Accounts Receivable Management and Financial Performance of Selected Quoted Firms in Nigeria

Yakubu Abubakar[1] and Gbenga Joseph Olowe[2]

[1]*Department of Accounting, Ahmadu Bello University, Zaria, Nigeria.*
[2]*Gbenga Olowe & Co Chartered Accountants Firm, Nigeria*

Abstract: **- This study examines the impact of Accounts Receivable Management onFinancial performance of selected quoted firms in Nigeria. The study have been conducted in different parts of the globe and in Nigeria with different findings which are mixed and inconclusive. The population of the study consists of ten (10) firms quoted on the Nigerian stock exchange as at 31st December 2018 out of which ten (10) firms were selected as samples for a period of seven (7) years from 2012 to 2018 based on purposeful sampling technique. The study uses multiple regressions as a tool for analysis. The proxy for accounts receivable management were accounts receivable ratio, debt ratio and Revenue growthwhile the proxy for financial performance was Return on Equity (ROE).The study reveals that accounts receivable ratio, debt ratio and Revenue growthshowed a positive significant impact on financial performance of selected quoted firms in Nigeria.**

Keywords: **Accounts Receivables Management, Financial performance, Debt, Revenue Growth and Firm Size.**

I. INTRODUCTION

Accounts Receivable is the proceeds or payment which the company intends to receive from its customers who have purchased goods & services on credit. Usually the credit period is short ranging from few days to months or in some cases maybe a year. Accounts receivable management has to do with ensuring that customers invoices are settled on time based on the credit policy of the firm. Accounts receivable management helps prevent overdue payment or non-payment. It is therefore a quick and effective way to strengthen the company's financial or liquidity position. Accounts receivables management helps management to determine the customer's credit rating in advance, scanning and monitoring customers for credit risks, maintaining customer relations, detecting late payments in due time, detecting complaints in due time, reducing the total balance outstanding and preventing any bad debt in receivables outstanding.

The study of accounts receivable management on financial performance is important due to the fact that most firms have be liquidated as a result of poor management of accounts receivables. The accounts receivable forms part of the working capital used in running day to day activities of business and so if not managed properly can make a firm not meet its daily obligations. Accounts receivable management directly contributes to a company's profit because it reduces bad debt. The company also has a better cash flow and higher available liquidity for use in investments or acquisitions.

Empirical studies have been conducted on Accounts Receivable management and financial performance like Eleonora (2012), Anastasia, Michael and Innocent (2014), Chris, Kennedy and Agnes (2017), Adam and Caroline (2018) Kilonzo, Memba and Njeru (2016) Francis and Charles (2018)which are African base and have provided mixed and inconclusive findings due to the data collected, methodology used and the industry used and to the best of our knowledge, among studies conducted in Nigeria, we have not seen a study that took into consideration the selected quoted firms from food and beverage and agricultural industries. To this end, this study attempt to fill the gap by examining the impact of Accounts management on financial performance of selected quoted firms in Nigeria. The main objective of the study is to examine the impact of Accounts receivable management on financialperformance of quoted selected firms in Nigeria. Specific objectives are: to determine the extent to which accounts receivables impact on financial performance of quoted selected firms in Nigeria, to determine the extent to which debt impact on Financial performance of quoted selected firms in Nigeria, to determine the extent to which Revenue growth impact on Financial performance of quoted selected firms in Nigeria. In line with the specific objectives, three hypotheses are formulated which are: H_{O1} Accounts receivable has no significant impact on financial performance of quoted selected firms in Nigeria. H_{O2} Debt has no significant impact on financial performance of quoted selected firms in Nigeria. H_{O3} Revenue growth has no significant impact on financial performance of quoted selected firms in Nigeria.

II. LITERATURE REVIEW

Wanyoike, (2017) studied the influence of accounts receivable management practice on financial performance of manufacturing firms in Kenya. 50 manufacturing firms in Embu County was used as sample using simple random sampling technique and therefore constituted the population of study. Questionnaires were used to collect primary data and secondary data from the firms' annual audited financial accounts. Out of 52 questionnaires distributed, 46 were filled and returned, 88.5% response rate was gotten. The total number of usable responses was 43, which gave a usable response rate of 82.7%. Both descriptive and inferential analysis were used. Statistical package for social sciences (SPSS) version 22 was used for data analysis. Analysis for variant (ANOVA) and regression analysis were used to test the hypothesis. The results of the study showed that there is a positive relationship between accounts receivable and financial performance of manufacturing firms in Kenya.

