ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

AN ASSESSMENT OF RECEIVABLE MANAGEMENT IN OROMIA CREDIT & SAVING SHARE COMPANY STADIUM BRANCH

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A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING BUSINESS FACULTY
ST. MARY'S UNIVERSITY

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Acronym

OCSSCO................................Oromia Credit and Saving Share Company

FASB.....................................Financial Accounting Standard Board

GAAP....................................General Accepted Accounting principles

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Statement of Declaration

We, the Undersigned, declare that this study is our original work, has not been presented for award in any other university and that all sources of Materials used for the study have been duly acknowledged.

Declared by
    Name   **Signature**   **Date**

Confirmed by Advisor

Place and date of Submission: St. Mary's University June 2014

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The real significance of the receivable management including loan management comes to be appreciated to a great extent. In today's world the receivable management is critical factor to success or failure of any micro financing institutions. (Fundamental of Financial management 10th ed p.4)

Problems related to collection of account receivable are noticeable in credit and saving share companies. This issue has been great concern for many organizations. According to myres, "A proper receivable management system needs to provide loans; at the right time, the right amount and the right customer" (pdf file 2012, p.13) such problems needs a solutions. So as the researchers aimed the study on non collectability of account receivable in Oromia Credit and saving share company.(Financial and management Accounting , pdf file, 2012, p.13)

Receivable from customers frequently represent a substantial parts of a business enterprise's current assets. Poor screening of applicants for credit or an inefficient collection policy may result in large losses. Consequently, strong accounting controls and effective management of receivables are typical characteristics of most profitable enterprises.(Mosich 1989 :343)

All firms by their very nature are involved in selling either goods or services. Although some of these sales will be for cash, a large portion will involve credit. Whenever a sales is made on credit, it increase the firm's account receivable. Thus, the importance of how a firm manages its accounts receivable depends on the degree to which the firm sells on credit.

Account receivable typically comprises over 25 percents of a firm's assets of all industries. Moreover, because cash flows from a sale cannot be invested until the account is collected, control of receivable takes on added importance; efficient collection determines both profitability and liquidity of the firm. (Petty & etal 1993: 620)

Monitoring receivable management is important, because without it receivable will build up to excessive levels, cash flow will decline, and bad debts will offset the profit on sales. Corrective action is often needed, and the only way to know whether the situation is getting out of hand is to set up and then follow a good receivables control system.(Brigham, Gapenski 1991 : 815)

1.2 Background of the Organization

Oromia Credit and Saving Share Company (OCSSCO) Begin its formal operational activities on August 4, 1997 G.C after obtaining its license from National Bank of Ethiopia and Registered by Ministry of trade and industry as per the commercial Code of Ethiopia. As per proclamation No. 40/1996, OCSSCO was established in the form of Share Company by five share holders and also owners. It's authorized capital was 60 million of which 20 million was contributed by share holders as follow:

Oromia national state (25%), Oromia Development Association (20%), Dinsho Trading Plc (25%), Oromia self help organization (25%) and one natural person (5%). However the paid up capital was birr 50.2 million.

The organizational structure, the institution has three administration organs. Namely, General Assembly, Board of Directors and Management, the General Assembly is the supreme decision making organ of the company and currently it comprises eight members those have share. The board of director are 7 in numbers has who was elected by the General assembly among the share holder of the institution and they are responsible for policy issues, wire actions, approving plan and budget and endorse report of the institution. Regarding its current outreach, the company has about 291 branches & 650,990 active clients respectively. Furthermore the company has been offering its services in all oromia region and its gross loan portfolio reached about birr 2.3 billion.

1.3 Objective of Oromia Credit and Saving Share Company Stadium Branch

The overall objectives of Micro Finance Service in Addis Ababa Branch of Oromia credit and saving Share Company are to create long lasting functional financial institution that can serve the active poor people who are residing in and around Finfine. In addition it has the following objectives.

