

Problems and Countermeasures of Accounts Receivable Management of Semir Apparel

Du Yanhui^{1,2}, Wang Xiaoyi^{1,2}, Josefine M. De Leon¹

¹University of the Cordilleras, Baguio, Philippines, 2600

²Shangqiu Normal University, Shangqiu, China, 476000

Abstract: As economic development and globalization continue, more and more companies are rapidly capturing market share and increasing profits through credit sales, thus creating a large amount of accounts receivable. Strengthening the management of accounts receivable can not only prevent and effectively control the corresponding accounts receivable, but also enhance the company's ability to recover the accounts receivable. Therefore, how to properly and effectively manage accounts receivable is a difficult issue for the company management to face. Taking Semir Apparel as the research object, this article analyzes the problems in the management of accounts receivable of Semir Apparel, in order to provide a development path that can be learned for the survival and development of the company.

Keywords: Semir Apparel; accounts receivable management; countermeasure suggestions

1. Introduction

With the acceleration of global economic integration and the intensification of business competition in recent years, the domestic market is changing from a seller's market to a buyer's market. In today's buyer's market environment, market competition is unprecedentedly fierce, and in order to increase the market share of products, credit sales have become an important way to promote sales ^[1]. In order to avoid being eliminated in the market competition and improve the market share, enterprises should establish a good credit system in terms of establishing quality advantages and improving the service system, so as to improve their share in the market. Especially in the case of weak credit awareness and unsound credit management system of enterprises in China, the rising financial risk of the company due to malicious default poses a great threat to the normal operation of the company. In the environment of global economic integration, how to establish an effective accounts receivable management system has become an important factor for enterprises to seize domestic and international markets in international competition. This paper analyzes the accounts receivable situation of Semir Apparel as an example, identifies the problems, and proposes corresponding countermeasures for these problems, which can provide references for the development of other companies.

2. Overview of relevant theories

2.1 Accounts receivable

2.1.1 The concept of accounts receivable

Accounts receivable is the amount of money that the company has delivered goods or services to a purchaser in the normal course of production and operation, but the customer has not yet paid for them. They consist mainly of payments receivable and freight and miscellaneous charges paid on behalf of the purchaser. In business, credit sales are characterized by receivables, which are credit transactions in nature. It is usually recognized as accounts receivable at the same time as revenue is recognized ^[2]. Accounts receivable is an asset, but is closely related to the company's profit.

2.1.2 Accounts receivable quality evaluation index

The quality of accounts receivable refers to the ability of a company to turn the incurred receivables back into cash flow for the company's operations and the amount of funds that can be recovered by the company. The quality of accounts receivable can be reflected from their ability to be turned into cash flow. If the collection of accounts receivable is on time and there are fewer bad debts generated, it means better quality; if the recovery cycle is long and a large number of bad debts are generated, the quality is

poor. Quality is a measure of accounts receivable and is related to the collection cycle, the size of the company, etc. In general, the quality of accounts receivable is reflected by the following data.

2.2 Accounts receivable management

2.2.1 Meaning of accounts receivable management

Accounts receivable management covers the entire credit transaction process from contract signing to payment collection. There is a focus on prevention before the due date, and collection after the due date. Effective management of accounts receivable is crucial for optimizing organizational operations and reducing financial and operational risks. The statement concludes that accounts receivable management is a crucial aspect of overall company management.

2.2.2 Main elements of accounts receivable management

Credit management is a management tool for enterprises to identify credit risk, assess credit risk, analyze credit risk and achieve effective control of credit risk on this basis ^[3-5]. On the basis of good credit investigation and assessment of target customers, we manage customer files in an orderly manner and update the file data in time when the actual situation of customers changes. To develop credit assessment methods and form a special assessment department to rate customer credit ^[6]. Depending on the credit situation of customers, the credit policy can be graded in order, roughly divided into lenient, strict and cautious, larger or more customers can also consider further refinement, relatively lenient credit policy can be applied to customers with good credit, relatively harsh credit policy is applied to customers with average credit performance, and for poor credit customers, conservative should be the most cautious credit policy. Improving customer credit rating methods can help reduce the risk of bad and doubtful accounts receivable at source ^[7].

