

ESTABLISH CREDIT SYSTEM IN ENTERPRISES TO STRENGTHEN THE MANAGEMENT OF ACCOUNTS RECEIVABLE¹

Hong Mei²

Abstract: The main point about account receivable management in enterprises is that making a reasonable credit policy is an enterprise according to the real running state of the enterprise and reputation state of a customer. It is an important component as well as a guiding principle and policy which should be made reasonably in the enterprise to achieve the goal about management of accounts receivable. At present, an overall amount of accounts receivable increased progressively each year and never cut down on overdue accounts in our country. This has become one of chronic and stubborn problems in business activities. In the paper, problems and causes about accounts receivable in an enterprise are analyzed in our country. It suggests that the firm want to change this kind of current state, it may start with the two aspects from establishment of accounts receivable mechanism on guard and handle of overdue accounts. As following of exact measures: Establish a perfect credit management system, Enhance internal monitor and control against accounts receivable, Strengthen daily management on accounts receivable and integrate accounts receivable.

Key words: account receivable, credit policy, debt reorganization, internal control

1. TARGET FOR ACCOUNTS RECEIVABLE MANAGEMENT

The target is that a firm should make a sensible and scientific credit policy about accounts receivable and weigh marketing gains and due costs from the credit policy. The firm can not put into effect and pursue this kind of credit policy until the marketing earnings go beyond the costs added, meanwhile the management has included the prediction and judgment on market and investigation on security of accounts receivable. If it seems that the market promises better, higher security of accounts receivable, the firm can introduce more flexible collection policies and expand the credit business to make more profits. Conversely, the firm should adopt strict policies or adjust the credit line to different customers so as to achieve better economic results.

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² Hongmei, female, professor, Financial department in Shanghai Lixin University of Commerce, China. Main research goal: credit management.

E-mail: hongmei@Lixin.edu.cn

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2. ANALYSIS ON THE STATUS QUO AND CAUSE OF ACCOUNTS RECEIVABLE IN OUR COUNTRY

2.1 The status quo of accounts receivable in our country

At present, many products are the buyers market. Supply exceed demand has already become the normality in all trades and professions. Many firms introduce the way of credit business to develop markets and create more favorable competition environment. The current survey showed that about 80% firms have used the method of credit business in our country, the figure is about the same as developed countries, but results are widely divergent.

The section concerned survey should that accounts receivable constitute over 50 per cent of flow cashes in our country's firms, the proportion is higher above 20 percent than the developed countries.

Firms especially, the state-owned firms, have fallen into arrears with their payment for goods mutually. This is a very very serious problem. According to analysis of a professional institute statistics, in general, overdue accounts in a firm should be cover 10 percent of total accounts receivable in developed market economy, but the proportion has been higher up to over to percent.

The success of recovery will be affected directly with aging of accounts receivable and the amount of the overdue days be good credit period.

Accounts receivable cannot be controlled effectively, bad market environment and customers credit seem on the surface to lead the current state. Therefore, it is the direct and foundational reason that an internal management has the greatest flaw, the credit problems are very real problems having solved and prominent contradiction in the economic life so, the firms development has been limited seriously with lack of credit management, we must strengthen credit management to face the challenges and opportunities after entrance of WTO.

2.2 The cause of accounts receivable in our country

The market economy necessarily produce accounts receivable, this is normal phenomenon, its nature is credit economy. The way and relationship of credit is principal form in social economic life. It is difficult to recover accounts receivable, why? here is how:

1st. Lack of risk consciousness. In cut-throat competition, at the beginning of entry market, some firms want to get into the market, under the circumstances (without a thoroughgoing investigation of a payers credit, without right evaluation risk of accounts receivable), they conclude a short-term, given credit-sale line contract (or agreement) with customers to attract more customers and expand their market shares. After that, the firm have to pay such enormous amounts of VAT (because the credit receipt is business receipt) that there is danger of exhausted cash.

2nd. Without vigorous internal control. A majority of firms put to use the link total payroll with economic performance in order to bring into play the initiation of the staff at present, yet have ignored the probability of the bad debts.

Since accounts receivable have not been thought into the check system, a business department just pays attention to business task, but does not mind recovering on accounts receivable, results in accounts receivable increasing constantly. Some of the firms have not asked for the department concerned and the staff to press for payment of accounts receivable vigorously with effective countermeasures, caused the shortage of the flow cash, in fact, there is the phenomenon of 'false surplus and real loss'. Sedimentation of enormous amounts of accounts receivable make the firm bear serious financial burden.

3rd. Weak of law awareness. As we know, at present default costs are relative lower. Many of the firms have this kind of mental attitude you owed mine, I owed his. Few people couldn't safeguard their own lawful rights and interests with law, and then vicious circle.

4th. Short of detailed management system. Some firms have not established sensible and workable financial regulations, Financial department has not communicate with another department .checking up account is not on time ,responsibilities are not clear and definite. In a word, some people have not taken responsibility for the jobs , so accounts receivable have increasingly become bad debts.

3. COUNTERMEASURES ON MANAGEMENT OF ACCOUNTS RECEIVABLE IN OUR COUNTRY

3.1 Establish a perfect system of credit management

Credit policy is a vital component of credit management system, in duding credit standards, credit conditions, collection policies.

Credit standard refers to when a firm agrees to credit-granting for customers, customers must have the lowest ability to pay, in general, it expresses with anticipatory percentage of damage on bad debts, when a firm will decide on credit standards, you have to consider mainly three factors a ,to realize your customers, knowing that your opponment and yourself ,The firm can introduce generous or strict credit standards according to different situation so as so take advantage, b, to consider the firm's ability to bear default risk, c, to know about the customer's credit status, on the basis of this to give him credit preference or not.

Credit condition is an exact condition that a firm asks for a customer's payment, mainly including credit period, discount period and cash discount.

Collection policy refers to a firm adopt the collection tactics when the credit condition was run counter to .If the firm adopted positive collection policy, you might reduce the cost of accounts recitative and the damage of bad debts ,that add to the collection costs ,sensible credit policy is decided ,the firm must consider credit standard, credit condition and collection policy to improve percentage of accounts receivable.

3.2 Establishment of guarding system of accounts receivable

It is necessary to establish guarding system ,in the purpose of providing against possible trouble. ① you'd better set up a professional credit management institute to manage credit sale; ②set up a dymatic management system of a customer's resource; ③set up control system of accounts receivable.

3.3 Integrate accounts receivable

In order to recover overdue accounts effectively ,a firm should adopt sensible and practical measures. ① set up special collecting group; ②regroup the debts; ③creditor's rights on sale.

3.4 strengthen everyday management of accounts receivable

3.4.1. strengthen everyday management of accounts receivable

①take basic notes well; ②check customer's credit line; ③realize customers' debts beyond credit period; ④analyse turnover rate of accounts receivable and average collection period; ⑤inspect the status to refuse payment; ⑥make the aging schedule.

3.4.2 Strengthen post management of accounts receivable.

①use sensible collection program; ②make advantage of a reasonable debt-recovery way.

3.4.3 Accounts receivable assessment method and management system

①enhance the departments of managing and monitoring; ②improve methods of internal assessment; ③internal audit; ④set up system of internal control .

The firm should establish a set of controlling system on accounts receivable.

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