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Accounts Receivable Management: Information and Accounting Support and Main Aspects

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Abstract

The article explores the subject of information and accounting solutions for accounts receivable management that include appropriate accounting solutions and analytical techniques. The study focuses on the statutory framework for accounting for accounts receivable under the Russian Accounting Standards (RAP), International Financial Reporting Standards (IFRS), and the generally accepted accounting principles (GAAP). The analytical techniques are described in the context of the authors' view on the essence of accounts receivable management that implies analysis, the establishment of a credit policy and of a discount policy. The article places emphasis on the use of available information technology for accounts payable management, such as blockchain-based smart contracts.

Key words: information and accounting support, accounts receivable, management, business

JEL codes: G30, G34, M41

Introduction

To remain operational and competitive in today's Russian economy, companies (business entities) have to offer sale on credit, which results in accounts receivable.

The information and accounting support for accounts receivable management includes appropriate accounting support and analytical support.

Materials and Methods

We shall start with accounting solutions for accounts receivable management.

In the Russian Federation, the key laws containing standards and regulations on recording accounts receivable are Federal Law No 402-FZ dated 6 Dec 2011 "On Accounting", Regulations for Accounting and Reporting in the Russian Federation,

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Accounting Regulations "Accounting reports of an organization" (RAP 4/99), and Accounting Regulations "Corporate revenue" (AR 9/99).

The transition of the Russian economy to a market economy made it possible to borrow from the experience of developed countries, namely, to adopt the International Financial Reporting Standards (IFRS), in which accounts receivable are defined as a financial instrument.

One has to note that the IFRS do not contain a special standard on how to account for receivables as their definition, classification and rules of reporting on the balance sheet are included in IFRS 9 Financial Instruments.

Accounts receivable are presented in a company's statement of financial position under IAS 32 Financial Instruments: Presentation.

Accounts receivable and loans are valued in accordance with IFRS 15 Revenue from Contracts with Customers and IFRS 9. Like any other financial asset or liability, loans and receivables are initially measured at fair value.

In the US, generally accepted accounting principles (GAAP) also cover the issues of receivables' valuation, recognition, disclosure and presentation on the balance sheet and reporting using a number of standards, e.g., SFAS 114 "Accounting by Creditors for Impairment of a Loan - an amendment of FASB Statements No. 5 and 15", SFAS 118 "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures—an amendment of FASB Statement No. 114", SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities", SOP 01-6 SOP 01-6 "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others", SOP 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer". The main requirement for recognizing a financial asset as a loan or a receivable is that they should not be quoted in an active market.

Analytical support solutions are explained in the context of the authors' view on the essence of accounts receivable management.

Accounts receivable management is a rather important element of the entire current asset management system in a company as it directly impacts the company's profit and determines the discount and credit policy to be applied to poorly performing customers, ways to speed up debt recovery and reduce bad debts. It also determines sales options that ensure regular cash flow.

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The process of accounts receivable management has long since been the subject of research carried out by Russian as well as foreign scholars (e.g. (Van Horne, 2008), (Kovalev, 2014) but remains of certain interest due to its significance. Moreover, no universal approach to accounts receivable management in a company has been designed yet.

Results and Discussion

The author is convinced that accounts receivable management involves the analysis of accounts receivable, the establishment of a credit policy and of a discount policy (Ilysheva, Krylov, & Sinyanskaya, 2018).

The analysis of accounts receivable is performed in two ways: analysis of the existing receivables and evaluation of the buyer (Ilysheva and Krylov, 2015), (Krylov, 2016).

The analysis of the existing accounts receivable starts with the calculation and estimation of the share of accounts receivable in the current assets, which shows the percentage of accounts receivable in the company's current assets. The growth of the share is usually considered a negative phenomenon because it indicates that an increasingly large share of current assets is temporarily taken out of trade and is not used in the organization's current operations. If, however, the share is extremely low, this might signify a fairly rigid credit policy that results in lower sales.

Next, the presence, volume, composition, and structure of accounts receivable are studied by type of receivables. Proceeding from the calculations, conclusions are drawn as to how changes in the amount of each type of accounts receivable influences fluctuations in the total of accounts receivable. An assessment is made of the changes in the composition and structure of accounts receivable that have occurred in the reporting year.

Next, the movement of receivables is analyzed. The analysis is performed of all receivables and by each type of accounts receivable. In the course of analysis, the rates of the appearance, disposal and growth that characterize the movement of receivables are calculated and estimated. The analysis of the metrics is done over time. Building upon the analysis results, a conclusion is made as to the intensity of the movement (appearance and disposal) of accounts receivable.

The next step is analysis of overdue accounts receivable (that were recorded under the contract terms and at balance sheet value) by type of receivables. Proceeding from the

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calculations, conclusions are drawn as to the absolute and relative changes in the total amount of overdue receivables and their share in the total amount of accounts receivable over the analyzed period.

Next, a balance sheet of receivables and payables is constructed and analyzed because it is a common assumption that accounts receivable are financed by accounts payable. The balance sheet exhibits all types of receivables and payables; the totals of receivables and of payables are determined and compared and a surplus or a deficit is identified.

A deficit is when accounts payable exceed accounts receivable. A surplus is when accounts receivable exceed accounts payable.

Having identified whether the balance sheet has a surplus or a deficit, both sides of the balance sheet are balanced by adding the surplus (deficit) and the total payables (receivables). The obtained amount is entered in line Balance. On the opposite side where there is no balance, the figure from line Total is moved into line Balance.

