FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

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LECTURE: 40

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LECTURE-40

MONITORING OF RECEIVABLES

(i) Computation of average age of receivables: It involves computation of average collection period.

(ii) Ageing Schedule: When receivables are analysed according to their age, the process is known as preparing the ageing schedules of receivables. The computation of average age of receivables is a quick and effective method of comparing the liquidity of receivables with the liquidity of receivables in the past and also comparing liquidity of one firm with the liquidity of the other competitive firm. It also helps the firm to predict collection pattern of receivables in future. This comparison can be made periodically. The purpose of classifying receivables by age groups is to have a closer control over the quality of individual accounts. It requires going back to the receivables ledger where the dates of each customer's purchases and payments are available. The ageing schedule, by indicating

a tendency for old accounts to accumulate, provides a useful supplement to average collection period of receivables/sales analysis. Because an analysis of receivables in terms of associated dates of sales enables the firm to recognise the recent increases, and slumps in sales. To ascertain the condition of receivables for control purposes, it may be considered desirable to compare the current ageing schedule with an earlier ageing schedule in the same firm and also to compare this information with the experience of other firms. The following is an illustration of the ageing schedule of receivables:-

Ageing Schedule

Age Classes (Days)	As on 30th June, 2016			As on 30th September, 2016		
	Month of Sale	Balance of Receivables	Percentage to total	Month of Sale	Balance of Receivables	Percent - age to total
		(`)			(`)	
1-30	June	41,500	11.9	September	1,00,000	22.7
31-60	May	74,200	21.4	August	2,50,000	56.8
61-90	April	1,85,600	53.4	July	48,000	10.9
91-120	March	35,300	10.2	June	40,000	9.1
121 and more	Earlier	10,800	3.1	Earlier	2,000	0.5
		3,47,400	100		4,40,000	100

The above ageing schedule shows a substantial improvement in the liquidity of receivables for the quarter ending September, 2016 as compared with the liquidity of receivables for the quarter ending June, 2016. It could be possible due to greater collection efforts of the firm.

(iii) Collection Programme:

(a) Monitoring the state of receivables.

(b) Intimation to customers when due date approaches.

(c) Telegraphic and telephonic advice to customers on the due date.

(d) Threat of legal action on overdue A/cs.

(e) Legal action on overdue A/cs.

The following diagram shows the relationship between collection expenses and bad debt losses which have to be established as initial increase in collection expenses may have only a small impact on bad debt losses.