A Study on Receivables Management with Reference to ABB India Limited

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ABSTRACT:

The study is mainly focused on accounts receivables management of the company. The title of the study is "A Study on Receivables Management with reference to ABB India Ltd.,". The present study undertakes on the evaluation of accounts receivables management of ABB India Limited. Receivables management, which is often referred to as accounts receivable management, encompasses the procedures involved in supervising and regulating a firm's unpaid invoices or outstanding accounts receivable. It is important to supervise and regulate all financial transactions within the company and to establish a methodical record-keeping system to document all sales transactions. The study is undertaken to analyse the receivables management in ABB India Ltd. The research is a descriptive analysis where the source of data is secondary. The result outcome of the study will be analysing the effectiveness of receivables management at ABB India Ltd. The study is analysed with the data using various tools like ratios, bar graphs and correlation. The ratio analysis predicts the financial ability of the company and the progress. It also gives a clear picture of the profit and the growth of the company. And the overall financial position of the company is good.

Keywords: Accounts receivables, Correlation, Credit period, Descriptive research, Electrical equipment.

INTRODUCTION:

Products that create, distribute, and utilise electrical power are produced by the appliance and electrical equipment manufacturing industry. Manufacturing facilities for electrical equipment produce products such Electric generators, drives, converters, and circuit. ABB primarily concentrated on important industries like electricity production, distribution, and transmission, electric transportation, industrial automations, and robotics when it first started operations on January fifth, 1988. Receivables management encompasses a range of methodologies and tactics designed to effectively oversee the credit extended to clients while securing timely payments for the goods or services delivered by the company. It is important to Improve the conversion of sales into cash to raise the inflow of cash.

NEED OF THE STUDY:

This study is helpful in understanding the company's situation regarding the position of funds and in establishing the standards for raising their level of funds from the effective management of receivables, which includes receiving the required amount from the sale of goods intended on a credit basis. By the

analysis of accounts receivable management, this research will also be utilized to determine the financial situation of ABB India Ltd. through the comparison of financial data.

OBJECTIVE OF THE STUDY:
- To understand the factors influencing receivables management.
- To analyze the effectiveness of receivables management at ABB Ltd.

HYPOTHESIS:
- H0: There is no significant relationship between accounts receivables and working capital.
- H1: There is a significant relationship between accounts receivables and working capital.

LITERATURE SURVEY:
S. Soundarya, P. Vanitha, and K. Ram Prathap (July 2020) The author conducted research to find out the impact of receivables management on working capital in VKS fabrics. Muthoni, Jane Gitahi (2020) The author conducted research to find out the management of accounts receivables & accounting performance of manufacturing Industries listed on Nairobi Stock Exchange, Kenya which examines receivables management as the main feature of working capital management. To ascertain the current state of the population, data were acquired as portion of descriptive research approach used in the study.Ozod Furkatovich Mirzaev (2018) The research person conducted a survey to determine the Financial Stability Analysis on AR mgt. of Selected Uzbek Enterprises which reveals the Enterprises frequently struggle to reach their planned goal level of accounts receivable, that as impact on the stability of their finances. M Uma, G Suwetha (2019) The author conducted research to examine credit sales & cash receivables, a company must have effective receivable management for decision making about business debtors. Which measures days sales outstanding & the debtor turnover percentage that are used to ensure productive and successful receivable management. Ofili Ugwudioha and Lucky Onmonya in 2022 The author conducted research which examines the elements that influence accounts receivables at Nigerian stock exchange-listed consumer products manufacturing businesses. The primary objective is to strike the perfect balance between various components of cash flow management.

The review of literature is revealing that the accounts receivables study is not been conducted in an electrical company, which is unique of its kind as it produces heavy electrical machines which are supplied to government institutions, as in India electrical transmission is still centralized and democratically handled. Hence it becomes necessary for ABB to analyse and interpret its management of accounts receivables at regular intervals. So, this study would help ABB to review its management of accounts receivables whether it is effective or not.

STATEMENT OF THE PROBLEM:
The magnitude of a company's credit sales and the receivables collection term are both factors that have a significant impact on an organization's accounts receivables. Before extending credit, the business must assess the customer's capacity to repay. This is due to, Receivables come with a significant number of risks. Therefore, an analysis of the policies and processes related to receivables management at ABB India Ltd. is done in order to provide them with recommendations on how effectively they may enhance receivables management.

