

PAYABLES MANAGEMENT

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ABSTRACT

An account payable originates from the production budget of an enterprise but enters into the books of accounts when material are delivered and taken to stores. While timing of purchases or placing an order is the domain of materials procurement manager, he will be able to increase the value to the firm if he works in close collaboration with the finance manager. The quantity discount for large purchases acts as a powerful incentive for a purchase manager, even to the point of allurements, to place large orders. This study based on financial statement such as payables ratio, cash flow analysis by using all these tools combined it enables to determine payables in an effective manner.

The project helps to identify and give suggestion on the area of weaker position in

“Whirlpool India Limited.

Keywords: account payable, materials procurement.

1. INTRODUCTION

MANAGEMENT OF ACCOUNTS PAYABLE:

Accounts payable includes trade credit and accrued expenses which together provide finance to the operations of an ongoing basis.

Managing accounts payables:

An account payable originates from the production budget of an enterprise but enters into the books of accounts when material are delivered and taken to stores. While timing of purchases or placing an order is the domain of materials procurement manager, he will be able to increase the value to the firm if he works in close collaboration with the finance manager. The quantity discount for large purchases acts as a powerful incentive for a purchase manager, even to the point of allurements, to place large orders.

While the goal of accounts payable management is to provide as much spontaneous financing as possible at zero cost, a firm has to operate within a given terms of purchase (which is mostly dependent upon market practice). This determines the cost to the firm of financing obtained from the suppliers.

Terms of purchase:

Terms of purchase generally consists of a credit period and a cash discount for early payment. If the term is quoted as 2/10 net 30, it means that a 2 percent discount on the billed amount will be payable if paid within ten days; otherwise normal credit period of 30 days will be available. There may or may not be any penal clause attached to the terms. Penalty comes in the form of upfront payment on the bill amount, if it is not paid by the due date.

Stretching Accounts Payable:

Cost-benefit analysis of an accounts payable policy will invariably rest on minimizing the net present value (NPV) of disbursement. The model will obviously include cash discount as a benefit – variable. But minimisation of NPV of an accounts payable disbursement provides an incentive to the finance manager to stretch the payment beyond the due date, i.e. to increase the float. Longer the time for payment, lower is the net present value of such payment and higher the value of the firm.

A responsible company should :

- Have a clear, consistent policy that it pays bills in accordance with the contract.
- Ensure that the finance and purchasing departments are both aware of this policy and adhere to it.
- Agree payment terms at the outset of a deal and stick to them.
- Not extend or alter payment terms without prior agreement.
- Provide suppliers with clear guidance on payment procedures.
- Ensure that there is a system for dealing quickly with complaints and disputes and advise suppliers without delay when invoices or parts of invoices are contested.

2. REVIEW OF LITERATURE

ARTICLE: 1

TITLE: he accounts payable management practices of small, medium and micro enterprises in the Cape Metropolis

Author: Samuel Tabot

Source: Investment Management and Financial Innovations

The purpose of this article is to investigate the accounts payable management practices of small, medium and micro enterprises (SMMs) in the Cape Metropolis. The study is motivated by a lack of research on payable management practices of SMMs in South Africa. Data are collected from a sample of 200 SMMs by means of a closed-ended questionnaire and analyzed using descriptive statistics and inferential statistics. The findings of the study indicate that 70% of the sampled SMMs purchase only on cash basis. Of the sampled SMMs, 22% purchase on both cash and credit, while 8% purchase only on credit basis. Of those that purchase on credit, 72% pay their creditors promptly to take advantage of discount facilities. To manage their accounts payable, 52% of the SMMs use computers. Only 43% settled accounts payable on the last day that the payment is due. The results further indicate that a lack of personnel and time are the main factors that inhibit the SMMs from managing their accounts payable effectively.

ARTICLE: 2

Other studies have lamented that most SMMs do not prioritize the management of their accounts payable given that this is regarded as part of a backoffice function (Mazzarol, 2014, p. 2). Accordingly, these entities do not incorporate effective management of their payables as part of building their competitive advantage. This approach often results in a cash flow crisis, particularly as the SMMs grow in size, which can subsequently result in their closure (Amoako, 2013, p. 75).

