An Analysis of Account Receivables Management with reference to Fresh Minds Hospitality Private Limited

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ABSTRACT

The project report title entitled "An analysis of Account Receivables Management with reference to Fresh Minds Hospitality Private Limited". Accounts receivables of a firm is a legally enforceable claim for payment from a business to its customers / clients for goods supplied and / or services rendered in execution of the customer order. The purpose of the study is to establish how Accounts receivable management tries to minimize the amounts of money tied up in form of accounts receivables and thus takes the organization back to its original set goals. The accounts receivable will be measured using ratios such as turnover ratio which is an accounting measure used to quantify firm's effectiveness in extending credit as well as collecting debts. This ratio is an activity ratio, measuring how efficiently a firm uses its assets. Measures such as days sales outstanding which is a measure of the average number of days a company takes to collect revenue after a sale has been made will also be looked into to help in the management of the accounts receivable.

By analytical research design and sources of data (i.e. secondary data collection of about 3 years of balance sheet, the research project is carried out in Fresh Minds Hospitality Private Limited. The objective of the study is to identify the receivables practices followed by the Fresh Minds Hospitality Private Limited. To examine the relationship of sales and receivables. To compare Actual Date of Receipt from customers with the Payment Due Date. Also to suggest some remedial measures to be taken for improving collection of receivables on sales by Fresh Minds Hospitality Private Limited.

The research studies like the present on may help this Fresh Minds Hospitality sector to re-orient its strategy related to receivables practices made on their sales. The research involves in ratio and trend analysis for their analysis of Account Receivables Management in Fresh Minds Hospitality Private Limited. Through the analysis, the management shall easily take decisions showing in its report how utilization of available capacity will lead to increase in profit

Keyword: - *Account Receivables Management analysis, Analytical research design, and receivables practices.*

1. INTRODUCTION

A sale of credit is an evitable necessity in the business world of today. No business can exist without selling the units in credit. The basic difference between the credit sales and cash sales is the time gap in the receipt of cash.

Management of trade credit is commonly known as Management of Receivables. Receivables are one of the three primary components of working capital, the other being inventory and cash, the other being inventory and cash. Receivables occupy second important place after inventories and thereby constitute a substantial portion of current assets in several firms. The capital invested in receivables is almost of the same amount as that invested in cash and inventories. Receivables thus, form about one third of current assets in India. Trade credit is an important market tool. As, it acts like a bridge for mobilization of goods from production to distribution stages in the field of marketing. Receivables provide protection to sales from competitions. It acts no less than a magnet in

attracting potential customers to buy the product at terms and conditions favorable to them as well as to the firm. Receivables management demands due consideration not financial executive not only because cost and risk are associated with this investment but also for the reason that each rupee can contribute to firm's net worth.

1.1 **Definition of receivables management:**

The term receivable management is defined as —debt owed to the firm by customer arising from the sale of goods/ services in the ordinary course of business. The receivable represents an important component of the current assets of the firm. Receivables may be known as accounts receivables, trade creditors or customer receivable. When a firm its products / services and does not receive cash for it immediately, the firm has said to be granted trade credit to the customers. Trade credit thus creates receivable / book debts, which the firm is expected to collect in near future. Accounts receivable are thus amounts due from customers, which bear no interest in essence, a company is providing no cost financing to the customer to encourage the purchase of the company's product/services.

1.2 Need For The Study

This study is helpful in knowing the company's position of fund maintenance and setting the standards for increasing their level of funds from the effective way of receivables that are managed in a effective manner by receiving the due amount from the sale of goods or services meant on a credit basis. Thus this study will also used to find out the financial position by the comparison of yearly data based on the analysis of Accounts receivable management.

1.3 Objectives Of The Study
Primary Objective:
- To analyze the account receivable management with reference to Fresh Minds Hospitality Private Limited.

Secondary Objectives:
- To examine the receivables practices followed by the company.
- To determine the relationship of receivables and sales.
- To compare actual date of receipt from customers with the payment due date.

1.4 Scope Of The Study

This study will help the management to develop accounts receivable management program that will enable them to come up with policies in regard to granting credit and processing of credit sales. It will also help them to identify customers with ability to pay on time and thus can be granted credit, to have a detailed idea of quality of debtors and to evaluate and establish credit periods, discount percentages and surcharge of late payments.

1.5 Literature Review

A title on Accounts receivables has been published in the Journal of Accounting Education, Volume 47, Pages 75-92, June 2019, has been published by the authors Mark Edmonds, Tad Miller, Arline Savage; This simulation allows you to confirm accounts receivables electronically. It contains 1000 customer accounts from which you select a random sample. Confirmations are created and then sent to customers. Some confirmations are returned with discrepancies. For confirmations not returned, the simulation creates invoices, bills of lading, and purchase orders necessary for you to perform alternative procedures. Although the simulation requires little class time, you perform several audit procedures that help you gain an understanding of (1) the confirmation process; (2) alternative procedures for receivables; (3) the evaluation of audit evidence; (4) the preparation of work papers; and (5) statistical sampling as a tool to manage risk. The project requires approximately one hour to complete.