LIMITATIONS OF THE STUDY:

- The data in this study is basically secondary data which is derived from the already available data from the Accounts Department at ABB India Ltd.

RESEARCH METHODOLOGY:

The study on accounts receivable management is descriptive research because the financial statements of ABB India Ltd. is used for the analysis of the credit sales of the company. It involves observing and gathering data without changing factors. The goal of descriptive research is to offer a clear and comprehensive picture of the issue under study.

The secondary data has been used to undertake analysis for the project research. 5 years annual report of the company is taken for the analysis. To do hypothesis testing for correlation.

DATA ANALYSIS AND INTERPRETATION:

Table 1: Table showing accounts receivables (X) of the company

Year	Accounts receivables
2018	1686.89
2019	1947.54
2020	1694.96
2021	1883.84
2022	2092.99

Interpretation: The table presented above illustrates the "Accounts Receivables" of a company over a five-year, from 2018 to 2022. These accounts receivables signify the outstanding sums of money owed to the company by its customers or clients for goods or services rendered, but which have not yet been settled. The accounts receivables of the company at the end of 2018 were 1686.89 which raised to 2092.99 at the end of 2022.

Table 2: Table showing working capital (Y) of the company
Working Capital = Current Assets – Current Liabilities

Year	Current assets	Current liabilities	Working capital
2018	7525.12	5031.77	2493.35
2019	6398.19	4125.13	2273.06
2020	6083.64	3933.92	2149.72
2021	6635.34	4003.79	2631.55
2022	7898.6	4350.34	3548.26

Interpretation: The table shows how the company's short-term financial status has changed over the past five years. The company's rising working capital from 2018 to 2022 may be a sign that its financial management has enhanced the company's short-term financial stability and liquidity throughout this time.

Table 3: Table showing calculation of the correlation coefficient

X	Y	X-X̄	Y- Ȳ	(X-X̄)(Y- Ȳ)	(X-X̄) ²	(Y- Ȳ) ²
1686.89	2493.35	-174.354	-125.838	21940.36	30399.32	15835.20
1947.54	2273.06	86.296	-346.128	-29869.46	7447	119804.59
1694.96	2149.72	-166.284	-469.468	78065.02	27650.37	220400.20
1883.84	2631.55	22.596	12.362	279.33	510.58	152.82
2092.99	3548.26	231.746	929.072	215308.72	53706.21	863174.78
9306.22	**13095.94**			**285723.97**	**119713.5**	**1219367.6**

Correlation:0.7478

From the above table the X represents accounts receivables and the Y represents the working capital of the company. Where the deviations of X and Y have been calculated from the above means. (i.e., X bar and Y bar)

Findings and conclusion:

Receivables management encompasses the deliberate management of a company's outstanding customer debts, representing the funds owed by clients and customers. Proficient management of receivables is essential for sustaining a robust cash flow and guaranteeing a business's capacity to fulfil its financial commitments.

There are few factors which are influencing the receivables management, it includes the sales level of the company, the credit policy which the company follows, the credit terms of the organisation, the credit period given for the customers to pay the amount for the company, and the cash discount given for the customers for their order.

From the above analysis the working capital (Y) and accounts receivables (X) have a relatively strong positive linear relationship, according to the correlation value of 0.7478. Working capital tends to rise together with an increase in accounts receivable. This implies that the company might require more working capital to meet potential deficits in cash flow when accounts receivables (unpaid customer invoices) are larger.

The alternative hypothesis (H1) is considered that there is a strong relationship between accounts receivables and working capital is therefore supported by the estimated correlation coefficient.

CONCLUSION:

The study on receivables management of ABB India Limited gives a brief summary of the most important findings derived by the correlation coefficient pertaining to the company. The current ratio, accounts receivables turnover ratio, average collection period and other ratios are calculated which concluded that the company is performing or maintaining its financial position well. From the correlation calculation alternative hypothesis is considered where there is a strong relationship between accounts receivables and the working capital of the company. The above study conclude that the company is effectively managing its receivables management.

SUGGESTIONS:

- Improve the way they manage receivables with Clear and concise credit policies. A successful collection program will improve the communication between the finance and sales departments.

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