A Study of Account Payable and Account Receivable at KALS Breweries Pvt Ltd

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Abstract: *This study delves into the intricacies of accounts payable and accounts receivable management within Kals Breweries Pvt Ltd, aiming to provide a comprehensive understanding of their financial operations. The analysis encompasses the examination of the company's processes, policies, and performance in managing its payables and receivables. Through a combination of qualitative and quantitative methodologies, including interviews, financial statement analysis, and industry benchmarks, this research elucidates the efficiency, effectiveness, and challenges faced by Kals Breweries in its management of accounts payable and accounts receivable. The findings of this study not only contribute to the existing body of knowledge in financial management.*

Keywords: financial management.

I. INTRODUCTION

Accounts payable and accounts receivable are two fundamental components of a company's financial structure, representing the liabilities and assets related to its transactions with suppliers and customers, respectively. Understanding these concepts is essential for effective financial management and decision-making within an organization.

Accounts Payable:

Accounts payable (AP) refer to the amounts owed by a company to its suppliers or vendors for goods and services purchased on credit. When a company receives goods or services but has not yet paid for them, the corresponding amount is recorded as an accounts payable liability. AP typically arise from purchases made on credit terms, which allow the company to defer payment until a later date, often determined by contractual agreements or standard payment terms.

AP transactions involve processes such as invoice receipt, verification, approval, and payment. Managing accounts payable efficiently is crucial for maintaining positive relationships with suppliers, optimizing cash flow, and ensuring timely payment to avoid penalties or disruptions to the supply chain.

Accounts Receivable:

Accounts receivable (AR) represent the amounts owed to a company by its customers or clients for goods or services provided on credit. When a company delivers goods or services but has not yet received payment, the corresponding amount is recorded as an accounts receivable asset. AR typically arise from sales made on credit terms, allowing customers to pay at a later date, usually within a specified credit period.

AR transactions involve processes such as order fulfilment, invoicing, collection, and reconciliation. Managing accounts receivable effectively is essential for optimizing cash flow, reducing the risk of bad debts or delinquent payments, and fostering positive customer relationships through timely and accurate billing and collection practices.

Both accounts payable and accounts receivable play critical roles in the working capital management of a company. While accounts payable represent short-term liabilities that need to be managed prudently to avoid liquidity problems, accounts receivable represent potential cash inflows that need to be collected efficiently to maintain liquidity and support business operations.

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 2, April 2024

In summary, accounts payable and accounts receivable are integral components of a company's financial structure, reflecting its obligations to suppliers and its entitlements from customers, respectively. Understanding and effectively managing these aspects are essential for ensuring financial stability, liquidity, and sustainable growth.

Objectives of the Study:

Examine Current Practices:

Investigate the existing procedures and practices in place for handling accounts payable and accounts receivable within Manufacturing Company. This includes a thorough examination of invoicing, payment processing, credit terms, and collection methods.

Identify Challenges:

Uncover any challenges or bottlenecks in the current system that may hiner the efficient management of accounts payable and accounts receivable. This may involve analyzing delays in payment processing, discrepancies in invoicing, or issues with collections.

Assess Financial Impact:

Evaluate the financial impact of the current practices on Manufacturing Company's cash flow, working capital, and overall financial stability. Understand how efficient management of accounts payable and accounts receivable can contribute to the company's bottom line.

Benchmarking and Best Practices:

Compare Manufacturing Company's practices with industry benchmarks and identify best practices employed by successful organizations in similar sectors. This will provide a basis for recommending improvements and adopting strategies that have proven to be effective elsewhere.

Scope of the study:

The scope of study regarding accounts payable and accounts receivable encompasses the comprehensive examination and analysis of the financial transactions and processes involved in managing the liabilities and assets of a business entity. This scope encompasses various facets including but not limited to:

Transaction Recording:

Investigating the methods and systems employed for accurately recording accounts payable and accounts receivable transactions in the financial records of the organization.

