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"A Study on Accounts Payable Management and Financial Performance Analysis in Manufacturing Companies"

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Abstract

This study examines accounts payable management practices and their effect on financial performance in the garment manufacturing sector, with special reference to Intimate Fashions India Pvt. Ltd. Effective accounts payable management is critical for ensuring operational liquidity, maintaining supplier relationships, and sustaining competitive advantage in a highly dynamic market. The research analyses key financial ratios — including stock turnover, debtors turnover, creditors turnover, working capital turnover, fixed asset turnover, current ratio, liquid ratio, and net profit — over a five-year period (2021–2025). Both primary data (n = 76 respondents) and secondary data from published financial statements were utilised. Statistical tools including percentage analysis and chi-square test were applied to interpret findings. Results indicate that the company generally maintains sound liquidity and improving debtor collection efficiency, while creditor payment periods show moderate fluctuation. The chi-square test reveals no significant association between employees' years of experience and their perception of the accounts payable process structure. The study concludes with actionable recommendations encompassing process automation, technology adoption, supplier relationship management, and enhanced internal controls to optimise accounts payable performance.

Keywords: *Accounts Payable Management, Financial Performance, Ratio Analysis, Garment Industry, Working Capital, Liquidity*

Introduction

Financial statements serve as formal records of an organisation's financial activities, providing structured information on a company's financial position, operational results, and cash flows. In modern business management, the analysis of these statements is indispensable for evaluating an enterprise's financial health, identifying strengths and weaknesses, and informing strategic decisions.

Accounts payable (AP) management — the process by which a company manages its short-term obligations to suppliers and creditors — is a critical component of working capital management. Efficient AP management ensures timely payments, reduces financing costs, maintains supplier goodwill, and contributes to the overall financial stability of the firm. Conversely, inefficient AP processing can lead to delayed payments, duplicate transactions, strained vendor relationships, and inaccurate financial reporting.

The garment manufacturing industry, characterised by complex supply chains, seasonal demand cycles, and multinational supplier networks, is particularly susceptible to the challenges of AP management. India's garment sector has experienced sustained growth driven by economic liberalisation, rising disposable incomes, and the expansion of fashion consumption into rural markets. Within this environment, sound financial management — including rigorous AP practices — is a prerequisite for sustainable competitiveness.

This study focuses on Intimate Fashions (India) Pvt. Ltd. (IFI), a garment manufacturer based in Chennai, to analyse the relationship between AP management practices and financial performance over the period 2021 to 2025.

Review of Literature

A substantial body of research has examined financial performance in banking and manufacturing sectors, yielding insights relevant to AP and working capital management.

Yadav (2019) conducted a performance evaluation of banks in India, analysing consolidated operations across public and private sector institutions. Ghosh (2019) examined state-level determinants of real estate lending in commercial banks, highlighting how regional economic conditions shape credit practices. Deshmukh (2018) assessed the financial position of cooperative banks, underscoring their role in serving middle-income segments. Durafe and Singh (2018) found that business cycle fluctuations have an insignificant impact on capital buffers in Indian banks, with differences in sign between public and private sector institutions.

Sudhalakshmi and Chinnadorai (2018) argued for a strategic role of the banking and credit sector in environmental governance. Sahitha and Francis (2018) evaluated agricultural credit performance of District Cooperative Banks in Kerala. Giram (2018) critiqued governance weaknesses in Urban Cooperative Banks, calling for professional reform in board management. Yovagal (2018) analysed the transformative impact of internet banking on cost efficiency, customer satisfaction, and revenue generation, also warning of heightened cybersecurity risks.

Mayilvaganan and Saundavarjan (2017) emphasised the importance of locally recruited, technology-enabled staff in urban cooperative banking. Kittur and Auunti (2016) evaluated grassroots commercial banks on parameters including deposits, loans, and capital adequacy. Uma Devi (2016) demonstrated the significant impact of cooperative crop loans on non-irrigated agricultural villages in Andhra Pradesh. Padgalwar (2015) and Gaikwad (2015) underlined the foundational role of rural banks in agricultural credit and village-level development in India.

