

A STRUCTURAL ANALYSIS OF CREDIT CONTROL ARCHITECTURE & USING OUTSTANDING RECEIVABLE TO PREDICT CASH FLOW

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ABSTRACT:

Managing how much money customers owe and being able to predict when that money will actually arrive is something many businesses struggle with more than they let on. This study takes a closer look at how the way a company structures its credit control system shapes both its outstanding receivables and its ability to forecast cash flow with confidence. In a business landscape that moves fast and leaves little room for financial missteps, having a reliable approach to credit management is no longer optional — it is a fundamental requirement for staying liquid, operationally sound, and financially stable. Companies across industries routinely deal with customers who pay late, balances that keep climbing, and cash inflows that are harder to predict than they should be. This research looks closely at the building blocks of an effective credit control system — how credit policies are shaped, how customers are evaluated before credit is extended, how outstanding balances are tracked, how credit limits are set and enforced, and how collections are handled when payments fall due. The study uses real receivables data, aging analysis, collection patterns, and financial indicators to measure how well these elements are actually working in practice.

Keywords - Accounts Receivable, Credit Control, Working Capital Management, Cash Flow Prediction, Credit Risk, Financial Performance

INTRODUCTON:

In today's competitive business environment, effective financial management is essential for

organizational success. Accounts receivable — money owed by customers for goods or services provided on credit — represents one of the most critical areas requiring careful oversight. While offering credit boosts sales and strengthens customer relationships, it also carries risks such as delayed payments, bad debts, and liquidity challenges that can disrupt operations and reduce profitability. To mitigate these risks, companies implement structured credit control systems comprising clear credit policies, customer evaluation, defined credit limits, and systematic collection procedures. These practices improve cash flow efficiency and support accurate financial forecasting. This study examines how credit control systems influence outstanding receivables and cash flow prediction, exploring how well-structured credit management can enhance collection efficiency, reduce financial risk, and strengthen overall financial performance.

REVIEW OF LITERATURE

David A. Miller (2017) highlighted that the way a company structures its credit control system directly influences its liquidity position. Firms with clear credit terms, proper customer evaluation procedures, and continuous monitoring of outstanding accounts were able to manage their finances more effectively. In contrast, organizations relying on informal and loosely defined systems often faced recurring issues such as inconsistent decision-making, increased financial risk, and unstable cash flows. Similarly, Rajiv K. Mehta (2017) focused on small and medium enterprises (SMEs) and emphasized that faster collection of receivables provides a strong competitive advantage. SMEs that improved their receivables turnover reduced dependence on external borrowings, minimized interest costs, and maintained better financial control, which is crucial for businesses with limited access to capital markets.

Michael J. Evans (2017) examined accounts receivable within the broader context of the cash conversion cycle and found that quicker collection enables companies to reinvest cash efficiently, while delays lock up working capital and gradually weaken liquidity. This underscores that receivables management is not merely administrative but a strategic financial tool. John R. Smith (2018) further reinforced the importance of well-defined credit policies, noting that organizations with clearly written and consistently enforced policies experienced fewer overdue accounts and achieved more predictable cash flows. On the other hand,

ambiguous policies led to inconsistent decisions and unexpected financial disruptions. Supporting this, Robert L. Williams (2018) demonstrated that structured credit risk assessment methods, such as credit scoring and risk profiling, help organizations identify high-risk customers early and significantly reduce bad debts compared to firms with less rigorous evaluation processes.

Nilesh P. Patel (2019) brought attention to the adverse effects of overdue receivables, particularly those extending beyond 60 days. He strongly advocated the use of aging analysis as an effective tool to identify and manage problematic accounts before they become uncollectible. In a related perspective, James L. Carter (2019) developed a Rather than viewing receivables as historical data, his research demonstrated their value in forecasting and financial planning. Sarah L. Anderson (2020) emphasized the effectiveness of consistent collection procedures, highlighting that regular follow-ups, timely reminders, and systematic efforts significantly improve recovery rates compared to irregular or reactive approaches, thereby strengthening overall cash flow health.

