

Forming an Effective Mechanism for Managing Accounts Receivable and Accounts Payable



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Abstract Financial stability of economic entities is the basis for the stability of the national economy. Debt management makes it possible to competently build the organization's financial flows, regulate work with counterparties, and avoid economic risks. Effective mechanisms of receivables and payables management make it possible to release funds from circulation, use them for other necessary purposes without attracting additional sources of financing, and find ways to maintain normal conditions for the functioning of enterprises. This also positively affects the assessment of the organization's financial condition, provides additional liquidity, increases the enterprise's solvency, and improves the stability of the financial position. For this purpose, the paper systematizes the provisions of the most significant scientific works in the field of receivables and payables management at the enterprise and makes the author's additions. Special attention is paid to the actual methods of receivables and payables management at the enterprise. The research proposes measures to improve the work with debts and builds the methodology of applying the rating system of counterparties. The proposed sequence for developing regulations for working with debt, especially in terms of improving the policy of rating counterparties and differentiation of contractual terms, has a complex, practice-oriented nature. It is characterized by completeness for both types of debt. Therefore, this sequence has scientific novelty and broad prospects for implementation in the management activities of economic entities.

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1 Introduction

Economic activities in an organization are inseparable from the movement and transformation of its assets. Financial resources are spent on acquiring materials, which, during production, are transformed into finished products or goods, the payment for which generates new financial resources. However, the periodicity of cash flow often does not coincide with the movement of material resources. For instance, organizations may make advance payments or, conversely, utilize trade credit according to contractual conditions. This leads to the formation of accounts receivable or accounts payable.

The finances of a company make it possible to form and expand its production potential, support ongoing economic activities, and facilitate the implementation of social policies. The enterprise's financial condition must align with market conditions and the country's economic environment, meeting the development needs of the business entity. Maintaining a balance in financial stability indicators is essential for business entities to avoid potential insolvency or the accumulation of excessive inventories.

Nowadays, organizations operate in a rapidly changing business environment, adapting to new conditions and emerging risks. The financial condition of an organization depends on the composition, structure, volume, and ratio of accounts receivable and accounts payable. Consequently, issues related to finding effective methods of managing accounts receivable and accounts payable in an enterprise become particularly relevant.

The research aims to comprehensively study economic relations arising in the process of managing accounts receivable and accounts payable in food organizations to refine the methodology for optimizing the debt level of the enterprise.

The research tasks are to analyze existing methodologies for managing accounts receivable and accounts payable, evaluate their quality, and study regulatory documents that govern their reflection in financial reporting.

2 Methodology

The theoretical foundation of this research includes scientific works on financial management, financial and economic activity analysis, and enterprise economics. The methodological basis includes analysis, synthesis, comparison, and logical approach. Moreover, the authors apply specific research methods applied to the

studied objects, including the composition and structure of debt and the existing mechanisms for managing the cash flows of enterprises. Normative and legal sources regulating the financial sector, financial statements of organizations with accompanying documentation, and the informational resource “Interfax Center for Corporate Information Disclosure” were used as the information base.

Studying the financial condition and management of cash flows, the authors emphasize the need for activities to manage them, adjusting the methods used in the dynamics of financial and economic activities.

Based on the results of the conducted research, the authors identified and analyzed issues related to managing accounts receivable and accounts payable. Directions for improving their management were determined. Solutions feasible for implementation in the majority of business entities were formulated.

3 Results

Accounts receivable and accounts payable are important components of the analysis of the financial condition of an organization. Data on their amounts, terms, and quality directly impact the assessment of solvency. Economists propose various methods and approaches to analyze the level of debt in a company. Examining the works of economists, let us note the directions suggested by A. D. Sheremet for working with debt in an organization: “Develop an assessment of the dynamics of the debt volume in general and by individual items, conduct coefficient and structural analysis, compare the results of the analysis of accounts receivable and accounts payable” (Sheremet, 2020, p. 308). To analyze the level of debt, A. V. Panfilov suggests “ranking accounts receivable by the terms of their collection, then conducting coefficient analysis and comparing with the volumes of accounts payable” (Panfilov, 2018, p. 275). V. K. Sutyagin and M. A. Bespalov believe that it is necessary to “calculate turnover ratios of accounts receivable and accounts payable and their correlation, assess the quality of debts, and compare their growth rates with revenue growth rates” (Sutyagin & Bespalov, 2021, p. 96).