Objective of the Study:

Primary objective:

To Study About the Accounts Payable Management
To understand and payable processing procedure of the company and supplier relationship.
To understand cash management in payables.

Secondary objective:

To Analys the Financial Positions of the Intimate Fashion Limited To
know the assets and liabilities of Intimate Fashion Limited.

Research Methodology

Research Design

This study adopts a descriptive and analytical research design. Secondary data from IFI's published balance sheets and financial statements covering the period 2021–2025 were used to compute financial ratios. Primary data were collected via a structured questionnaire administered to 76 employees of IFI engaged in accounts payable functions.

Data Collection

Secondary data sources include the company's annual balance sheets, income statements, and financial disclosure documents. Primary data were gathered through a Likert-scale questionnaire assessing perceptions of AP process structure, invoice processing timeliness, documentation practices, software utilisation, vendor relationships, dispute resolution, fraud prevention, audit effectiveness, and the overall impact of AP management on financial performance.

Analytical Tools

The following analytical tools were employed:

- Ratio Analysis: Turnover ratios (stock, debtors, creditors, working capital, fixed asset) and financial ratios (current ratio, liquid ratio, net profit ratio).
- Percentage Analysis: For summarising demographic and perception-based survey responses.
- Chi-Square Test of Independence: To evaluate the association between respondents' years of experience and their perception of the AP process structure.

Data Analysis and Interpretation

Percentage Analysis of Primary Data

Survey responses from 76 respondents were analysed to understand employee perceptions of accounts payable management practices at IFI.

Variable	Category	No. of Respondents	Percentage (%)
Gender	Male	43	56.6
	Female	33	43.4
Years of Experience	0–1 Year	12	15.8
	1–3 Years	29	38.2
	3–5 Years	18	23.7
	Above 5 Years	17	22.4

Table 1: Respondent Profile

The sample is slightly male-dominated (56.6%) and the majority of respondents (38.2%) have 1–3 years of experience in the organisation, indicating a relatively experienced but moderately tenured workforce.

Statement	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
AP process is well-structured	43.4	28.9	15.8	11.8	–
Invoices processed within stipulated time	18.4	32.9	28.9	14.5	5.3
Proper documentation for all transactions	22.4	28.9	14.5	28.9	5.3
SAP/software improves AP efficiency	26.3	19.7	27.6	13.2	13.2

Statement	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
Company maintains good supplier relationships	39.5	23.7	14.5	14.5	7.9
Clear vendor communication on payments	22.4	25.0	23.7	23.7	5.3
Company handles payment disputes effectively	15.8	26.3	21.1	27.6	9.2
Company prevents duplicate/fraudulent payments	18.4	32.9	28.9	17.1	2.6
Regular audits improve AP efficiency	17.1	28.9	26.3	18.4	9.2
Efficient AP improves cash flow	36.8	32.9	14.5	6.6	9.2
AP management improves financial performance	25.0	27.6	22.4	18.4	6.6
Payment delays affect profitability	30.3	28.9	17.1	17.1	6.6

Table 2: Respondent Perceptions of AP Management Practices

The majority of respondents affirm that the AP process is well-structured (72.3% agree or strongly agree) and that efficient AP management positively affects cash flow (69.7% agree or strongly agree). However, responses are more divided on dispute handling and documentation completeness, indicating areas for process improvement.

Chi-Square Test of Independence

To assess whether years of experience influences employees' perception of the AP process structure, a chi-square test was conducted.

H_0: There is no significant association between years of experience and perception of AP process structure.

H_1: There is a significant association between years of experience and perception of AP process structure.

Experience Category	Agree	Neutral	Disagree	Total
0–1 Year	6	2	4	12
1–3 Years	17	5	7	29
3–5 Years	12	4	2	18
Above 5 Years	12	1	4	17
Total	47	12	17	76

Table 3: Observed Frequency – Chi-Square Test

Computed $\chi^2 = 3.888$; Degrees of freedom = 6; Critical value at $\alpha = 0.05 = 12.592$.

