International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 7, Issue 2, pp: (219-225), Month: October 2019 - March 2020, Available at: www.researchpublish.com

EFFECTS OF ACCOUNTS RECEIVABLES IN PRINTING INDUSTRIES IN KENYA

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Abstract: **Accounts receivable constitute a significant portion of current assets in industrial firms. Management therefore have to formulate strategies of effectively managing this important yet sensitive asset. This study was to investigating Effects of Accounts receivables in printing Industries in Kenya the scope been Nairobi Industrial area. The study further wants to determined how internal controls affect Accounts receivables in printing Industries at Nairobi Industrial Area A sample of 50 respondents was selected using stratified random sampling in each of the printing industries there were five strata. The strata were that of key management staff, chief finance officer, finance staff, head of delivery and credit control staff where information was collected using semi structured questionnaire administered to the five respondents in the selected firms to collect both qualitative and quantitative information. Where necessary, personal interviews and documentary analysis ware conducted to enhance validity of information gathered using questionnaires. Data was analysed using descriptive statistics where measures of central tendency and measures of dispersion were computed to give results. Charts, tables and graphs were used to report findings. The study findings that internal controls procedures that had been approved by management in the management of accounts receivables. The study concluded that strong internal controls measures in accounts receivables need to have a strong management strategy and employees in place.**

Keywords: **Accounts receivable, printing Industries, industrial firms.**

1. BACKGROUND OF THE STUDY

According to (Miller, 2008), there are at least four reasons why an organization should have a written credit policy, and they each add to the productivity of the entire organization. Therefore the efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of the inability to meet due short-term obligations, on one hand, and avoids excessive investment in these assets, on the other. This is due in part to the reduction of the probability of running out of cash in the presence of liquid assets.

However the ultimate measure of the efficiency of liquidity planning and control is the effect it has on profits and shareholders' value. The working capital approach to liquidity management has long been the prominent technique used to plan and control liquidity. To measure liquidity, Farris & Hutchison (2002) posited that corporate liquidity is examined from two distinct dimensions, the static or dynamic views. The static view is based on commonly used traditional ratios, such as current ratio and quick ratio, calculated from the balance sheet amounts.

2. STATEMENT OF THE PROBLEM

There is a direct relationship between a firm's growth and its working capital needs. As sales grow, the firm needs to invest more in inventories and debtors. The finance manager should determine levels and composition of current assets, namely, Inventory, Receivables, Cash, and Marketable securities, which will help to run the business smoothly. Account receivables are one of the major components of working capital. The receivables are a result of credit sales which helps to increase the profits. At the same time, credit sales result in blockage of funds in accounts receivable and an increased chance of bad debts. In order to minimise the bad debts, it needs careful analysis and proper management.

According to Larsson (2008), evaluating the credit worthiness of the customer is one among the key factor in proper credit management. A mismatch can cause significant errors in receivables management. Therefore the finance manager should always be careful and adapt the proper evaluation before extending the credit facility to their customers. Previously, the finance manager assessed the customers' character such as, financial position, liquidity position, collateral security offered and general economic conditions in which business operates. Whereas, now a days, trade reference, credit bureaus, bank reference, balance sheet information and direct information by sales men are the major indicators.

However, whatever may be method; it may not be proved hundred per cent fault free. In spite of this problem, in the modern world, selling goods on credit is the most prominent force of the today's business. The purposes of adopting this method are achieving growth in sales, increasing profits and meeting competition which many research studies have proved. However, on the other hand, the longer the period of credit, the greater level of debt, and greater the strain on the liquidity of the company. Hence it is necessary to have receivables management in any organization and the need for this study, Brown C (2007).

Specific Objectives

To determine how internal Credit control affect Accounts receivables in printing Industries in Kenya.

