

A Study on Receivable Management of The Salem Co-operative Sugar Mills Limited

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ABSTRACT:

Accounts receivable represent sales that are made on credit - the payments for goods are made sometime after delivery or change in legal possession. The level of accounts receivable is a function of the level of sales, the credit terms, the riskiness of the individual customers given credit, and any seasonal influences. Although the total figure of accounts receivable may be constant over time, its individual component items are continually changing and these, therefore, need careful recording and monitoring. Apart from certain retailers such as supermarkets or small shops, most companies offer credit to their customers, and by doing the business providing a financial service as well as the basic goods or other services. Such credit terms are desired by customers as they may be short of ready cash at that moment in time, or they can earn a return on the cash held during the period of credit. By making the credit terms more attractive, management can increase sales turnover; granting credit also involves costs of the finance, increased administration expenses and the probabilities of bad debts occurring. The management of accounts receivable is concerned with trade-off between the profits from increased sales generated by credit policies.

Key words: trade-off, profits, retailers, high street

1. INTRODUCTION

Receivable Management is a strategy that involves the process of designing and monitoring the policies that govern how a company extends credit to its customer base. The idea behind this process is to minimize the amount of bad debt due to customers failing to honor their commitments to repay the amount of the credit purchases. Typically, the process of Receivable Management begins with evaluating potential customers in terms of credit worthiness, identifying a credit limit that carries a level of risk that the company is willing to

assume, and then monitoring how well the customer makes use of that available credit, including making regular payments within the terms and provisions associated with the credit account. One of the basics of Receivable Management is to accurately assess what type of credit line to extend to a given customer. A number of factors making this determination, including the credit rating of the client, and the presence of negative items on the customer's credit reports. It is possible to have some idea of credit the customer can reasonably be expected to manage and not present a risk for defaulting on outstanding balance. Receivable Management means the process of decisions relating to the investment in business debtors. In credit selling, it is certain to pay the cost of getting money from debtors to take some risk due to bad debts. To minimize the loss due to not receiving money from debtors is the main aim of Receivable Management

1.1 OBJECTIVES OF THE STUDY

1. The Analysis of the credit policy at Salem Cooperative Sugar Mills
2. To understand now receivables, impact the profitability of the firm.
3. To find out the trend analysis of the company.

1.2 SCOPE OF STUDY

1. The scope encompassed with the Receivable section of the company which is a part of finance and accounting department.
2. This study concentrates on the factors determining these notes receivables and the liquidity position of the firm, and a brief study is made on the techniques used by the firm.

1.3 LIMITATION OF THE STUDY

This study is based on secondary data taken from published annual reports of selected the Salem co-op. Sugar Mills Limited at Mohanur

1. The time horizon is very short, so in depth analysis could not be done.
2. The project is dependent on the relevance of the Company Annual Report.
3. The analysis is based on annual reports of the company.
4. The study has considered only 5 years for comparative analysis.
5. Time and other resources have proved to be a constraint.

1. REVIEW OF LITERATURE

Jia Li et al (2015): Sugar mill is the second largest anthropogenic emission source, contributing approximately 7% of global CO₂ emissions. Carbon dioxide capture and storage (CCS) technology is considered by the

International Energy Agency (IEA) as an essential technology capable of reducing CO₂ emissions in the sugar mill sector by 56% by 2050. The study compares CO₂ capture technologies for the sugar mill manufacturing process and analyses the economic and financial issues in deploying CO₂ capture in the sugar mill industry. Post-combustion capture with chemical absorption is regarded as a proven technology to capture CO₂ from the calcination process. Ox fuel is less mature but Ox fuel partial capture—which only recycles O₂/CO₂ gas in the proclaimer—is estimated to be more economic than post-combustion capture. Carbonate looping technologies are not yet commercial, but they have theoretical advantages in terms of energy consumption.