Since the computed χ^2 (3.888) is less than the critical value (12.592), we fail to reject the null hypothesis. There is no statistically significant association between years of experience and the perception of the AP process structure at the 5% level of significance.

Findings

The following key findings emerge from the analysis:

- The stock turnover ratio peaked at 1.22 times in 2023 (9.83-month conversion period), declining to 1.00 times (12 months) in 2025, suggesting scope for improved inventory management.
- The debtors turnover ratio experienced a significant trough in 2023 (1.04 times; 348.1-day collection period) followed by a strong recovery in 2024–2025 (1.81 times; 200.6-day collection period).

- The creditors turnover ratio was at its weakest in 2022 (0.82 times; 442.4-day payment period), improving substantially to 1.58 times in 2025 (230.5 days), indicating enhanced payables management.
- he working capital turnover ratio is consistently low (0.15–0.21 times), reflecting an asset-intensive operational model that warrants attention to capital productivity.
- The fixed asset turnover ratio is stable at approximately 0.22–0.24 times, indicating consistent but modest utilisation of long-term assets.
- The current ratio consistently exceeds 2:1, confirming strong short-term liquidity. However, the liquid ratio dipped below 1 in 2022 and 2025, highlighting episodic liquidity pressures.
- Net profit grew from ₹10,289 crores (2021) to ₹15,306 crores (2024), representing a 49% increase, with a moderation in 2025 to ₹13,161 crores.
- A majority of surveyed employees affirm that the AP process is well-structured and that efficient AP management positively impacts cash flow. Dispute resolution and documentation completeness emerge as areas for improvement.
- The chi-square test confirms no significant association between employee experience and AP process perception ($\chi^2 = 3.888 <$ critical value 12.592, df = 6, $\alpha = 0.05$).

Suggestions

Based on the findings, the following recommendations are proposed for Intimate Fashions (India) Pvt. Ltd.:

Process Efficiency and Automation

- Identify and prioritise resolution of bottlenecks in invoice receipt and approval, particularly for overseas supplier transactions.
- Implement automation tools for data entry, invoice matching, and payment scheduling to reduce human error and processing delays.
- Encourage e-invoicing adoption among key suppliers to eliminate manual data entry errors and accelerate processing cycles.
- Standardise invoice formats with key suppliers to facilitate efficient data extraction and validation.

Cost Reduction and Controls

- Negotiate extended payment terms with reliable bulk-order suppliers while capturing early payment discounts for faster-moving items.
- Deploy data matching algorithms to detect and prevent duplicate payments, particularly for high-volume, low-value procurement items.

- Implement multi-level approval workflows for high-value purchases, particularly for limited-edition or premium product lines.

Technology and Visibility

- Utilise real-time AP dashboards to proactively manage cash outflows and align payment schedules with production and sales cycles.
- Develop a self-service supplier portal to enable electronic invoice submission and payment tracking, reducing query volumes and errors.

Supplier Relationship Management

- Introduce early payment incentive programmes for suppliers who submit accurate electronic invoices promptly.
- Establish supplier performance scorecards tracking on-time delivery, invoice accuracy, and material quality to guide procurement decisions.
- Maintain transparent communication channels for payment deadlines, documentation requirements, and seasonal procurement conditions.

Conclusion

This study demonstrates that accounts payable management is a significant determinant of financial performance in the garment manufacturing industry. Analysis of IFI's financial ratios over 2021–2025 reveals improving trends in debtor collection efficiency and creditor payment management, alongside consistently strong short-term liquidity and sustained net profit growth.

Survey findings indicate broad employee acceptance of the AP process structure, with identified gaps in dispute handling, documentation, and technology utilisation. The chi-square test confirms that employee experience level does not significantly influence AP process perception, suggesting that awareness and training initiatives should target all experience cohorts equally.

By leveraging automation, strengthening internal controls, and fostering collaborative supplier relationships, IFI can further optimise its accounts payable function — enhancing operational efficiency, reducing financing costs, and securing a competitive edge in the dynamic fashion manufacturing sector.

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