A. E. Ilyin and D. V. Nikolenko define the mechanism of managing accounts receivable and accounts payable as “a set of methods and techniques for optimizing settlement operations, allowing control over the formation, dynamics of change, and repayment of incoming and outgoing debts of organizations” (Ilyin & Nikolenko, 2021, p. 104).

According to V. A. Volcharenko, the concept of debt management is formed as “a system of methods for preparing and implementing managerial decisions made at different stages of the formation and repayment of accounts receivable, ensuring an increase in the volume of product sales and timely repayment of customer debts with minimal capital losses” (Volcharenko, 2022, p. 218). Based on I. A. Blank’s methodology, a sequence of seven stages of accounts receivable management can be

proposed (Blank, 2022) (Fig. 1). The mechanism of managing accounts payable operates similarly, which, refining the proposals of Mironenko (2019), can be presented as a set of five stages.

Thus, managing a company’s debt is an integral part of its financial policy, significantly affecting financial results.

In conditions of relatively high competition, companies strive to implement a customer-oriented policy by providing various types of credits, deferred payments, and installment plans to their customers. This fact has positive and negative consequences for the seller. On the one hand, it expands the possibilities of attracting new customers and enlarging the market for product sales, contributing to forming a circle of loyal customers. On the other hand, this mechanism diverts funds from circulation and, consequently, creates a gap between the actual delivery and sale of products and the receipt of actual funds into the organization’s accounts. Additional labor, time, and sometimes, financial expenses arise in supporting such transactions; financial risks emerge.

Therefore, one of the tasks addressed through measures to manage accounts receivable and accounts payable is the formation of their optimal amounts and terms.

For a well-organized and rational debt management system in an organization, it is recommended to develop a strategy for working with suppliers and customers and

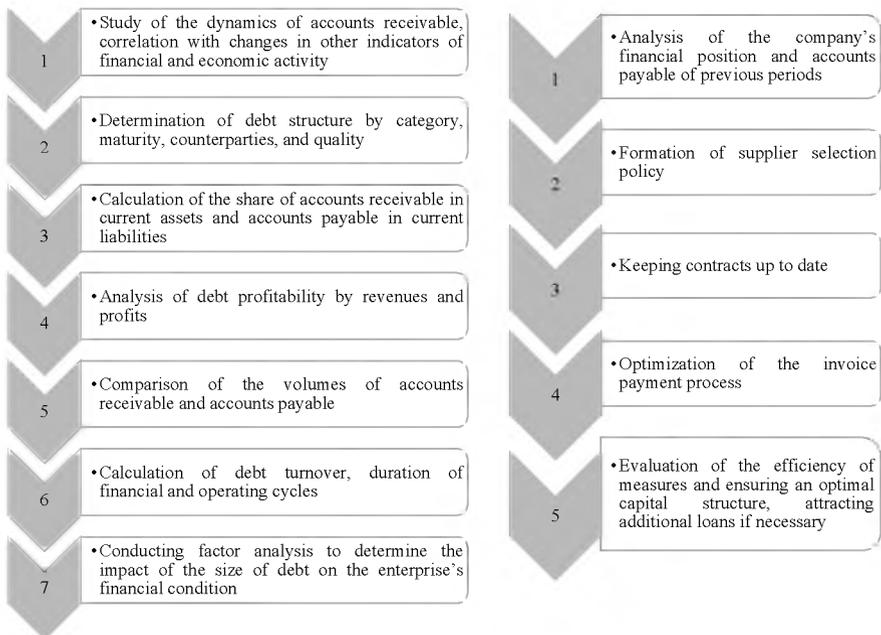


Fig. 1 Stages of managing accounts receivable and accounts payable management at the enterprise. *Source* Compiled by the authors based on (Kovalev, 2019)

establish an internal management unit for debt control. Employees of this management unit should be empowered to develop the contractual policy of the organization, conduct activities to assess the financial condition of potential or existing counterparties, coordinate debt management efforts, compile analytical reports, rate suppliers and buyers, formulate schedules for payment of accounts payable, identify financial risks, engage in pre-trial resolution of payment discipline violations, and provide information to the legal department for necessary debt recovery actions.

