Assessment of Account Receivable Management in Case Study, ETC, Kabridahar Branch

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ABSTRACT

This research was conducted under the topic of account receivable management in Ethio telecom kabridahar branch. The objectives of this research are to identify account receivable management. The researcher used census techniques because there is relatively small number of employees, and to get reliable, relevant and detail information about the organization. The study was used descriptive method of data analysis and the researcher used questionnaires to analysis and examined in detail throughout the study. The researcher was used both primary and secondary data in order to collect information. The primary data were the main source of information. This research contains the research methods such as research design, sampling types and source of data. Data collection tools, methods of data analysis and interpretation. After analysis, the result was presented in table form and percentages. Based on conclusion and the findings of the corporation evaluates its customers, before providing credit service to them this strategy was reduced the possibility of uncollectable of account receivable management.

1. INTRODUCTION

Account receivable is money owed to firm when its sells its products or service on credit and it does not receive cash immediately (Pandey, 2004).Account receivable is an issue for every institution offering credit to its customers and challenges for organization is to protect profit margins by reducing write- offers cutting the cost to collect and increasing the cash collected according to (Bellie, etal 2000).

According to Haris (2005), in many organizations the growth in access to credit has led to rising level of the customer indebtedness which is having significant impact on business profitability. Account receivable is made complex because its forms an integral part of the marketing functions as the granting of the credit attracts customers thus resulting to increase sales and sales revenue(cooper,2005).

Selling on credit is one of the company approaches in enhancing sales and it has turned up to be an enticement for customer in retaining the business relationship with the company profit Barad (2010) eventually optimizing the company profit. Recently most organization sale the optimal investment is determined by comparing benefit to be defined from particular level of investment with the coast of keeping that level. It is obvious that, recently most organization sales there different kind of product of goods credit bases as a means to attract many customers. Therefore, it is necessary marketing tools acts as a bridge for the movement through production and distribution stage to customers and sales of product at favorable terms.

This research contributed to find out the cause and farther effect of the receivables in the taking of measurement and decision to overcome the problems of the receivables in Ethio telecom and the study was describes target population comprising Ethio telecom sector. The reason for focusing on this sector is because it constitutes high flow of account receivables in the Ethio telecom sector in kebridehar branch, which contributes a substantial percentage of output to the gross domestic product of a country.

Statement of the problem

The management of a firm's liquidity is necessary for all businesses, small, medium or large. When a business does not manage its liquidity well, it will have cash shortages and as a result experience problems paying its obligations when they fall due. Accounts receivables management is important because of its effect on the firm's profitability and risk, and consequently its value (Smith, 1980). Investments in current assets represent a very significant position of total assets. Additionally, there is risk-return trade off; in that the optimal level calls for a balance between profitability and solvency by minimizing the total costs of liquidity and cost of illiquidity.

This study attempts to contribute on the few empirical studies and to the debate on effects of accounts receivable management on Ethio telecom Sector in Ethiopia, specifically Somali region and to find out whether it influences financial performance of the very firms. The study is relevant in the Ethiopian context as it gives the important role of the Ethio telecom sector expected to play in the growth and in an attempt to achieve the government's vision 2030.

Receivables management is a very important component of corporate finance because it directly affects the liquidity, profitability and growth of a business. It is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed (Atrill ,2006).

Receivable management of the credit and accounts receivable process involves cooperation among sales, credit control marketing ,finance and accounting function staff (Megginson 2008).

Different organization uses different ways to increase their volume of sale and to have large number of customer. Attain this objectives, most organization uses credit policy even through using credit sales systems may not lead the organization to desired objective large volume of the sale and large number of customer. (John. J. Hampton, 2009).

The issue on accounts receivable management has not been widely studied, and largely missing from literature is the focus on Ethio telecom sector and specifically in Somali region kebridehar branch. This study intends to address the working research question, what are the effects of receivables management on the financial performance of Ethio telecom sector in Somali region kebridehar branch.

Objectives of the study
General objective
General objective of the study is to assess the account receivables management in the Ethio telecom kabridahar branch.

Specific objective
In order to achieve the general objective of the study was consider the following specific objective;
1. To identify techniques of collecting its receivables in the organization.
2. To assess responsibility of the employers of organization to collect receivables.
3. To determine accounting principle that organization practice to collect its receivables.
4. To investigate and examine organizations principles of managing receivable and financial performance.

