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Impact of Accounts Receivables Management on The Profitability

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ABSTRACT

The topic of this paper seeks to investigate how profitability is affected by accounts receivable management. Data extracted from the yearly statements of certain printing enterprises between 2009–10 and 2018–19 is used to fulfil the study purpose and do the required analysis for the research paper. To evaluate liquidity, a number of liquidity ratios are computed. To examine how liquidity affects profitability, statistical methods including ANOVA, which is descriptive statistical techniques of the hypothesis testing, Durbin-Watson correlation, and regression analyses are being used in this study. According to the research, businesses with effective receivables management techniques are more profitable when compared to those of the subpar procedures. The results show that the selected printing businesses' ineffective receivables management negatively impacts profitability of the company in a great manner.

KEYWORDS: profitability, accounts receivables, liquidity ratios, correlation, regression analyses, statistical techniques, subpar procedures etc.

INRODUCTION

The management of accounts receivable is essential to a company's financial stability and success. Effective receivables management guarantees on-time collection, maximises cash flow, lowers the risk of the bad debts, and increases the company's general profitability that is the overall profitability of the company. Businesses must concentrate on streamlining their accounts receivable operations in the highly competitive business climate of today, when keeping a healthy cash position is essential.

The Indian printing industry is dynamic and ever-evolving, opening up new development opportunities. It includes associated sectors including those that create printing machinery, packaging, paper, ink, and suppliers of basic supplies and consumables. It is the largest & most rapidly growing sector in the nation.

The anticipated market size of India's printing sector as of the 2019 fiscal year was more than 330 bn Indian rupees. By the fiscal year 2024, it is expected that this amount will be close to 410 billion rupees.

The segment of the economy that was primarily dependent on equipment has steadily changed to one which is increasingly centred on activities that are driven by software. Indian printers currently use cutting-edge computer-controlled printing equipment and efficient binding techniques. Modern digital machineries are used in pre-press processes, and UV electronic letterpress and inkjet printers are becoming more popular in our country.

Management of accounts receivable has several facets, including policies on credit, credit evaluation methods, billing and invoicing systems, collection approaches, and the application of technological tools to speed processes. Each of these factors significantly influences how effectively receivables management is conducted and how this affects profitability.

OBJECTIVES

These are the study's objectives in relation to the effect of accounts receivable management on the profitability of the company:

- To investigate the connection between profitability and accounts receivable management practices
- To investigate how credit policy and credit assessment methods affect profitability
- To evaluate how automation and technology affect profitability

- To examine how industry traits and financial circumstances affect the link between effective accounts receivable management and profitability
- To offer helpful suggestions on how to handle your accounts receivable effectively in order to maximise profitability

LITERATURE REVIEW

Accounts receivable management's impact on profitability has been the subject of interest and research in finance and company management. Past examination has tossed significant data on the methodologies and factors that influence benefit in the connection between receivables the board rehearses and monetary execution measurements.

- The speed of a company's collection efforts are gauged by the turnover of its accounts receivable. Numerous studies have connected higher accounts receivable turnover to higher profitability (Deloof, 2003; (2006) (Lazaridis and Tryfonidis).
- Another aspect that has been studied in the literature is the relationship among profitability and days of sales outstanding (DSO). DSO talks about how long it typically takes a company to collect its receivables. Research has shown that a shorter DSO is associated with greater profitability (Ganesan, 2012; Uyar, 2009).
- Research has been done on how credit regulations and credit appraisal techniques affect profitability. Well-crafted credit policies that specify credit terms, credit ceilings, and payment terms may have a big impact on customer behaviour and consequent profitability. A complete credit evaluation procedure that considers elements like client creditworthiness and industry risk results in better lending choices and reduced default rates, which in turn help to boost profitability, according to studies (Mian & Smith, 1992; Schwartz and Whitcomb, 2002).
- Examination has also focused on the role that technology and computerization play in the management of financial obligations. Customer relationship management systems, electronic invoicing platforms, and online payment choices all have the ability to increase productivity, lower mistake rates, and simplify receivables operations. According to studies, innovation has a good impact on reducing assortment cycles, increasing revenue, and reducing risky debt situations (Huynh and Vogt, 2011; Wu, 2012).
- Economic alterations and the state of the credit market may also have an impact on the efficiency of receivables management procedures and, as a result, profitability (Cunat & Gine, 2013; Syverson & Hortaçsu, 2009).
- The authors look into how working capital management, particularly accounts receivable management, affects the profitability of the firms listed on the Athens Stock Exchange. The study's conclusions show a substantial inverse relationship between profitability and the amount of time that it takes to recover accounts receivable. This shows that companies are often more lucrative when their durations of debt collection are shorter (Tryfonidis, D., and I. Lazaridis, 2006).
- This study focuses specifically on sales board records as it examines the impact of working capital management on the advantage of Indian businesses. The results indicate that efficient receivables management has a favourable influence on corporate profitability as seen by a shorter collection duration (Khan, M. M., and K. Sen, 2011).

RESEARCH METHODOLOGY

HYPOTHESIS FORMULATION

Two hypotheses are put forward to study the association between receivables management and profitability. The following theories will be looked into:

According to Hypothesis 1 (H1), receivables management has a significant impact on profitability.

