pg.70-105)

Another, important factor of account receivables is the paradox of sum, where the sum of invoices will not effect on the aging in anyway, however it will affect the economic position of company and list of other figures.

We can see it as per below sheet.

Today:	25 February 2017
---------------	---------------------------------

N o.	Date	Invoice No.	Name of Company	Service	Amo unt	Stat us	Date paid	A ge
1	01/01/2 017	AZ2017/0 001	AB Internation al	Medicine s	\$15.0 0	Not paid		5 5
2	15/01/2 017	AZ2017/0 002	AB Internation al	Medicine s	\$20.0 0	Not paid		4 1
3	17/01/2 017	AZ2017/0 003	CD Constructi on	Medical trainings	\$450. 00	Paid	02/02/ 2017	1 6
4	18/01/2 017	AZ2017/0 004	EF Holding	Medicine s	\$75.0 0	Not paid		3 8
5	26/01/2 017	AZ2017/0 005	EF Holding	Medicine s	\$50.0 0	Not paid		3 0
6	06/02/2 017	AZ2017/0 006	CD Constructi on	Medical trainings	\$250. 00	Paid	18/02/ 2017	1 2
7	13/02/2 017	AZ2017/0 007	CD Constructi on	Medicine s	\$60.0 0	Not paid		1 2

8	19/02/2017	AZ2017/0008	CD Constructi on	Inpatient	\$1,00 0.00	Not paid		6
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Average age:	26.25
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In case when the oldest invoices, i.e. invoices with biggest age (exceeding timeframe settled for invoice payment) have small value (sum of invoice), the average account receivables age would still stay the same. As an evidence you can overview this by comparing this sheet to previous ones. Timely payment of AZ2017/0001 and AZ2017/0002 invoices would not change account receivables balance a lot, but it will make a big change in account receivables aging. Respectively above mentioned explains how sum of invoice does not affect aging factor, only invoice issue and payment date does. For better understanding we shall see below sheet, where we take in account what could have been if the mentioned invoices (AZ2017/0001 and AZ2017/0002) were paid in time.

Today :	25 February 2017
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No.	Date	Invoice No.	Name of Company	Service	Amount	Status	Date paid	Age
1	01/01/2017	AZ2017/0001	AB Internatio nal	Medicine s	\$15. 00	Not paid	23/02/ 2017	2 2

2	15/01/ 2017	AZ2017/0 002	AB Internatio nal	Medicine s	\$20. 00	Not paid	27/02/ 2017	1 2
3	17/01/ 2017	AZ2017/0 003	CD Constructi on	Medical trainings	\$450 .00	Paid	02/02/ 2017	1 6
4	18/01/ 2017	AZ2017/0 004	EF Holding	Medicine s	\$75. 00	Not paid		3 8
5	26/01/ 2017	AZ2017/0 005	EF Holding	Medicine s	\$50. 00	Not paid		3 0
6	06/02/ 2017	AZ2017/0 006	CD Constructi on	Medical trainings	\$250 .00	Paid	18/02/ 2017	1 2
7	13/02/ 2017	AZ2017/0 007	CD Constructi on	Medicine s	\$60. 00	Not paid		1 2
8	19/02/ 2017	AZ2017/0 008	CD Constructi on	Inpatient	\$1,0 00.0 0	Not paid		6

Avera ge age:	18.5
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As we can see, we see that timely payment of mentioned invoices brought up to the average account receivables age to 18.5 days. Comparing to previous figure, 26.25 days, it makes a decrease for 7.75 days which is a significant number in accounting. Just 2 invoices with total 35 USD payment value made such a difference in account receivables aging due to their invoice issue date.

For true analysis of account receivables state the accountant and managers use below chart that can be easily taken from the above mentioned sheet. Please note that we will review the data from above list of invoices and below chart is based on that particular data.

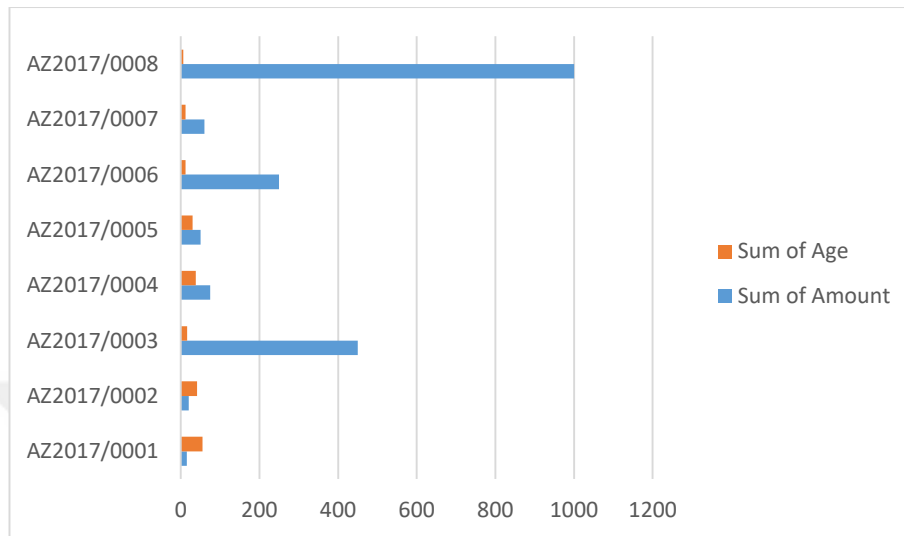


Figure 5.9: Accounts Receivables Aging chart

As you may see blue bar stands for sum of amount and bar of orange stands for the account receivables age. For proper analysis first information requested by the accountant are the invoices that have the biggest price. In our case those ones are AZ2017/0003, AZ2017/0006, AZ2017/0008. The invoice with the highest value in this case is AZ2017/0008 and its age is very low, so it is not top priority case for the managerial level. Invoices AZ2017/0003 and AZ2017/0006 are paid, so they are not overviewed at all. The rest of invoices do not have high value, so their collection of funds is not that important for the company. However, an accountant would collect them as well in order to solve account receivables aging issue. In our case those invoices are AZ2017/0002, AZ2017/0004, AZ2017/0005 with ages of 41, 38 and 30 days respectively. However, the manager sees it in different way. For him/her those 3 invoices all together come up to 145.00USD out of 1920.00 USD of total sum of all invoices. It makes only 7.55% of all invoices and 11.8% of unpaid invoices.

Usually each company sets its own limits for permitted percentage limit before they ring the alarm. Normally, this percentage varies between 10 – 15%. In our case it makes only 7.55% which is not critical point for the company. (Schaeffer 2012 pg.20-65)

5.6.2 Accounts Receivable Aging Division

In order to see full picture of the situation within account receivable aging, there was invented a specific form of viewing the invoices, so that in one list the user may see all the debts as per ages. The ages for the convenience were divided as per next groups.

Groups:

1. 0 – 30 days
2. 30 – 60 days
3. 60 – 90 days
4. 90 – 120 days
5. 120 + days

The risk division is also divided as per those ages, in proportional way, so that in 1st group there is least risks and in 5th group the most risk is bared. Respectively the receivables in 5th group are close to failure, i.e. transforming into bad debts. In order to overview the accounts receivables group, we should first of all overview a bigger list of outstanding invoices.

N o.	Date	Invoice No.	Company	Service	Amount	Status	Age
1	02-Jan-17	AZ2017/001	AB International	Medicines	\$15.00	Not paid	143
2	02-Jan-17	AZ2017/002	AB International	Medicines	\$20.00	Not paid	143
3	02-Jan-17	AZ2017/006	CD Construction	Medical trainings	\$450.00	Not paid	143
4	03-Jan-17	AZ2017/007	EF Holding	Medicines	\$75.00	Not paid	142
5	03-Jan-17	AZ2017/012	EF Holding	Medicines	\$50.00	Not paid	142
6	03-Jan-17	AZ2017/013	CD Construction	Medical trainings	\$250.00	Not paid	142
7	04-Jan-17	AZ2017/016	CD Construction	Medicines	\$60.00	Not paid	141
8	06-Jan-17	AZ2017/019	CD Construction	Inpatient	\$1,000.00	Not paid	139
9	09-Jan-17	AZ2017/020	AB International	Medicines	\$550.00	Not paid	136
10	09-Jan-17	AZ2017/024	EF Holding	Medicines	\$2,580.00	Not paid	136
11	10-Jan-17	AZ2017/025	EF Holding	Medicines	\$146.00	Not paid	135

12	11-Jan-17	AZ2017/0030	AB International	Medicines	\$200.00	Not paid	13 4
13	16-Jan-17	AZ2017/0034	CD Construction	Medicines	\$1,485.00	Not paid	12 9
14	06-Feb-17	AZ2017/0037	AB International	Medicines	\$257.00	Not paid	10 8
15	07-Feb-17	AZ2017/0038	AB International	Medicines	\$7,500.00	Not paid	10 7
16	08-Feb-17	AZ2017/0042	EF Holding	Medicines	\$2,500.00	Not paid	10 6
17	13-Feb-17	AZ2017/0043	CD Construction	Inpatient	\$15,000.00	Not paid	10 1
18	19-Feb-17	AZ2017/0049	EF Holding	Medicines	\$796.00	Not paid	95
19	03-Mar-17	AZ2017/0050	CD Construction	Medicines	\$851.00	Not paid	83
20	06-Mar-17	AZ2017/0053	AB International	Medicines	\$248.00	Not paid	80
21	10-Mar-17	AZ2017/0058	CD Construction	Medicines	\$694.00	Not paid	76
22	13-Mar-17	AZ2017/0059	EF Holding	Medicines	\$745.00	Not paid	73
23	15-Mar-17	AZ2017/0061	AB International	Medicines	\$2,500.00	Not paid	71

24	19-Apr-17	AZ2017/0063	EF Holding	Medicines	\$31.00	Not paid	36
25	25-Apr-17	AZ2017/0065	EF Holding	Medicines	\$750.00	Not paid	30
26	01-May-17	AZ2017/0066	CD Construction	Medicines	\$1,500.00	Not paid	24
27	20-May-17	AZ2017/0070	AB International	Medicines	\$85.00	Not paid	5
Total amount					\$40,338.00		

Below we may see a sample list of unpaid invoices, i.e. receivables, with corresponding age figures in last column.