Amit K. Sharma (2021) connected receivables management with forecasting accuracy, concluding that a higher proportion of long-overdue accounts reduces the reliability of cash flow predictions. Automation reduced overdue balances, lowered manual workload, minimized administrative costs, and enhanced overall effectiveness, demonstrating that the thoughtful use of technology can streamline credit control processes while improving financial outcomes.

METHODOLOGY

The study examined how credit control systems affect outstanding receivables and cash flow prediction. It used a descriptive research method to analyse financial data. The study was based on secondary data collected from company records for the period January 2025 to December 2025, including receivables, aging reports, and collection data. Tools such as aging analysis, collection efficiency, and Days Sales Outstanding (DSO) were used to evaluate performance.

Trend analysis was applied to compare outstanding and collections over time. The study also used correlation analysis to identify the relationship between collections and outstanding balances.

DATA ANALYSIS AND INTERPRETATION

Table 4.1: Aging Analysis of Receivables

Row Labels	0-90 Days	91-120 Days	121-180 Days	181-365 Days	365-730 Days (1-2 Years)	>2 Years	Open Credit	OS Total
Jan 25	20%	11%	20%	29%	20%	2%	-2%	100%
Feb 25	39%	12%	13%	22%	15%	1%	-2%	100%
Mar 25	42%	9%	13%	23%	14%	2%	-3%	100%
Apr 25	44%	9%	14%	21%	13%	2%	-3%	100%
May 25	39%	10%	13%	23%	13%	4%	-2%	100%
Jun 25	39%	11%	13%	23%	13%	2%	-2%	100%
Jul 25	39%	9%	15%	23%	13%	3%	-2%	100%
Aug 25	40%	8%	15%	24%	12%	3%	-2%	100%
Sep 25	43%	8%	13%	23%	13%	3%	-3%	100%
Oct 25	43%	10%	11%	23%	14%	3%	-4%	100%
Nov 25	47%	7%	13%	21%	13%	3%	-3%	100%
Dec 25	46%	9%	12%	20%	13%	3%	-3%	100%
Grand Total	482%	111%	166%	276%	166%	30%	-30%	1200%

Interpretation

The data tells a mixed story. On the positive side, a slightly larger share of receivables is now being collected within the first 90 days, suggesting that short-term credit monitoring is showing some early signs of effectiveness. However, the bigger picture is harder to feel good about — a substantial portion of receivables continues to sit in overdue brackets, particularly beyond 180 days. At that stage, accounts are no longer just late; they are high-risk. The longer they remain uncollected, the more expensive and difficult recovery

becomes, and some may ultimately need to be written off as bad debts, hitting profitability directly. While short-term collection shows modest progress, the persistence of long-overdue balances signals a clear gap in the company's follow-up and recovery mechanisms that urgently needs to be addressed.

Table 4.2: Collection Efficiency Analysis

Row Labels	Sum of Col Efficiency
Jan 25	28.45149075
Feb 25	20.19764323
Mar 25	38.26446419
Apr 25	25.22987672
May 25	18.80393546
Jun 25	17.54056286
Jul 25	22.858826
Aug 25	17.65882486
Sep 25	18.33648041
Oct 25	16.65689725
Nov 25	18.73230702
Dec 25	20.03197132
Grand Total	262.7632801

Interpretation

Collections across the financial year tell an uneven story. Noticeable spikes appear toward the fiscal year-end, strongly suggesting that collection efforts are driven more by reporting deadlines than by consistent financial discipline. Once those peak periods pass, performance drops off — revealing that no sustained collection strategy exists to maintain momentum. This stop-start pattern is a real problem. When cash does not arrive predictably, liquidity suffers, operational activities get squeezed, and the funds expected for reinvestment or

meeting short-term obligations simply are not there when needed. The pattern points clearly to irregular monitoring and a credit management system that reacts to pressure rather than preventing it.