According to Hypothesis 2 (H2), it postulates that receivables management has an important influence on profitability.

DATA SOURCE

For this research paper, secondary data were acquired from the official websites of the Bombay Stock Exchange.

The following are the links for the same:

www.bseindia.com and www.moneycontrol.com.

METHODS

The goal of this study is to ascertain how receivable management affects the profitability of certain printing enterprises. Additionally, using quantitative measures and an awareness of the same, do a rigorous examination into the impact receivable management has upon the profitability of certain printing enterprises.

DATA ANALYSES TECHNIQUE

The paper's data are analyzed and processed using the SPSS software, which can be used for the manipulation and analyzation of the data. Descriptive statistics, such as dispersion and central tendency measurements, are used to elaborate and explain the dataset. Standard deviation and variance are dispersion measures, whereas the mean, median, and mode are measures of central tendency. In expressive measurements, the principal highlights of a bunch of data or the actual information are quantitatively depicted.

The survey's quantifiable analysis makes use of the Ability IQ level dataset. To evaluate receivable management, the researcher makes use of independent variables like the current ratio, quick ratio, sales to total assets, and LnTA. The dependent variable in this study is the profitability ratio, particularly the Return on Total Assets.

RESULTS & DISCUSSIONS

The below mentioned table, summarizes information of the vivid statistics for the variables in this paper.

	N	Minimum	Maximum	Mean	Std. Deviation
LnTA	130	1.25568	8.2934	5.5094	2.1020
ROTA	130	-20.5	24.6	6.641	7.2618
CR	130	.28	10.64	1.8095	1.67282
QR	130	.25	6.67	1.1213	.91895
debtors/current assets	130	.053872	.84210	.41255	.18637
sales/ta	130	.054973	1.33036	.62670	.26321
Valid N (listwise)	130				

The regression study used 130 data, as shown in the table above, with five independent variables and one dependent variable (Return on Total Assets).

ROA's average is only 6.641.

The overall mean for the current ratio is 1.8095,

Quick Ratio was reported at 1.1123.

On average, Debtors to Current Assets was 0.41255.

As a result, even though it might be difficult for them to do so, printing companies in India that are listed on the BSE typically have enough capacity to meet their short-term obligations without inventories.

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.780[a]	.608	.592	4.6377	1.396

Adjusted R Square = 0.592

According to R Square, the Independent variable variations in this model account for 60.8% of the ROTA, while other factors account for 39.2%.

ANOVA TABLE

a. Dependent Variable: ROTA

b. Predictors: (Constant), sales/ta, QR, debtors/current assets, LnTA, CR

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4135.563	5	827.113	38.455	.000[b]
	Residual	2667.031	124	21.508		
	Total	6802.594	129			

FACTORS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-14.083	2.003		-7.032	.000
	LnTA	1.462	.222	.423	6.573	.000
	CR	1.446	.389	.333	3.719	.000
	QR	-.540	.627	-.068	-2.861	.003
	debtors/current assets	2.283	2.533	.059	2.902	.003
	sales/ta	15.506	1.721	.562	9.011	.000

Dependent Variable : ROTA
HYPOTHESIS TESTING

We investigated for the Durbin-Watson correlation and regression analysis to prove our hypothesis.

H1 suggests there's a high relationship between receivables performance and profitability.

According to the Durbin-Watson score 1.396, there are strong and positive serial autocorrelations between profitability and receivables, this confirms the H1 hypothesis.

H2 :Receivabillity will be important in affecting the profitability.

Per regression analysis outcomes the dependent variable is influenced by independent variables meaning that ROTA has impact from other factors. We can easily agree that we should accept this H2 having a F-table value of 1.84 as well as the F-calculated value of 38.455.speaking, our analysis and research methodology might offer a recommendation for printing companies listed on the BSE in India, namely to give professional receivables management greater attention as it directly impacts their financial well-being. Additionally, the results of their analysis reveal that current assets are poorly managed, thus they aim to develop fresh approaches to managing receivables. To establish and build an effective receivables management arrangement that will boost and enhance the businesses' liquidity and profitability, they may do various different things, including executive methods for effective and consistent receivables management and implement a new effective credit policy which also impacts the profitability of the company.

LIMITATIONS OF THE STUDY

When executing the study on the effect of accounts receivable management on profitability, it is a must and a very important thing to be aware of several constraints that may have an effect on the research and interpretation of the data. The study might contain a few major flaws or limitations, such as :

- Sample selection bias
- Data availability and quality
- Casuality & reverse casuality
- External factors
- Generalizability

CONCLUSION

This paper shows that the listed printing companies in India at BSE have low Current Ratio and Debtors to Current assets of this industry. It shows beyond doubt the effect on profitability and liquidity that a solid collections procedure has on receivables management. In light of the recommendations of the analysis, the board should develop new principles governing receivable administration because executives do not seem to make good use of all available capabilities. What if they build an efficient Receivables Management system which will improve cash flow and profitability for most companies through a new, effective credit policy which actually gets used.

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