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Besmire Aliu

University of Prishtina, besmire.aliu@hotmail.com

Liridona Ismaili

University of Prishtina, liridona.ismaili01@gmail.com

Zelfije Osmani

University of Prishtina, osmanizelfije1@gmail.com

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Accounts Receivable Management to Medium Enterprises in Kosovo

M.Sc. Besmire Aliu¹

¹ Master of Banks, Finances and Accounting, University of Prishtina, Faculty of Economy, besmire.aliu@hotmail.com, Rr. "Ymer Prizreni" No. 130, Gillogovc, Lipjan
besmire.aliu@hotmail.com,

Abstract. *Since people are facing numerous economic problems among them is doing business. In this way, this paper will provide a reflection on the operation of cash-free sales. The paper will be dealt based on two aspects: theoretical and practical. Furthermore, it will be examined Management of accounts receivable in medium-sized enterprises in Kosovo. There will be talked of accounts receivable, their management, including sales conditions, gathering information, cash and payout ratio at different periods of time, accumulation within the year, bad debts and business relationships, and customers.*

Keywords: *Accounts Receivable, Accounts Receivable Management, bad debts.*

1 Introduction

This paper will examine the management of accounts receivable in Kosovo as a very important problem with regard to the functioning of business activity.

At the beginning, it will be based on the origin of accounts receivable within the accounting system, as well as a brief definition of accounts receivable. The characteristics and the objectives of the sales with payment terms will be presented by continuing with the management of this sales method. Briefly, credit policy will be reflected on the sale of the payment period, then the analysis of the sale of the payment period and the checking of the accounts receivable.

The most important part will be given to the research part where the analyzation of payment sales management will be considered as the key points of this problem. The ratio of cash sales and timeshare sales to certain time periods will be considered and a percentage of non-payment of these accounts will be issued up to a year period. Attention will also be paid to the percentage of allowance for bad debts.

2 Accounts Receivable Management

Managing and accounting for receivables is an important term in the framework of credit sales. The benefit of extending credit to customers is the increase in sales, while their cost is the risk of non-collection. An entity may not be able to recover its outstanding balances with respect to certain receivables. Accounting refers to accounts receivable such as uncovered debts or bad debts².

The management of receivables, also called credit management, deals with the drafting of credit policies in liberal or restrictive terms, for credit standards and credit terms, discounts offered for early payment, policy and collection procedures. It works in a way that brings together these policy variables to determine an optimal level of investment in receivables, where returning to that investment is maximum for the firm. The credit period provided by the company usually ranges from 15 to 60 days.

When goods are sold on credit, ready-made goods are converted into accounts receivable in the seller's books. In buyers' books, the obligation arising from the purchase of a loan is represented as payable accounts. "Accounts receivable are the total loans granted by a firm to its client." These accounts represent the third category of most important assets for the business firm after plant and equipment as well as inventories and also constitute the second most important category of current assets for the company after inventories.³

² **Walter T. Harrison, Jr. and Charles T. Horngren. "Financial Accounting"** Seventh Edition; Published by Prentice Hall. by Pearson Education, Inc., **Upper Saddle River, New Jersey**, United States of America 2008. Pg. 270

³ *Chapter-V Accounts Receivable Management* Pg.156-158
shodhganga.inflibnet.ac.in/bitstream/10603/703/11/11_chapter5.pdf

Credit policies include determining the level of sales with payment terms, the determination of credit standards, the definition of credit terms and the discount rate in cash. In the credit analysis is required by the finance manager to determine how much the risk of advancing the loan in a particular part.

Loan or receivables control requires the finance manager to follow the debtors and decide on an appropriate credit collection policy. This is included in the scope of credit policies and the implementation of such policies.⁴

The main purpose of credit management is to maximize the value of the firm by reaching a compromise between liquidity, risk and profitability. Moreover, effective credit management will help to expand sales and may prove to be an effective marketing tool. This helps to keep old customers and win new clients. A good administration credit management means lucrative credit account. The objective of the management of receivables is to promote sales and profits to the point where the return on investment is achieved, which is the further financing of receivables and which is less than the cost of the funds raised to finance this additional loan.

The costs include giving credit and managing. To maximize the firm's value, these costs need to be checked. These are the costs of credit administration, bad debt losses and the opportunity costs of funds linked to receivables. The purpose of credit management should be to adjust and control these costs, not to eliminate them altogether. The cost can be reduced to zero if the loan is not given, but the profit determined in the expected volume of sales is due to the expansion of the loan.⁵

Every company spends considerable resources to generate revenue growth. However, revenue should be converted into cash and every euro of the company's income becomes a receivable that needs to be managed and settled.