As we can see age for each invoice is shown in one whole column but this information is not enough for proper analysis as it does not show all information in whole and for an analyser it is uncomfortable to value the situations.

Due to this all the information is divided into the groups for proper valuing.

Company name	0 – 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 + days	Total sum
AB International	\$85.00		\$2,748.00	\$7,757.00	\$785.00	\$11,375.00
CD Construction	\$1,500.00		\$1,545.00	\$15,000.00	\$3,245.00	\$21,290.00

EF Holding	\$750.00	\$31.00	\$745.00	\$3,296.00	\$2,851.00	\$7,673.00
	\$2,335.00	\$31.00	\$5,038.00	\$26,053.00	\$6,881.00	\$40,338.00

As per above we can see a short list that gives an accountant and analyst a lot of information that is generated from the data in the above list of invoices. As we can see all the ages are divided into the groups and filled out as per data from above list of invoices.

First of all, on left side in column C we may see the names of the client companies, which is only 3 in our example. In columns D, E, F, G, H we can see the division of ages and in each cell there is combined sum of receivables as per invoices that fall under corresponding age group.

For better understanding of how these cells combine such information we may see their extraction in below.

The extraction of AB International, 60 – 90 days:

Date	Invoice No.	Name of Company	Service	Amount	Status	Age
06-Mar-17	AZ2017/0053	AB International	Medicines	\$248.00	Not paid	80
15-Mar-17	AZ2017/0061	AB International	Medicines	\$2,500.00	Not paid	71
				\$2,748.00		

As we can see under age of 60 – 90 days fall invoices number AZ2017/0053 and AZ2017/0061 which were issued and sent to AB International company and that can be easily accessed in Excel filters.

The extraction of CD Construction, 120 + days:

No.	Date	Invoice No.	Name of Company	Service	Amount	Status	Age
3	02-Jan-17	AZ2017/0006	CD Construction	Medical trainings	\$450.00	Not paid	143
6	03-Jan-17	AZ2017/0013	CD Construction	Medical trainings	\$250.00	Not paid	142
7	04-Jan-17	AZ2017/0016	CD Construction	Medicines	\$60.00	Not paid	141
8	06-Jan-17	AZ2017/0019	CD Construction	Inpatient	\$1,000.00	Not paid	139
13	16-Jan-17	AZ2017/0034	CD Construction	Medicines	\$1,485.00	Not paid	129
					\$3,245.00		

In above table we may see the whole information that was combined in one call and these are invoices AZ2017/0006, AZ2017/0013, AZ2017/0016, AZ2017/0019, AZ2017/0034 that fall under 120 + days category and which are issued and sent to CD Construction.

The extraction of EF Holding, 120 + days:

No.	Date	Invoice No.	Name of Company	Service	Amount	Status	Age
4	03-Jan-17	AZ2017/0007	EF Holding	Medicines	\$75.00	Not paid	142
5	03-Jan-17	AZ2017/0012	EF Holding	Medicines	\$50.00	Not paid	142

10	09-Jan-17	AZ2017/0024	EF Holding	Medicines	\$2,580.00	Not paid	136
11	10-Jan-17	AZ2017/0025	EF Holding	Medicines	\$146.00	Not paid	135
					\$2,851.00		

In above table we may see the detailed information that was combined in one call as well. Total amount of \$2851.00 consists of invoices that AZ2017/0007, AZ2017/0012, AZ2017/0024, AZ2017/0025 that also fall under 120 + days category and which are issued and sent to EF Holding.

In case a company adds new invoices which are just issued that are not due yet, they simply add another aging group which is called “Current”. In the sheet it would be in front of “0 – 30 days” aging group.

Below we may see how it looks:

Company name	Curr ent	0 – 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 + days	Total sum
AB Internatio nal		\$85.00		\$2,748.00	\$7,757.00	\$785.00	\$11,375.00
CD Constructi on		\$1,500.00		\$1,545.00	\$15,000.00	\$3,245.00	\$21,290.00
EF Holding		\$750.00	\$31.00	\$745.00	\$3,296.00	\$2,851.00	\$7,673.00
		\$2,335.00	\$31.00	\$5,038.00	\$26,053.00	\$6,881.00	\$40,338.00

On above table we may see column D that is highlighted in yellow. It may seem useless to have two columns that bare same period, i.e. to have both aging groups “Current” and “0 – 30 days”, however these two groups have totally different meaning.

When a company closes monthly period, it prepares report that has only 5 aging groups, which are all, except “Current” aging group. During whole next month this report is used by Accounts receivable controllers/managers and other responsible employees. It means that during this new month there are number of new invoices that also have to be mentioned somewhere to keep all received sum updated. (Salek 2015 pg.34-57)

Since that the company uses the same sheet as in report and simply adds “Current” aging group where all payments for new invoices, i.e. invoices that were issue after the last period got closed, get inserted.

In our case, if the closing date of previous period is 25.05.2017 and if an invoice is issued on 27.05.2017 then it will be filled in the “Current” aging group column. In fact, since the beginning of new period each aging group is already transformed in next aging group, i.e. “0 – 30 days” transforms into “30 – 60 days” aging group, “30 – 60 days” into “60 – 90 days” and “60 – 90 days” into “90 – 120 days” and finally “90 – 120 days” values get added to “120+days” group. However, physically it we changed only once current period actually ends.

On below example we will overview hot this process happens.

Example:

Below invoices were issued on mentioned date and paid all on 10 June 2017:

Date	Invoice No.	Name of Company	Service	Amount
27 May 2017	AZ2017/0075	AB International	Medicines	\$150.00
29 May 2017	AZ2017/0076	CD Construction	Inpatient	\$8,000.00
29 May 2017	AZ2017/0077	EF Holding	Outpatient	\$520.00
29 May 2017	AZ2017/0078	CD Construction	Inpatient	\$9,500.00
01 June 2017	AZ2017/0079	EF Holding	Outpatient	\$190.00

01 June 2017	AZ2017/0080	AB International	Medicines	\$65.00
03 June 2017	AZ2017/0081	AB International	Medicines	\$120.00
03 June 2017	AZ2017/0082	CD Construction	Inpatient	\$10,000.00
07 June 2017	AZ2017/0083	AB International	Medicines	\$750.00
			Total	\$29,295.00

Respectively till 25 June 2017, i.e. till the timer the new period is closed, all this information would be filled in as per below:

Company name	Current	0 – 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 + days	Total sum
AB International	\$1,085.00	\$85.00		\$2,748.00	\$7,757.00	\$785.00	\$11,375.00
CD Construction	\$27,500.00	\$1,500.00		\$1,545.00	\$15,000.00	\$3,245.00	\$21,290.00
EF Holding	\$710.00	\$750.00	\$31.00	\$745.00	\$3,296.00	\$2,851.00	\$7,673.00
	\$29,295.00	\$2,335.00	\$31.00	\$5,038.00	\$26,053.00	\$6,881.00	\$40,338.00

It is extremely important to have a daily update of all received funds and accounts receivables in order to keep track on all the accounts. This process would also help an accounting team to avoid issues with double work on accounts receivables control.

As we observed above accounts receivable aging groups are an important factor in accounts receivables management and control. Its proper compliance significantly

simplifies the target setting of the accounting team as a whole and gives true picture of situation.

Once a company has a full report of accounts receivable aging it may make analysis on how the company performance in fund collection was, and estimate receivables that would actually be collected for next period.

5.6.3 Receipt Forecasting as per Accounts Receivable Aging

There are various techniques how one company estimates its fund receipts for the next period base on the information that they do actually have. One of these techniques is forecasting the next period fund receipts as per the accounts receivable aging information that they have.

Usually each company monthly has to make its own estimation of what portion of receivables would surely be pain in next time period and this information is totally based on internal research tools of the company, i.e. it depends on the company and its clients (payers). By making such estimate it does not mean that all the rest has no chance for collection, it just means that other, rest funds would not be collected by expectation in next period. The forecast cannot always be true and each company makes a risk allowance for that respectively. As each company has to make its own estimate for itself, there is no strict instruction of how big portion should fall on each aging period, however, it is certain that newer periods have to have bigger portion of forecast payments than older ones, i.e. there should not be an estimation that 70% from amount laying in 120+ days aging group would be surely paid in next time period, while only 10% would be paid out of 30-60 days aging group. (Oros 2014 pg.34-65)

In order to be able to make a forecast on a sample we should look at below table:

Company name	Curre nt	0 – 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 + days	Total sum
AB Internatio nal	\$1,085 .00	\$85.00		\$2,748. 00	\$7,757.0 0	\$785.0 0	\$11,37 5.00

CD						\$3,245	
Constructi on	\$27,50 0.00	\$1,500. 00		\$1,545. 00	\$15,000. 00	.00	\$21,29 0.00
EF Holding	\$710.0 0	\$750.0 0	\$31.00	\$745.00	\$3,296.0 0	\$2,851 .00	\$7,673 .00
	\$29,29 5.00	\$2,335. 00	\$31.00	\$5,038. 00	\$26,053. 00	\$6,881 .00	\$40,33 8.00
		87%	100%	78%	65%	59%	

Forecast		\$2,031. 45	\$31.00	\$3,929. 64	\$16,934. 45	\$4,059 .79	\$26,98 6.33
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In the above table we may see a sample of how a company makes a forecast for each accounts receivable aging group. As it was stated above earlier aging groups are paid in bigger proportion than other ones. Despite the various intentions of the companies on how the funds should be collected as per accounting theory it is accepted that older debts get collected much harder than new ones. For comparison we may see that in aging group of 0-30 days the forecasted receipt amount consists 87% out of all amount, while in 120+ days aging group it is only 59%.