Ira Mahdavi et al (2016): In sugar mill plant, since all processes are chemical and irreversible, monitoring and control is a critical factor. If the process is not controlled at any stage, the final product can be damaged or lost. Thus, in such environments, considering the quality of the product at each state is essential. Also, to control the process, communication among different parts of production line is essential. The wasted time in production line has a direct effect on process correction time and sugar mill production performance. Here, a model of a new intelligent multi-agent quality control system (IMAQCS) for controlling the quality of sugar mill production processes is suggested. This model, using of rule-based artificial intelligence technique, concentrates on relationship between departments in sugar mill production line to monitor multi-attribute quality factors. With the presence of agents for controlling the quality of sugar mill processes, real-time analyzing and decision making in a fault condition will be provided.

Yaseen Ghulam (2017): This study evaluates the impact of privatization on efficiency and productivity of the Pakistani sugar mill industry. To address some of the serious concerns about the problem of dimension and outlier, we use a newly developed unconditional hyperbolic α -quintile estimator of Wheelock and Wilson to estimate efficiency (Wheelock DC, Wilson PW. Non-parametric, unconditional quintile estimation for efficiency analysis with an application to Federal Reserve check processing operations. *Journal of Econometrics*; 2008: 209–25). Subsequently, we use these efficiency estimates to calculate the Malmquist productivity growth and its components. The results show that deregulation and privatization had the desired positive effect on productivity growth due to technological progress. We conclude that this improvement in the post reform period could be linked to political stability, improved economic conditions and a competitive industry.

Isabel Gallego-Álvarez et al (2018): Over the last few decades, companies operate in an environment in which exercising responsibility is a prerequisite for competing. Owing to the growing social concern for ethical, social, and environmental issues, the question of the impact of emissions trading on firm competitiveness has acquired special relevance in recent years. This research analyses the impact of the variation in carbon dioxide emissions on financial and operational performance. By using international data consisting of 89 companies for the period 2006–2009, the findings show a reduction in emissions that generates a positive impact on financial performance. In addition, certain control variables are considered such as company size, sector, growth, sustainability index, and legal system, while a panel data methodology is used as the analysis technique. Overall, this research shows that companies promote greater environmental behavior in order to obtain higher financial performance.

Parag Sen et al (2019): In the backdrop of overwhelming concern for greenhouse gas emission, global warming and overall environmental degradation, many manufacturing enterprises are now integrating their manufacturing philosophy with proactive environmental management approach. It is uppermost in the minds of many whether such environmental proactive approach will also help to improve financial performance of the manufacturing enterprises. This study explores this pertinent issue in the context of manufacturing enterprises of two democratic countries from the east and the west, India and UK respectively. Data collected through a questionnaire validated by invited experts distributed among manufacturing enterprises of India and UK were used to construct the structural model for testing the relationship between environmental proactivity and financial performance. The fitness and robustness of the structural model can be considered adequate.

Harish Kizhakkumodom Venkatanarayanan (2020): The effectiveness of unground low-carbon rice husk ash (URHA) as a pozzolan and the effect of grinding the URHA to finer fractions for use in Portland sugar mill system were investigated. The properties investigated include the setting time and calcium hydroxide depletion of rice husk ash (RHA) pastes; microstructure and flow behavior of RHA mortars; strength and durability of RHA concretes. Results from this investigation suggested that the URHA and ground RHA (GRHA) mixtures performed better than the control mixtures in all tests conducted except water demand and setting time. The URHA mixture revealed denser microstructure compared to the control mixture. The internal porosity created by the coarse RHA grains in the matrix and their inability to completely participate in pozzolanic reaction may be the reasons for the poorer performance of the URHA mixture than compared to the GRHA mixture. The

effect of grinding the RHA to finer fractions either substantially or slightly improved all properties except final setting time. With the performance of the GRHA concrete somewhat similar to that of the SF concrete, the use of ground RHA can be concluded to provide acceptable performance in Portland sugar mill systems.

Kaiming Cheng et al (2021): This paper presents the experimental investigation of the liquid phase migration and its numerical simulation by applying the CALPHAD approach. The liquid phase migration during sintering is studied through the diffusion couple technique along with electron probe micro-analysis (EPMA) measurements. Based on the CALPHAD approach, the relation between the volume fraction of liquid phase and the mass fraction of Co is calculated for the WC–Co sugar milled carbide system. The information on the volume fraction of liquid phase could serve as the input in a numerical model. The simulation of liquid Co migration in WC–Co sugar milled carbide is performed and compared with the previous and present experimental results. These simulations could be used in choosing the suitable initial composition for raw materials of liquid phase sintered sugar milled carbide.