This solution is particularly relevant for organizations with a complex structure and a network of customers, discount systems, and personalized offers for clients. The algorithm for managing accounts receivable using the control department includes the following:

1. Formation of debt. Debt is formed in the structural units of enterprises (e.g., purchasing department, sales department, administrative and technical management, especially when entering into sales contracts with deferred payment or offset agreements with counterparties). At this stage, interaction with the debt control department (compliance of the counterparty with the contractual and economic policies of the enterprise) and other departments is necessary.
2. Debt monitoring. The accounting department of the enterprise performs accounting and documentation of transactions, monitors receivables, and ensures receipt of payments by departments. It involves monitoring the work of departments with debtors and creditors, compiling analytical reports, identifying overdue debts, and assessing the risk of non-payment.
3. Dealing with overdue debt. Negotiations with the client are conducted when overdue debt occurs. The reasons for non-payment are identified, reconciliations with counterparties are conducted, and conditions are adjusted if necessary. Legal services handle the preparation of claims, pre-trial settlement activities, and, if needed, legal actions to recover overdue debt through the judicial process.

Internal structural units of the organization, where accounts receivable are formed, weekly provide information to the debt control department. The accounts receivable control specialist coordinates the interaction of all participants in the accounts receivable management process and organizes activities for monitoring accounts receivable and its recovery through pre-trial and judicial procedures. Based on the available information, recommendations are prepared by the accounts receivable control department's staff to improve the efficiency of accounts receivable management. These recommendations are then presented for consideration to be included in the strategy for working with debtors and creditors.

Similarly to accounts receivable, the management of accounts payable tasks is transferred to the control department by the "forming" units. When working with a creditor, significant attention is given to its significance. The algorithm for managing accounts payable includes the following:

1. Formation of payables. Liabilities arise in the structural units of enterprises (e.g., procurement department, sales department, and administrative and technical management). The procurement department generates orders for the supply

of products, selects suppliers, and interacts with the debt control department (contract work with suppliers: development of contract forms, agreement on payment deferral terms, and sanctions for contract violations by the parties). The company's accounting department accounts for transactions and documents them.

2. Settlement of payables. Payment terms are monitored; payment requests are compiled and formalized. The control department forms a payment schedule based on the availability of funds and prioritizes payment ranking. It coordinates debt management, conducts liquidity analysis, identifies the need for borrowed funds, and assesses the need for loans in case of resource shortages. Negotiations are conducted for additional payment deferral when timely debt repayment is impossible. When necessary, legal support includes pre-trial work. The process concludes with the settlement of obligations and the completion of reconciliation statements with contractors.

The use of this structure in management will help reduce the size of overdue debts and eliminate systemic problems in forming and managing debts. It will systematize debt management and collect and analyze information about cash flows to adhere to the organization's debt repayment schedules, considering the planned schedule of incoming funds. Employees in this department should also participate in conducting settlements inventory and be involved in the organization's inventory commissions.

However, in addition to the debt's size, the debt's quality is an important component. The debt's quality is assessed not only by deadlines but also by the availability of alternative suppliers, sales volumes, and solvency (for buyers). When forming an internal policy for working with buyers and customers, it is advisable to provide and develop criteria for assessing counterparties. When analyzing data about buyers, it is necessary to compare the risks of non-compliance with contractual obligations by buyers with the profitability of doing business with this counterparty. Conducting control will precisely help identify potential buyers generating payment risks and control over unpaid debts.

This mechanism will make it possible to automate the assessment, avoiding the risk of the human factor in contract negotiations and the selection of counterparties to address the set tasks. It helps tailor individual conditions for working with organizations, anticipate other risks, and strike a compromise between risk and liquidity. This approach can create the most attractive conditions for buyers, such as payment deferrals, discount systems, terms, and the cost of returning borrowed resources and settlements with counterparties.

Before starting interactions with a counterparty, these risks and opportunities need to be anticipated. Existing methodologies have been supplemented with this condition in mind. Full compliance of a partner organization with corporate policies and procedures for interacting with counterparties corresponds to a rating of "1." This value is derived from important aspects of conducting activities and interacting with a counterparty, with each rating element equated to 100% in case of full compliance. An example of such a ranked approach to assessing a buyer when concluding supply contracts is presented below.

Suppose an organization has a potential buyer looking to enter into a large contract for systemic product delivery. The company evaluates its founding documents for compliance with established requirements, assesses the presence of legal proceedings in which the potential buyer is a defendant, evaluates their adherence to payment discipline, assesses their financial condition, and checks the reliability of the counterparty from independent sources. Preliminary agreements on delivery terms and volumes are documented. Following the assessment of the counterparty, a rating value is determined (Table 1).

It is advisable to review the buyer's rating periodically. Based on the rating results, the feasibility of entering into contracts is determined as follows:

- A total score of 75 points or more indicates “promising” counterparties, allowing for the application of special appendices and favorable contract terms;
- A total score between 60 and 75 points categorizes counterparties with whom standard contracts are concluded;
- A total score below 60 points designates unreliable counterparties; the conclusion of the contract is not advisable.

