

EFFECT OF ORGANISATION SIZE AND POLICY ON ACCOUNTS RECEIVABLE MANAGEMENT OF FOOD AND BEVERAGES FIRMS IN NIGERIA

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Abstract

Accurate monitoring and proper management are important dimensions in organisation, because of its effect on accounts receivable management. Thus, this study examined the impact of organisational size and policy on accounts receivable management of food and beverages firms in Nigeria. Primary data (questionnaire) was used for this study from the ten selected firms. The hypotheses were tested using the multiple regression and Pearson's chi square analytical tools. The findings showed that organisational size and policy had significant relationship with accounts receivable. The study recommended that organisations must continually come up with creative and innovative products that could meet the needs of expansion. In addition, management must continually develop strategies, tactics and policies that could impact positively and sustainably on account receivables management.

Keywords: Credit Policy, Accounts Receivable, Organisation, Written Policy and Procedure.

Introduction

Accounts receivable is one of the major components of working capital management (WCM) and its management impacts on the firm's profitability, risk and consequently its value (Deloof, 2003). It occupies second important place after inventories and thereby constitutes a substantial portion of current assets in several firms. Keeping accounts receivable to a minimum will also increase profitability as these funds can either earn interest or be invested elsewhere. The basic purpose of accounts receivable of a firm is to determine effective credit policy that increases

the efficiency of firm's credit and collection periods and contributes to the maximisation of value of the firm.

The management of account receivables is basically influenced by the credit policy and collection process of a firm. Account receivables represent the pace at which firms amass payments from customers (Falope & Ajilore, 2009; Sharma & Kumar 2011). Credit policy is to be reviewed periodically to ensure that the organisations operate in line with the competition. A credit policy specifies conditions to evaluate the worths of customers and a collection practice which provides guidelines to collect owing invoice that will reduce delays for customers who have not yet made payments for goods and services and outstanding receivables (Richard & Laughlin, 1980; Hill & Sartories, 1992; Okpe & Duru, 2015).

In determining credit policy, firms tend to strike the balance between the cost of granting credit and those associated with denying or restricting credit (Bodie, Kane & Marcus, 2004; Bhattacharya, 2006). Credit sales cannot be completely avoided as it has to do with the efforts of the management to initiate policies concerning credit sales so that companies will survive in the business environment they found themselves.

Despite the efforts by many firms to achieve sound receivables management and profitable operations, the firms have continued to register accumulated debt balances and bad debts written offs due to poor management of account receivables, which lower down their profits (Basto & Pindado, 2012). This puts into question the relationship between receivables management policy and the profit levels of firms. Also, most companies do not state how their management of account receivables correlates to their corporate strategies, and instead they look at the receivables as an inevitable expense collection (Salek, 2006). This causes a great problem on the performance of the organisation especially as a going concern.

Objectives of the Study

The following are the specific objectives of the study:

- (i) To examine the impact of organisational size on account receivables management of food and beverages firms in Nigeria.
- (ii) To determine the extent to which organisational policies affect account receivables management of food and beverages firms in Nigeria.

Hypotheses of the Study

- Ho₁: *There is no any significant effect of organisational size on the management of account receivables of food and beverages firms in Nigeria.*
- Ho₂: *There is no any significant effect of organisational policies on account receivables management of food and beverages firms in Nigeria.*

Literature Review

Conceptual Review

Selling on credit is a common practice and inevitable in the business transactions nowadays throughout the world. Many business organizations cannot exist without selling or buying their goods on credit. Receivables management, also termed as “credit management”, deals with the formulation of credit policy, in terms of liberal or restrictive, concerning credit standard and credit period, the discount offered for early payment and the collection policy and procedures undertaken, all these are organizational policies.

The credit period extended by business firm usually ranges from 15 to 60 days. When goods are sold on credit, finished goods get converted into accounts receivable (trade debtors) in the books of the seller. In the books of the buyer, the obligation arising from credit purchase is represented as accounts payable (trade creditors).