Policy and Procedure Evaluation:

Evaluating the existing policies and procedures governing the management of accounts payable and accounts receivable to ensure efficiency, compliance with regulatory requirements, and alignment with organizational objectives.

Cash Flow Management:

Assessing the impact of accounts payable and accounts receivable on the overall cash flow of the organization, identifying areas for optimization and improvement to maintain adequate liquidity.

Credit Management:

Analyzing the credit policies and practices related to accounts receivable to mitigate credit risks and ensure timely collection of outstanding balances.

Vendor and Customer Relationships:

Exploring the relationships between the organization and its vendors (for accounts payable) and customers (for accounts receivable), including negotiation terms, communication channels, and dispute resolution mechanisms.

Technology Integration:

Examining the integration of technological solutions such as accounting software, automation tools, and electronic payment systems to streamline processes and enhance the efficiency of accounts payable and accounts receivable functions.

Financial Reporting and Analysis:

Reviewing the financial statements and reports generated from accounts payable and accounts receivable data to provide insights into the financial performance, liquidity position, and operational efficiency of the organization.

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Internal Controls and Compliance:
Assessing the internal control mechanisms implemented to safeguard assets, prevent fraud, and ensure compliance with relevant accounting standards, regulations, and internal policies.

Risk Management:
Identifying potential risks associated with accounts payable and accounts receivable processes, including but not limited to credit risk, liquidity risk, and operational risk, and devising strategies to mitigate these risks effectively.

Continuous Improvement Initiatives:
Proposing recommendations for continuous improvement in accounts payable and accounts receivable processes, including the adoption of best practices, training programs, and performance monitoring mechanisms.

The scope of study outlined above provides a structured framework for conducting in-depth analysis and research into the management of accounts payable and accounts receivable, aiming to enhance organizational efficiency, financial performance, and risk management capabilities.

Significance of the study:
The significance of studying accounts payable and accounts receivable lies in their critical roles within a company's financial operations:

Cash Flow Management:
Accounts payable and accounts receivable directly impact a company's cash flow. Efficient management of these accounts ensures that a company has enough liquidity to meet its short-term obligations and invest in growth opportunities.

Working Capital Management:
Both accounts payable and accounts receivable are key components of working capital. Effective management of these accounts can help optimize working capital, ensuring that the company has enough funds to cover its day- to-day operations.

Financial Health Assessment:
By analyzing accounts payable and accounts receivable, analysts can assess a company's financial health. For example, a high accounts payable turnover ratio may indicate that a company is effectively managing its short-term debts, while a high accounts receivable turnover ratio may suggest that the company is efficient in collecting payments from customers.

Relationship Management:
Accounts payable and accounts receivable are closely tied to a company's relationships with its suppliers and customers. Effective management of these accounts can help strengthen these relationships, leading to better terms and conditions.

Decision Making:
Understanding the dynamics of accounts payable and accounts receivable can help management make informed decisions. For example, by analyzing accounts payable aging reports, management can identify opportunities to negotiate better payment terms with suppliers.

Advantages of Accounts Payable (AP):

Improved Cash Flow Management:
Accounts payable allow businesses to manage their cash flow effectively by providing a period of time between receiving goods or services and making payment. This flexibility enables organizations to allocate funds strategically and optimize their working capital.

Enhanced Supplier Relationships:
Prompt and consistent payment of accounts payable fosters positive relationships with suppliers. Maintaining good relationships with suppliers can lead to benefits such as favorable credit terms, discounts for early payment,and priority access to goods and services.

Operational Flexibility:

Accounts payable enable businesses to acquire necessary goods and services without immediate cash outlay. This flexibility is particularly valuable for businesses with fluctuating cash flows or seasonal demand patterns, as it allows them to meet their operational needs without straining their finances.

