



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

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RECEIVABLE MANAGEMENT

The term receivable is defined as debt owed to the concern by customers arising from sale of goods or services in the ordinary course of business. Receivables are also one of the major parts of the current assets of the business concerns. It arises only due to credit sales to customers, hence, it is also known as Account Receivables or Bills Receivables. Management of account receivable is defined as the process of making decision resulting to the investment of funds in these assets which will result in maximizing the overall return on the investment of the firm.

The objective of receivable management is to promote sales and profit until that point is reached where the return on investment in further funding receivables is less than the cost of funds raised to finance that additional credit. The costs associated with the extension of credit and accounts receivables are identified as follows:

- A. Collection Cost
- B. Capital Cost
- C. Administrative Cost
- D. Default Cost.

Collection Cost

These costs incurred in collecting the receivables from the customers, to who credit sales have been made.

Capital Cost

This is the cost on the use of additional capital to support credit sales which alternatively could have been employed elsewhere.

Administrative Cost

This is an additional administrative cost for maintaining account

receivable in the form of salaries to the staff kept for maintaining accounting records relating to customers, cost of investigation etc.

Default Cost

Default costs are the over dues that cannot be recovered. Business concern may not be able to recover the over dues because of the inability of the customers.

FACTORS CONSIDERING THE RECEIVABLE SIZE

Receivables size of the business concern depends upon various factors. Some of the important

factors are as follows:

1. Sales Level

Sales level is one of the important factors which determines the size of receivable of the firm. If the firm wants to increase the sales level, they have to liberalise their credit policy and terms and conditions. When the firms maintain more sales, there will be a possibility of large size of receivable.

2. Credit Policy

Credit policy is the determination of credit standards and analysis. It may vary from firm to firm or even some times product to product in the same industry. Liberal credit policy leads to increase the sales volume and also increases the size of receivable. Stringent credit policy reduces the size of the receivable.

3. Credit Terms

Credit terms specify the repayment terms required of credit receivables, depend upon the credit terms, size of the receivables may increase or decrease. Hence, credit term is one of the factors which affects the size of receivable.

4. Credit Period

It is the time for which trade credit is extended to customer in the case

of credit sales. Normally it is expressed in terms of 'Net days'.

5. Cash Discount

Cash discount is the incentive to the customers to make early payment of the due date. A special discount will be provided to the customer for his payment before the due date.

6. Management of Receivable

It is also one of the factors which affects the size of receivable in the firm. When the management involves systematic approaches to the receivable, the firm can reduce the size of receivable.