Another important point of receipt forecasting is the amount of funds, as we can see, despite the low percentage portion of forecast, the sum is significantly bigger than it is on other groups with higher portion. It is another proof of the accounting theoretical statement that older debts get collected in harder way. Due to this 90-120 and 120+ aging groups have bigger debts than others. Respectively, it means that the company has quite a big risk to end up with certain bad debt amount out of its account receivables.

In below table we may see what company actually plans to forecast in next period:

Company name	Curre nt	0 – 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 + days	Total sum
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AB Internationa l	\$1,085 .00	\$85.00		\$2,748. 00	\$7,757.0 0	\$785.0 0	\$11,37 5.00
CD Constructio n	\$27,50 0.00	\$1,500 .00		\$1,545. 00	\$15,000. 00	\$3,245 .00	\$21,29 0.00
EF Holding	\$710.0 0	\$750.0 0	\$31.00	\$745.00	\$3,296.0 0	\$2,851 .00	\$7,673 .00
	\$29,29 5.00	\$2,335 .00	\$31.00	\$5,038. 00	\$26,053. 00	\$6,881 .00	\$40,33 8.00
		87%	100%	78%	65%	59%	

Forecast		\$2,031 .45	\$31.00	\$3,929. 64	\$16,934. 45	\$4,059 .79	\$26,98 6.33
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Next period forecast		\$303.5 5	\$0.00	\$1,108. 36	\$9,118.5 5	\$2,821 .21	\$13,35 1.67
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In table we may see that company still has certain funds to be forecasted for collection in next period. In total the company forecast for the upcoming period is 67%, \$26986.33 out of total sum \$40338. On other hand we can see that next period the company would have rest \$13351.67 to forecast out of, which makes 33% out of old debts. However, the company also has newly issue invoices that are mentioned in Current aging group.

Company name	Curre nt	0 – 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 + days	Total sum
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AB International	\$1,085.00	\$85.00		\$2,748.00	\$7,757.00	\$785.00	\$11,375.00
CD Construction	\$27,500.00	\$1,500.00		\$1,545.00	\$15,000.00	\$3,245.00	\$21,290.00
EF Holding	\$710.00	\$750.00	\$31.00	\$745.00	\$3,296.00	\$2,851.00	\$7,673.00
	\$29,295.00	\$2,335.00	\$31.00	\$5,038.00	\$26,053.00	\$6,881.00	\$40,338.00
		87%	100%	78%	65%	59%	

Forecast		\$2,031.45	\$31.00	\$3,929.64	\$16,934.45	\$4,059.79	\$26,986.33
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Next period forecast	\$29,295.00	\$303.55	\$0.00	\$1,108.36	\$9,118.55	\$2,821.21	\$42,646.67
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In the table we may see how new debts also get added to the old one and in this situation the company has to collect the funds out of \$42646.67 outstanding funds in total.

Forecasting is an important procedure for the company as this way it may assume which funds it is expecting in closes future out of all debts, and this is the direct way how a company plans its own expenditure for awaited funds. For company it is important to make certain plan of fund collection in order to push up on certain targets rather than try to reach everything at the same time. This way the company would be able to make the most truthful estimation for its future plans. While making such a

forecast in portion/percentage out of each accounts receivable aging group the company relies on the certain information that they may reach. (Oros 2014 pg.56-73)

Below we may see the factors that influence the company's forecast making decisions:

- a. Contract terms
- b. The usual attitude of each targeted client company
- c. The specification of the invoices
- d. Recent communications with the clients
- e. Technical issues

Despite all the forecasting factors and the estimation, itself there is always a possibility that due to certain issues the company would not collect the targeted forecasted amount within next period and will have to leave it for new period. In order to avoid such issues companies usually consider to forecast extra funds in order to cover certain risk. The amount that is considered as risk while making estimation differs among companies depending on various factors, however, in general it makes 15-20% plus to the percentage of each aging group.

As per accounting principles both at forecasting and collecting stages the company should first of all outline the biggest value invoices and pay all attention to the invoice history, i.e. what the invoice is for, when issues, when delivered, if it confirmed or not and any other specific and necessary information. Afterwards the company should pay to each critically old invoice and make a system that would rate them as per age and the value. There are numerous computer programs that generate such information in a quick and easy way, including excel that is very useful for such purposes. In order to be able to make proper forecast the company should clearly understand the state of both invoices and the client companies from the payment point of view. Once the company has a clear image of what would be likely paid during next period it will be able to make the most truthful estimation and would avoid unpleasant fails during real collection. In order to make sure that the forecast would be done correctly the company must insure that its account receivable managing team has sufficient skills in proper collection that would back-up the forecast and make all the estimations true. At the same time the company should not make its forecast too tight and unrealistic as this way the company would constantly be facing the accounts receivables collection

failure which would indicate wrong accounts receivable management tools and practice. (Spiceland 2010 pg.60-71)

The company has to find balanced forecasting figures for each aging group in order to make sure that those forecasts have an effective outcome and actually help the company in its budgeting, otherwise it would be useless to estimate.

5.6.4 Benefit of Forecasting as per Accounts Receivable Aging

While accounting employees spend lots of effort to have quite a reasonable Accounts Receivable Aging, it plays an important role for the company in fund collection, planning, analyse and reporting processes.

Once a company divides its outstanding invoices on the ages and then makes the relevant forecast it is capable of planning and controlling its funds from managerial perspective point of view. Each company has certain targets in its business processes that they wish to reach and which depend on certain funding. In other words, when a company assumes that certain amount of funds would be collected during certain period it can properly plan what those funds should be allocated at. Respectively, Accounts Receivable Aging ensures that such kind of planning and control over cash flow is realised. Proper control and planning would ensure the target reaching for the company.

Besides that, Accounts Receivable Aging would ensure that the company would feel it's week points within the client management perspective of view and would be able to take corresponding actions in time. When a company has certain information about its receivables in time it gains an irreplaceable advantage to plan it's risks as well. (Salek 2014 pg.34-56)

In next units we will see what kind of different benefits Accounts Receivable Aging proper control has.

5.6.5 Effect of Accounts Receivable Aging Control to the Company

There are several main reasons why companies pay attention to Accounts Receivable Aging Control. First reason of such control is Payables account of the company. For all the services and products every company is in charge of wages that are paid within certain period. It covers salaries, rent fees, other variable and fixed costs, payment to

the 3rd party companies and other wages. Due to this, every company wishes to keep the period when the receivables are gained in one line with the period when the payables are paid. It is extremely hard to keep such processes in balance and that is the reason why accounts receivable aging is so important.

Companies reasonably regret to get paid today for the services/products that they paid yesterday and this is the reason why they pay so much attention to accounts receivable aging and urge their employees to work out the receivables in time. Every company decides for itself in what format it wishes to realise such control and usually it ends up in realisation of numerous reports and meetings.

For proper accounting recordings, it is also important to divide all the transactions within the company on periods. This is an important key in bookkeeping and all the steps in this sphere should be controlled and audited both internally and externally. (Warren, Reeve, Duchac 2013 pg.100-112)

When a company has proper Accounts Receivable Aging report and compares it to the payment that it does within certain period it can approximately determine when it is getting paid by client for the services and products, costs of which were covered earlier. The company's target is to keep up the difference of these two processes as close as possible. (Spiceland 2010 pg.60-71)

5.6.6 Effect of Accounts Receivable Aging Control to the Employees

As every company understands that Accounts Receivables is an essential part of duties it tries to create such mechanism within the company that will guarantee timely and stable fund collection. For this reason, first of all company tries to find a proper employee, accountant who will be best fitting for such kind of job. The main skills that are required from such accountant after proper accounting skills and principles, are good communication skills. Usually the position responsible for the implementation of Account Receivables collection is called Credit Controller or Account Receivables controller. Every manager understands that this particular employee will be in constant contact with the clients and his/her professional skills would directly influence the fund collections. If this employee is unprofessional and makes many mistakes, paying side would doubt the nature of invoices and this truthfulness. If this employee is impolite, too pushy or rude, then the client side would personally regret paying in time

and would postpone the payments as much as it will possible for them. All these negative consequences will bring up to Account Receivables Aging overlapping and will harm the company's financial health.

In order to avoid above mentioned problems company's managers try to find the most correct employee for this position with corresponding adequate salary for both sides. However, this is not the last step in employee management. In order to guarantee the constant motivation of employees. There are several forms of motivation at working place, such as extra holiday days, bonuses and number of different privileges (fitness/sports membership, presents, etc.). The most popular form of motivation in such position is bonus system that keeps the employee "fit" in his position.

Normally a company settles some target, both in "total amount received" and "aging" category. Once the employee hits those targets it gets some percentage of total sum gained as bonus to his/her salary. There is one tricky point in bonus system, whether the employer should not set both too high or too low targets for the employees.

In case when there is too low target for reaching, the employee takes it easy and does not claim for more. In other words, he loses interest and received amount is enough for him, he does not dare for more and this is unpleasant for the company's economics state.

In case when there is too high target for reaching, the employee after numerous tries loses interest in getting extra collections as to get bonuses is an impossible mission for him. This time company will not get proper receivables as well. (Sundt 2015 pg.34-87)

Both of above cases are bad account receivables management samples and it brings to bookkeeping failure.

As per the world practice the accounts receivable specialist emphasis on how Accounts Receivable Aging Control can directly effect the attitude if the employee who is responsible for receivable management. However, the mentioned case is a control failure that happened due to unreasonable attitude of manager and wrong behaviour to the employee, this sample showed how it is important to ensure the proper balance in Accounts Receivable Aging Control. It is the fact that the purpose of the company to be able to make as much collection as possible, however the wrong rush after the funds may not keep the accounting team under permanent pressure and its negative outcome

may harm to the company in whole. This is reason why the company's responsible employees should be quite sensitive about age group receipt forecasting as well. The company should be able to accept and understand that not all of targeted forecasts do really get reached.

There are various ways how a company management may balance its Accounts Receivable Aging Control and employee satisfaction, including sufficient employee trainings and teambuilding events.