2. RESEARCH METHODOLOGY
Description of the study area
The study was focused on the assessment of account receivable management on Ethio telecom in kabridahar branch, which is found in Somali region in Kabridahar branch. This study was concerned about assessment of account receivable management in case of Ethio telecom kabridahar branch.

Research design
The research was conducted on assessment of account receivables on Ethio telecom in kabridahar branch for the achievement of this study .The study was used descriptive method of data analysis and used questionnaires to analysis and examined in detail throughout the study.

Research Approach
The study applied both qualitative and quantitative research approaches and applied descriptive research design. This is because applied descriptive design is focused on real-world questions and is applicable. It also helps the researcher in answering practical questions related to asset management practice.

Target population
The total number of the population in these organization that were 12 and the target population for this study was on the finance department of the Ethio telecom kebridehar branch.

Sample size and sample techniques.
Ethio Telecom has many departments, among those departments the researcher was focused on Finance managers, credit controllers and accountants in the finance department. The total numbers of employees in the finance department were 12. The researcher has taken 12 employees as a sample size by census techniques because of small number of employees, and to get reliable, relevant and detailed information about the organization.

S.no	Finance Department	Number of respondents in the department
1.	Finance managers	1
2.	credit controllers	10
3.	Accountant	1
	Total	12

Source: HRMETCOM in kebridahar branch

Source of data
During the accomplishment of this paper the researcher was used both primary and secondary types of data. To carry out this research, primary data was gathered by using questionnaires and interviews that came from original sources of sales manager, credit manager and from accountants. Secondary data source option financial statement employed in this study.

Method of data collection

The researcher used primary data collection method mostly questionnaire were distribute for the employee of the corporation and for the manager of organization. The primary data was be collected as primary source through both open and closed questioners and structured interview but the researcher was focused on questionnaires in order to minimize cost and wastage of time. In addition to these, secondary source of data was used as supplementary or additional data collection methods like; financial reports.

Methods of Data Analysis and presentation

After necessary data were collected from the primary source and secondary sources of the data was processed and analysed. Data processing is an activity, which involves interpretation of data to make the data appropriate for analysis.The data was presented using data analyzing tools; such as, tables, and percentages, the interpretation was made based on the tools.

Ethical Consideration

Any researcher needs to think carefully about how to gain access to undertake research and about possible ethical concerns that could arise in relation to the conduct of the entire research project (Saunders et al, 2009). Throughout the whole research process, an attempt is made to stick with the general rules of research ethics. Respondents are requested to provide genuine information on a voluntary basis, and they are informed in advance about the purpose of the study and confidentiality of their information. In order to avoid data entry and processing mistakes, the registration of sample responses to statistical software is handled with the highest degree of due care. Moreover, the researcher made the greatest effort to abide by the rules and regulations of the university and the advisor's opinion.

3. Data analysis and Interpretation

Employees pro*file*

For the purpose of analyzing, interpretation, and presentation of the findings of the study, the researcher is designed to use descriptive method .In order to make interpretation different data presentation tools was used such as, table and percentage. In this profile, the information about the employees of organization was presented below.

Table 4.1 Distribution in Age, sex and education back ground of respondents.

NO	ITEM	RESPONDANTS	FREQUENCY	PERCEN (%)
1	Sex	Male	8	67 %
		Female	4	33 %
		Total	12	100 %
2	Age	18-27	2	17 %
		27-36	6	50 %
		36-45	4	33 %
		46-65	-	-
		>65	-	-
		Total	12	100 %
3	Educational back gerund	Grade between 1-10	-	-
		Grade between 11-12	-	-
		Diploma	3	25 %
		First degree and above	9	75 %
		Total	12	100 %

Source: questionnaire results, 2022

As shown in the above table 4.1,(50%) of the employees of the organization are found within the age of 27-36,(17%) employees are between the age of 18-27, (33%) of them are between age of 36- 45.So, as researcher can see from the table the majority employees of the organization are between the ages of 27-36 years. From this researcher conclude that majority of employees are under working age. As mentioned in the above table, (25%) of the respondents are Diploma, (75%) of the respondents are first degree. As the researcher understands from the table, majority workers of the organization are first degree that has an effective performance on the organization.

Tabel.4.2. the organization sales service on account receivable.