This abstract is on the title Customer risk and corporate financial policy: Evidence from receivables securitization has been published in the Journal of Corporate Finance, Volume 50, Pages 453-467, June 2018 published by the authors Laura Xiaolei Liu, Mike Qinghao Mao, Greg Nini; The risk of customers affects corporate financial policy by limiting the ability of firms to securitize customer receivables. We find that firms with riskier receivables, based on the credit risk and diversification of the firms' principal customers, have lower financing capacity and lower leverage in their asset-backed securitizations. Because securitizations are designed to create a very safe claim by separating the risk of the securitized assets from the risk of the originating firms,

increases in the risk of the receivables directly inhibit originating firms' ability to securitize assets and indirectly inhibit the originating firms' access to external finance. The study highlights a novel link between the financing of supplier firms and the financial health of their customers and shows how an increase in risk can limit access to external capital.

1.6 Research Methodology

Research methodology is the specific procedure or techniques used to identify, select, process, and analyze information about a topic. In a research paper, the methodology selection allows the reader to critically evaluate a study overall validity and reliability. This project research has been carried out by an analytical research. In Analytical Research, the researcher has to use facts or information already available, and analyze them to make a critical evaluation of the material. Analytical research is specifying and interpreting relationship, by analyzing the facts or information already available. In this research, the data collection is made only on secondary data. Secondary data involves the data collected through 3 years annual reports of the Fresh Minds Hospitality Private Limited. The data collection was aimed at study of Account Receivable Management of the Fresh Minds Hospitality Private Limited. Financial tools to be used in this analysis are Ratio Analysis and Trend Analysis.

1.7 Limitation Of The Study

- The time obtained for the study was too short.
- In this study there is limited number of literature, only a few authors were taken into consideration in the literature review.

2. DATA ANALYSIS AND INTERPRETATION
2.1 Ratio Analysis - Receivables To Current Asset Turnover Ratio:

= (Closing receivables/total assets) *100

Table -1: Table showing receivables to current asset turnover ratio for the financial year 2016-2019

Financial year	Closing receivables	Total assets	Ratio
2016-17	-	5,94,586	0
2017-18	3090	1,95,70,754	1.579%
2018-19	6,15,592	1,66,21,364	0.0158%

Chart -1: chart showing receivables to current asset turnover ratio
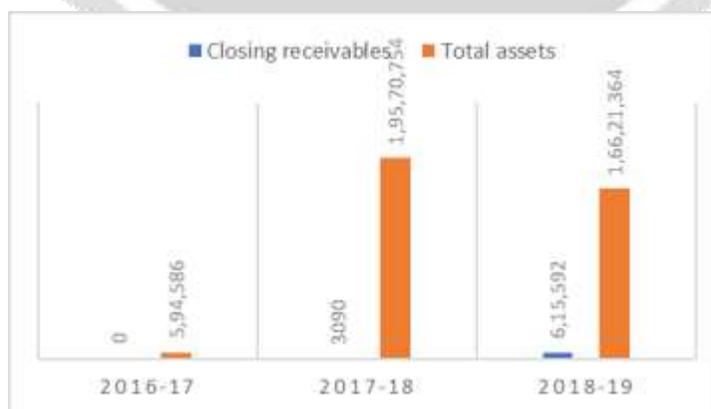
Interpretation

From the three years calculation of receivables to current asset turnover ratio in the year 2018 (ie): 1.579% is more when compared to the financial years 2017 and 2019.

2.2 Receivables To Total Asset Turnover Ratio

= (Closing receivables/sales)*100

Table-2 : Table showing receivables to total asset turnover ratio

Financial Year	Closing receivables	Sales	Ratio
2016-17	-	11,885	0
2017-18	3090	13,50,275	0.2288%
2018-19	6,15,592	60,23,734	10.2194%

**Chart -2 : chart showing receivables to total asset turnover ratio**

Interpretation:

From the three years calculation of receivables to total asset turnover ratio in the year 2019 (ie):10.2194% is more when compared to the financial years 2018 and 2019.