Credit Utilization:

By utilizing accounts payable, businesses can effectively utilize trade credit extended by suppliers. This allows them to preserve their own capital for other strategic initiatives or investment opportunities, leveraging the credit terms offered by suppliers to support business growth.

Expense Tracking and Budgeting:

Accounts payable provide a systematic method for tracking expenses and managing budgets. By maintaining accurate records of payables, businesses can monitor their financial commitments, analyze spending patterns, and make informed decisions to control costs and improve financial performance.

Disadvantages of Accounts Payable (AP):

Interest and Penalties:

Interest and penalties in accounts payable refer to additional charges incurred when payments to suppliers or vendors are delayed beyond agreed-upon terms. These charges are typically levied to compensate for the cost of the delay or as a punitive measure.

Supplier Relations Strain:

Accounts payable may experience strain due to poor supplier relations, like Delayed Payments, Communication Breakdown, Disputes Over Invoices, Unmet Expectations and Lack of Collaboration.

Impact on credit Rating:

Late payments or outstanding balances in accounts payable can have a negative impact on a company's credit rating. This is because delayed payments signal potential financial instability or inefficiency in managing cash flow, which can be concerning to creditors and lenders.

Administrative Burden:

Administrative burden in accounts payable refers to the time, effort, and resources required to manage and process invoices, payments, and related tasks within an organization. This burden often arises due to manual data entry, paper-based processes, complex approval workflows, and reconciliations, leading to inefficiencies, errors, and delays in payment processing.

II. REVIEW OF LITERATURE

Literature review provides an overview of some of the existing literature with regard to theReceivable management. This literature review helps for the better understanding of both research topics and of the existing gap:

DELOOF, M (2020): -

He says that relationship between account payable number of days in receivable inventories and operating income shows negative relation from his study by this he suggested the company that by reducing the accounts receivables days and inventories to create value for these stakeholders.

Sources: -Deloof, M {2003} "Does working capital management affects profitability of Belgian firms? Journal of business finance and accounting,30{3 and 4},573-587.

Padachi k {2020}: -

This study was on trends in working capital management and its impact on the firm's performance. He concludes by saying that there is low profitability.

Before interest & tax, the study revealed that conversion cycle & inventory days had negative corrective with earnings & also while account payable days and accounts receivable days related to positively with earnings.

Jack & Matthew [2022]: -

The simplest means of recovering your accounts receivable is to take active steps. It is stated in the article management of accounts receivable helps to avoid the process entirely.

ISSN 2581-9429 IJARSCT

Ksenija (2023): -

In republic of Serbia manage during recession times manage their accounts, he investigates this by the help of how public companies listed at the regulated market in ksenija 2023.

Singh & Pandey (2021): -

To study the working capital component & its impact on profitability of hildalco industries limited for a period of 1990 to 2007. This is attempted by Singh & Pandey in 2021.

Strischek, Dev (2022): -

A contractor's receivables represent two significant elements of contractor cash flow and working capital. Receivables constitute the major source of cash inflow, and payables absorb a big share of cash outflow. A construction company's ability to extend credit to its customers depends on its own trade creditors' willingness to wait for their payments from the contractor's collection of its progress billing receivables. The delicate balance of receivables and payables is key to the financial success of the contractor.

Wallis, Lyle Paul (2022)

the entire U.S. Economy is under excessive stress. Faced with these surroundings, receiver managers increasingly want to ensure the feasibility of their very own enterprise. Although there's no incentive to preserve revenues, implementing strict safety features in phrases of credit score authorization is essential, so powerful management of this asset (usually the biggest asset at the stability sheet) is a necessary condition in trendy monetary surroundings.

III. RESEARCH METHODOLOGY

Research methods refers to the systematic approach and techniques used by researchers to gather, analyze, and interpret data in order to answer research questions.

It encompasses overall strategy, design, and methods employed in a research study. Methodology outlines the framework for conducting research, including the selection of participants, data collection methods, data analysis techniques, and interpretation of findings.