The management of accounts receivables is mostly influenced by the credit policy and collection procedure. Firms have great impacts on credit sales and they can certainly influence the level of credit sales through their credit policies within their constraints. The task to administer credit and collection policy may be assigned to a financial executive or marketing executive or both of them jointly carrying out the task depending on the organisational structure and the set objectives of the firm. The firms following these policies are very selective in granting credits. They sold on credit to only those customers who had proved credit worthiness.

The length of credit period may directly affect the volume of investment in receivables and indirectly, the net worth of the company. If credit is given for longer period, it induces to push up sales but this can only be true when firm provides longer period for credit sales. When market situations are tight, the larger firms become stricter (tougher) in providing trade credits.

Generally, two methods have been commonly suggested for monitoring accounts receivable. They are traditional approach and collection margin or payment pattern approach. Traditional approach includes average collection period and aging schedule. An aging schedule breaks down a firm's receivable by age of account. The purpose of classifying receivables by age group is to gain a closer control over the quality of individual accounts. It requires going back to the receivables' ledger where the dates of each customer's purchases and payments are available. To evaluate the receivable for control purpose, it may be considered desirable to compare this information with earlier age classification of the firm and compare this information with the experience of other firms of same nature.

The payment pattern approach is not dependent on sales level. It focuses on the key issue, the payment behaviour. It enables one to analyse month by month pattern as against the combined sales and payment patterns. From the collection pattern, one can judge whether the collection is improving, stable, or deteriorating. Trade credit is important to a firm because it helps to protect its sales from being eroded by its competitors and also attract potential customers to buy at favourable terms.

Many variables are involved in management of account receivables, among these are: creditworthiness of the customer in which credit is granted, the policies and practices of the firm in granting credit, the volume of credit sales to be offered and the collection policies practice. The effectiveness of a company's credit policies can have a considerable impact on its total performance (Joshi, 1995 and Padachi, Howorth, Narasimhan & Duurbarry, 2010). A sound credit policy ensures appropriate debt collection procedures and is essential in improving efficiency in receivables management of firm's performance.

Receivables stimulates sales because they allow customers to assess product quality before paying, but on the other hand, debtors involve funds, which have an opportunity cost. According to Berry and Jarvis (2006) a firm setting up a policy for determining the optimal amount of account receivables has to take into account of the following: the trade-off between the securing of sales and profits; and the amount of opportunity cost and administrative costs of increasing account receivables, and the level of risk the firm is prepared to take when extending credit to a customer because this customer could default when payment is due.

Theoretical Review

Various theories have tried to investigate the rationale behind providing intermediary services by suppliers to their customers and to find out the reasons to use trade credits as an alternative of less costly bank debt. Series of these researches have provided some interesting insights and answers why business organisations could play major roles in the firms' decisions whether to expand financing to their customers.

This study was based on financial advantage theory. Financial advantage theory which is also known as “financial motives theory”, explain that the supplier of goods and services may have an advantage over traditional lenders in investigating the credit worthiness of his clients, as well as a better ability to monitor and enforce repayment of credit. This may give supplier a cost advantage over financial institutions in offering credit to a buyer (Schwartz, 1974). This theory suggests that the firm that provides credit to its customers has an advantage over other credit providers in assessing the credit worthiness of its customers (Chee& Smith, 1999; Nilsen, 2002). Suppliers may be involved in credit activity as they hold a comparative advantage over traditional lenders in the resolution of information asymmetries. The theory emphasises on these three cost of advantages; advantage in information acquisition, advantage in controlling the buyer and advantage in salvaging value from existing assets.