-I- Poverty alleviation and stimulating the region's economic growth, giving priority to rural and remote communities particularly women.

4- Promote agricultural and non agricultural economic activities.

4- Significantly increase client's income and asset position.

4- Provide loan to active people that who is not lend from bank because of collateral and high interest rate.

4- Promote sustainable financial service both operational and financial.

1.4 Statement of the problem

In this changing and competitive environment, knowledge of receivable management must be taken into account because receivables are the most important components of the economy. As the researchers observed the uncollectability of receivable in Stadium Branch of Oromia Credit and saving Share Company, it came across many problems related to uncollectability. This resulted in interruption in the provision of loan and which in turn has an effect on the smooth operation of the institution.

Thus, this study conducted to identify the types of uncollectability problems by searching true and reliable answer for the following questions

> What is the cause of uncollectable account receivable?

> How could uncollectability of account receivable be solved?

> What type of appropriate receivable evaluation method implemented in the organization?

> How the institution strictly implement following policies and procedures of receivable management?

1.5 Objective of the study

This study attempts to discussed on uncollectability problems and it had the following general objective and specific objective.

1.5.1 General objective

It gave some basic opportunity to assesses and evaluate the case and effect of receivable uncollectability in the organization.

1.5.2 Specific objectives

The specific objectives of this study were helped

^A To investigated the cause of receivable un collectability's.

^A To investigated ways to solve receivable un collectability

^A To assessed whether follow-up policies and procedures of receivable management are strictly implement or not

^A To analyzed the accounting treatment over receivable of the institution.

1.6 Significance of the study

This research is significant in that, it tried to show some uncollectability problem in OCSSCO stadium Branch. The findings of this study help the management of the organization to observe many uncollectability problems. In addition, it would provide financial and accounting principle to solve the identified problem, As to the knowledge of the researcher, this study could possibly serve as a stepping -stone for further researcher and plays significant role for the improvement of the micro financing institution overall performance.

1.7 Research Design and Methodology

1.7.1 Research Design

Our research designed for gathering necessary information related to our study. This refers to the variables over which the data collected and the methods that have been implemented in data collection, data analysis and interpretation.

This research was conducting to assess and analyzed the performance of account receivable collection of the Oromia credit and saving Share Company.

The variables were areas and phenomenon under the study and it includes the credit practices, collection follow up, the procedures of company loan management.

1.7.2 Population and Sampling Techniques

So as to met the stated objectives the researchers took 30 employees as sampling size. Out of the total population 20 samples were selected. In this study conducted by using judgmental sampling (purposive sampling) since the researchers used this sampling method (technique) from non probability sampling, the researchers consciously selected individuals who has knowledge, capacity and willingness to participate in the research. This helped us to minimize our effect to get targeted data.

1.7.3 Types of Data to be collected

The data's collected in this study were primary data. For it is a firsthand information the researchers relayed on primary data and conducted on quantitative and qualitative type of data.

1.7.4 Methods of Data to be collected

The data was collected from primary source. The methods that the researchers used to collect data were through questionnaires especially close ended and open ended question.

1.7.5 Data Analysis Methods

Relevant statistical methods were used to analyze the collected data through tabulation and simple percentage. So as it was expect factor research, the researchers also used descriptive research to describe the necessary data by simple method.

1.8 Scope of the Study

Even though receivable management is interesting and wide ranging for detail study, the researchers were confined only to Oromia Credit and Saving Share Company stadium branch loans receivable. It excludes other receivables.

1.9 Limitation of the Study

The researchers assumed unwillingness of the respondents, shortage of time, Lack of adequate financial resource and related research works, but not farther unexpected willingness expressed by the employees. The only limitation that the researchers faced was shortage of time to collect the questionnaires.