3. RESEARCH METHODOLOGY

Research Methodology is a systematic way to solve a problem; it includes various steps adopted by a researcher in studying the problem. The present study was conducted at Sugar mill industry.

3.1 Sample Design

The research design is the structure with in which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data.

3.2 Sources of the study

The data collected for the study is secondary. All the necessary data of analysis were taken from the published annual report of the sugar mill comprising of the profit and loss account and the balance sheet.

3.3 Tools used

- ❖ Trend analysis
- ❖ Compound annual growth rate
- ❖ Break even analysis
- ❖ ABC analysis
- ❖ Common size balance sheet

4. DATA ANALYSIS

Accounts receivable analytics is all about visibility. With the right dashboard for receivables management and accounts receivable reporting tools, users can drill down into a specific account and a specific invoice to see exactly what is happening or look at trends across the entire accounts receivable department.

TABLE NO 4.1

TREND ANALYSIS

RAW MATERIALS			PROFIT BEFORE TAX		PROFIT AFTER TAX	
YEAR	AMOUNT Rs. In Lakhs	TREND %	AMOUNT Rs. In Lakhs	TREND %	AMOUNT Rs. In Lakhs	TREND %
2016-17	1156.31	100	136.07	100	137.32	100
2017-18	1698.41	146.88	361.07	265.36	331.71	241.56
2018-19	1289.09	111.48	-31.10	-22.86	26.53	19.32
2019-20	1454.61	125.79	135.98	99.95	148.25	108.70
2020-21	1373.24	118.75	-96.16	-70.68	-66.45	-48.72

INTERPRETATION

In the years, 2017, 2018 and 2019 trend values were highly satisfactory and However during 2020 it was normal and by 2021 trend analysis has been lowed and unsatisfactory. The decreasing trend percentage is reassuring.

TABLE NO 4.2

COMPOUND ANNUAL GROWTH RATE

(Rs in lakhs)

YEAR	RECEIVABLE
2016-17	220.36
2017-18	215.44
2018-19	247.39
2019-20	264.50
2020-21	243.77

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left(\frac{1}{\# \text{ of years}} \right)} - 1$$

$$= \left(\frac{243.77}{220.36} \right)^{\left(\frac{1}{5} \right)}$$

$$CAGR = 2.04\%$$

Interpretation:

From the above analysis the researcher found that the compound annual growth rate is **-2.04** between the year 2017 and 2021. If your investment grew from 220.36 to 243.77 during the past 5 years, then the CAGR of your investment was 2.04% per year.

TABLE NO 4.3**BREAK EVEN ANALYSIS**

Year	Fixed cost	Total contribution	Total sales	Break even Sales
2016-17	1263.55	1784.24	1583.26	1119.34
2017-18	1855.34	2767.11	2041.46	1368.79
2018-19	1462.18	2016.55	1837.94	1332.67
2019-20	1648.73	2302.94	2142.66	1533.98
2020-21	1584.24	1997.06	2385.82	1892.64

Interpretation:

The above table shows the breakeven sales for five years i.e. 2017-21. The breakeven level means there are no profit and no loss. If the firm's sale goes above the breakeven level, it shows that the firm earns more profit and vice versa. Here the breakeven sales for four years show increase from the year 2021.

2021 is the favorable period for the firm. Because the breakeven sales high in that year to compare with others at 1892.64. The firm got more profit due to more sales. If the firm sales go above this limit, it makes chance to more profit. From the year 2017-21, there are no big changes in their breakeven sales.