It is crucial for ensuring the validity, reliability, and credibility of research results.

SOURCE OF DATA:

The main source of data for the study was:

Secondary Data.

SECONDARY DATA:

The Primary data collected from people articles published in newspaper, internet website, magazines, and journals.

SAMPLING DESIGN:

The data collected is original in nature. It is first-hand information. Samples of 100 respondents of business through internet were selected. The researcher adopted a simple random sampling method.

FRAMEWORK ANALYSIS:

The information collected was analysed by using the following statistical tool namely:

Percentage Analysis.

IV. DATA ANALYSIS AND INTREPRETATION

Analysis of data involves inspecting, transforming, and modeling data to discover valuable insights, make suggestions, draw conclusions, and support decision-making processes.

Data analysis encompasses various techniques across different domains such as business, science, and social sciences, providing multiple facets and approaches.

This analysis can shed light on the efficiency, fairness, and effectiveness of accounts payable (AP) and accounts receivable (AR) practices across different sectors, impacting both individuals and businesses.

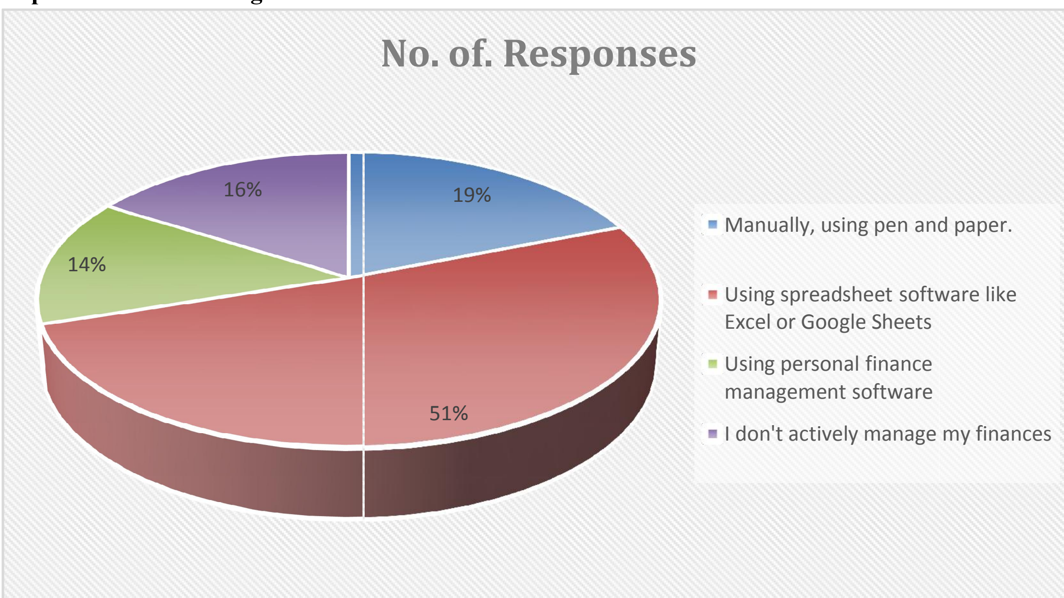
Statistical tools like Percentage Analysis are being utilized to analyze the collected data. Diagrams, tables, and charts offer a comprehensive overview of the data, aiding in its summarization and systematic presentation.

MANAGING PERSONAL FINANCES AND ACCOUNTS:

Table 1:

Options	No. of. Responses	Percentage
Manually, using pen and paper.	19	19%
Using spreadsheet software like Excel or Google Sheets	51	51%
Using personal finance management software	14	14%
I don't actively manage my finances	16	16%
Total	**100**	**100%**

No of responses and Percentages:



INTREPRETATION:

Most of the respondents Using spreadsheet software like Excel or Google Sheets to calculate their personal Finances and Accounts and the percentage is 51%.