It has to be noted that the healthiest situation is when receivables equal payables because accounts receivable are financed by accounts payable.

In the course of analysis of accounts receivable and accounts payable, the causes of the surplus or deficit are identified and their impact on fluctuations of each group of receivables and payables are determined.

The following is an analysis of the average term of receivables that is calculated using the formula

$$Tr = Rav * D / S, \quad (2)$$

Where Tr is the average collection period (average accounts receivable turnover) of accounts receivable (days),

S is sales over the period,

Rav are the average outstanding receivables over the period,

D is the number of days within the period.

The analysis is typically performed over a period of time and the results are compared with those of other similar businesses and industry-wide average values.

Finally, annual average investment in receivables is calculated using the formula

$$Ir = (TP + DPD) * CS / 360, \quad (3)$$

Where TP is the term of payment (days),

DPD is days past due (days),

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CS – the value of annual average credit sales.

Annual investment in accounts receivable is an estimated figure that makes it possible to estimate the amount of funds that could be invested in accounts receivable next year.

Buyer evaluation is a type of credit analysis calculating a buyer's potential to repay trade credit by a certain date on certain conditions. When evaluating your buyer, consideration should be given to their financial position, solvency, and business activity. The analysis enables a decision as to the expediency and terms of extending the buyer credit and whether collateral should be requested, a trade insurance policy should be taken out or factoring should be used later on.

Factoring enables a company to address a number of issues, the main ones being the closure of cash flow gaps, liquidity of accounts receivable, timely payment of liabilities and taxes, improvement of business relationships with customers.

Creating a credit policy (a payment deferment policy). Central to the creation of a company's credit policy is the determination of the term of credit (i.e. deferment period) that is granted to the buyer because it has a significant influence on sales and cash flow.

- A liberal credit policy with a longer term of credit usually leads to higher sales, but losses due to bad debts grow, too. By contrast, a rigid credit policy with a shorter term of credit usually results in lower sales, but losses due to bad debts are reduced, too.

There is a number of factors that causes changes to the credit policy of a company. The key ones are summarized in Tab. 1.

Table 1. Factors of change in a company's credit policy (the presence of the factor is marked with a «+»)

Factor	Change in credit policy	
	Liberalization	Toughening
Economic downturn	+	
Economic growth		+
Shortage of the product in the market		+
Excess supply of the product in the market	+	
Perishable product	+	
Pioneering product		+

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Obsolete product		+	
Seasonality	start of season		+
	end of season	+	

Source: compiled by the author

Before liberalizing the credit policy, one needs to weight up the possible revenue growth and the expected trade-offs of growing accounts receivable: higher losses due to bad debts and indirect losses arising from a decline in the turnover of current assets. Liberalization of a company's credit policy is reasonable if the potential revenue growth outweighs an aggravation of the trade-offs. And vice versa, when a more rigid credit policy is being considered, the prospects of lower sales revenue need to be weighed up against the lower costs of a decrease in accounts receivable that is due to reduced losses from bad debts and indirect profit from faster turnover of current assets. It is practical to have a more rigid credit policy if the possible drop in sales revenue is less than the cost of the likely trade-offs.

Creating a discount policy. In order to decide whether to offer a discount to the buyer (e.g. for advance payments) one should weigh the additional revenue arising from faster turnover of current assets up against the value of the discount. If the revenue exceeds the value of the discount, offering the discount is a reasonable thing to do.

Discounts are considered to be justified in the following situations:

1) When a relatively small price reduction results in a significant sales growth and, consequently, revenue growth;
2) When the company is cash-strapped;
3) When a system of early payment discounts is more effective than a system of penalties for late payment.

Today, information technologies for accounts receivable management are becoming increasingly popular. An array of factors has to be taken into account when dealing with a debtor: contractual obligations, the age of receivables; the amount of receivables; measures already taken; the handling of billing complaints; peculiarities of payment processing at the company; additional agreements on payment deferment; debt payment; the individual characteristics of each debtor etc. This makes it essential for businesses to have software products for accounts receivable management.

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The deployment of a computer-aided CRM system makes it possible to streamline the workflow of the accounts receivable department. Receivables can be reduced by up to 60% thanks to timely payment reminders and by collecting unacceptably overdue debts (Yeskova, 2017).

The emergence of blockchain technology has optimized business transactions, enabling the appearance of a SMART contract. In the future, the SMART contract will be able to encompass the majority of swiftly developing methods of accounts receivable management in an enterprise, including the letter of credit.

A SMART contract is a computer protocol that is designed to transfer information and ensure contract execution by both parties.

The main advantages of a SMART contract is that it could help a company to expand its client base by engaging customers who were previously excluded from major deals; reduces paperwork; ensures the legality and security of transactions; all transactions are settled online, without actual physical involvement; it ensures the unambiguousness of contracts; it rules out the appearance of accounts receivable. There is however a number of drawbacks to the SMART contract technology. For example, there is no legal framework for it yet; it lacks flexibility and technically complex to execute; it provides no protection for the users' personal data.

Nevertheless, the application of information technologies would improve the efficiency of accounts receivable management and create safe business conditions for the company.

Conclusion

In the article, the author has explored the currently available information and accounting solutions for accounts receivable management in a company that include conventional accounting and analytical techniques as well as emerging information technology.

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