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## **Accounts Receivable Management – Important Task under Conditions of Globalization**

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### **Abstract**

Accounts receivable management is the important task under conditions of globalization, having in mind that the contemporary world is characterized by frequent business changes, uncertainty and risks. Therefore, good business requires good capital but it is rare in today's conditions. Although accounts receivable are less solvent form of working capital than money, the present value of timely payment will not cause troubles largely regarding to liquidity, and in the enterprise solvency. Investments are resources connected to accounts receivable. We must have in mind that accounts receivable are not “real” investments, they are result of advancing sale, not a determination (long-term and planned) by the enterprise to invest capital shares from accounts receivable. All accounts receivable, disregarding the basis of their origin, due to date and security (except long-term accounts receivable included in the group of financial investments) are part of working assets, in the balance sense of accounts receivable.

**Keywords:** accounting; accounts receivable; management; financial reports; liquidity.

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## **1. Introduction**

The conditions of globalization are characterized by changes in all the fields, therefore in the field of accounting also. The enterprises of high performances are expressed fully. Participation on capital markets requires objective accounting information from financial reports in order to make adequate business decisions.

Accounts receivable (among other items of financial reports) have an extraordinary influence on the liquidity of enterprises, so a special attention should be paid to them. Therefore the investment risk must be as small as possible.

It is a fact that if the payment term of receivables shortens, the liquidity of enterprises increases. Thus, the interest of enterprises is to shorten the time of payment of the receivables. It can be done in a form of minimization of the risk of frozen credits and stimulating consumers with various discounts, and so on.

As accounts receivable are significant investments for many enterprises and so, they should efficiently manage receivables in order to realize profit in business; therefore, it is needed to pay attention to receivables, among other contemporary enterprise items, the payment and management of the receivables, the importance of customer profitability analysis, and the importance of the time structure of accounts receivable.

## **2. Globalization and its Reflection to the Business of Local Companies**

Globalization of the world market and mutual connection of business partners in the world have caused the development of new technologies that enable more qualitative and efficient business, it is the necessity of contemporary enterprises aspiring high performances.

Globalization is a process of overlapping, integration and uniting the economies into one mutual economy. In the second half of the 19<sup>th</sup> century the process of outgrowing the economies in the world into one united world economy. One hundred years later, the process of epochal outgrowing the world economy into a global economy has begun. Globalization is a general trend of a modern business destroying obsolete borders of limited and monopolized national and regional business. The local and global business is uniting into one universal business system [1].

The conditions of globalization have born a new economy where communication technologies create a global competition with innovativeness and mass adaptation being more important than mass production. Reference [2] Knowledge transformed into information is even considered a new economic factor. A characteristic of the new economy is more investments in new business concepts and their methodologies, not in new equipments as it used to be. Thus, its characteristic is the presence of changes (less or bigger), therefore enterprises gravitate to the improvements of their performances. Consequently, we can say that only the enterprises that react to changes very quickly and adapt to them (they are flexible to them), disregarding the fact from where they come (consumers-buyers, competition or the other), can survive.

The economic benefit of changes can be seen in its successful realization. If a change is not economically

profitable, although its realization seems successful, it will be badly reflected in performances of the enterprise. The enterprise of high performances focuses its team, interdependence of its members, as well as the continuity of business advancement [3]. The human factor should be increasingly expressed. The focus must be brought to the consumer and all must be adapted to his needs in the enterprise business. It is not a matter of dead capital or products any more, but of consumers. In contemporary conditions, fast reaction to changes in the environment disregarding that they come from consumers, competition or any other factor, are a very important factor of competitiveness.

Today, the enterprises must understand and differently treat, than they used to do it, the changes in technology development because of the changes of business concepts [4]. Today, to survive it is enough to do what yesterday was a condition for successful business. Changes are a consequence of globalization, new technologies, restructuring the employed and then changes at than labor market. Successful enterprises are those that are capable to make changes in the environment by their innovations.

The enterprises, the so-called lean lines are characterized by market orientation, orientation to the consumer, fast introduction of innovations, importance of business results and integral quality control. The integral business process can be realized only with capable and target oriented associated and rational work organization and appropriate technology [5].

In lean management, the organization segmentation creates organizational structures, which:

- Show the complete profiles of responsibilities and tasks (integration of functions) and self-controlled work fields (self-organization), and which are
- Decentralized, clear, and oriented to the consumer.