No	Item	Respondents	
	Does the organization sales service on account receivable bases?	Employees	
		Frequency	Percent (%)
	Yes	12	100
	No	-	-
	Total	12	100

Source: questionnaire results, 2022

As shown in the above table 4.2, the information that the researcher can get from the organization respondents that provides services to its customary on account basis. This is why all the respondents of the organization (100%) response "yes". It is obvious that when the organization sells services on account, if can on account, it can automatically increase number of its customers and being strong competent. In the market environment so, beside immediate cash receipts, which has low risk of un collectability and account will increase sale volume of the organization.

Table 4.3. The organization system of recording transaction.

No	Item	Respondents	
3	What is the system of recording transaction?	Employees	
		Frequency	Percent (%)
	Double entry	12	100 %
	Single entry	-	-
	Total	12	100 %

Source: questionnaire results, 2022

As shown in the above table 4.3, the researcher understands from the response, of the organization uses only double entry recording system since all(100%) responses say "yes" using double entry recording system has different advantages for the organizations transaction are recorded on both sizes. Better control over transactions can be established by this method. Each detail of transaction is recorded, from which full information can be obtained from the transaction. So, using this method is better for the organization to manage its receivable effectively and efficiently.

Table 4.4 the organization strategy in managing account receivable.

No	Item	Respondents	
4	What is the organization strategy in managing account receivable?	Employees	
		Frequency	Percent (%)
	Controlling its receivable in efficiently and effectively	9	75 %
	Reduce bad debt expense	3	25 %
	Others	-	-
	Total	12	100 %

Source: questionnaire results, 2022

As shown in the above table 4.4, (75%)majority of respondents agree that the organizations strategy is mainly focus on managing receivable in efficient and effective way small respondents (25%) said the organizations strategy also focus on reducing bad debt expenses. Both answers were the some because when there is strong and efficient management over receivable, bad debt of the organization can be reduced. From the response of the respondents, the researcher concludes that the organizations strategy is good in managing its receivable.

Table 4.5 the collectability within credit term

No	Item	Respondents	
5	Does the organization collect credit within credit terms?	Employees	
		Frequency	Percent (%)
	Yes	10	84 %
	NO	2	16 %
	Others	-	-
	Total	12	100 %

Source: questionnaire results, 2022

As shown in the above (table 4&5, the researcher understand from this table maze than half (84%) of them respondents an{wars that the organization collect its receivable with an credit terms. Some respondents' (16%) gnu the other hank rasping that the organization wills not collectors receivables within (credit terms. From the above table the researcher observes that even though majority of (credit sales are collectibles of receivable. Thus may be due to poor receivable (control system within the organization.

Table 4.6. The organization efficiently managing its receivables'

No	Item	Respondents	
6	Do you think(that the corporation efficiently manages its receivable7	Employees	Frequency of Percent age(%)
	Yes	9	75 -
	No	3	25 %
	Other	-	-
	TOTAD	12	100 %

Source: questionnaire result 2022

As shown in the above table 4.6, the organization is almost managing its receivable efficiently. Because more than (75%) of the respondents said "Yes" but this does not mean that the organization is (100%) managing its receivable since there is a respondent who answerer No, this may be due to some- problem with receivable management. As the researcher understand their reasons from the respondent who answered "No". The reason is, there is bad debt expense in hand.

Table 4.7, the techniques used to reduce uncollectible account receivable or bad   debt expense.

No	Item	Respondents	
7	What techniques are used to reduce uncollectable account receivable or bad debt expenses?	Employees	
		Frequency	Percent (%)
	Periodic follow up and check	9	75 %
	Write-off	3	25 %
	Other	-	-
	Total	12	100 %

Source: questionnaire results, 2022.

As shown in the above table 4.7, as researcher can be seen from this table the company majority use to reduces un collectability of account receivable by periodic follow up and check because of respondents (75%) of the organization including the manager of the organization answered" periodic follow up and check" and the (25%) of the respondents of the company also use write-off to reduce uncollectable account receivable or bad debt expense.

Table 4.8, Measurement to be takes when a customer does not pay at a time.