ARTICLE: 3

Some studies have also documented that SMMs typically rely on error-prone manual processes with inadequate controls to approve requisitions, check supplier invoices and make payments (Singawaza, 2013, p. 2). Some of these entities even fail to issue purchase orders for each new order, fail to check whether order deliveries match contractual terms, incorrectly load supplier and/or contract information into master data files (Campbell & Hartcher, 2015, p. 9). Others lack processes and systems to prevent late payments, under- or over-payments, duplicate payments or missed payments (Deloitte, 2015, p. 4)

By contrast some studies have revealed that SMMs do not take advantage of the credit terms availed by suppliers (Tuffour et al., 2012). Instead they tend to only buy on cash basis or settle invoices earlier than necessary, and do not negotiate the credit terms, approach that strains their cash flow position and limits their growth potential (Pietersen, 2012). Those that pay in advance to take advantage of discounts do so without calculating the cost/benefit of capital outlay (Deloitte, 2015, p. 4).

RESEARCH GAP:

The study indicates that a lack of personnel and time are the main factors that inhibit the SMMs from managing their accounts payable effectively.

OBJECTIVES:

- ❖ The main objective is to know the efficiency of payables management of an organization.
- ❖ To understand and payable processing procedure of the company and supplier relationship.
- ❖ To understand cash management in payables.
- ❖ To analyze factors influencing payables.
- ❖ To identify the causes for delays in payment process.

3. RESEARCH METHODOLOGY

Need For The Study

Accounts payable and its management is vital for the smooth functioning process of any business entity. It is important for any business because:

- It primarily takes charge of paying the entity's bills on a timely basis. This is important so that strong credit and long-term relationship with the vendors can be maintained.
- Only when invoices are paid on time, vendors will ensure an uninterrupted flow of supplies and services; which in turn will help in the systematic flow of business.

- A good accounts payable process ensures there are no overdue charges, penalty or late fees to be paid for the dues.

Scope Of The Study:

- It helps the management to know their financial strength and weaknesses.
- It helps the potential lenders or creditors who want a clear picture of the company's ability to repay.
- It helps the investor who needs to judge whether the company is financially sound.
- The project work helped to put the theoretical knowledge gained in financial accounting and financial management help to widen the knowledge about payables.

Methodology

Primary Data:

The primary data are those, which are collected afresh and for the first time, and thus happen to be original in character. The primary data are to be originally collected.

Sources: Some type of information was gathered through oral conversation with Mr. Ramasubramanian (Finance Executive).

Secondary Data:

Secondary data are those which have already been collected by someone else and which have already been passed through the statistical process.

Sources: Collected from Balance Sheet, Books, Journals, Internet, and Articles.

Tools used:

- Payable turnover ratio
- Cash flow analysis

Period of Study: The analysis is based on financial statement covering a period of (2018– 2019 to 2022 – 2023 at Whirlpool of India Ltd.).

HYPOTHESIS OF THE STUDY:

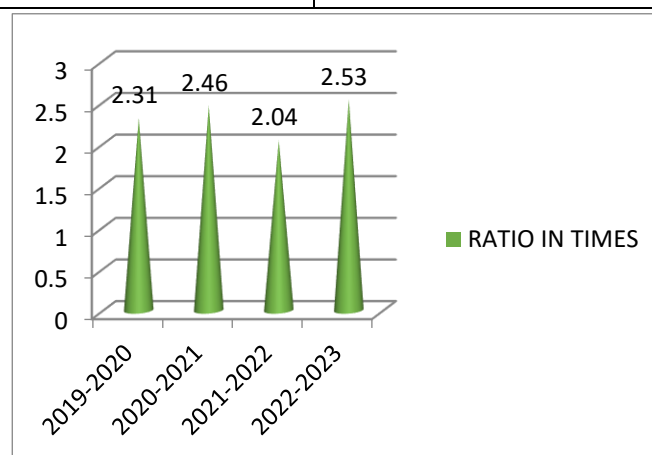
There is no significant relationship between account payable and profitability of whirlpool. 2. There is no significant relationship between debt and profitability 3. Sales growth has no significant relationship on corporate profitability.