6. DEBTS

6.1 Debt Definition and Classification

Debt is the money that one side borrowed from the other side. In accounting any services/goods sold on credit are considered as debt till the moment those services/goods are covered. As Account Receivables stand for the services/goods sold on credit, they are respectively called debts as well. As in economics it is impossible to make all the payment at the time of service/good provision, sales on credit make it possible for the companies to keep their businesses going. This was debt occurs between companies.

There are two types of debts that are valued in frames of accounting: good debts and bad debts.

Before understanding the Accounts receivable and its management we should mention that Accounts receivable is the debt that is owed by the client company to contractor company and which should be collected. In order to be able to analyse Accounts receivable we need to know what kind of debts exist and how to deal with them.

6.2 Good Debt

The definition of good debt may mean different meanings depending on the situation, however at the end it always comes to one result. Good debt is the debt that somebody takes and comes up with value/revenue that will cover that debt and bring some income. In other words, it is win-win situation. You win by making income and debt provider wins while you cover the debt with some interest as it is normally done. (Atashov & Novruzov 2015 pg.56-90)

In the case of Account Receivables accountants have a bit different view, however it still deals with net income. In Account Receivables any receivables that will really be paid by the client are called good debts. However, if those receivables are paid too late those debts will not be considered as good debts due to the time value of the money factor. In other words, such payment would not bring income to the company, even though it will cover at least some expenses for those particular services/good. (Spiceland 2010 pg.60-71)

6.3 Bad Debt

Opposite to the good debt bad debt stands for the debt that was taken in order to make some income and in respond income is either not achieved or the amount is not enough to cover the debt.

In Account Receivables any receivables that will surely not be paid by the client are called bad debts. It is the case when a company fails to collect the funds for provided services/goods.

The most popular reasons are the bankruptcy of the company and decline of the client side to pay for the services. In such case the supplier side may apply to the court as per law, however sometimes the company would not like to deal with it, especially when the sum is not that significant.

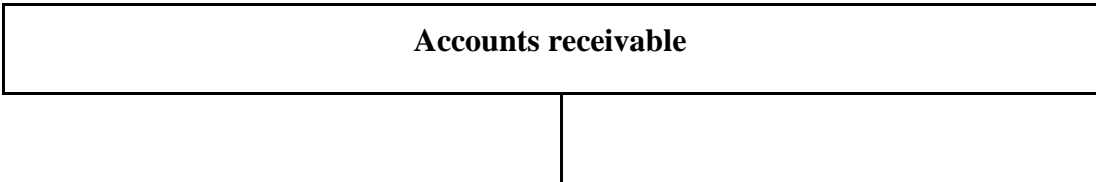
In case some amount that was recorded as receivables earlier becomes bad debt, that amount should be written off. Every company should make this decision as per their internal procedures when to call some receivables amount as bad debt amount.

Below you can see how this internal transaction is recorded

Date	Account Name	Debit	Credit
Aug-24	Allowance for doubtful accounts	\$ 1,400.00	
	Accounts receivable		\$ 1,400.00

In above table we can see that in case the company has 1400 USD of bad debt, it will have to credit that amount to Accounts Receivables just the same way as if that amount was paid. However, instead of debiting it to Bank or Cash (in case credit sales is paid with cash) account, just the way we would do in case that amount would have been paid, in this case we debit Allowance for Doubtful Accounts. Allowance for Doubtful Accounts stands for inputting the bad debts of the company to it. (Atashov & Novruzov 2015 pg.76-110)

Also, below we can see how bad debt is recorded/written off in T-account entry.



June 1 Balance	\$0.00		
	\$105,000.0		
June sales	0	\$5,000.00	June Collections
June 30th Balance	\$100,000.0		
	0		
	\$225,000.0		
July sales	0	\$95,000.00	July Collections
July 31st Balance	\$230,000.0		
	0		
	\$204,000.0	\$194,000.0	
Aug sales	0	0	Aug Collections
Aug 23 Balance	\$240,000.0		
	0		
		\$1,400.00	Aug 24 W-off
Aug 23 Balance	\$238,600.0		
	0		

Again, in above table we can see how 1400 USD Written Off amount stands in the same line as paid funds.

Once above mentioned transactions are recorded our accounts will be cleared off the bad debts.

At the end of a financial year every company estimates its budget for the next year and respectively it makes allowance for bad debts as well, i.e. it estimates Allowance for Doubtful Accounts. This number is usually based on previous year's results and as per accounting principles every company tries to make that amount less year after year as bad debt is lost income at the end. As any procedures of proper accounting principles these actions also need qualified accounting team that would be able to achieve these targets.

Bad debt reports are considered as one of the most important reports within the company, however it is one of the easiest procedure in bookkeeping. While recording these transactions it takes small efforts, however it estimated big internal research behind it.

Such procedure is an example of duty of care compliance. The company relies to the accountant that he/she complies the duty of care, however as duty of care of manager, that manager has to take all the steps till he/she is sure that this report is correct as any other as well.

Bad debt is the worst scenario for any company, not only because of list funds but because of further steps as well. There are two types of actions that a company may take once bad debt situation occurs. (Oros 2014 pg.54-76)

1. Open a law suit to the debtor company for the case and try to get the funds back, however there are number of reasons why a company may not want to do that. This usually happens when a client company has never paid anything to the supplier.
 - a. Law case would take more than can give, i.e. long law processes, extra expenses, investigations within the company that would delay internal processes, and etc.
 - b. Possibly the mistake was made by the company itself, such as bad service/good provision, poor communications and others, that may not even be related to accounting department.
 - c. Bad image of the company. If a company makes such steps and this information is spread within society and it usually is, other clients (active and potential future ones) would see this particular contractor company as the one that may sue the client for some payment delay. Unfortunately, in

such cases the client company would listen to other client company rather than the contractor (service/good provider).

If a company opens a law suit or just terminates the contract it physically loses the client that could not be communicated due to some internal or external issues.

2. Forget about the debt and carry on by providing the services to this particular client. This may happen if a company has been receiving some funds from the client company for some services, and only some part of receivables is not covered. However, such kind of attitude means that in future this client company may not pay for some another invoice as well and the contractor would not claim for it, would forgive it after several tries. This practice may bring up to mistreatment of the company by the client.

As solution to such kind of decision it is very important to clarify the situation in a diplomatic way, especially if a company does not wish to lose the client.

As per the world experience research the bad debt is a popular issue among the companies and it is important to claim for it till the end, considering benefits (in case legal actions are decided) and using diplomatic skills (in case of client significance) in order to have the issue solved.

6.4 IOU Notes

IOU abbreviation in its phonetic translation means “I Owe You”. This is an informal document that is presented by debtor to the side that the debt owed to as a confirmation and acceptance of the fact that this side owes some debt to the other one. IOU note may be used for different reasons starting from family members till big companies.

Despite the fact that IOU notes do not have any legal power these notes are also widely used between companies as a communication instrument. When one company owes something to the other one, just as confirmation that they are aware of it, they simply send IOU notes to each other. IOU note are not related to funds only. In case one company had purchased some services/products from the other one and they are not realised yet the contractor company would send IOU note to the client informing what they still owe them. (Best 2015 pg.45-95)

In accounting, IOU notes are very helpful, simple and quick in order to confirm the receivables of one side and payables of the other side. IOU note has many advantages that will be shown in below.

1. Cross-check function of the IOU notes. When a company receives such note it may simply check with its own document and in case there is something missing or extra, they can clarify it between the companies.
2. Reminder function of the IOU notes. By sending such note to the contractor company, the client company confirms that they are aware of the debt which means that all the units of it are still active (no missing invoices, corresponding documents, etc.)
3. Accruals function. By sending such note to the contractor company, the client company usually asks the purchaser to confirm the list, i.e. it simply budgets its future payables, expenses and IOU notes will help them to avoid any misunderstanding.

As we can see above IOU note is very useful for both sides and this practice is highly appreciated by both sides.

IOU notes have to be filled in certain form that will include below information.

1. The date of issue.
2. Debt information. If some products are owed then those products should be mentioned with details (number, sum, value, count, description). In case of accounting, IOU note has to include.
 - a. Invoice numbers.
 - b. Invoice date.
 - c. Description of invoices.
 - d. Amount of each invoice and total sum of all mentioned invoices.
3. Both parties' names. The company name of provider and client should be mentioned.
4. Signature of debtor in case the IOU note is sent as a hard copy. However, as IOU note does not have any legal enforcement power this kind of information is normally exchanged electronically via emails.

From time to time the client company may request information from the purchaser about their debt to the contractor company, so that they firstly check the information within their company.

Below we will see an example of how a regular IOU note looks like:

EF
EF Holding
Address

22. February. 2017

Contractor company: **AZ Solutions**

To whom it may concern:

Dear All,

Please accept this document as IOU note issued by EF Holding to AZ Solutions with below mentioned debts as of 22. February.2017.

Once all the information is controlled by your side we would kindly ask you to send us a confirmation mail to ef@efholding.com.

Date of IOU issue:	22 February 2017
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No.	Date	Invoice No.	Name of Company	Service	Amount	Satus
1	18 January 2017	AZ2017/0004	AZ Solutions	Medicines	\$75.00	Not paid
2	26 January 2017	AZ2017/0005	AZ Solutions	Medicines	\$50.00	Not paid
3	27 January 2017	AZ2017/0011	AZ Solutions	Inpatient	\$2,500.00	Not paid
4	27 January 2017	AZ2017/0014	AZ Solutions	Medicines	\$85.00	Not paid
5	29 January 2017	AZ2017/0019	AZ Solutions	Outpatient	\$275.00	Not paid
6	03 February 2017	AZ2017/0022	AZ Solutions	Evacuation	\$7,000.00	Not paid
Total sum					\$9,985.00	

In case you have any questions you are welcome to ask us as per the same email.

We would kindly ask you to respond us regarding the IOU note within 7 days.

Thank you in advance. Looking forward to hearing from you soon.