Ramana, Ramakrishnaiah and Chengalrayulu (2013) examined the Impact of Receivables Management on Working Capital and Profitability. Data were collected from the annual reports of select cement companies for the period from 2001 to 2010. The ratios which highlight the efficiency of receivables management viz., Receivables to Current Assets Ratio, Receivables to Total Assets Ratio, Receivables to Sales Ratio, Receivables Turnover Ratio, Average Collection Period, Working Capital Ratio and Profitability Ratio, have been computed statistical tools like ANOVA was also used to know the impact on working capital and profitability. Working capital and profitability were considered as dependent variables. The Study reveals that the receivable management across cement industry was efficient and showing significant impact on working capital and profitability.

Mabele, Ondiek and Tibbs (2018) assessed the impact of accounts receivable management practices on the performance of PSVs insurance companies. A causal research design was employed. The study was carried out in Nairobi at Amaco, Invesco, Direct line and Explico insurance companies head offices respectively. Population was 62 respondents comprising 4 Finance managers, 32 Cashiers, 17 Accountants and 9 Internal Auditors of PSV insurance companies were used. The study adopted stratified random sampling technique with a sample size of 51 respondents. Primary data and secondary data were collected using questionnaires and data collection schedules and presented by tables. Descriptive statistics and inferential statistics were employed. Inferential statistic was adopted where regression and correlation analysis were used to test the research hypothesis. The findings of the study showed that there was a positive relationship between the accounts receivable management and performance of PSVs insurance companies

Eleonora(2013) examined the impact of Accounts receivable management on the profitability of a companyexpressed in terms of Retun on Assets (ROA) of sample companies. The study was to explore cost and benefits of changes in credit policy, determine the independent variables which have impact on net savings and establish a relationship among them in order to develop a new mathematical model for calculating net savings following a revision of credit policy. On the basis of research result, a mathematical model for calculating net savings and following a revision of credit policy, has been developed and with this model a company can consider different credit policies as well as changes in credit policy in order to improve its income and profitability and establish a credit policy that results in the greatest net profitability.

Francis and Charles (2018) examined the impact of Accounts receivable Management on financial performance of Embu Water and Sanitation Company limited This specific objectives of the study was: to examine the effects of inventory turnover period, average payment period, cash conversion period and average collection period on financial performance of Embu Water and Sanitation Company limited, Embu County, Kenya. Theories guiding the study were operational motives theory, transactions cost theory and cash conversion cycle theory. Descriptive research was used to test the relationship variables of the study and secondary data was obtained from the accounts and finance departments. Descriptive statistics and inferential statistical techniques were used to analyze the data and presented in tables. The study found out that inventory turnover in days has negative relationship with Return on Equity. Financial performance can be increased by reducing inventory in days. Average collection period and current ratio had positivesignificant association with Return on Equities, indicating that if time period of debtor's payment was increased.

Anastasia, Michael and Innocent (2014) examined accounts receivable management and corporate performance of companies in the food & beverage industry: evidence from Nigeria. Accounts receivable, debt and sales growth were the variables used. Secondary sources of data were used for the period 2000-2011. Multiple regression analytical tools were used to analyze the hypotheses of the study. The findings of the study showed that accounts receivable had negative and non-significant relationship with profitability, while debt had positive but non-significant relationship with profitability of food and beverages manufacturing companies in Nigeria. Sales growth also had positive and non-significant relationship with profitability.