4. DATA ANALYSIS & INTERPRETATION

PAYABLE TURNOVER RATIO:

PAYABLES TURNOVER RATIO = $\frac{\text{NET CREDIT PURCHASES}}{\text{AVERAGE CREDITORS}}$

YEAR	NET CREDIT PURCHASE (Rs.)	AVERAGE CREDITORS (Rs.)	RATIO IN TIMES
2019-2020	61063.14	26489.57	2.31 times
2020-2021	65930.64	26694.79	2.46 times
2021-2022	51969.24	25446.35	2.04 times
2022-2023	69239.07	27331.68	2.53 times



Interpretation:

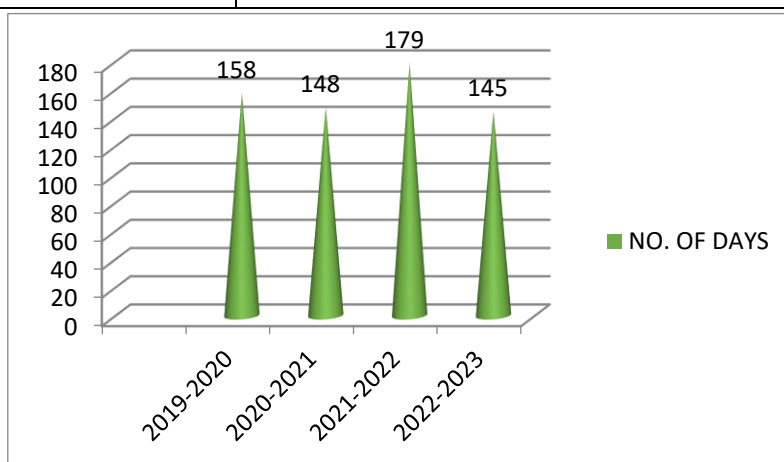
It is found that the Credit purchases in the year of 2020-2021 was higher than 2019-2020.that means 2020-2021 net credit purchases is 65930.64, So the ration is at the time 2.46 times.

DEBT PAYMENT PERIOD ENJOYED RATIO:

DEBT PAYMENT PERIOD ENJOYED RATIO = MONTHS OR DAYS IN A YEAR

PAYABLES TURNOVER

YEAR	DAYS IN A YEAR	CREDITOR/PAYABLES TUOVER RATIO	NO. OF DAYS
2019-2020	365	2.31 times	158days
2020-2021	365	2.46times	148days
2021-2022	365	2.05times	179days
2022-2023	365	2.53times	145days



Interpretation:

It is found that the credit period allowed to the company is 90 days. The Average Debit payment period enjoyed by the company is 158 days. Which implies that the company is efficiently using its credit period.

CASH FLOW STATEMENT (OPERATIONS ACTIVITIES) FOR THE YEAR ENDED DECEMBER 2019

(RS IN LAKHS)

Net profit before Tax & Extraordinary adjustment for non cash items		1418.71
Add : Depreciation	3910.48	
Miscellaneous expenditure written off	453.84	
Prov for bad & Doubtful debts advances	361.05	
Prov. for diminution in value of investment	36.66	
Foreign Exchange fluctuations	47.90	
Interest & Finance charges	4726.11	9536.04
		10,954.75
Less : Non-operating income		
Profit on sale of fixed asset	139.65	
Profit on redemption of unit	0.55	
Interest income	77.86	
Dividend Income	4.92	(222.98)
Fund from operations		10731.77
Add : Decrease in current assets Bills receivables Inventories	786.03	
	1785.79	

Increase in current liabilities Payables	4081.19	6653.01
Cash generated from operation		17384.78
Direct Taxes		7.55
Cash used before extra ordinary items		17392.33
Payment relating to SAP		(918.81)
Cash from operations		16473.52

**CASH FLOW STATEMENT (OPERATIONS ACTIVITIES) FOR THE YEAR ENDED DECEMBER 2020
(RS IN LAKHS)**

Net profit before Tax & Extraordinary adjustment for non cash items		852.76
Add : Depreciation	4118.69	
Miscellaneous expenditure written off	634.28	
Prov for bad & Doubtful debts advances	374.75	
Prov. for diminution in value of investment	8.18	
Foreign Exchange fluctuations	378.57	
Interest & Finance charges	3511.28	
Loss on sale of fixed asset	388.33	10266.84
Less : Non-operating income		
Interest income	397.05	
Dividend Income	0.41	(397.46)
Fund from operations		9869.38
Add : Decrease in current assets	-	-
Increase in current liabilities Payables		9693.58
		19562.96
Less : Increase in current asset Receivables Inventories	12348.73 2065.84	14414.57
Cash generated from operation		5148.39
Direct taxes		95.00
Cash used before extra ordinary items		5243.39
Payment relating to SAP		(3925.70)
Cash from operations		1317.69