1.10 Organization of the Study

The paper have been organized into four chapters chapter One deals with introduction, Background of the organization, back ground of the study, statement of the problem, objective of the study, significance of the study, Methodology of the study , Scope of the study, limitation of the study and organization of the study. Chapter two deals with literature review. Chapter three deals with data presentation analysis and interpretation, Chapter four deals with summary, conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Definition of Receivable

The term receivable includes all money claims against people, organizations or other debtors. Receivables are acquired by a business enterprise in various kinds of transaction, the most common being the sale of merchandise or services on a credit bases. (Fees warren, principle of Acct 16th ed P.316). The balance sheet of every business enterprise includes a variety of claims from other parties that generally provide a future in flow of cash. These receivables arise from transactions and events such as sale of goods or services, loans made, subscriptions obtained from investors for capital stock or bonds, claims for income tax refunds, claim resulting from litigation, and amounts due from leasing of assets. Receivables from customers frequently represent a substantial part of a business enterprise's current asset. Poor screening of applicants for a credit or an inefficient collection policy may result in large losses. Consequently, strong accounting controls and effective management of receivables are typically the characteristics of most profitable enterprises. (Intermediate Acc, 6th ed p.343) Receivables are also defined as an amount due from another party. A credit is granted, the business must account for the resulting receivables which may represent a substantial portion of total current assets.

2.2 Types of Receivable

2.2.1 **Current or no current receivable**

Current or non-current receivables are distinguished by their duration of time.

- Current receivables are receivables that are expected be collected within a year or during the current operating cycle. All receivables that are expected to be realized in cash within a year are presented in the current section of the balance sheet. (fees warren, principle of acct. 16th ed, p.317)

- Non- current receivables are receivables that are expected to be collected in more than a year. Receivables that are not currently collectable, such as long term loans, should be listed under the caption "Investments" below the current asset section. (Intermediate Acc. 6th ed p. 171)

2.2.2 Trade or non-trade receivables

- Trade receivables are amounts owed by customers for goods sold and services rendered as part of normal business operation. If notes and account receivable originate from sales transactions, they are sometimes called traded receivables. A large portion of retail trade involves credit in some from; at the whole sale and Manufacturing level almost all sales transaction are on a credit basis. Terms on ordinary trade account receivable range from 10 days typically allowed for taking cash discounts to as long as 6 months or a year in some cases in countries like untitled states.(Mosich, 1989,p.345) . Non trade receivables are receivables that arise from a variety of transaction and can be written promises either to pay or to deliver. Non trade receivables also may arise from many other sources, such as advance to employees, interest receivables, rent receivables and loan to affiliated companies.

2.2.3 Notes Receivable and account Receivable

2.2.3.1 Account receivable

Account receivables are amounts owed by customers for goods and services sold in the firm's normal course of business. These receivables are supported by sales invoice or other documents rather than by normal written promises, and they include amounts expected to be collected either during the year following the balance sheet date or within the firm's operating cycle, whichever is longer. Individual accounts

receivable from customers with credit balances are reclassified and reported as liabilities. The credit balances are not netted against other accounts receivable. The average age of receivables is an important statistic to analysis. (Intermediate Accounting Dyckman, volume 1 p. 326).

Account receivables are recognized only when the criteria for recognitions are fulfilled. They are valued at the original exchange price and less adjustment for cash discounts which is frequently offered for payments received within a designated period, sales returns, and allowances and uncollectible accounts, yielding an approximation to net realizable values the amount of cash expected to be collected. These account receivables are classified on the balance sheet as part of current asset. (fees warren, principle of Accounting 16th ed. P. 317).

2.2.3.2   Notes receivable (Promissory notes)

Is a written promise to pay a specified amount of money on demand or at definite future date? Notes are usually used for credit periods of more than 60 days, as in sale of equipment on installment plan, and for transactions of relatively large dollar amounts. Notes may in used in segment of an open account (account receivable) and borrowing or lending money. (Fees warren, principle of accounting 16th ed. P. 318). Using a note to the creditor has its own advantage. From these:

A note is strong legal, claim than an open account as a debtor acknowledges the debt by signing.