The strategy of segmentation has relatively autonomous units. In essence the aim is to get closer to the consumer, as well as to fulfill the consumer's needs as much as possible and to optimize the use of resources. The Japanese companies follow (especially in research and development) the strategies of sharing risk and costs through cooperative and partner relationship with their consumers and suppliers.

The continual process of improvement "KAIZEN", i.e. the culture of quality, is the strict process orientation of the Japanese production system, orientation to the consumer, i.e. the strict orientation to the consumers' needs, new orientation of cost accounting through Target Costing and the process cost accounting are, among other things, the important components of lean management [6].

The term "KAIZEN" in Japanese means a change to the better and, in the broader sense, a continual process of improvement. Understanding the quality is focused to the enterprises. Having in mind the world of consumers and their needs, makes expected benefits bigger in this century. A continual improvement of the universal quality leads to an increasing capability of the enterprises. The most important criterion of the whole working quality and the central element of the Japanese management is an orientation to the consumer and the consumer satisfaction. The process orientation leads to the concentration to the consumer's needs (both internal and external). In the KAIZEN enterprise, the energy is invested in the best possible satisfaction of the consumer's

needs and demands, leaving egoism by side, without excuses and explanations as “we are not competent”. Thus, the process orientation and the orientation to the consumer in the Japanese enterprises is an integral part of philosophy of quality and mastering it. The final product of production is the “zero error”, without numerous qualities testing and subjecting expensive subsequent works. KAIZEN implies a permanent feedback with the process - the consumer [7].

Managers in the most developed countries (USA, Germany) increasingly visit the Japanese companies in order to investigate to success of the Japanese production methods and transfer their experience to the companies in western countries to achieve same success.

The Japanese introduced the system “twenty keys” enabling the creation of highly successful “lean” company. In twenty fields of activities in the company, these keys undertake some appropriate measures that exert influence on quality, time of delivery and production costs. Acquiring the competitive advantages is provided by the cited basic fields. The application of these keys provides developing the other fields according to the sequence the company determines [8].

To keep profitability and preserve comparative advantages on the global market in the new century supposes the existence of not only a formal strategy, but a real one, which can be implemented.

The country that provides a high-quality financial reporting increases its participation on the global capital market, stimulates capital flows in the country, decreases the risk of investment, simplifies the requirements of reporting and international comparisons and stimulates the approach to capital markets [9].

To facilitate adequate business decision - making, accounting information in financial reports should be objective, as well as accounts receivable that are in the focus of our consideration.

### **3. Analysis of Profitability of the Consumer**

In market-developed countries with the growth of global competition, many companies orientate to the consumers and their changeable demands. Many companies, in order to keep the existing and attracting new consumers, must go toward consumers providing them with a wide range of services. Costs originating from it are big, and they can rarely be seen by the traditional systems of cost accounting. Namely, it means that many companies lack information about how much consumer (individuals or groups of consumers) contribute to their profitability.

In practice, it happens very often that consumers who are considered the most important, cause considerable losses to the enterprises and they do not contribute to profit increase. It is unbelievable that a small number of enterprises have feedback information about how consumers evaluate services the enterprise orients to them. Many enterprises even do not suppose that expensive services they render almost nobody wants [10]. In addition, many of them are not conscious that only several consumers contribute to profit generation, while the rest of the majority hardly contribute to profit generation, but make losses.

Modern enterprises continually emphasize that consumers are in the focus of their business activities, on the one side. There are also greater numbers of enterprises that do not analyze the consumer's contribution in the total profitability, on the other side. The reason is that traditional management accounting is oriented to the interior of the enterprise (to products, product lines, production-sale mix, business functions, organizational parts, and so on, but not to the consumers). In any case, management accounting recognized the consumers according to the geographical areas in their reports.

It is not enough to recognize consumers only by the geographical areas, in order to manage successfully the enterprise-limited resources in the conditions of very changeable competitive environment. The reason is that in the conditions of increasing competition, profitability does not depend especially in the future product costs, but on the following services (for example, promotion, advertisement, warranty period of the service etc.). Great attention in the future should be paid to cost management that is the effects of providing different term commodity credit. The enterprise's focus must be on the optimal terms of paying that favorable both the consumer and the seller. Beside the term of payment, the use of discount represents an important selling condition [11]. The bigger percent of discount and longer discount period stimulate consumers to pay earlier. If the terms of sale on the limited credit are move favorable, it causes stock decrease because of an increased sale, the increase of costs of stock financing, and better results. Favorable conditions can also cause negative effects, because the mass of accounts receivable increases with the increasing sale, as well as the costs of their financing, and it reflects badly on the enterprise profitability.