Empirical Review

Deloof and Jegers (1996) investigated the role of trade credit as source of financing for Belgian firms focusing accounts payable and found that trade credit played a significant role in the corporate financing policy. The study revealed that the amount of trade credit a customer takes, is determined by the need for funds and by the internally available funds. The study also showed that trade credit could act as a vital substitute for short term as well as long term financial debt. Danielson & Scott (2004) investigated the effect of bank loan availability on the trade credit and credit card demand of small firms and found that firms increased their demand for trade credit and credit card debt when credit constraints are imposed by banks.

Atanasova (2007) tested for the existence of credit constraints and their effects on the corporate financing policies and found that credit constrained firms substitute trade credit to institutional finance especially during tight money periods. GillBiger&Atnur (2010) examined the relationship between working capital

management and profitability of US firms listed on the New York Stock Exchange from 2005-2007. The result showed that no statistically significant relationship existed between average payable days and profitability, as well as between averages inventory. There was no significant relationship between firm size and profitability of the firm.

Niskanen and Niskanen (2006) analysed credit policies of Finnish small firms functioning in bank dominated environment. Creditworthiness and access to capital markets were found as important determinants of trade credit extended by the sellers. Firm's age, size and level of internal financing were found to be negatively correlated to the trade credit usage, whereas level of current assets to total assets and loan availability were found negatively correlated with the trade credit usage. In addition, the level of purchases was found positively correlated with level of accounts payable.

Kalunda, Nduku and Kabiru (2012) carried out a study on pharmaceutical manufacturing companies in Kenya and their credit risk management practices. They used a semi structured questionnaire to solicit information from finance managers or credit controllers. The result showed that the most important factors considered in establishing a credit policy was the financial stability of the customer and existing credit policy. Ojeka (2012) studied four manufacturing companies in Nigeria. His findings revealed that when a company's credit policy is favourable, liquidity is at a desirable level. The result also revealed that the companies that monitored and regularly reviewed their credit policies and reduce cash discount allowances perform quite well in terms of liquidity position and profitability.

Grzegorz (2008) used portfolio management theory to determine the level of accounts receivable in a firm. The result revealed that there was an increase in level of accounts receivable, cost of holding and managing account receivables. Ksenija (2013) investigated how public companies listed at the regulated market in the republic of Serbia managed their accounts receivables during recession times. A sample of 108 firms was used. The accounts receivable policies were examined in the crisis period of 2008-2011. The short-term effects were tested and the study showed that between accounts receivables and two dependent variables on profitability, return on total asset and operating profitmargin, there was a positive but no significant relationship. This suggested that the impact of receivables on firm's profitability changes in times of crisis.

Research Methodology

According to required objectives, researchers used multiple regressions and Pearson's chi square analysis. The reason for choosing this design was because the values of variables were collected for several sample entities at the same point in time. The multiple regression analysis was used to determine the extent to which management of account receivable influenced organisational size of food and beverages firms in Nigeria. Similarly, Pearson chi square was also used to examine the relationship between organisational policies and account receivables management in food and beverage companies in Nigeria.

Data was analyzed with STATA 11.0 statistical package (software) to obtain results. These analyses investigated the effect of organisational policies on management of accounts receivable. The study covered all the manufacturing companies (food and beverages) listed in the Nigerian Stock Exchange.Ten (10) food and beverage companies were randomly selected from the sector. A structured questionnaire was fashioned to address the set objectives. This was to determine the extent at which firms' policies in terms of credit policy, collection procedure, credit evaluation and size influenced accounts receivable management. The participants include the staff of Accounts and Sales Department as these two departments are key players in management of accounts receivable.

The questionnaire was administered to employees in accounting and sales department of the selected companies .Closed ended questions were asked and rated on a five point Likert scale ranging from 1 to 5, asking respondents to respond to some of the questions that centered on the accounts receivables management procedures, credit policies and collection procedures. Cronbach's alpha test was used to assess the internal consistency of the entire scale specified for this study. Test of reliability for table 1 and table 2 were carried out, gave a Cronbach's Alpha (α) with a coefficient value of 0.786 and 0.863 respectively were shown in the table below. This reliability value was higher than the 0.70 minimum threshold of internal consistency, an indication that reliability and validity fulfilled the standard.