The benefits of effective management of receivables includes: growth of cash flow, high credit loans, reduction of bad debt losses, lower administrative costs throughout the revenue cycle, reduce deductions and concessions of losses, improved customer service, reduce administrative sales charge to force.⁶

3 Accounts Receivable Management - Case study; Medium Enterprises in Kosovo

After a review of the theoretical side of the management of receivables, it will be continued with the practical review and analysis of the research part. As part of the research there will be a summary of key points related to the management of accounts receivable. In regard to the field of research, we have been specified in the medium-sized

⁴ http://www.slideshare.net/pace2race-Institute/credit-management-17278505?src=related_normal&rel=5563719#

⁵ **Chapter-V Accounts Receivable Management Pg. 158-159**
shodhganga.inflibnet.ac.in/bitstream/10603/703/11/11_chapter5.pdf

⁶ **John G. Salek; "Accounts Receivable Management Best Practices"**, John Wiley & Sons, Inc., Hoboken, New Jersey, United States of America 2005. Pg.1-2

enterprises in Kosovo where we had the opportunity to interview a total of 84 companies in the period 2014-2016. By collecting these data, we managed to get the necessary information that will be presented in details by commenting each item. From the 84 surveyed enterprises in Kosovo, we have achieved the following results:

The total sales per year such as 21% of sales have been payment term and 79% of sales are realized in cash.

Figure 1. Percentage of credit sales (term of payment) within a year compared to cash sales

The percentage of accounts receivable up 30 days is 19%, up 60 days 9%, up 90 days 5% and up to a year 2%. The gained results clearly show that receivables continue to decline in the opposite direction with the increase in the time period.

Figure 2. Percentage of accounts receivable up 30, 60, 90 days and a year.

Percentage of allowance for bad debts on average is 2% compared to the percentage of other costs of 98%.

Figure 3. Percentage of allowance for bad debts.

The 85% of the companies answered that the increase in accounts receivable was not the result of bad timing sales management, while in 15% of the companies answered there was such a problem.

Figure 4. Growth of accounts receivable and increase of non-payment of these accounts as a result of bad management of payment sales.

Regarding to the use of a company in order to manage accounts receivable and bad debts, all of the companies answered that 11% of them used another company for such management, while 89% of them did not use any company. Whereas, whether it had success the use of services of other companies to manage accounts receivable and bad debts, it appeared to succeed in 67% of companies while in 33% of companies did not succeed this Service offered.

Figure 5. Using the services of a company to manage accounts receivable and bad debts and success of using services from other companies in the case of managing accounts receivable

6 Conclusion and Recommendations

Managing accounts receivable is and will continue to be a very important issue in the operation of any business. The fact that there is such an important role in operating businesses motivates you to address this problematic.

A good management of accounts receivable of course requires the ability and commitment and above all knowledge on this issue. Certain policies, standards, principles and rules are guides to a qualitative operation, enough to apply them precisely and of course, according to normal circumstances, there will be no success. This success was argued by the research part of the paper.

The exploration of the management of accounts receivable in Kosovo's medium-sized enterprises led to the collection of important information from a sample of 84 companies. We were mostly focused and interested in getting information about the reality of the accounts receivables management was mainly: the percentage of sales on credit compared to cash sales within one year that these surveyed companies realized, on average was 21% of the sale on credit and 79% of the cash sale; the highest percentage of accounts receivable that was in the period of up to 30 days with an average of 19%, as well as the total percentage of accounts receivable that had not been received in the last three years, which was quite low with an average of 5%; it was important that the increase in accounts receivable had not occurred as a result of mismanagement of credit sales to 85% of companies.

Every company should consider many details to decide whether to sell or not to sell a payment period. It must make numerous analyzes and then decide if it worths it or it does not apply the payment term.

Finally, the timeshare sale has existed and should continue to exist as long as there is business activity, because it is a very important element of the functioning of economic activity in a country.

Based on the theoretical side of the work and in the survey conducted by the interview method, companies that exercise business activities will make these recommendations:

1. Each of the companies that decides to sell with a payment deadline should develop sales policies related to this kind of sale so that it can be determined whether sales can be made or not. If sales can be made to what extent?
2. Another thing to do is to select clients for each client to make the sale for a later payment and for those who are not allowed, so it needs to gather as much information as possible from the right sources. Also, set the sales time period that should normally be short such as 15-60 days.
3. The company should decide in that case it sells with receivables when the sale is made only if the expected profit is greater than the expected profit, if the cash sale is refused.
4. The company should bear in mind that if it is sold on a credit to increase sales and profits, it should also be taken into account that clients may not perform their obligation, therefore the company should pay extra attention to increasing unrecovered costs.
5. It would be preferable to apply discounts on the sale of goods to attract buyers and to motivate them to carry out their obligations within a short period of time.
6. If the company decides to sell on credit, there must be effective sales management that would help the company to save and expand its sales. Furthermore, to be an effective marketing tool that would help the company to keep old customers and win new customers.

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