3. LITERATURE REVIEW

Asymmetric Information Theory

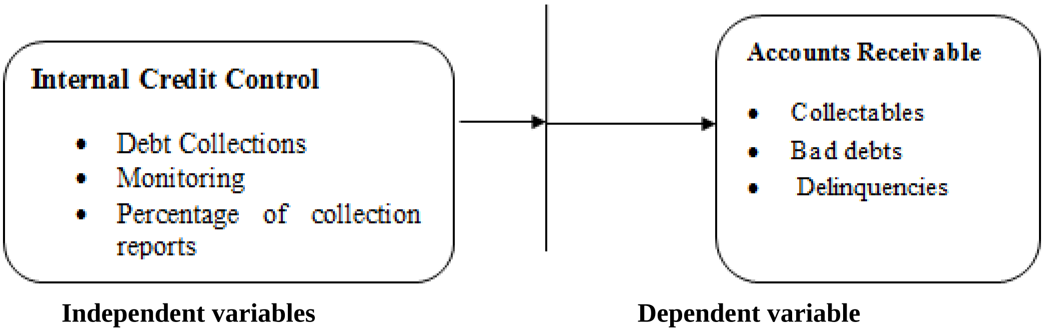
Information asymmetry refers to a situation where business owners or manager know more about the prospects for, and risks facing their business, than do lenders (PWHC, 2002) cited in Eppy.I (2005). It describes a condition in which all parties involved in an undertaking do not know relevant information. In a debt market, information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not have sufficient information concerning the borrower (Edwards and Turnbull, 1994). Binks et al (1992) point out that perceived information asymmetry poses two problems for the banks, moral hazard (monitoring entrepreneurial behaviour) and adverse selection (making errors in lending decisions). Banks will find it difficult to overcome these problems because it is not economical to devote resources to appraisal and monitoring where lending is for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers are not freely available to banks. Bankers face a situation of information asymmetry when assessing lending applications (Binks and Ennew, 1996, 1997). The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret.

Transactions Costs Theory

First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit

worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions. Three sources of cost advantage were classified by Petersen and Rajan (1997) as follows: information acquisition, controlling the buyer and salvaging value from existing assets. The first source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer's orders give suppliers an idea of the client's situation; the buyer's rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do.

Conceptual Framework



Internal Control of Debtors

Brealgy et al, (1995) puts forward five steps of dealing with debtors. First and foremost by establish the normal terms of sale, in that you must decide on the length of the payment period. Secondly the need to decide the form of contract with your customer. Thirdly to assess each customer's credit worthiness and this especially depends on your personal experience and available source of information from your customers. Fourthly establish sensible credit terms after assessing your customer standing credit. Finally, you must collect, this requires tactic and judgment. Terms and conditions determine both the cost for the customer paying in cash for the company rate for trade credit.

For the management of receivables it is necessary not only to establish sales conditions and allow the establishment of receivables, but also the need to collect debts. Therefore, it is necessary to strictly control the payment of receivables and initiate follow-up procedures in the case of failure to pay. In this regard, it is necessary to proceed with tact, because the company must be decisive against the real evaders, but not too harsh on good customers. Therefore, the company usually predicts the troubled receivables based on experience and focuses its attention on it. Debt collection techniques are numerous, from telephone or written reminders through detention of other orders to use the services of various agencies concerned with this activity.

Debt recovery through the courts is usually considered as an option of the last resort. All the steps of credit policy of the company and the related receivables management should be in synergy, because good credit company policy is only the one that is meaningful as a whole. Consideration should be given to the fact that the company receivables until the time of payment have to be covered by financial resources and the Accounts Receivable Accounting. According to MannassehTumuhimbise, (2007), state that financial executive is like a pilot who reads warning signal flashes on the instrument panel, must have a reporting device to monitor the collection experience. Collection experience is defined by Lewellen and Johnson, (1980) as the chronological pattern to which, the receivables crated during a given interval are converted into cash.According to Manasseh Tumuhimbise, (2007), in his publication of known approaches used by management to monitor accounts receivables shows what percentage of customer's balances at the beginning of the period is collected during the period. Lewellen and Johnson, (2002), argue that the technique is sensitive to the sales pattern and the sales averaging period selected.

Pandey, (2005) asserts that as firm is required to analyse and supervise a larger number of accounts when it loosens its credit policy. Similarly it will have to intensify the collection efforts to be able to collect outstanding bills from financially less sound customers. As Samuels *et al*, (1989), concludes that the monitoring and follow up procedures on slow payments are also a principle cause of accounts receivable accumulation. Van Horns, (2004) states that accounts receivables perspective emphasizes two main variables that is revenue and liquidity in a credit policy, and contends that curriculum between the two is the key to successful performance of a credit institution. This perspective is derived from the bankers' dilemma of liability and asset management which is focused on maintaining balanced levels of return and liquidity to highlight significant relationship between the credit management and institutional performance

4. DATA ANALYSIS, PRESENTATION AND INTERPRETATION

Introduction

This chapter deals with analysis of data. The data analysis is per the specific objectives which have been investigated, interpreted and inferences drawn on them.

Demographic Information

Response Rate

The number of questionnaires which were administered to all the respondents was 50. A total of 38 questionnaires were properly filled and returned from the printing company employees.