Table 1 Reliability of Relationship between Size of the Organisational size and Accounts Receivables

No.	Statement	Cronbach’s Alpha	N of Items
1.	A comp any should have an aged account receivables report to he lp in the management of account receivables?	0.786	6 Items
2.	A company should allow cred it mainly to big companies/organizations.		
3.	Larger firm ’s obtain and extend more trade credit than small firms to grow their sales volumes		
4.	Both firm size and ages are proxies for the credit worthiness of a firm.		
5.	Larger firms borrow more even though they have higher cash flows and fewer growth opportunities.		
6.	Larger firms should identify and validate each major type of receivable in the balance sheet.		

Source: STATA 11.0 Statistical Package, 2018

Table 2 Reliability of Relationship between Organisational Policies and Accounts Receivables

No.	Statement	Cronbach’s Alpha	N of Items
1.	Are there written policies and internal operating procedures that have bee n approved by the Board of Directors or top management on account receivables?	0.863	9 Items
2.	Are roles and responsibilities clearly defined in writing and communicated regarding the issue s on account receivables management?		
3.	Are procedures in place to ensure that billings are prepared and sent as soon as possible after the sale of goods or provision of services, not less frequently than monthly unless another interval is specified in a written contract?		
4.	Are remittance advices and billing s maintained to support account receivables entries in the general ledger?		
5.	If subsidiary account receivables journals are maintained, are they reconciled at least monthly with the general ledger?		
6.	Are cash receipts properly and promptly docume nted, posted to account receivables records and deposited?		
7.	Are there adequate segregation of duties to ensure that different individuals prepare billings, collect and dep osit cash and reconcile account receivables and cash receipts entries to the general ledger?		
8.	Does the company accept back the goods offered for sales from the customer due to default in the supplies?		
9.	Does the company practice cash discount?		

Source: STATA 11.0 Statistical Package, 2018

Model Specifications

The study adopted work of Kalunda, Nduku and Kabiru (2012) and Ojeka (2012) because their works were based on information on the stability of the customers and existing credit policies which is the target of this study.

ARM = f (SIZ₁,POL₂).....1
ARM = a + a₁POL+ a₂SIZ +U₁.....2
ARM= β₀ + β₁RDB + β₂FZ + β₃TCE + β₄AGE + β₅CFL + ε.....3

Test of Hypotheses

H₀₁: *There is no any significant effect of organisational size on the management of account receivables of food and beverages firms in Nigeria.*

Table 3: Multiple Regression Analysis showing the Impact of Organisational Size on Account Receivables Management

Model	R-Squared	Adjusted R Squared		Root MSE	
	0.9270	0.9260		.28717	
Source	Sum of Square	Df	Mean Square	F	Probability
Coefficients	324.518313	4	81.1295783	983.80	0.0000
Residual	25.5642266	310	.082465247		
Total	350.08254	314	1.11491255		
ARM	Coef.	Std. Error	T	Sig	[95% Conf. Interval]
Receivables database	.2378827	.0707437	3.360.000		.0986928.3770727
Firm Size	.1465362	.0675535	2.17 0.031		.0136149 .2794575
Trade credit Extension	.2727803	.0617917	4.41 0.000		.3943644 -.1511961
Firm age	.667958	.0631798	10.57 0.000		.5436425 .7922734
Cash flow	.3718098	.0725313	5.13 0.000		.2290938 .5145258
CONS	.4600449	.0742078	6.20 0.000		.3140302 .6060596

Source: Researchers' Analysis, 2018 Using STATA (Statistically significant at 5%).