Chris, Kennedy and Agnes (2017), investigated the effect of Receivable management practices on financial performance of Deloitte East Africa Limited. The study specifically aimed at establishing the effect of preparation of credit sales on financialperformance and to assess the effect of Credit guidelines on financial performance and to assess the effect of reviewing level ofreceivables on financial performance. Descriptive research design was adopted and Judgmental sampling technique was employed in identifyingrespondents who have the information required for this study and sample size was 82 respondents. Questionnaire was the main instrument fordata collection. Analysis and interpretation of the data was used for qualitative and quantitative methods based on researchobjectives and research questions. The data collected were summarized, classified, tabulated and analyzed qualitatively. Data was presented using tables, charts and percentages the findings was to help the organization achieve the financial minimums and ensuresmooth improvement in the staff performance of Deloitte east Africa. And that proper operating capital management practices in theorganization for the effective utilization of the resources for the organizations to enhance their financial performance.

Kilonzo, Memba and Njeru (2016) opined the effect of accounts receivable management on financial performance of firms funded by Government venture capital in Kenya. The population of the study comprised all firms (24) funded by government venture capital in Kenya. The study adopted a census approach because of the small number of firms. The study reviewed theoretical and empirical literature on accounts receivable management. From the review of related literature, a comprehensive conceptual framework of argument of the relationship between accounts receivable management and firm financial performance was formulated. Questionnaire was formulated and used to collect primary data for the independent variables and a record survey sheet was used to collect secondary data for the dependent variable. Out of 72 respondents, 51 responded, being 71%. Both descriptive and inferential analyses were employed. Statistical package for social sciences (SPSS) version 20.0 was used as the statistical tool for analysis of the study. Analysis for variant (ANOVA) and regression analysis were used to test the hypothesis. The results of the study showed a positive relationship between accounts receivables and financial performance of firms funded by government venture capital in Kenya.

Adam and Caroline (2018) examined the effect of accounts receivable management on the financial performance of Small and Medium firms Enterprises in Mogadishu city in Somalia. The research design employed a survey design comprising of quantitative for data collection approach. The target populations had 102 SMEs from three sectors. The study applied probability and non-probability sampling procedures and obtained a sample of 81 SMEs required for the study based on Slovene formula. Questionnaires were used for data collection. For explaining theoretical and empirical information on the past literature review on the effect of accounts receivable management on the financial performance of SMEs, the study was three sectors in Mogadishu Somalia. Inferential statistics such as Pearson correlation coefficient and coefficient correlation was used to analyze quantitative data and descriptive statistics are employed for variables of the study.

III. METHODOLOGY

This research adopted correlation research design and was considered adequate and appropriate for this study because it describes the statistical relationship between independent variables of the study (Accounts Receivables, Debt, Revenue Growth) and the dependent variable (Return on Equity). The population consists of selected firms namely Ellah Lakes Plc, FTN Cocoa Processing Plc, Livestock Feeds plc, Okomu Oil Palm Plc, PrescoPlc, Nestle Nigeria Plc, Unilever Nigeria Plc, Cadbury Nigeria Plc, Seven Up Nigeria Plc quoted on the Nigerian Stock Exchange as at 31st December 2018 and covered a period of thirteen years (2012-2018). Purposeful sampling technique was employed to select the sample.The sample selected are: Ellah Lakes Plc, FTN Cocoa Processing Plc, Livestock Feeds plc, Okomu Oil Palm Plc, PrescoPlc, Nestle Nigeria Plc, Unilever Nigeria Plc, Cadbury Nigeria Plc, Seven Up Nigeria Plc In line with this, the sample size are all the ten (10) selectedquoted firms on the Nigerian stock exchange.

The study employed panel data using statistical package for social sciences (SPSS 25) and Ordinary Least Square (OLS) method adopted in this study is a parametric statistical test that is based on a number of assumptions, the violation of which could affect the reliability of the results. The Pearson correlation and t-test statistics were used for inferential analysis. Two of the most commonly encountered problems addressed in this study relate to normal distribution of the variables and descriptive statistics was used to test for normality of data.