**CASH FLOW STATEMENT (OPERATIONS ACTIVITIES) FOR THE YEAR ENDED DECEMBER 2021
(RS IN LAKHS)**

Net loss before Tax & Extraordinary adjustment for non cash items		(5014.13)
Add : Depreciation	4596.89	
Miscellaneous expenditure written off	1535.35	
Prov for bad & Doubtful debts advances	198.82	
Interest & Finance charges	3773.55	

Loss on sale of fixed asset	292.18	10688.97
		5382.66
Less : Non-operating income		
Interest income	76.54	
Dividend Income	0.28	
Profit on redemption of units	10.15	
Provision for diminution in value of investment	29.15	
Foreign exchange fluctuation gain	150.85	226.97
Fund from operations		5115.69
Add : Decrease in current assets		
Receivables	1695.86	
Inventories	957.69	2653.55
		7769.24
Less : Decrease in current liabilities		(8138.45)
Payables		
Cash generated from operation		(369.21)
Add : Direct taxes		165.25
Cash used before extra ordinary items		(203.96)
Payment relating to SAP		(52.42)
Cash from operations		(256.38)

CASH FLOW STATEMENT (OPERATIONS ACTIVITIES) FOR THE YEAR ENDED DECEMBER 2022
(RS IN LAKHS)

Net loss before Tax & Extraordinary adjustment for non cash items		(9938.70)
Add : Depreciation	3216.88	
Miscellaneous expenditure written off	1232.54	
Prov for bad & Doubtful debts advances	461.68	
Interest & Finance charges	2557.90	
Loss on sale of fixed asset	89.44	7558.44
		(2380.26)
Less : Non-operating income		
Interest income	31.50	
Dividend Income	0.35	
Profit on redemption of units	11.00	
Provision for diminution in value of investment	0.01	
Foreign exchange fluctuation gain	6.51	(49.37)
Fund lost in operations		(2429.63)
Less : Increase in current asset		5386.46
Bills receivable		6396.35
Inventories		
Decrease in current liabilities		

Payables		(4348.31)
Cash generated from operation		(13701.49)
Add : Direct taxes		18650.75
Cash used before extra ordinary items		(203.96)
Payment relating to SAP		65.57
Cash from operations		(18495.18)

**CASH FLOW STATEMENT (OPERATIONS ACTIVITIES) FOR THE YEAR ENDED DECEMBER 2023
(RS IN LAKHS)**

Net loss before Tax & Extraordinary adjustment for non cash items		(5333.07)
Add : Depreciation	3655.24	
Miscellaneous expenditure written off	1366.24	
Prov for bad & Doubtful debts advances	579.87	
Interest & Finance charges	1710.03	
Loss on sale of fixed asset	41.99	
Foreign exchange fluctuation loss	88.87	7442.23
		2109.16
Less : Non-operating income		
Interest income		(15.75)
Fund from operations		2093.41
Add : Decrease in current asset Receivables	2455.07	4055.40
Inventories	1600.33	
		6148.81
Decrease and current liabilities Payables		2375.75
		3773.06
Less : Direct Taxes	331.66	
Payment relating to VRS	4013.25	4344.91
Cash from operations		8117.97

5. CONCLUSION

- From the critical analysis throughout the study, it is evident that the overall payables position of the company with regards to cash management is not satisfactory
- But still it is seen that the organization is more efficiently using its credit period, the longer the company stretching out the payments. Though it is advantageous to the company it is important to maintain smooth relationship with the vendors.
- Payables management is affected by increased cash flows in inventories and receivables, so the company is required to plan and control these activities in such a way that there is positive cash flow which would help the management to pay its suppliers promptly i.e. on time
- It is seen that the longer the company's stretches out its payment the more efficient is organization in using the credit facilities given by the suppliers.

6. REFERENCES

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