H₀₂: *There is no any significant effect of organisational policies on account receivables management of food and beverages firms in Nigeria.*

Table 4: Pearson Chi-square Analysis of the Relationship Between Organisational Policies and Account Receivables Management

S/N	Relationship	Pearson chi-square value	Pr (value)	Re mark
1	Written Internal procedures	705.3668.	0.000 ^(**)	Significant
2	Clearly defined roles	746.6233	0.000 ^(**)	Significant
3	Quick billing system	757.7537	0.000 ^(**)	Significant
4	Remittances maintenance	564.8334	0.000 ^(**)	Significant
5	Monthly reconciliation	797.5635.	0.000 ^(**)	Significant
6	Records management	675.7236	0.000 ^(**)	Significant
7	Segregation of Duties	784.6733	0.000 ^(**)	Significant
8	Customised deposit slips	800.5940	0.000 ^(**)	Significant
9	Receipts Accountability	832.4279	0.000 ^(**)	Significant

Source: Authors' Computation, 2018 Using STATA 11 Version. ^{**}Significant at 5% level and 95% degree of freedom.

Discussion of Findings from the Hypotheses

In hypothesis one of Table 3, multiple regression analysis result showed that there was positive relationship with RDB, FZ, TCE AGE and CFL on accounts receivable management. The variables were positively related to account receivables management (ARM). One unit increase in RDB led to approximately 0.24% increases in ARM, holding other independent variables constant. FZ also had a positive relationship with ARM. One unit increase in FZ led to about 0.15% unit increase in ARM, holding other independent variables constant.

The values of TCE, AGE and CFL also had a positive relationship with ARM. One unit increase in them led to approximately 0.27%, 0.67% and 0.37% respectively in ARM, holding other independent variables constant. The value of RDB showed a positive relation to ARM at 5% level of significance with a p-value of 0.0000. This ultimately meant that a % increased in RDB resulted to an increase in the ARM by 0.24%. It also implied that 1% increment in the value of FZ holding the effect of other variables constant led to an increment in the ARM by 0.15% and it was significant at 5% with a p-value of 0.0000.

Furthermore, trade credit extension (TCE) was also positively related with ARM such that 1% increment in the value of TCE led to an increment in the ARM by 0.27% with a significant level of 5% with a p-value of 0.0000. The findings showed that there was a statistical significance between debtor's turnover and accounts receivable management. Firm size (AGE) was also positively related with ARM such that 1% increment in the value of AGE led to an increase in the AGE by 0.67% and it

was significant at 5% with a p-value of 0.0000. Lastly, the value of cash flow (CFL) was equally positively related with ARM, implying that 1% increase in CFL holding the effect of other variables constant, led to increase by 0.37 in ARM and it was significant at 5% with a p-value of 0.0000.

The result of regression analysis showed that the R^2 Coefficient (0.9270) which was the coefficient of determination indicated that the explanatory variables accounted for 92.7% given the adjusted R^2 of 92.6% with 0.0000 at 5% level of significant. This was an indication that the independent variables in the model jointly and significantly explained the influences that organisational size had on account receivables management.

The F-statistics and probability statistics (0.000) also confirmed the significance of the model. The null hypothesis was rejected and the alternative hypothesis was accepted which stated that the size of the organisation significantly influenced accounting receivables management. This outcome was in line with the previous studies of Kalunda, Nduku and Kabiru (2012) and Ojeka (2012).

Hypothesis two in table 4 was obtained using Pearson's chi-square and it showed χ^2 Tabulated Value Df = (6-1) (5-1) = (5)(4) = 20 at 0.05 i.e. 5% level of significance = 31.41. Pearson's chi-squares calculated were all statistically significant at 5% with 95% degree of freedom since all its values were greater than χ^2 Tabulated Value of 31.41. Thus, there was a positive relationship between organisational policies and account receivables management. The null hypothesis was rejected and the alternative hypothesis was accepted. This outcome was also in line with the previous studies of Deloof (2003), Okpe and Duru (2015) and Niskanen and Niskanen (2006).