This represented successful response rate of 76%. According to Mugenda andMugenda (2003), a response rate of 50% or more is adequate.

Table : Response Rate

Response	Total	Percent
Returned	38	76%
Unreturned	12	24%
Total	50	100%

Gender of the Respondents

The respondents were expected indicate their gender. The results shows that majority

(58%) of the respondents ware male and (42%)were female. The findings imply that in the printing company majority are male. According to Ellis et al. (2007), in spite of women being major actors in Kenya's economy, mostly in agriculture sector men play a major role in the formal sector.

Table : Gender of the Respondents

Gender	Frequency	Percent
Male	22	58%
Female	16	42
Total	**38**	**100**

Age Bracket of the Respondents

The respondents were supposed to indicate their age brackets. Results revealed that most (58%) of the respondents were aged between 31 to 45 years and 42% were aged between 21 to 30 years. The findings shows that most of the respondents were at their career peak. The findings also imply that a significant number of the respondents were youths hence young work force which can cope with long working hours in the printing industry.

Table : Age Bracket Table

Age bracket	No of employees	Percentage
21-30	16	42%
31-45	22	58%
45 -65	0	0%
Total	38	100%

Internal credit control on Accounts Receivable

This are internal checks and balances that are put into place in an organization to govern its day to day operations when implemented. According to the study as tabulated in table below, 76% of the respondents were of the opinion that internal controls in credit affects accounts receivable positively. 88%of the respondents agreed that customer receives the invoice and signs delivery note at the point of receiving the goods. This minimizes cases of customers not paying for the reason that they do not have the invoice at hand. In addition 72% of respondent also agreed that statement should be sent to customer at the beginning of the month so that it can act as a reminder to settle the debt that is falling due that month, this facilitates proper planning by customer. 69%of the respondents also were of the view that there should be a credit control department whose main work is making follow up for payment. This would minimize chance of debt becoming bad debts since this will mean an extra cost to the organization.

According to the Table below, theaggregate mean score of the respondents who agreed on all aspects constitutes internal control was76%.This shows internal control management is very important component of accounts receivable.The results also concur withFrancisa et al. (2005) and Bhattacharya, Daouk and Welker (2007) who found that the innate component has effect in explaining the decision to use account receivable financing.

The results show that the printing firms had put into place strict management policies and internal operating procedures approved by the senior management on accounts receivables. The policies are well written down and roles and responsibilities well defined and communicated for accounts receivables management. The findings further shows that management policies affect accounts receivables; if the policies are well governed they affect accounts receivables positively.

Table : Internal Controls in accounts receivable

Statement	Agree	Disagree	Neutral
Does internal control on credit affect accounts receivable positively?	76	14%	10%
Customer receive the invoice and sign delivery note when receiving the goods?	88 %	6%	6%
Do you send statement at the beginning of the month?	72%	13%	15%
Do you have a credit control department?	69%	11	20%
Mean	76%	10%	14%

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

The general objective of the study was to establish the determinants of accounts receivables management in the printing industry in Nairobi industrial area. One of the key finding was that employees at printing firms were concerned about accounts receivables management. This was demonstrated by the extent of agreement with the statements in the questionnaire in support of accounts receivables management in the printing firms in Nairobi Industrial area.

Internal controls

The third objective of the study was to establish the effects of internal controls in accounts receivables management in the printing firms in Nairobi Industrial area. The study findings showed that internal controls have contributed to accounts receivables management in the printing industry. High gross profit was statistically associated with accounts receivable management. Thus more focus should be put on internal controls as it affects the accounts receivable positively.

Conclusions

Based on the objectives and the findings of the study the following conclusion can be reached.

Internal controls and Accounts Receivables Management

Internal controls had a positive effect on accounts receivables management. Thus it can be concluded that the stronger the internal controls the better chances of success in accounts receivable. It was also possible to conclude that the management should be involved in accounts receivable review so that they can assist solve problem in the department.

Recommendation

Internal controls were found to be an important variable that is influencing to a great extent accounts receivables positively. Measures should be put in place to ensure that internal controls are put in place and followed by the employees. The printing firms management was urged to ensure that they have high quality staff who understand importance of accounts receivable controls and strictly adhere to them.

Areas for Further Study

A similar study can be carried out with a further scope to include more printing firms in other regions in Kenya.

A similar study can be done on other sectors in our economy and see whether the findings are true. Future studies should apply different research instruments like secondary data, group discussions to involve respondents in discussions in order to get more detailed information which would help improve account receivable in printing industry.

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