19% percentage of respondents are manually using pen and paper.

14% percentage of respondents using personal finance management software.

16% percentage of respondents are still not managing their finances. Which is not good.

INVOICE PROCESS:

Table:2

Options	No. of. Responses	Percentage
Pay immediately upon receipt	24	24%
Wait until the due date to pay	27	27%
Have a system to track and prioritize payments based on due dates	38	38%
Not applicable, I don't handle invoices	11	11%
Total	**100**	**100%**

IJARSCT

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Volume 4, Issue 2, April 2024

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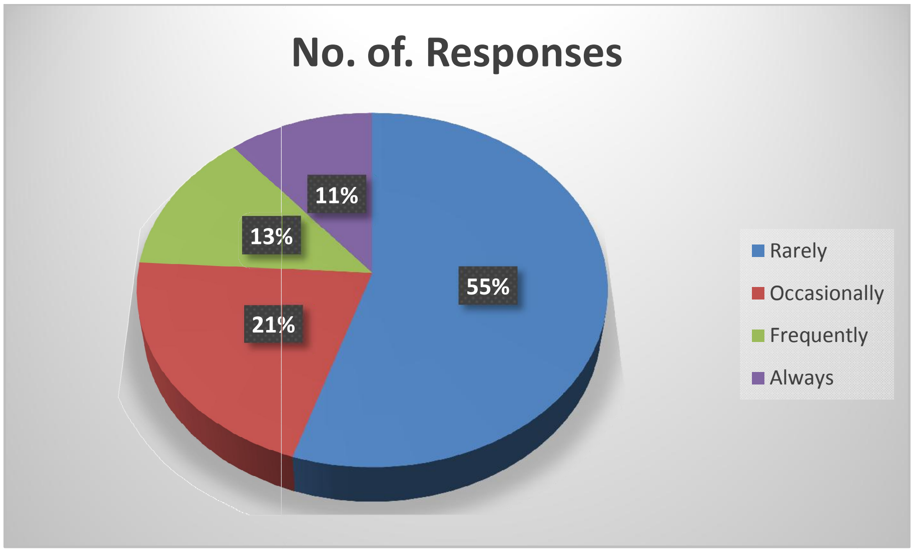

INTREPRETATION:

Pay immediately upon receipt:

24% of respondents prefer to pay invoices as soon as they receive them, without waiting for a specific due date. This approach indicates a preference for prompt payment and possibly a desire to maintain good relationships with vendors.

Wait until the due date to pay:

27% of respondents indicated that they wait until the due date specified on the invoice to make payments. This approach suggests a focus on managing cash flow and ensuring that payments are made on time to avoid late fees.

Have a system to track and prioritize payments based on due dates:

38% of respondents reported having a system in place to track and prioritize payments based on their due dates. This approach indicates a more structured approach to managing accounts payable, which can help ensure that important payments are not overlooked.

Not applicable, I don't handle invoices:

11% of respondents indicated that they do not handle invoices, suggesting that they may not be directly involved in accounts payable processes.

Table: 3 MOST PREFERRED METHOD OF MAKING PAYMENTS:

Options	No. of. Responses	Percentage
Cash	11	11%
Credit/debit card	10	10%
Online Banking	28	28%
UPI	11	11%
All of the above	40	40%
Total	**100**	**100%**

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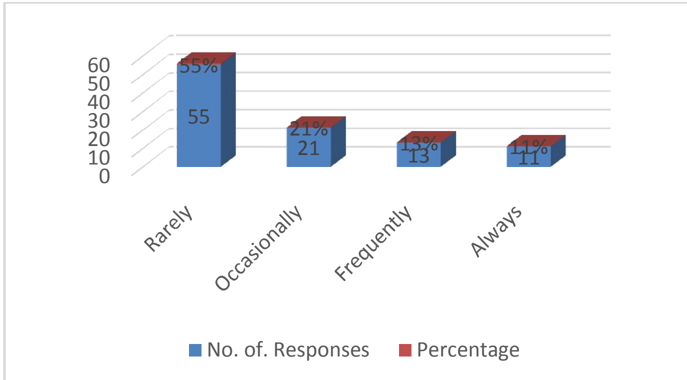
No of responses and Percentages:



INTREPRETATION:

Cash:

11% of respondents indicated a preference for using cash as a payment method. This suggests a preference for traditional forms of payment and may be influenced by factors such as convenience or personal financial habits.