No	Item	Respondents	
8	In case customer did not to pay within the given period, what measures does the company take.	Employees	
		Frequency	Percent (%)
	By cutting the service from the customers. Bringing the action to law.	12	100 %
	Total	12	100 %

Source: questionnaire results, 2019

As shown on the above table 4.8, all the respondents answered to different answer one is by cutting the service from customer in case of they did not pay within the given credited terms and the second is bringing the case to the law if the customer still not pay after credit terms. This is what one can understand from the response of respondents that measure taken by the company is not good, because before the allowance of in collectability of the organization is expected to evaluate financial strength of the clients and its credit payment capabilities. On the other hand the researcher compares the measure taken by the organization with profitability. It will automatically affected profitability of the organization and leads the organization to loss large number of the customers.

Table 4.9, the result of poor management on account receivable

No	Items	Respondents	
9	What is result problem related with poor receivable management?	Employees	
9.1		Frequency	Percent (%)
9.2	Bankruptcy	12	100 %
9.3	Other	-	-
	Total	12	100 %

Source: questionnaire results, 2022

As shown on the above table 4.9, when there is poor receivable management this will automatically lead to bankrupted. Because of all the respondents, agree on this point including manager of the organization. Therefore, the researcher also concludes that poor receivable management leads the organization to bankruptcy. That is why

the researcher assumes the existence of bankruptcy in the statement of the problem when there is a poor receivable management.

Table 4.10, organizations have accounting system.

No	Items	Respondents	
10	Does the organization have accounting system?	Employees	
		Frequency	Percent (%)
10.1	Yes	11	92 %
10.2	No	1	8 %
	Total	12	100%

Source: questionnaire results, 2022

As shown on the above table 4.10, the researcher understands from this table the maximum number (92%) of respondents said "yes" the organization has accounting system and the other respondent (8%) said "No ". Because of without account system difficult to run business, but minimum number is other alternative to use the system. So the researcher concludes to use more accounting system to agree.

Tabel.4.11 the organization evaluates client's history before giving credit.

No	Item	Respondents	
11	Does the organization evaluate client's history before giving credit?	Employees	
		frequency	Percent (%)
11.1	➢ Yes	9	75%
11.2	➢ NO	3	25%
	TOTALE	12	100%

Source: questionnaire results, 2022

As indicate on the above table 4.11, the company majority (75%) of respondents said" yes" is evaluate the client's history before giving credit. Some respondents (25%) said "No" on other hand the other respondents that the organization is not evaluate the client's history before giving credit. This may be due to poor receivable management system within the organization

Table 4.12, the organization use to increasing number of its customer

No	Item	Respondent	
12	What method does the organization use to increasing number of its customer?	Employees	
		Frequency	Percent (%)
12.1	By giving credit	9	75 %
12.2	Promotion	3	25 %
12.3	Other	-	-
		12	100%

Source: questionnaire results, 2022

As shown on the above table 4.12, indicates that (75%) of the respondents have increasing number of its customers by giving credit, but still now some customer of the company also (25%) of the respondents said by using promotion method for better services to increasing number of its customer.

Table 4.13, the weakness of receivable management you observe as employees of this organization.

No	Items	Respondents	
13	What is the weakness of receivable management you observe as employees of this organization?	Employees	
		Frequency	Percent (%)
13.1	Delicacy to collect bad debt	10	83 %
13.2	Other	2	17 %
	Total	12	100%

Source: questionnaire results, 2022

As shown on the above table 4.13, as researcher understand from this table the weakness of receivable management one can observe from the employees some problem of quality for the employees related to (83%) of respondents said delicacy to collect bad debt and (17%) Other of respondents said the way is deference in the organization some problem of air condition and space work for holidays.

Table 4.14, to reduce bad debt expense over the previous year

No	Items	Respondent	
14	What measure you have taken to reduces bad debt expense over the previous year?	Employees	
		Frequency	Percent (%)
14.1	Using new system	8	67 %
14.2	Traditional system	4	33 %
14.3	Other	-	-
	Total	12	100%

Source: questionnaire results, 2022.

As shown on the above table 4.14, as the researcher understand from this table more than half (67%) of the respondents answers the organization using new system to reduce bad debt expenses over the previous year. From previous year to give customer memo online some respondents (33%) on the other hand respondents that the organization strategy on traditional system to reduce bad debt expense. Both answers are some because to reduce bad debt expense over previous year.

Table 4.15, the company charge interest.

No	Items	Respondent	
15	Does the company charge interest?	Employees	
		Frequency	Percent (%)
	Yes	-	-
	No	12	100%
	Other	-	-
	Total	12	100%

Source: questionnaire results, 2022.