Name Surname
Senior Accountant
EF Holding.
Telephone number: +123456789
Email address: ef@efholding.com

As we can see in example, all the needed information is mentioned in IOU note as it was stated before. A client company EF Holding has provided its IOU document to the contractor company AZ Solutions with request of confirmation for their reference. This step was made by client company in order to know what to expect for next period

and what was covered till the present date. Meanwhile for the contractor company this IOU note strands for informal confirmation of outstanding debt and is a signal that the contractor company would definitely pay their debts, otherwise they would not give such note.



7. APPLICATION OF THIS STUDY

7.1 Realisation of Accounts Receivable Management

The practical application of this study is based on the experience of AIA International that is an international company specialised on clinic and other medical assistance services with different offices and hospitals around the world. The entity that is analysed in the study is located in Baku, Azerbaijan.

The AIA International opened a branch in Baku in 1998 and since that period the accounting department of the company enlarged till the consistence of 9 employees. Till 2012 AIA International did not have any specific employee dealing with accounts receivable management and the task of fund collection was divided among whole team depending on the work load that the employees have. The employees used to organise a meeting once a week with the accounting manager and reorganise the duties that have regarding the funds collection processes. Besides that AIA International accounting team divided the companies among each other that had to be followed up. At that period AIA International applied only budgeting technique.

Such kind of approach had below weak sides:

1. There was no particular employee controlling the collection processes and the fund collections was considered as a secondary task for the team
2. At the period when whole team had a big work load there was no time left for accounts receivable management processes
3. The company constantly lived through certain lack of fund collection and due to this did not fit the budget plan
4. Quite a significant amount of receivables was annually written off as bad debt due to poor management of accounts receivable.

In 2012 AIA International had promoted one of its accounting employees and made her responsible for accounts receivable with position of Account Receivable/Credit Controller. This employee was both responsible to invoice billing and management of

accounts receivable. She was not obliged to contact all client by herself for collection of funds that were supposed to be paid for the goods and services sold on credit, however she had to coordinate the time collection of all funds, i.e. management of accounts receivable.

At the beginning the employee lived through certain issues as it was the first experience of AIA International Baku branch of such kind and the new procedures had to be settled up.

Below we may see the stages that AIA International passed with new position opening and implementation:

Stage 1:

As accounts receivable controller had already been working AIA International in its accounting department, she did not have to deal with any adaptation as it would happen if the employee had been taken from outside of the company. First of all, she profiled the clients, by asking the other accountants all what they know about the client companies and made analysis of their previous payments. It helped her understand which clients have proper and poor payment attitude.

Stage 2:

As the accounts receivable controller did not wish to put the other accountants under extra pressure and work load, she decided not to make a mandatory obligation to follow exact clients by exact employees and decided to organise weekly and more frequent if necessary meetings, where the situation would be cleared up. At those meetings the accounts receivable controller had already prepared list of the invoices that need to be collected and the coordinated with employees which company should be contacted by whom with their mutual agreement. As the employee and the whole accounting team had had proper relations with, her coordination had been positively accepted and strongly supported by the other accountants.

Meanwhile the accounts receivable controller had to determine which invoices, i.e. how much of funds should be collected for each period. In order to have proper calculations she decided to implement below accounts receivable management techniques, that were also advised to her by the head office of AIA International:

- Customer profiling (that was already applied at 1st stage)

- Accounts Receivables Turnover Ratio
- Days Receivables Ratio
- Budgeting
- Accounts Receivable Aging

These techniques helped the accounts receivable controller to determine how much should be collected, for which reasons, what may be expected and how to plan the accounts receivable collection.

The accounts receivable controller determined a new scheme that was modified and adopted to each month, considering its issues invoices, awaited payments, expectations, plans, risks and what should be collected as per mandatory requirements. At this stage the targeting of accounts receivable began to become implemented, which finally made the company consider the accounts receivable processes as one of its top priorities. The whole accounting department positively accepted such approach as it was considered as new step for proper fund collection management that was a weak point for the company during many years.

Stage 3:

Once the accounts receivable controller determined the route that AIA International had to follow them for achievement of the targets. At this stage the accounts receivable controller started detection of all obstacles that made the accounts receivable processes live through collection issues.

During the first 3 months of the new system implementation, the accounts receivable controller detected bellow obstacles that the accounting team faced during the collection period:

1. The clients with medium and poor paying attitude were not prepared to such new attitude of the AIA International as before they had flexible payment behaviour and the accounting department had to explain such clients the new changes within the company that happen due to collection problems and remind them the contract terms. The contract terms would explain how natural it is for AIA International to claim for time payment of credit sales.
2. The lack of accurate information in the corporate contract terms. The accounts receivable controller made a research on all of the contracts that AIA

International had with the clients and found out that certain contracts had missing information in it that related the credit sales conditions.

The problems that were detected we below:

- a. Vivid of absent due dates settled for payment allowance
- b. Poor information about the contact person's details who is responsible for the payment of invoices
- c. Poor information about the invoicing and billing procedures, i.e. which exact documents are needed and how exactly it should be billed.

Due to this the accounts receivable controller experienced below issues:

- a. The clients requested various type of back up documents and the accountants had to comply it as there was no clear procedure of what should be requested and billed.
- b. The clients requested various types of billing and the accountants had to comply it as there was no clear procedure of how it should be done.
- c. Some of clients were not willing to pay the debts till certain period of time referring that their contract does not reflect such kind of information.

All these obstacles made the employee struggle with the funds collection processes as she did not have a valid legal back up to rely on and the clients were not meeting the general payment requirements of the company.

3. Poor performance of medical department. As per the research the accounts receivable controller held she found our that certain number, i.e. 25% of all invoices get delayed in payment due to the lack of certain medical reports. As it was found that when the accounting department contacted some client for the payment, the clients would refer to them that certain medial information/reports had not been provided and that without the required information the payment may not be done. After that the accounting department had to refer to medial department for the provision of needed documents that consumed certain amount opf time and once those documents were received and sent to the client it also consumed additional time for the payment proceeding. Due to such uncertain procedure of document provision, the clients delayed the payment and there was no legal base to request the payment for earlier time. Besides the issues in the contracts, the medical

department also was not following the existing procedure, and did not provide the needed information to the client companies, which automatically delayed the accounts receivable coverage period.

Stage 4:

In order to deal with the occurred problems, the credit controller decided to make below steps as a starting plan for change implementation:

1. She decided to make meeting in the beginning of each week and settle targets of contacting the clients, asking them about the planned payment plan. Such follow-up actions would remind the employees about the payment due dates without any extra pressure that would not have been positively accepted by the clients. At that point the company could not claim the payment in exact allowance period and the credit controller decided to make kindly reminders as a start of new plan.
2. The accounts receivable controller and other accountants determined exact documents that were requested by each client on periodic basis and requested medical department to provide those back-up document for the corresponding clients, whenever their patients attend the clinic. In other words, new procedure was determined regarding the backup document procedure that was needed for each client. Respectively, the medical department had to follow those procedures as the company finally started to consider the fund collection processes as one of its top priorities. The proper realisation of such actions would guarantee that the payment would not be delayed due to external reasons.
3. The credit controller decided to urge the manager of the branch to organise a general meeting with the marketing/sales department and communicate about the contract terms that get conducted with the clients. As result of such meeting, it was detected that the future new and prolongation contracts would be signed with better described and exact conditions, so that the clients would be clearly notified about the payment obligations that they actually have. This action would give accounting department a better legal base for payment requesting and accounts receivable management.
4. The accounts receivable controller and the whole accounting department determined the exact actions how the funds should be collected and whether

the clients should be warned. Along with it the accounting department determined the bad debt risky invoice and asked the help of the branch manager in order to communicate with the corresponding company managers regarding unreasonable payment delay.

5. The accounts receivable controller developed the control methods of accounts receivable processes by making targets for each week within the accounting department and sharing the information about the collections in the end of each week to show the progress of mutual efforts.

Stage 5:

Once the AIA International had a well settled procedure of contract conducting and medical report provision referring to the processes that had influence on the accounts receivable management, the accounting department could totally concentrate on the collection processes which happened along with below steps:

1. Development of all official and non-official notices that the clients should receive from the AIA International regarding the payment processes, which included regular communications methods, IOU notes, Credit Memo documents and others.
2. Using of accounts receivable management techniques, such as Customer profiling, Accounts Receivables Turnover Ratio, Days Receivables Ratio, Budgeting, Accounts Receivable Aging and in addition the company referred to statistical analysis as well. These techniques helped the accounting department determine what should be done for having a stable collection process, how accounts receivable process should be developed and what the results would mean to the company. The targeting was also one of the main tasks of the team on its way to development. The techniques explained exactly what should be collected and for which needs which gave a true value all the efforts of the accounting team.
3. Development of methods how bad payers should be dealt and how good payers should be appreciated for their high-level payment attitude. The AIA International decided that such kind of action would urge the bad payer to pay in time and make good payers feel important and appreciated for their efforts.
4. Development of flexible view of the situation, AIA International decided to make a certain politics of the company whether clients that bring big and stable

revenue may be discounted in allowance period matter under certain circumstances, which had to be communicated among the team and management beforehand.

Stage 5:

Once the AIA International succeeded to settle up a stable system ensuring timely accounts receivable management, it could finally proceed on its collections. It still considered various modifications depending on the situation and the needs of the company, for which the accounting department and the company in general was already trained and prepared, that brought up to flexible team which was open to the corresponding changes.

Despite the various issues and difficulties that AIA International lived through while determining the correct route of accounts receivable collection, the company could manage to settle proper system that was meeting the expectations of the organisation.

Below we may see the situations and approaches that AIA International used.

7.2 Contract Terms

As per the experience in the healthcare industry unit, there were standard contract terms with payment allowance period of 30 days for all the client companies, however, when there was some outstanding case then the Marketing and Sales department would be consulting it with the top management and the accounting department in order to make a correct decision. The outstanding cases were considered the ones when a client might be insisting on longer deadline period due to some reasons, when the client was a big company with lots of patients that would visit the clinic and bring big revenue to the company, some old and trusted client or in opposite, some new client for whom some high cost services/products would be provided immediately. There also were some cases when the contract was conducted for the provision of some expensive medical equipment and the clinic would settle the payment allowance period of 15 days only to make sure that the payment would be done in shortest period. Such kind of actions were reasonably accepted by the clients as this practice is quite widely used around the world.