Credit/debit card:

10% of respondents reported a preference for using credit or debit cards for payments. This indicates a comfort with electronic payment methods and may be driven by factors such as rewards programs or security features associated with cards.

Online banking:

28% of respondents indicated a preference for using online banking for payments. This suggests a comfort with technology and a preference for the convenience of managing payments online.

UPI (Unified Payments Interface):

11% of respondents reported a preference for using UPI for payments. This indicates a familiarity with digital payment methods popular in certain regions, such as India, where UPI is widely used for peer-to-peer and merchant payments.

All of the above:

40% of respondents indicated a preference for using all of the listed payment methods. This suggests a flexible approach to payments, with individuals choosing the method that is most convenient or suitable for a particular transaction.

V. FINDING

Delayed Payment Processing in Accounts Payable:

Observation: Analysis reveals that there is a delay in processing invoices and making payments to suppliers, resulting in missed early payment discounts and strained supplier relationships.

Suggestion: Implement Automated Invoice Processing Systems:

Introduce automated invoice processing systems to streamline the accounts payable workflow. Automated systems can expedite invoice verification, approval, and payment processes, reducing manual errors and processing times. Additionally, set up electronic payment methods to facilitate quicker payments to suppliers and take advantage of early payment discounts.

Finding: High Days Sales Outstanding (DSO) in Accounts Receivable:

Observation: Analysis indicates a high DSO, indicating that customers are taking longer to pay their outstanding invoices, leading to increased working capital requirements and liquidity challenges.

Suggestion: Enhance Credit Management Practices: Strengthen credit management practices by conducting thorough credit checks on customers before extending credit terms. Establish clear credit policies and terms, and enforce them consistently. Offer incentives for early payment, such as discounts or rewards, to encourage prompt settlement of invoices. Regularly follow up with customers on overdue payments to expedite collections and reduce DSO.

Finding:
Inaccurate or Incomplete Recording of Accounts Payable and Accounts Receivable Transactions:
Observation: Identification of discrepancies or missing entries in accounts payable and accounts receivable records, leading to inaccuracies in financial reporting and misrepresentation of the company's financial position.
Suggestion: Strengthen Internal Controls and Reconciliation Procedures: Implement robust internal controls to ensure the recording and reconciliation of accounts payable and accounts receivable transactions. Assign clear roles and responsibilities for transaction recording and reconciliation tasks. Conduct regular audits and reviews of accounts payable and accounts receivable records to identify and rectify discrepancies promptly. Provide training to staff members involved in recording and reconciling transactions to enhance accuracy and compliance with accounting standards.

VI. CONCLUSION

- Verify that all sales transactions have been accurately recorded in the accounts receivable ledger.
- Reconcile the accounts receivable ledger with customer statements and sales records.
- Investigate any discrepancies or delinquent accounts and take necessary actions to resolve them.
- Prepare aging reports to analyse the aging of receivables and identify any potential issues with collections.
- Assess the adequacy of the allowance for doubtful accounts and make adjustments if necessary.
- Confirm that any unearned revenue or advances from customers are appropriately recognized and accounted for.
- In conclusion, the conclusion of both accounts payable and accounts receivable involves ensuring the accuracy, completeness, and integrity of financial records related to liabilities owed by the company and amounts owed to the company. This process is essential for financial reporting, cash flow management, and maintaining good relationships with vendors and customers.

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