There is a possible risk that not all accounts receivable will be paid, and these unpaid account receivable influence negatively on profitability because they cannot be transformed into money. In the same way, costs of their financing and the loss of the substance that cannot be collected and invest into production influence negatively on profitability. Turnover coefficients and the average period of accounts receivable payment are important for consumer financial management. Short terms of paying can cause the consumer's bad temper and decision to buy in the competitive shop. This would be dangerous for the seller, as it would be manifested in the form of safe decrease, stock increase and the costs theirs financing, reflecting the decrease of results and profitability. The longer terms of payment, the less will be the credit participation and the less will be interest rate. It shows how many average total accounts receivable are collected in the course of the year, and it is expressed by the proportion of credit sale income and the average balance of consumers. The enterprise, beside the above cited, should take care of preserving the substance of accounts receivable because of the inflationary trends in unstable conditions. The real value of accounts receivable decreases and we collect it in the nominal amount for which fewer commodities can be bought under conditions of price increase. Inflationary losses can be decreased by selling and collecting the commodities in cash.

#### **4. Analysis of the Structure of the Consumers Accounts**

Making and analysis of the time structure of the costumers accounts receivable is in fact an unavoidable revision procedure for evaluating the accounts receivable. The auditor or the client's agent can make the time classification and grouping of accounts receivable of every consumer from the aspect of time (from 30 days to 60, to 90 days and over 90 days).

The following activities have to be done in evaluating accounts receivable:

- **Efficiency evaluation of the client's policies**, approval of credit accounts receivable payment and the procedures of evaluation to correct the values of suspicious and questionable accounts receivable. If there is a credit department in the enterprise responsible for the customers being late in meeting their liabilities of many unpaid accounts, the evaluation of the client's credit risk is an important indicator in decision making. In evaluating and controlling risk (i.e. minimizing credit risk), the auditor will accept the evaluation.
- **Ratio numbers and statistical analysis** include the most important and the most informative indicators:

$$\text{Average turnover coefficient} = \frac{\text{sale income}}{\text{average balance of consumers}} \quad (1)$$

How many accounts receivable turnover per year on the average, i.e. how much money per a single monetary unit of accounts receivable is income, the cited indicator shows:

$$\text{Average time of the Accounts receivable} = \frac{\text{number of days in a year}}{\text{average turnover coefficient}} \quad (2)$$

The indicator determines the average number of days from the day of sale to the day of payment. As indicators that are of a great importance, can be mentioned:

- Participation of accounts receivable values corrections in total accounts receivable.
- Participation of expenditures, i.e. writing off accounts receivable in the aggregate income and expenditure.
- Participation of every time structure (for example, till 30 days, till 60 days, till 90 days, and over 90 days) in the aggregate amount of accounts receivable.

To calculate the cited indicators, we can take the data from the current year, the previous year, planned data, branch data, and so on. This can refer an auditor to the following situations [12]:

- Increase of the number of written off accounts receivable.
- General slowdown of accounts receivable payment.
- Increase of the number of accounts that are paid slowly.
- Increase of the consumer complaints regarding to their accounts.
- Increase of interests and costs caused by delay in payment ascribed to the consumer accounts after a subsequent writing off.

## 5. Conclusion

Globalization as a trend of the contemporary conditions requires the harmonization in all the spheres of human activities, as well as in accounting. The contemporary business cannot stand losses so it is necessary to have

financial reports that will be transparent. MRS/MSFI just enables them transparency. Accounting information in financial reports should be objective (among the other things, accounts receivable are in the focus of this activity) in order to make adequate business decisions.

In the majority of enterprises, accounts receivable are an important item; therefore, it is very important to manage them efficiently in order to realize some economic benefits.

Credit sale is unavoidable and the enterprises should get used to it. General economic business conditions and the credit policy of an enterprise are the factors determining the volume of credit sale and investment of the enterprise in accounts receivable. The enterprise can exert influence on the level of accounts receivable through the policy of crediting and accounts receivable payment. The aim of accounts receivable management leads to the maximization of differences between the benefit of credit sale and costs originating from the accounts receivable. The enterprises establish some credit policy to perfect credit standards, policy of accounts receivable payment and credit terms.

Accounts receivable have a direct influence on the enterprise liquidity, therefore on business performance. Thus, every enterprise wants to have the right information about how many available accounts receivable will transfer into money in the future period. The enterprise management can keep liquidity at the high level by rational management of accounts receivable, among other things.

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