As per the experience in the clinic, in the company, each contract considered additional payment fee (some percentage of total outstanding) sum that was supposed to be paid

of the payment exceeds 30 days and if the payment is still not made till 120 days since invoice delivery along with numerous notifications via email and phone calls, then the company was supposed to stop any service provision to the client and apply to the court with contract condition failure claim. All these actions of percentage adding, service closure and court claims were supposed to be done with company top level authorisation. However, during the experience the clinic company has not applied any of these action even though they had some invoice which age could count up till 8-9 months. The reason for this was good relations between both companies' managements and a strategic step in order to avoid client loss.

As per the experience that the accounts receivable controller lived through such situation when one client company refused to cover the invoice because some medical report was missing. It was a sensitive and extremely important information that was supposed to be given by the doctor to the client personally. At that time the doctor was on long period vacation and if the employee waited for such time the invoice age would rise till an unacceptable point. To fix this problem the employee requested the doctor's personal phone number from Human Resources department, reached him and asked to send the relevant information to the patient. It took him only 5 minutes to finish the case and the invoice got paid within 3 days.

Besides that AIA International had big number of client companies that were branches of some international companies. Those branches did not have any accounts payable team in the country, where services were provided to them by the clinic and requested that the invoices would be mandatorily sent to their headquarter for payment processing. Respectively, this term had to be included in the contract as per procedure. The Marketing and Sales department being fully aware of how important the payment dates are for the accounting department and the fund collection of the company informed both top managerial responsible employee and accounting department about such issue and at the meeting it was decided to negotiate with the company the further terms: the invoice would be sent to the mentioned office abroad as per their request, however, along with that the electronic invoice would be also sent to the company in order to start up the evaluation of its content, and that would be counted as the invoice receipt date, while the company would still have enough time for the payment. These terms were accepted by the companies and it helped the company properly manage its accounts receivables.

As per the experience in the clinic, there was a certain period while the contact person for invoice payment processes was not included in the contracts as a term. The accountant simply sent the invoices to some employee from the client company that was respectively provided to them by Marketing and Sales department. This process worked without any incidents before one issue rose with one client. There was a case when a company got a new client and the accountant responsible for the invoice issuing and delivering sent the invoice to the email address of some employee provided by Marketing and Sales department. In the terms of the contract the invoices were supposed to be sent in electronic way only. Later on, when accounts receivables controller tried to reach that same employee from client company to whom the invoice was primarily sent, in order to make sure that invoice is received, accepted and being proceeded, she found out that invoice was sent to wrong employee and since that it was not forwarded to the correct person and is not anyhow overviewed. Even though, it was an unprofessional attitude of the person who received email, did not send it to the employee responsible for that duty and simply ignored the email the invoice was overviewed as a newly received one. We should consider, that this was the mistake of the provider company as well and it happened due to the gap in contract terms. This case became a good lesson for the company and from that day the company was mandatorily mentioning the contact person's details in order to avoid such issues. Once it is reflected in the contract, the company would have had to accept its own mistake in case they mention wrong employee details and simply delay the payment.

7.3 Payment Delays

As per the experience in the healthcare industry, there were numerous cases when some clients, new or old ones, would delay the payment by making some unreasonable excuses and the unpaid invoices would simply pass each accounts receivable aging group month by month. In such situations, the Accounts Receivable controller would organise a meeting where the Marketing and Sales department would be invited with Accounting department and top management for solving the issue of late delays. After those meetings, the Marketing and Sales department was urged to get in touch with the client in order to realise the payment and make sure that in future the clients would be showing fair attitude toward the payment of the services and goods that are sold to them on credit.

This kind of action would directly improve the Accounts Receivables collection process and definitely make a significant positive change in total income received and accounts receivables aging group reports.

Not all payment delays that AIA International experienced were connected to the intensive actions of the client companies and some of them were simple technical issues like the one described below:

As per the experience in the clinic, there was a case when the client made payment for invoice, however the funds were not received by the clinic company. When the accounts receivables controller requested SWIFT confirmation for the same payment she detected that the bank detail was mentioned with a several digits mistake in bank account number. Once the controller asked the client to check with their bank, it was detected that the funds got stuck in the system and would be retrieved back. Despite the solution of this technical issue, the client company insisted that the bank details were not wrongly entered by its employees, it was wrongly written on the invoice. After the further investigation it was detected that there was no mistake on the invoice and in addition it was stated that the bank details are also mentioned in the contract, that as per accounting principles should be checked with bank details shown on invoice in order to avoid any accounting failure. Once all the facts were drawn before the client they had to admit the internal mistake and rushed up the process in invoice payment. As mentioned before bank details must be carefully mentioned in the contact, so that such issues would not rise.

At some different periods AIA International experience such implicated cases when the client declined to cover the outstanding invoices due to some missing medical documents that were supposed to be provided by the medical (production) department as per contract. As mentioned before the employee responsible for accounts receivable could simply issue a credit note and report as that amount is inappropriate for invoicing to the client. In that case the medical department would have to deal with the issue by providing the missing document, writing explanation to the report and then send it to the invoicing department again for invoicing.

However, the accounts receivable controller had a principle of proper negotiation with the medical department and every time when some issue connected to the medical department arose, she directly referred to the employees of mentioned department in

order to escalate the issue in faster and easier way. The medical department appreciated such attitude and every time was eager to solve the issue as soon as possible and to provide missing requested medical document.

Despite this practice there were moments when accounts receivable controller reported certain issues as inappropriate for invoicing and in those cases medical department would voluntarily ask accounts receivable controller to do it in order to raise certain issues before the top management. Such cases usually happened when the issue in medical department's performance happened due to external issues which were not under their power.

In the clinic, well communication skills brought up to the efficiency of both departments and make a good image for the company as a good team. As it was mentioned before such communication is respectively appreciated by both sides and brings up to faster problem solving processes, which is actually a duty of each company employee.

The influence of Production department is obviously unavoidable and it is the company management's duty to emphasise and appreciate the employees' will to build a well-communicating team.

As per the experience in the clinic, at certain point the company lived through an internal communication crisis when a new financial manager came to the company and regretted any communicational actions that could anyhow discount the failures and mistakes of other departments. This kind of attitude was negatively accepted by the team that had been working together long while before the new financial manager came. As the team had professional skills, it decided to communicate with the financial manager in order to rehabilitate the common negotiations between departments in order to keep all the processes in a healthier way for the company. However, any initiations were rejected from the management which also started to monitor each issue that delayed any invoice payment due to the mistakes of other departments. New financial manager insisted that the accountants had to report any issues of other department that any how delayed the payments, added extra job to the employees and simply brought any complications to the internal and external accounting processes.

The accounting and production team followed new instructions for a while, and in the end of the quarter below results were detected:

1. Company got a bigger delays of the payments and the accounts receivable controller got bad accounts receivable aging results as well
2. Several clients started to complain about the invoice mistakes of the provider company as more credit notes were issued respectively and asked if the company lives through communication issues

As a result of such implications it was decided by the top management to return to previous model of communications between the departments for proper performance of the company. The management of the company started to emphasise the importance of the communication between the employees.

Meanwhile, one of the critical issues that cause the payment delay is the rejection of the invoices due to various reasons.

As per the experience in the clinic accounts receivable controller had an additional duty to report a monthly list of invoices that we rejected/returned by the client and that caused any payment delay. The report had to be provided to Financial manager. Once the financial manager received the report, he/she organised the meeting with the accounts receivable controller in order to look through each of the invoice in details.

For the manager the invoices that were rejected/returned by the client and solved within shortest period of time without any barrier for timely payment did not consider any serious interest. The financial manager accepted that the company employees may make certain mistakes and as long as they can be fixed within reasonable time and without client complaints the situation did not have any reasons for reporting and consideration. However, she always emphasised how important it is to show high professional skills to the clients and asked the accounts receivable controller to explain general reasons why they happened. Respectively, these invoices were not strictly considered due their small count as well.

However, the financial manager insisted on the explanation for each delayed payment that happened due to the internal issues of the company. Each case was observed from the very beginning, when invoice was issues, sent, rejected, by whom, due to which reasons, why the issue arose, when was it fixed, by whom. She paid much attention to the period of time between the invoice was returned/rejected or simply asked for correction and when it was resent, fixed and rehabilitated. After the meeting, manager prepared an internal report of how many invoices became problematic due to mistakes

of certain departments. When the scale of this issues did not overlap the 10%, she would not report it to the other managers as an existing issue, however, if it did, she would insist on investigation of the internal processes of related department, due to which experience the accounts receivable management processes faces certain issues. This report would be shared by financial manager with the accounting department only, if it did not have highly serious character.

Besides that healthcare industry unit experienced various situations when client presented excuses for payment delays. Most of such excuses had financial character when the client company had issues with payment planning and could not afford timely payment of invoices, however some cases had an outstanding character.

Once the clinic experienced an issue when a client company that had certain debt of quite a big value to the provider company and could not cover the invoices due to legal issues. The client company had its licence recalled and blocked for certain period and this kind of action prohibited any payment to the contractors, including the clinic as well. Due to this the management, has organised several meetings with the client company and agreed on certain extra fee for waiting. Finally the payment for outstanding invoices was done with 6-9 months delay, depending on invoices. In total the client company did not pay to the clinic for 6 month, the other older invoices were the ones that were issued earlier. Respectively, this kind of issue was reflected in all accounts receivable figures and caused some serious issues both for accounting department and the company in whole. The Accounts Receivable Controller tried to make a balance in the receivable collection processes by compensating with collection from other clients, which was not too successful but made at least some improvement. The company lived through certain difficulties and had to limit their own payments as well during those 6 months. The extra amount that the clinic charged the client company for such waiting period could only partially compensate the troubles and issues caused to the clinic, however it was acceptable. As per company management the debtor was a very significant company and trustable client, that brought quite a big revenue and the clinic had to agree on waiting. From the other side the Accounts Receivable Controller did not fully agree with such decision and made prognosis that the receivables would fall during the waiting period. The prognosis was correct and the management accepted to take such risk in order to keep the client.