TABLE NO 4.4
ABC ANALYSIS

(Rs.in Lakhs)

S.NO	DESCRIPTION	USAGE VALUE	% VALUE	CUMULATIVE (%)	CATEGORY
1.	Wheat	18,200	17.92	17.92%	A
2.	Paddy	22,450	22.11	40.03%	A
3.	Potato	27,500	27.08	67.11%	B
4.	Sugar cane plant	33,400	32.89	100%	C
	Total	101550	100	100%	

Interpretation:

The above table reveals that 'A' items are stored 17.92 % when compared with B&C. it depicts that without these items it is very difficult to run day activities.

"A" class items- Wheat, Paddy

"B" class items- Potato

"C" class items- Sugar cane plant

TABLE NO 4.5

COMMON SIZE BALANCE SHEET FROM 2017-2021

Particulars	2017	2018	2019	2020	2021
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SOURCE OF FUNDS					
Shares	17.37	17.58	17.58	17.58	17.58
Reserve and surpluses	1194.86	1324.04	1256.74	1346.50	1268.00
Loan funds	789.71	1723.09	1786.33	1602.11	809.34
Current liability and provisions	437.05	564.55	763.46	924.28	1375.01
Total	2438.99	3629.26	3824.11	3890.47	3469.93
APPLICATION OF FUNDS					
Fixed assets	759.59	1224.51	1476.26	1475.52	1418.25
Investment	682.78	871.10	544.78	682.93	778.38
Current assets, loan advances	947.45	1471.64	1754.18	1707.86	1240.09
Capital work in progress	49.17	62.01	48.89	24.16	33.21
Total	2438.992	3629.26	3824.11	3890.47	3469.93

Interpretation:

Common size statement indicates the relationship of various items with some common item. From the above common size balance sheet, we can see that reserve and surplus as well as loan finds forms the major items source of funds for company. Fixed asset forms a major part of the application of finds of the company followed by current assets, loan and advance.

Out of current assets, inventories form a major element followed by sundry debtors and cash and bank. Provision forms an insignificant position out of current liabilities.

From the above statement the share capital amount for five years is same, but while calculating the percentage of share capital over the sources of funds it will differ from year to year. It is applicable for all the

items in the balance sheet. According to this, in the year of 2013 the percentage of reserve and surplus is high, and the loan funds come down in negative effect.

In case of application of funds there are no huge changes in the additional investment. And the current assets are decreased in every year. But in the case of fixed assets, it was increased from the year 2013 to 2014.

FINDINGS

Highest current ratio is 2.61 in the year of 2017-18 and the lowest ratio is 0.90 in the year 2020-2021. So, the current ratio 2.61 in standard ratio 2:1. Highest working capital turnover ratio is 3.10 in the year 2016-17 and the lowest ratio is -17.68 in the year 2020-2021. Highest cash position ratio is 0.08 in the year 2016-17 and 2020-2021. And the lowest ratio is 0.03 in the year 2017-18. So, the standard ratio 0.75:1 of cash position ratio is 0.08. Highest debtor's turnover ratio is 9.79 in the year 2020-2021 and the lowest ratio is 7.18 in the year 2016-17. So, the debtor's level is well position. Highest receivable to working capital ratio is 0.43 in the year 2016-17 and the lowest ratio is -1.81 in the year 2020-2021. The highest average collection period is 1520 in the year 2017-18 and the lowest days is 201 in the year 2020-2021. The highest receivable to current assets ratio is 0.23 in the year 2016-17 and the lowest ratio is 0.14 in the year 2018-19. The highest net profit ratio is 16.65 in the year 2017-18 and the lowest ratio is -2.88 in the year 2020-2021. The highest Return on Total Assets ratio is 10.82 in the year 2017-18 and the lowest ratio is -3.17 in the year 2020-2021. The highest Gross Profit Ratio is 23.53 in the year 2017-18 and the lowest ratio is 0.36 in the year 2020-2021. The highest Operating Ratio is 103.26 in the year 2020-2021 and the lowest ratio is 102.46 in the year 2019-20.

Conclusion:

“Receivables management is the diligent tracking and methodical practice of following and collecting payments”. A company can manage its accounts receivable if it knows the turnover rate is and the average collection period. A company can evaluate its credit policy and make changes to ensure a higher rate of accounts receivable turnover its cash flow.

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