3. Problems in the management of accounts receivable of Semir Apparel

3.1 Inter-departmental shirking of responsibilities and inadequate credit management function settings

Semir lacks a proper credit management system as the previous section analyzed the status of its accounts receivable and concluded that it is behind in this area compared to other companies. The management of accounts receivable is essential for any business, but in Semir, it is not coordinated or unified among different departments. The sales department is mainly responsible for credit risk assessment and implementation, while the finance department is responsible for accounting and assisting in collection. However, this division of responsibilities results in poor communication, weak cooperation, and inconsistent management goals between departments, leading to a weak credit management system.

3.2 Lack of effective collection policies and difficulties in collecting overdue accounts

Semir Apparel's poor profit quality and weak accounts receivable liquidity is due to ineffective measures in credit management and recovery, as well as poor training and monitoring of sales staff. The sales department is mainly responsible for collecting accounts receivable, but this is not their primary job, and their evaluation is mainly based on sales performance. The company needs to include the recovery of accounts receivable as an evaluation indicator to incentivize sales staff to focus on debt collection. Additionally, the method of collecting buyer's receivables is simple and has led to some customers getting used to malicious default, which ties up the company's working capital for a long time and leads to inefficiency. Overall, the lack of efficient collection has resulted in unsatisfactory collection in Semir Apparel.

3.3 Insufficient dynamic tracking and management with many potential risks

The company faces two main issues with accounts receivable: incomplete recovery of receivables and shortage of payment for goods. Incomplete recovery may occur due to customers reducing amounts due for reasons such as quality or delivery time, and the company may incur losses on these receivables. Additionally, some customers may go out of business or are poorly run, leading to only partial recovery of payments. Although Semir has a transaction accounting management system in place, it lacks a clear and standardized credit policy that would allow sellers to set credit criteria, credit terms, and discounts. The company does not offer a payment policy with the longest commercial credit period or discounts for

customers who pay during the credit period, leading to reduced customer willingness to pay and less efficient fund recovery, which increases the risk of wrongful debts for banks.

4. Countermeasures for the management of accounts receivable of Semir Apparel

4.1 Improve credit policy and set up an independent credit management department

Unclear responsibilities between departments in accounts receivable management can lead to problems and interruptions, with the enterprise ultimately bearing unnecessary losses. Employees involved in accounts receivable management must be highly qualified and knowledgeable in finance, sales, legal issues, electronic information, etc. The establishment and improvement of a credit management system can prevent wrong accounts receivable. After assessing a customer's rating, the company should implement an appropriate credit policy, such as blacklisting small customers from credit sales. Using a trust line decision system based on credit rules is more standardized and efficient than subjective human judgment. Modern information technology can improve financial risk management and business operations.

4.2 Formulate reasonable collection policies to promote the return of funds

The importance and necessity of accounts receivable management should be recognized by enterprises in the current market economy, and effective measures should be taken to speed up payment recovery^[8-9]. Enterprises should develop a standardized collection system and strengthen internal control by clarifying the authority and responsibility of the competent department to avoid irregular write-offs.

4.2.1 Pay close attention to the due time of accounts receivable

To effectively manage accounts receivable, it is important for Semir Apparel to conduct a thorough evaluation of the customer's credit status and strength before making any sale. This can be achieved by establishing communication between the sales department and the credit management department to handle overdue invoices, predict payment possibilities, analyze solvency, and prepare in advance after receiving complete information about the customer's rating. Department employees can set reminders for themselves via email to follow up with customers and notify them of upcoming payment deadlines. If payments become overdue, the customer should be contacted to determine the reason for the delay, reassess their creditworthiness, and gather relevant information. If the delay exceeds three months, the manager should be informed and actively monitor the situation. In some cases, penalties may be imposed on customers for late payments. If delays exceed six months, the customer may be allowed to pay in installments or be compensated with a discount on future purchases.