Conclusion and Recommendations

It is important to recognise the three guidelines which must be performed in the credit management or administration process: credit policy, credit evaluation and collection procedure. An enterprise must make it a point to follow certain well-established and duly recognised guidelines or principles of credit management. These guidelines involve credit evaluation, credit terms, credit investigation and sound collection policies and procedures before taking decision on granting credit sales. The size of the firm determined the level at which the organisation could possess the wherewithal to management accounts receivable.

There was a significant relationship between organisational policies and account receivables management. The quality of good organisational policies and its implementation would positively or negatively affect sales and reduce the level of doubtful and bad debt. There was significant relationship between organisational size and management of account receivables.

Recommendations

Organisations must continually come up with creative and innovative products that could meet the needs of expansion. Management must continually develop strategies, tactics and policies that could impact positively and sustainably on account receivables management. This must be done in line with changes in the business environment as well as global best practices.

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Appendix

Perception of Respondents on Organisation Policies and Accounts Receivables

S/N	Statement	SA	A	U	D	SD
1.	Are there written policies and internal operating procedures that have been approved by the governing body or senior management on account receivables?	126 (40)	109 (34.61)	30 (9.52)	15 (4.76)	35 (11.11)
2.	Are roles and responsibilities clearly defined in writing and communicated regarding the issue on account receivables management?	135 (42.86)	115 (36.51)	22 (6.98)	28 (8.89)	15 (4.76)
3.	Are procedures in place to ensure that billings are prepared and sent as soon as possible after the sale of goods or provision of services, frequently not less than monthly unless another interval is specified in a written contract?	161 (51.27)	99 (31.53)	20 (6.37)	15 (4.78)	20 (6.05)
4.	Are remittance advices and billings maintained to support account receivables entries in the general ledger?	157 (49.84)	123 (39.05)	5 (1.59)	18 (5.71)	12 (3.81)
5.	If subsidiary account receivables journals are maintained, are they reconciled at least monthly with the general ledger?	122 (38.85)	118 (37.58)	28 (8.92)	29 (9.24)	18 (5.41)
6	Are cash receipts properly and promptly documented, posted to account receivables records and deposited?	161 (51.27)	99 (31.53)	15 (4.78)	22 (7.01)	18 (5.41)
7	Is there adequate segregation of duties to ensure that different individuals prepare billings, collect and deposit cash and reconcile account receivables and cash receipts entries to the general ledger?	117 (37.14)	103 (32.70)	30 (9.52)	45 (14.29)	20 (6.35)
8	Does the company accept back the goods offered for sales from the customer due to default in the supplied?	121 (38.41)	134 (42.54)	20 (6.35)	15 (4.76)	25 (7.94)
9	Does the company practice cash discount?	127 (40.58)	138 (44.09)	17 (5.43)	13 (4.15)	20 (5.75)

Source: Researcher's Field Survey, 2017

Receivables Perception of Respondents on Organisation Size and Account Receivables

S/N	Statement	SA	A	U	D	SD
1.	A company should have an aged account receivables report to help in the management of account receivables?	151 (47.94)	109 (34.6)	24 (7.62)	19 (6.03)	12 (3.81)
2.	A company should allow credit mainly to big company/organization	119 (37.78)	131 (41.59)	27 (8.57)	30 (9.52)	8 (2.54)
3.	Larger firms obtain and extend more trade credit than small firms to grow their sales volumes	121 (38.41)	109 (34.60)	20 (6.35)	45 (14.29)	20 (6.35)
4.	Both firm size and ages are proxies for the credit worthiness of a firm.	138 (43.81)	112 (35.56)	22 (6.98)	29 (9.21)	14 (4.44)
5.	Larger firms borrow more even though they have higher cash flows and fewer growth opportunities.	127 (40.32)	113 (35.87)	21 (6.67)	34 (10.79)	20 (6.35)

Source: Researcher's Field Survey, 2018