Even though it was a tough decision for the clinic company at the end they analysed the situation and came to the conclusion that this kind of decision was correct and it was worth it. However, the company may not always make correct decisions and each problematic client should have a different approach. In order to be able to have a correct view of the situation the company should make quite a deep analysis on past history of relations between the clinic and client, consider all risks and then come up to the most optimal decision.

In this case the clinic company had applied additional charges for the waiting period and this kind of action was done in order to compensate at least some loss that the company lived through during the waiting period. However, this is not the main characteristic of additional charges that the company applies for the delayed payments.

As per the experience in the healthcare industry the clinic company used to include the terms about late payment interest rates on a constant basis automatically to each contract with the clients, however in reality the practice of charging extra funds for the delayed payment rarely was applied.

The company used to apply it to the most difficult clients that refused to pay for invoices for a long period so that there was a case of suing the client company for unreasonable rejection to cover the debts.

The clinic company experienced several cases when a company used to delay the payments on a constant basis for 25-35 days. The relations between the contractor and client companies was quite good and stable, so that the client company respectively did not wish to apply the interest rate charges for each delayed month, even though the term was included in the contract on mutual agreement. The Accounts Receivable processes, however, constantly suffered due to such behavioural payments of the client, so the Accounts Receivable Controller proposed to apply a discount system instead in order to improve the receivables realisation processes. In 85% of such cases the client company changed the attitude regarding the payment processes and started to pay in time. Obviously such cost-cutting approach from the client company perspective was positively accepted by the clients. These actions directly improved the accounts receivable management processes. In order to have this term reflected in the contract the client company provided with an appendix showing the discounting terms for early payments and it was mutually agreed and signed.

However, rest 15% of the companies either barely changed their attitude or did not change it at all. This result detected that the company is not much interested in cost-cutting effect that the discounting approach brought up to them and that the reason of delay is more serious than trying to decrease the costs. However, 85% success showed how effective the discounting approach is in accounts receivable management processes.

In hospital's experience there were recorded numerous cases when a client company at the end of month, quarter, calendar year or financial year would request the total information about their payables, i.e. contractor company's receivables regarding that particular company in order to cross-check with the data they had in their system for proper accruals and budgeting for the next period. While there were some gaps in that data both companies communicated between each other and once the final list is prepared the IOU note would be sent by client company just as confirmation of owed debt.

Respectively there also were some cases when company lived through some issues where bad debt risk arose.

As per experience of the hospital there were recorded several cases while they lived through such issues.

1. If the receivables were for single time services with low value, the company usually decided to write off such invoices after long lasting claims, excluding legal actions (law suits).
2. If the receivables were for some old client or with significant value, company's manager would visit the company with some other reason (not bad debt case) and during conversation would mention about some old case, i.e. receivables that cannot be collected and is transforming in bad debts. The important part of the conversation was that the manager would mention that in case his/her company issued a wrong invoice, i.e. double invoice or for cancelled services/goods and etc., they would issue credit note immediately to close the case. The manager would also mention that this one invoice just harms the report and the accounting work in general and he/she wishes just to clarify the case as soon as possible. Within this conversation the manager of client company would feel himself in same boat with the provider company's

manager and would make all efforts for soonest investigation. As per the hospital's experience such diplomatic step would always bring to quick solution of the case.

7.4 Employee Management as Part of Accounts Receivable Management

As per experience in the healthcare industry, there was an accounts receivable controller who was responsible for other country clinic branch of the same company who shared certain experience in annual accounts receivable meeting. The case was, that at the end of financial year, accounts receivable controller had an outstanding invoice with a significantly big value that still was not covered by the client company. If that invoice would not have been paid, then accounts receivables target would not be achieved, both collection plan and accounts receivable aging results would have poor figures. While if the mentioned invoice would have been paid, then all targets would be achieved. The controller contacted the accountant from the client company and asked about the outstanding invoice. The accountant from the client company responded that the invoice may not be paid right away, and pass to the next day payments due to big workload experienced by client company at that point of time. The payment at the next day would not be sufficient for the payment collection plan of the accounts receivable controller of the contractor company. In order to make sure that the payment is done today the controller kindly asked the accountant from the client company to pay for the invoice that same day and that in respond the accountant will receive the flowers and chocolate very soon as a "thank you" message. After such a promise, the accountant form the client company made the payment to the contractor company right away while the present was delivered her.

As per above mentioned example we may see how the accounts receivable controller made a rude failure and was not evet aware of it. It is considered to be the management's obligation to organise all necessary actions in order to ensure that all team is aware about transparency and avoid any harm to it.

Besides all above mentioned such attitude directly harms the image of the company which is the top priority for the company.

However, the controller that made the failure in the sample did not do it on purpose, there are many cases when employees know that they violate the policies and do it on

purpose and in such cases the legal actions should be drawn against them in order to stop bribery of any kind.

As solution to the above mentioned example, the controller should have tried to contact the client company earlier on in order to ensure that the payment would not be delayed or kindly ask her to make a payment as soon as possible. The actions that were made in the example are strictly prohibited as per proper managerial principals.

As per the experience in the clinic, the employees for Accounts Receivables Controller or its assistance positions were chosen from the existing employees. Usually, the employee implementing other accounting tasks would be promoted for the mentioned position with below conditions:

1. Higher salary and bonus system
2. Several corresponding trainings to be attended at the entry
3. Several corresponding trainings to be attended annually

The company considered that this decision would be more sufficient from business point of view and the receivables would be managed this way in faster and more effective way. The company followed below reasons while making the mentioned decision:

1. The employee would not lose time on understanding the internal structure of the company
2. The employee was familiar with the clients and services/goods provided by the company he/she works in
3. The company was very sensitive about internal revenue information and would be less likely to accept new outside employee to get familiar with confidential financial information
4. The company would have saved on the cost for the employee than if it hired someone from outside
5. For company, it has a better image if it promotes its own employee, it makes them a better employer and more attractive for others.

Considering all above mentioned the clinic company chose an employee from inside of the company and promoted her to the mentioned position. As it was planned the

employee lost short period of time on meeting the needed requirement and in soon future started the positional duties.

However, there was another case when there was a lack of employees within the accounting department and the company still had to hire another employee for one of the mentioned positions. In that case the Human Resources department had to make a wide search for the corresponding sufficient candidates in order to present them before the accounting department for final choice. After some long list of candidates was gone through and numerous interviews were organised, it was determined that the needed candidate was not chosen and that the Human Resources department presented irrelative candidates for the interviews. At that point the company decided to have a short internal training for the Human Resources department in order to explain which position is currently searched. Once the Accounting and Human Resources department negotiated and considered all the points and gaps the Human Resources department started to search for the sufficient candidates that could prompt accounts receivable management duties. Later on, there was relevant interview stage after which the company could finally find the right candidate that started the job in soonest future.

As per the experience in the healthcare industry unit, there was a situation when accounts receivables controller also worked as per bonus system. For long period the employee had a manager that set proper targets for her and she was constantly reaching them. There were months when the employee could not overlap the targets and it was normally accepted, because that is the nature of targets. Once they get permanently reached, they stop being targets. During that period the targets motivated the employee and she was daring for proper accomplishment of her work.

However, later on, the manager left the company and other one took her place. Once he came to working place he decided to change the targets. He changed them not by a slope how it was supposed to be done as per accounting principles, but he increased the targets by an impossible point. It obviously was unreachable and this totally changed the accounts receivables controller's attitude to her job and all the duties. The employee felt that the company does not want her to reach those targets in order not to pay her bonuses which were not inadequate from the very beginning. For couple months the employee tried to reach those targets and once it was understood that it was useless the accounts receivable controller lost the interest to the work at all. It was not a matter of salary and bonuses, it was a matter of unfair attitude of company to the

employee and undervaluing her efforts. The employee could better understand if the company would fairly cancel the bonus system at all. From that moment the employee started to look for a new job and in soonest future she left the clinic she worked for in privilege to other job. (Atashov & Novruzov 2015 pg.46-95)

For the company it took couple months to find new employee that would implement the accounts receivables controller's duties and during several months the company lived through low receivable collection period. This was a failure in account receivables management.

The professional relations of the accounts receivables controller with the employees of other companies were not just a proper work implementation, there also was mutual assistance to each other. Employees of other companies that were responsible for invoice payments, as per their experience could rely on me, information provided by the accounts receivables controller and it felt confident and secure while proceeding on the payments. In respond to their initiative work the accounts receivables controller could always help them with other matters that considered duties of other departments of the company for their benefit. These relations were not valued with money, however their absence directly harms the financial state of the company. Besides that, the client company would doubt the company that loses the employee whose proper working skills were experienced by the company. This also harms the image of the company which actually related to the marketing factor of the company as well.

8. CONCLUSION AND RECOMMENDATIONS

8.1 Recommendations and Algorithm for Realisation

As per the research and the shared experience the companies are recommended to consider the accounts receivable management as top prioritised duty and its factors should not be undervalued.

Unfortunately, most of the times, the companies do not pay the necessary attention to the accounts receivable processes and consider that the creditors would pay for the invoices without any control or assume that the accounts receivable management considers simple fund collection which does not have any differentiated aspects. As per above overview research and the experience of various countries, it is clarified that the accounting receivables management is a difficult and constantly changing process that needs flexible team dealing with and open attitude toward to various methods of its management.

When the company misses settling correct procedure of accounts receivable management from the very beginning, it suffers both time and fund loss, as it already missed time when the procedure was already supposed to work for them and the funds as without proper procedure the funds are not collected in time, that may consider partially bad debts as well.