4.2.2 Use legal means to collect money

The company should protect its legal interests and use legal proceedings if necessary to complete the collection process. However, using legal means may have drawbacks, such as a long implementation process and negative impact on future customers. Therefore, the company must adopt effective and diversified collection methods to protect its rights and interests while respecting its customers and maintaining good relationships with them. Recovering accounts receivable in a timely manner is beneficial for the company's development.

4.3 Strengthen the dynamic tracking management of customers to reduce potential risks

To improve the recovery of accounts receivable, Semir Apparel should strengthen its daily supervision by implementing dynamic monitoring of customer companies. This involves establishing a credit management department with different teams to supervise customers of different grades, tracking customers' credit in real-time, and avoiding credit sales exceeding the credit limit. The finance department should also analyze each customer in arrears, record high-risk customers, and account for the proportion in the accounts receivable. Real-time communication should also be established between the sales department and customers from the date of order generation to understand product movements, after-sales needs, and remind customers to repay in time before accounts are due. This strategy will help Semir Apparel adjust its collection strategy and reduce the risk of bad debt loss.

5. Conclusion

From the perspective of accounts receivable, the problems of accounts receivable management are analyzed and countermeasures are proposed from the perspective of enterprise accounts receivable management through the study of the current situation of accounts receivable management of Semir Apparel with the financial data of Semir Apparel 2019-2020. It is emphasized that accounts receivable management is the foundation for healthy and sustainable operation of enterprises. On this basis, the analysis of accounts receivable is summarized as follows.

1) The analysis of the problems and countermeasures of Semir Apparel's accounts receivable reveals that Semir Apparel's accounts receivable account for a relatively high proportion of current assets and operating income, and the liquidity of accounts receivable is weak.

2) Credit policy plays an important role in the process of accounts receivable management. The quality of accounts receivable management of the company is greatly improved through the assessment of customers' credit ratings and the granting of corresponding credit policies, as well as regular training of business personnel on risk awareness and collection methods.

3) The recovery of accounts receivable is also an important aspect of enterprise accounts receivable management. For accounts receivable, different methods should be adopted according to the different situations of customers.

References

- [1] Hang Youqin. *Analysis of the problems and countermeasures of accounts receivable management in manufacturing enterprises* [J]. *China General Accountant*, 2020 (10): 128-129.
- [2] Hu Junhui and Wu Jiaxin. *Research on accounts receivable management of small timber sales enterprises in Huilai County*[J]. *Modern Trade Industry*, 2021,42(09):115-116.
- [3] Song Lingli. *Research on Optimization of Accounts Receivable Management of Company K* [D]. Xi'an: Xi'an University of Petroleum, 2021.
- [4] Tang Shuang. *Research on the problems of enterprise accounts receivable management* [J]. *Taxation*, 2019, 13(36):289.
- [5] Wang Shiyao. *Research on enterprise accounts receivable management in the post-epidemic era——taking Airport Company A as an example* [D]. Guizhou: Guizhou University of Finance and Economics, 2021.
- [6] Kang Ye. *Research on accounts receivable management of commercial enterprises* [J]. *Taxation*, 2020(26): 163-164.
- [7] Li Minglong. *Research on credit policy and accounts receivable management of shipping enterprises* [J]. *Modern Marketing*, 2020(7):161-163.
- [8] Yuan Dichang. *The problems and countermeasures of accounts receivable management in manufacturing enterprises* [J]. *Enterprise Reform and Management*, 2021(05):193-194.
- [9] Han Yanan. *Research on the management of accounts receivable of state-owned enterprises* [J]. *China Collective Economy*, 2020 (33): 132-133.