Table 4.3: Days Sales Outstanding (DSO) Analysis

Row Labels	Sum of DSO
Jan 25	154.39
Feb 25	159.34
Mar 25	160.24
Apr 25	155.37
May 25	159.48
Jun 25	156.77
Jul 25	154.87
Aug 25	159.73
Sep 25	160.61
Oct 25	166.56
Nov 25	173.86
Dec 25	174.81
Grand Total	1,936.04

Interpretation

The DSO trend delivers a clear warning — customers are taking progressively longer to pay, and that trajectory is heading in the wrong direction. Whether it stems from weak follow-up, overly lenient credit terms, or insufficient monitoring of overdue accounts, the result is the same — cash is arriving later than it should. A rising DSO quietly squeezes the business from multiple directions at once, making it harder to cover operational expenses, pursue growth opportunities, and honour supplier commitments on time. It also raises a deeper concern — that credit is being extended too freely, without adequate risk assessment,

steadily increasing the company's exposure to bad debts.

Table 4.4: Trend Analysis of Outstanding vs Collections

Row Labels	Sum of Outstanding In Cr	Sum of Collection in Cr
Jan 25	224.56	63.89
Feb 25	300.81	60.76
Mar 25	275.40	105.38
Apr 25	273.68	69.05
May 25	281.96	53.02
Jun 25	277.54	48.68
Jul 25	280.51	64.12
Aug 25	289.73	51.16
Sep 25	295.62	54.21
Oct 25	305.15	50.83
Nov 25	325.92	61.05
Dec 25	330.43	66.19
Grand Total	3,461.30	748.34

Interpretation

The numbers reveal a growing imbalance that deserves serious attention. While credit sales have expanded over the study period, collections have simply not kept up — and the gap between what is owed and what is actually being recovered keeps widening. Occasional collection spikes appear at certain points, but they are too inconsistent and short-lived to make a meaningful dent in the overall trend. What this pattern exposes is a fundamental tension in the company's approach — credit is being extended to drive revenue growth, but the mechanisms needed to ensure that revenue actually converts into cash are not keeping pace. Growth built on uncollected receivables is not really growth

at all.

CORRELATION ANALYSIS

Table 4.5: Correlation Analysis between Collection and Outstanding

Month	Collection	Outstanding
Jan 25	63,89,00,745	2,24,55,79,154
Feb 25	60,75,70,839	3,00,81,27,395
Mar 25	1,05,37,98,684	2,75,39,87,823
Apr 25	69,04,96,668	2,73,68,21,410
May 25	53,01,87,060	2,81,95,53,712
Jun 25	48,68,26,222	2,77,54,31,015
Jul 25	64,12,05,781	2,80,50,68,732
Aug 25	51,16,28,083	2,89,72,94,055
Sep 25	54,20,57,315	2,95,61,68,813
Oct 25	50,82,88,213	3,05,15,17,970
Nov 25	61,05,23,129	3,25,91,98,816
Dec 25	66,19,15,738	3,30,42,96,557

Correlation Coefficient: $R = -0.169$

Interpretation

A correlation value of $R = -0.160403$ says something worth paying close attention to collections are not meaningfully responding to changes in outstanding balances. As receivables grow, collections do not follow suit, and that disconnect is a direct reflection of inefficiencies sitting within the receivables management process. The gap between how much credit is being extended and how much is actually being recovered in cash is wider than it should be. In practical terms, this creates a liquidity squeeze the business is carrying growing balances on paper while actual cash inflows remain inconsistent. Over time, this forces greater reliance on external financing to keep operations running, which adds cost

and quietly chips away at profitability.

CONCLUSION:

This study makes one thing clear — effective credit control is the backbone of financial stability. While the company has a structured system in place, the findings reveal significant gaps in implementation and monitoring. Rising outstanding balances, increasing DSO, high overdue receivables, and inconsistent collections are connected symptoms of a system that is not being run with the discipline it demands. Strengthening credit policies, improving monitoring mechanisms, and adopting proactive collection strategies are not optional improvements — they are necessary steps. An efficiently managed credit control system will reduce financial risk, improve cash flow, and build a stronger foundation for long-term growth and sustainability.

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