However, most of the times, the companies are not coordinating the accounts receivable management processes from the very beginning and need to reverse what they have missed, as it happened with AIA International.

Below we will be able to see the algorithms of what steps the companies should take for stable and reliable accounts receivable management system, that would be able to help out the accountants with their tasks.

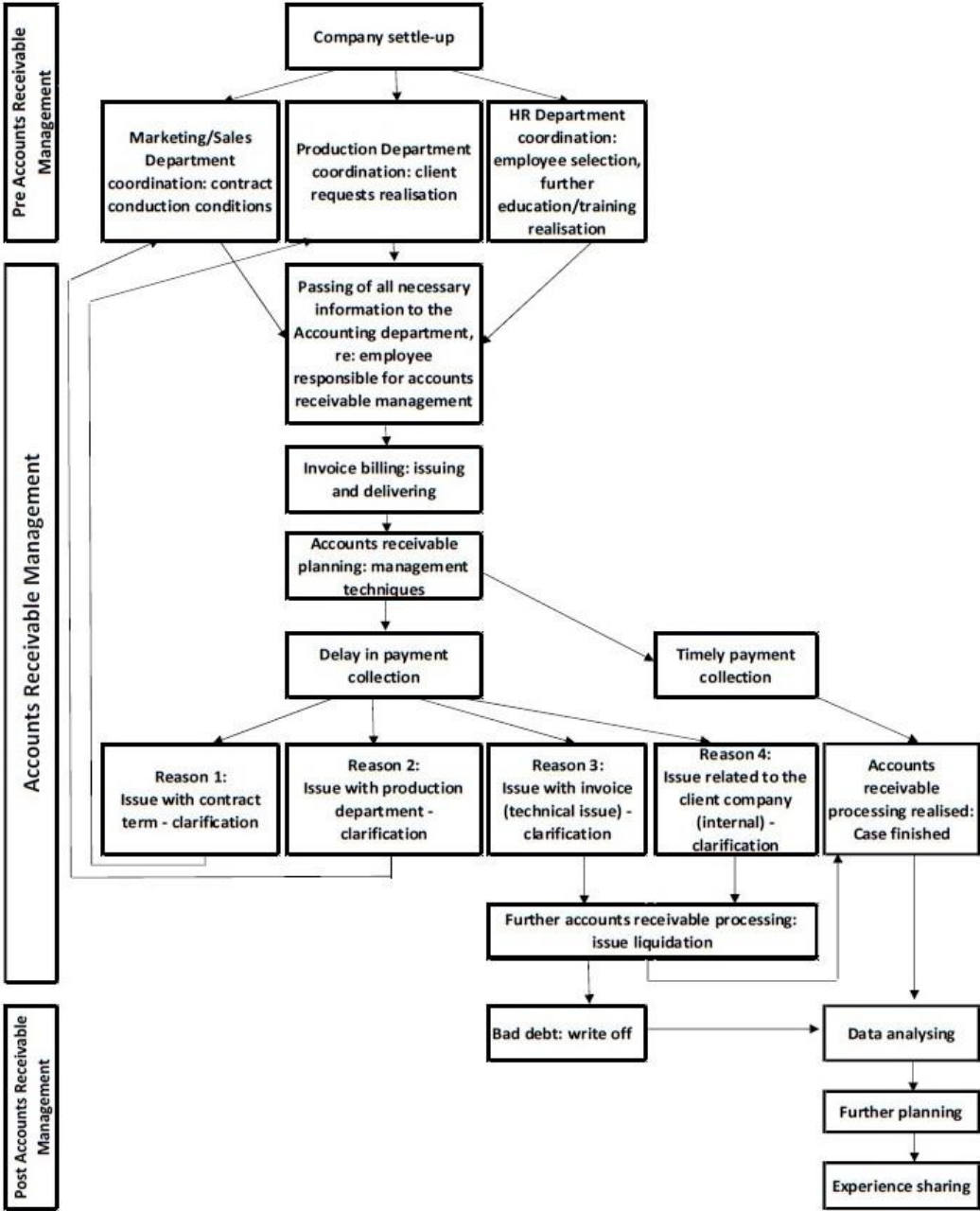
Please note that algorithm is determined as the most optimal way of solving the most accounts receivable management issues that may be faced during the working process. Such kind of algorithm is the solution for the issues that were experienced by most of

the companies and while the companies gave up on certain tasks, this algorithm may help them perform the proper accounts receivable management performance. By overviewing the various situations of various companies and world practice it was determined that most of accounts have a “blind zone” that does not let them develop both themselves and the company collection processes, while below mentioned algorithm will help them liquidate their main barriers and issues.

By using below algorithm the accounts receivable controller or any accountant responsible for accounts receivable management would be able to fund the best solution that would fit the frames of standards, ethics and corporate governance and meanwhile would not be losing the client company due to low performance or any other issues, which is considered as the main task in this sphere.



Table 8.1: Accounts Receivable Management Algorithm



As we may see in above table the accounts receivable process should be divided to 3 stages, pre accounts receivable management, accounts receivable management and post accounts receivable management.

Pre accounts receivable management consists out of all the processes that should be realised beforehand for the proper accounts receivable management and in case these actions are missed the company would experience issues and still would need to get

back and fix those gaps. Unfortunately, many companies in reality miss these steps and which brings up to unpleasant consequences. Pre accounts receivable management processes are unavoidable due to which are strongly and mandatorily recommended for implementation.

The actions that are considered during the Account Receivable Management are the ones that are directly connected with the realisation of fund collection. As we may see there are several types of issues that may be faced while the company and its employees try to collect the funds as it was overviewed in previous units as well. Unfortunately, 2 out of 4 types of payment delays/refusals are directly connected to pre accounts receivable management which reasonably explains the importance of mentioned processes. While next 2 types of payment delays/refusals are considered to be the full responsibility of accounting team and that is where the accounts receivable manager should apply all possible methods in order to get the funds collections finished up. While the accounts receivable controller realises all possible methods and ways for fund collection, there is still a possibility that the fund collection would not be realised and such failure would mean a bad debt for the company, where such debt would have to be written off.

It is very important for a company to have a clear plan of actions for each situation that they face while trying to collect the funds, however, the most common strategical issues happen when the company tries to plan it accounts receivable, which is happening on “Accounts receivable planning: management techniques” stage. Most of the times the companies try to get all funds from each and every client that is not considered as a correct approach. Reasonably, more money company gets, better it would feel, however in reality it is extremely important to have a clear plan of what exactly should be collected, from which clients, for how old invoice and etc. Out of all various accounts receivable management techniques the most variously used ones are: Regression analysis, ANOVA analysis, Cluster analysis, Budgeting, Customer profiling and Accounts Receivables Turnover Ratio. However, there are also number of other possible solutions and the companies are strongly recommended to use and apply as many accounts receivable management techniques as possible that actually would ensure the clearance and effectiveness of the results.

Once all allocations and stapes for accounts receivable management are taken the company accountants need to pass on the Post Accounts Receivable Management. This

stage considers the analysing of all results that the company achieved, further planning of what should be done in order to realise the further fund collection for next period, and experience sharing which is vital for the company with purpose to avoid the previous mistakes and not get more experienced in the field.

Unfortunately, most of the time, the company totally skips this part of accounts receivable management and does not make any efforts on reviewing what happened, how it was managed and controller, what must be done and what plan it should be. Most companies simply pass to new tasks and make same mistakes due to such attitude. In reality, the company needs to remember what happened, how the team overlapped certain issues in past, so that they do not face same issues over again. Due to this, the companies are strongly recommended and urged to spend certain time and efforts on analysing the past performance, so that the future performance would have a higher level. Besides that, when the company has a proper analyse it may build a proper plan for next period that would have a reasonable targets and tasks. The experience sharing is considered to be as a last step and one of the strategical actions that the company takes. The companies are urged to share the experience among the team, so that when one employee achieves something, it should be passed to the team to avoid the further difficulties that may be faced. Such actions positively affect the company performance and are strongly suggested.

The whole process of accounts receivable management may not be undervalued and should be considered as one of the main priorities of the company, with direct responsibility of the accounting department. Despite the fact that the accounts receivable process is a complicated and staged process it may be properly realised with the correct plan of actions that should be built from the very beginning of business realisation and due to this and the experience of other parties the companies are strongly recommended to make all efforts on building a reliable and properly working internal system that would ensure the correct and timely realisation of the corresponding task.

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Work History

April 2015 – June 2015
Committee

Baku European Games Operation

*Media Village Support Operations Specialist,
Village Management*

- Assisting the VSOC Manager with the development, translation and implementation of the VSOC operating plans, including departmental policies and procedures.

March 2014 – April 2015

Heerim Architects & Planners Co.

Accountant

- management of accounting records, financial statements

September 2011 – February 2014
International CIS)

International SOS (Baku) Ltd. (ex AEA

Credit Controller

- Invoices issue and invoice recording in accordance with Local Law, International Accounting Standards and in the company systems

September 2008 – August 2011
International CIS)

International SOS (Baku) Ltd. (ex AEA

Accounting Assistant

- Negotiations with clients (foreign insurance companies) on provision of insurance services
- Assistant/interpreter** for Civic Oversight Over

August - September 2007
Extractive

Industry Impact Conference

December 2005 – June 2006

East Hawaii Cultural Center (USA)

(Volunteer)

Education

2007- 2012

Azerbaijan State University of Economics
Regulation of Economics Faculty – Social Economics

Diploma

2005 – 2006

Hilo High School, Hawaii State, USA

Future Leaders Exchange Program (FLEX),
American Councils
11th grade

Courses

2010-2012
Accountants)

CIMA (Chartered Institute of Management

2003-2004

Certificate Level
English First

2013

6-10 Levels
IELTS Certificate

Awards

2006
Award

Language Skills

The USA President's Volunteer Service Bronze

- Azeri – Native speaker
- English – Excellent
- Russian – Excellent
- Turkish – Excellent

Computer Knowledge

Excellent MS Office computer skills (MS Word, Excel, Internet Explorer)
SUN, Vision