Model Specification

The model that was used to test the hypothesis formulated for this study is presented below. The null Hypothesis is tested considering the results for the P-values at 1%, 5% and 10% level of significance. The first model is the functional model from which the second model Ordinary Least Square (OLS) was derived that is firm performance model.

$$ROE = f(\beta_1 \, ACCTREC + \beta_2 \, DEBT + \beta_3 REVGR + \beta_4 \, FSIZE)$$

$$ROE = \alpha + \beta_1 \, ACCTREC + \beta_2 \, DEBT + \beta_3 REVGR + \beta_4 \, FSIZE + \epsilon_i$$

Where

α= the intercept

ROE = Return on Equity measured by profit after tax divided equity in book value

ACCTREC =Accounts Receivable ratio measured as the ratio ofTotal Account Receivables to Total Revenue.

DEBT = Debt ratio measured the ratio of long term debt to Total Asset

REVGR = Revenue Growthmeasured as increase or decrease in revenue i.e Rev1 – Rev 0 / Rev0

FSIZE = Measured as natural log of total Assets.

ϵ_i= error term

Firm Size is a control variable.

IV. DATA PRESENTATION

This part presents the results of theDescriptive statistics and Regression results on the impact of accounts receivable management on financial performance of selected quoted firms in Nigeria. Three explanatory variables and a control variable are employed for the purpose of explaining and predicting the impact of accounts receivable management on financial performance of selected quoted firms in Nigeria.

Test of Normality

The normality tests are supplementary to the graphical assessment of normality. For this study, Z Skewness and Z kurtosis are used to test for normality of the three (3) independent variable; namely Accounts Receivable, debt ratio and Revenue Growth. The Z skewness was computed as skewness divided by Standard error of skewness and the Z kurtosis was computed as kurtosis divided by Standard error of kurtosis.

Table 4.1.1 shows Z Skewness and Z kurtosis.

Table 1descriptive Statistics Table for the Variables

Variables	Skewness	Standard Error	Z Skewness	Kurtosis	Standard Error	Z Kurtosis
ACCTREV	1.910	0.287	6.655	2.641	0.566	4.666
DEBT	1.186	0.287	4.132	1.361	0.566	2.404
REVGR	0.312	0.287	1.087	0.165	0.566	0.291

This table shows the normality test for short term debt, long term debt and debt equity.

In small samples like that of this study which the number of observations is 70, values of Z skewness and Z kurtosis greater or lesser than 3.29 are sufficient to establish normality of the data. The result of Skewnessfor Account receivables, Debt ratioand Revenue Growth are 1.910, 1.816 and 0.312 respectively and the Z skewness of Account receivables, Debt ratio and Revenue Growth are 6.665, 4.132 and 1.087 respectively which are greater than 3.29 shows that the data is normal which indicates that the data for Account receivables, Debt ratio and Revenue Growth relates linearly to the dependent variable (Return on Equity). The results of the Z Kurtosis Account receivables and Revenue Growth are 4.666 and 2.404 respectively are greater than 3.29 and therefore are normal which indicates that the data for Account receivables and Debt ratio relates linearly to the dependent variable (Return on Equity). On the other hand, Debt ratio is 0.231 which is lesser than 3.29which indicates that the data for Debt ratio relates linearly to the dependent variable (Return on Equity).Ghasemi and Zahediasl (2012).

TABLE 2 ACCOUNTS RECEIVABLES MANAGEMENT IMPACT ON FIRM PERFORMANCE

Variable	**Coefficient**	**T – value**	**P – value**
Constant	0.455	3.218	0.02
ACCTREC	0.072	5.044	0.000
DEBT	0.133	4.864	0.000
REVGR	0.046	3.675	0.000
FSIZE	.000	0.617	0.539
R	0.649		
R^2	0.421		
Adj R^2	0.386		
F stat	11.831		
F-Sig	0.000		

Source: Author's computation using SPSS 25

The estimated equation of the study is presented as follows:

ROE = 0.455 + 0.072 (ACCTREC) + 0.133 (DEBT) + 0.046 (REVGR) +0.000 (FSIZE)

The financial performance of firms measured by Return on Equity would be equal to 0.455when all other variables are held to zero. A one unit change of Accounts Receivablesall other variables remain constant, Accounts Receivableswould increase by 0.072.The regression result of the study shows that the beta coefficient in respect of Accounts Receivable is (0.072) and the t-value is (5.044) and it is significant at 1%. This means that, Accounts Receivable has a positive significant impact on the performance of quoted selected firms in Nigeria.