As shown on the above table 4.15, as the researcher understand from this table when their giving credit to the customer all respondents said "No" charge interest because to reduce customer the company is only giving services to the customer.

Table 4.16 the criteria for setting credit policy.

No	Items	Respondent	
16	What are the criteria for setting credit policy?	Employees	
		Frequency	Percent (%)
	Signe & renewed Keble id	10	83 %
	Only signee	2	17%
	Other	-	-
	Total	12	100%

Source: questionnaire results, 2019 G.C.

As the researcher understand from the table 4.16, more than half (83%) of the respondents answers the organization mainly setting credit policy on agreement signee & renewed keeled id. Some of the respondents (17%) say that the organization strategy is to increase customer so that only signee is enough from this the researcher conclude that the organization strategy is goods in managing its receivables.

Table 4.17, strong control over credit policy

No	Items	Respondents	
17	Is there strong control over credit policy?	Employees	
		Frequency	Percent (%)
	Yes	9	75%
	No	3	25%
	Other	-	-
	Total	12	100%

Source: questionnaire results, 2022

As the researcher understands from the above table 4.17, the organization is almost strong over credit policy because more than (75%) of the respondent said that "yes" because of currently its control by the system. This doesn't mean that the organization(100%)strong control over credit policy the other (25%)respondent who answers" no" this due to some problem with strong control over credit policy such as hacking of the system.

Table4.18 The current credit policy can insure strong management over receivable.

No	Items	Respondents	
18	Do you think the current credit policy can insure strong management over receivable?	Employees	
		Frequency	Percent (%)
	Yes	10	83%
	No	2	17%
	Other		
	Total	12	100%

Source: questionnaire results, 2022

As show on the above table 4.18, majority of the respondents agree that on strong management credit policy over receivable because more than(83%)of the respondent said "yes' its support to management decision on the organizations receivable, but does not mean that the organization is 100% ensure strong management over the receivable.

4. Conclusion

The objective of this study was to determine the effect of accounts receivable management on the financial performance of Ethio telecom sector in Somali region kebridahar branch. Data was been collected from both primary and secondary

Based on the *above* data presentation and analysis the study comes up with the following conclusion. The corporation evaluates its customers, before providing credit service to them this strategy was reduced the possibility of uncollectable of account receivable. Because, granting and credit based on evaluation criteria the corporation can early the financial position of the customers, credit background and liquidity status of the customer. The current strategy of the organization is to maintain account receivable in efficient and effective way this strategy also consist reduce the possibility of uncollectible account receivable.

There are a lot of problems which are related with un collectability of account receivable with in credit terms. Because not all account receivable with are sold on credit are collected by the corporation this can affect the profitability of the corporation as well as financial performance of the corporation. the Corporation uses different methods to increase number of its customers one of these method is by improving the quality of service provided by it and by making credit available to customers and also by using periodic follow up and review on account receivable. The Corporation has taken different measures in order to improve poor receivable management system one of the measures taken by the corporation by cutting service from customer who is unable to pay their liability with in credit term.

This measure is not good, because it reduces the profitability of the company the corporation is not expected to take this measure rather than other measures which increases number of its customers. There is somewhat strong control over account receivable even though not good, because the current efficient manage ability of account receivable was rise a criticism. In General, the overall Account receivable manage and financial performance ability of the corporation is medium.

Recommendation

Referring the problems pointed out, the following possible **recommendations** are forwarded by researcher;-

➢ This study recommends that there should be proper inventory management system in Ethio telecom sector to avoid over stock of inventory resulting efficient outcome of investment

➢ Recommend that to design strong credit policy since the existing credit policy did not insure collectability of account receivables.

➢ Therefore, in order to manage its uncollectible of receivable, the organization should use different methods of estimating un collectability of account receivable like, sale method and direct write- off method.

➢ The organization can solve the overall current poor receivable management system by   restructuring its activities.

➢ The researcher recommended that the organization have to develop awareness for its customer in order to reduce un collectability of account receivable.

➢ The researcher recommended that the organization have an appropriate accounting system and latched every activities of the organization should be supposed by computer dissolution order to increase number of its customer that can directly increase the profitability of the organization can improve the current account receivable management system.

➢ The researcher recommended the corporation evaluates its customers before granting credit to customer. This is also a good method because when the financial status of the customer are known before granting credit ,the possibility of uncollectible account receivable will also be reduced.

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