Deferred payment options and volume-based discounts may be offered for the first group of counterparties. The risk of working with these counterparties is minimal.

For counterparties in the second group, the use of a standard contract is recommended because it simplifies control over the formation of debt. The standard contract can also include preferences, such as simultaneous compliance with procurement volume indicators and payment discipline.

Table 1 Indicators for rating buyer counterparties

Rating score indicator	Specific weight	Indicator value by counterparty, %	Criterion coefficient
Business reputation of the company	0.2	90	0.18
Financial condition of the counterparty	0.2	90	0.18
Period of work with the buyer	0.1	80	0.08
Delivery volumes	0.2	50	0.1
Availability of warehousing and logistics infrastructure	0.1	70	0.07
Use of electronic document management programs	0.1	100	0.1
Compliance with payment discipline	0.1	100	0.1
Total	1	-	0.81

Source Compiled by the authors

This mechanism can be applied at the stage of considering cooperation proposals directly in the sales department. Moreover, it enhances the efficiency of receivables management. Thus, significant risks, transaction conditions, and the control process for complying with economic relations can be identified at the negotiation stage.

While providing some simplification, it does not eliminate the functions of debt control. It is advisable to monitor customer payments, considering the deadlines for settling the debt and the periods of overdue payments. Single instances of payment term violations under contracts may be due to temporary factors. Additionally, it is crucial to consider the revenue volumes the enterprise receives from sales to a particular counterparty. To enhance debt management effectiveness, monitoring accounts receivable should be carried out depending on the period of the violations of payment terms.

In cases of significant breaches in payment discipline, it is recommended to review the rating, consider advance payments for supplies, and, if necessary, initiate preventive measures to recover the debt and engage in legal proceedings. Overall, assessing the level of debt across the enterprise makes it possible to determine the required cash reserve and plan the attraction of borrowed funds necessary.

Similar to rating customers, it is possible to rate suppliers. Managing accounts payable makes it possible to find necessary conditions for the supply of materials, goods, etc., obtain credit when the company's own funds are insufficient, build a positive history of collaboration with suppliers, and possibly receive discounts and personalized favorable transaction terms.

When conducting a rating of suppliers, it is necessary to consider financial, legal, and economic criteria and indicators characterizing the quality of the goods, services, or work received. Possible evaluation indicators for suppliers include the following:

- Availability of alternative suppliers;
- Significance of the product (work, service) for the organization's activities;
- Financial position and business reputation;
- Pricing policy, availability of discounts, deferred payment;
- Quality of the products and percentage of defects;
- Adherence to delivery deadlines (for suppliers with whom a contract is concluded);
- Use of Electronic Document Management (EDM).

This mechanism will increase efficiency when deciding to collaborate with suppliers. Suppliers can also be classified into one of three groups:

- Group with a total score of 75 points or more—main suppliers, with whom contracts can be concluded based on their payment and delivery terms (goods, works, or services). Violating contractual discipline with these suppliers poses a significant risk for the company;
- Group with a total score from 60 to 75 points—significant suppliers, for whom a standard supply contract can be applied. Invoices from these companies are satisfied in the second priority after paying the invoices of suppliers from the first group;

- Group with a total score less than 60 points—suppliers for whom quick reorientation to another contractor is possible in case of delivery term violations.

It is also worth noting that the formation of accounts payable occurs in relationships with customers (receiving prepayment for upcoming deliveries of goods, works, or services), the accrual and formation of wages, the accrual and debt of taxes, and other mandatory payments. When prioritizing accounts payable and creating a payment schedule for creditors, it is necessary to consider the sanctions that may arise in case of delayed payments and the legal consequences for the company.

4 Conclusion

Therefore, clear interaction between departments is essential to achieve optimal management of accounts receivable and accounts payable. This process should be reflected in the organization's document workflow regulations, job responsibilities, and employee authorities. To enhance efficiency, it is recommended to establish a control department for managing accounts receivable and accounts payable, which will be tasked with managing the risks of non-payment.

To improve management quality, it is suggested to create an internal structure to assess the organization's counterparts, oversee contractual relationships, develop a rating system for buyers and suppliers, and establish a debt management system along with monitoring reports.

The proposed measures can be implemented in the operations of a wide range of Russian organizations to enhance the effectiveness of managerial work.

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