A one unit change of Debt ratio all other variables remain constant, Debt ratio would increase by 0.133.The regression result of the study shows that the beta coefficient in respect of Debt ratio is (0.133) and the t-value is (4.864) and it is significant at 1%. This means that Debt ratio has a positive significant impact on the performance of quoted selected firms in Nigeria

A one unit change of Revenue Growth all other variables remain constant, Revenue Growth would increase by 0.046.The regression result of the study shows that the beta coefficient in respect of Revenue Growth is (0.046) and the t-value is (3.675) and it is significant at 1%. This means that Revenue Growth has a positive significant impact on the performance of quoted selected firms in Nigeria

The total impact of the Accounts receivable management is able to explainthe dependent variable up to (65%). and the remaining (35%) are controlled by other factors. Similarly, the result of the F- statistic shows the overall fitness of the model. The F- statistic has a value of (11.831) and is significant at 1% which implies that the model is fit because it is significant at all levels of significant. (Gujarati, 2004).

Findings of the Study

Accounts receivables has a strong positive significant impact on financial performance of quoted selected firms in Nigeria.

Debt ratio has a strong positive significant impact on financial performance of quoted selected firms in Nigeria.

Revenue Growth has a strong positive significant impact on financial performance of quoted selected firms in Nigeria.

V. CONCLUSION

This study has contributed to findings on accounting research in Nigeria. From the findings of the study, the study concludes that Accounts receivable management impacts on financial performance of quoted selected firms in Nigeria.

REFERENCES

[1]. Eleonora, K.M.S (2012), Management of Accounts Receivable inA Company: Ekon. Misaopraksadbk. God xxii.

[2]. Anastasia,N.D, Michael, C.E&Innocent, I.O.(2014),Accounts Receivable Management and Corporate Performance of Companies in Food and Beverage Industry: Evidence from Nigeria, *European Journal of Accounting and Finance Reasearch,* Vol. 2 No. 10, pp 34-47.

[3]. Chris, J.O, Kennedy, K.N. and Agnes, N.(2015),Effect of Accounts Management Practices On Financial Performance: A Case Study of Deloitte East Africa Limited Authors, *International Journal of Science and Research,*ISSN: 2319-7064.

[4]. Adam, O.D. and Caroline, A.(2018), Effect of Accounts receivables Management On Financial Performance in Small and Medium Firms In Mogadishu-Somailia,*International Journal of Management and Commerce Innovations,* ISSN 2348-7585, Vol. 6, pp: 378-383, www.researchpublish.com.

[5]. Kilonzo, J.M, Memba, S.F and Njeru, A.(2016), Effect of Account Receivables on Financial Performance of Firms Funded By Government Venture Capital in Kenya, *Journal of Economics and Finance*, Volume 7, Issue 1, pp 62-69.

[6]. Mabele, B.E Ondiek, A.B and Tibbs, C.Y (2018), Effect of Accounts Receivable Management On PSV Insurance Companies Performance In Kenya, International Journal Of Economics, Commerce and Management, Volume IV, Issue 11.

[7]. Francis, M and Charles, Y.T(2018), Accounts Receivable Management and Financial Performanceof Embu Water And Sanitation Company Limited, Embu County, Kenya,*International Academic Journal ofEconomics and Finance*, Volume 3, Issue 2, Page 216-240.

[8]. Gujarati (2004), Basic Econometrics, Fourth edition.

[9]. Ghasemi and Zahediasl(2012), Normality Test For Statistical Analysis: A Guide for Non- Statisticians, International Journal of Endocrinology and Metabolism.

[10]. Ramana, Ramakrishnaiah and Chengalrayulu (2013), Impact of Receivables Management On Working Capital and Profitability: A Study On Select Cement Companies In India, International Journal Marketing, Financial Service And Management Research, Volume 2, No. 3.

[11]. Wanyoike, J.E (2017), Accounts Receivable Management Practices And Financial Performance Of Manufacturing Firms In Kenya, Academic Research Insight Journal, Volume 1, Issue 1, pp. 1-15.