2.3 Trend Analysis- Current Asset

**Table-3: Table showing Trend Analysis for Current Asset**

Year	Current asset	Trend (increase /decrease)
2016-17	5,94,586	100%
2017-18	1,95,70,754	3291%
2018-19	1,66,21,364	2795%

Chart -3: Trend analysis to current asset
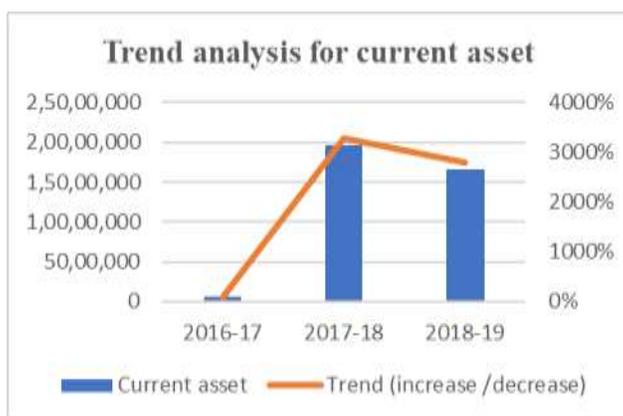
Interpretation:

From the above calculation of trend analysis for the tree financial years it is observed that in the financial year of 2018 the trend is analyzed to be more (ie): 3291% when compared to the other financial years 2017 and 2019.

2.4 Trend Analysis- Current Liabilities

Table-4: Table showing Trend Analysis for Current Liabilities

Year	Current liabilities	Trend (increase /decrease)
2016-17	28,89,814	100%
2017-18	23,76,334	82%
2018-19	25,02,383	87%

Chart -4: Trend analysis to current liabilities
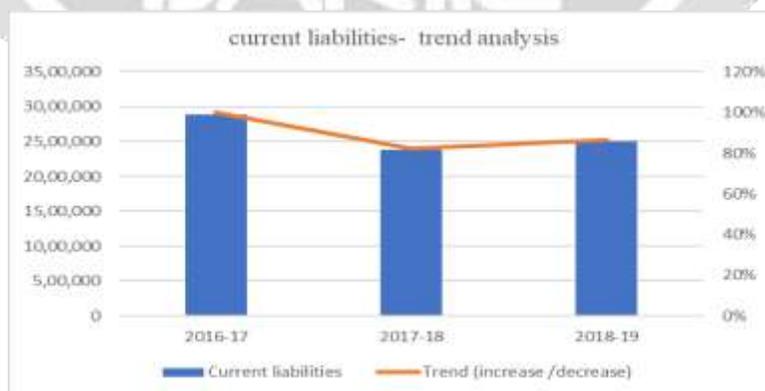
Interpretation:

From the above calculation of trend analysis of current liabilities for the tree financial years it is observed that in the financial year of 2017 the trend is analyzed to be more (ie): 100% when compared to the other financial years 2018 and 2019.

3. FINDINGS AND SUGGESTION
3.1 Findings
Ratio analysis:
- In receivables to current asset turnover ratio is decreased from its initial year. Thus the receivables to current asset turnover ratio for the financial year 2016-17 is 0 %, in 2017-18 is 1.579% and in 2018-19 is 0.0158%.it shows that the company's is ineffective in using its current asset based on measuring its receivables over a period of collection of average account receivables.
- In receivables to total asset turnover ratio of the company in the financial years 2016-17 is 0% , in 2017-18 is 0.22% and in 2018-19 is 10.2194%. It shows that from its initial stage to its current period it is increased and it finds that the company is effectively managing its total asset based on the credit extends to customer was collected quickly to raise its receivables to total asset turnover of the company.

Trend analysis
- The trend for the current asset is analyzed for the financial year 2016-17 it has 100%, in 2017-18 it has 3291% and in 2018-19 it has 2795%. It finds that the company was ineffective in maintaining the operation of current asset of the company.
- The trend for the current liabilities is analyzed for the financial year 2016-17 it has 100%, in 2017-18 it has 82% and in 2018-19 it has 87%. It finds that the company's liability was increased in its current year and it shows that it affects the financial position of the company.

3.2 Suggestions
From the study made on the receivables position of the company it is observed that they are in very have to:-
- Strengthen their management of receivables.
- Stare explicit and articulate credit policies
- An efficient collection program.
- Better coordination between selling and finance department.
- Higher he value of receivables turnover ratio may not be favorable, if achieved by extremely strict credit terms since such policies may repel potential buyers.

4. CONCLUSIONS
This project focuses on the receivables management which plays a crucial role in the working capital of the company. The analysis pf the project reveals that there is high volatility in extending in extending the credit period to the customer. The analysis is further reveals that there is great scope in increasing the sales volume in managing better collections made by the customers to the third parties.

The suggestions offered clearly indicated the efforts to be undertaken in better receivables management and increasing the turnover. If these suggestions are taken note of by the company, then define rely the company can very well manage the working capital position with better collection through increased sales.

5. REFERENCES

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