It is more liquid than an open account because the holder can transfer ready to a bank or other financial agency in exchange of cash.

In the banking and commercial credit fields, notes are the typical form of credit instruments used to support lending transactions. Concerning valuation of notes

receivable, as in the case of account receivable, the proper valuation of notes receivable and similar credit instruments is their current fair value (or present value) at the time of acquisition. Notes receivable can be valued because their terms generally provide reliable evidences or the rights inherent in them. Except for questions of collectability, there is a little uncertainty with respect to the amounts that will be received and the dates on which the amounts will be received.

Notes receivable just as trade account receivable may prove to be uncollectible. If a business enterprise uses notes as a regular credit medium and has a large volume outstanding, the amount of probable uncollectible notes may be estimated, and an allowance for such notes established by procedures similar to those for accounts receivable. Strictly speaking, there is not such thing as a non interest bearing note; there are only notes that contain a stated provision for interest and notes that do not. The time value of money is present in any case, because the present value of a fixed or determinable date is not as large as the amount to be paid at maturity. The so called noninterest bearing note has a lower present value than its face amount by an amount equivalent to an interest charge. In contrast, if a note bears affair rate of interest, its face amount and present value are the same on the date of issuance. (Fees warren, principle of Acct.16th ed. P.320)

Characteristics of notes receivable

A claim supported by note has some advantages over a claim into the form of an account receivable. By signing a note, the debtor recognizes the debt and agrees to pay according to the terms listed. A note is therefore a strong legal claim if there is a court action.

A promissory note is a written promise to pay a sum of money on demand or at definite time. It is payable to the order of a person, a firm or to the bearer or holder of the note.

The person or firm that makes the promise signs it. The one to whom the ordered note is payable is called the payee, and the one making the promise is called the maker. Notes have several characteristics that affect how they are recorded and reported in financial statements. The characteristics are: (Fees warren, principle of Acct.16th ed. P.318)

Due date

The date a note is to be paid is called the due date or maturity date. The period between the issuance date and the due date of a short term note may be stated in days or months. When the term on a note is expressed in days, the maturity date is the specified number of days after the note's date. The period of a note is sometimes expressed in months. When months are used, the note matures and is payable in the month of its maturity on the same date of the month as its original date.

Interest computation

Interest is the cost of borrowing money for the borrower. It is the profit from lending money for the lender. The interest rate on notes is normally stated in terms of per years, regardless of the actual period of time involved. Interest can be computed as the multiplication of principal (face amount of the note, annual interest rate and time). To simplify interest computations for notes with periods expressed in days it is come to treat a year as having 360days.

Maturity value

The amount that is due at the maturity or due date is called the maturity value. The maturity value of a note is the sum of the face amount and the interest earned. However, the maturity value of non interest bearing note is the face amount. (Fees warren, principle of Acct.16th ed. P.320)

Accounting for Notes Receivable

Notes receivable are usually recorded in a single note receivable account to simplify record keeping. We need only one account because the original notes are kept on file. This means the maker, rate of interest, due date, and other information can be learned by examining the actual note. The maker of the note usually honors the note and pays it in full. Organizations can sometimes accept note for an overdue customer as a way of granting a time extension on a past due account receivable. If the open account customer becomes delinquent, the creditor may insist that the account be converted into a note. When a note is received from customer to apply on account, the facts are recorded by debiting the note receivable controlling account and crediting the account receivable control account and the account of customer from whom the note is received (for non interest bearing notes).However, if the notes receivable from a customer on account is interest bearing, interest must be recorded as appropriate. (Fees warren, principle of Acct.16th ed. P.320)

When a note's maker is unable or refuses to pay at maturity the note is dehorned, when the maker means failed to pay at maturity.

2.2.4 Other Receivables

Other receivables include

 1.Interest receivables: - receivable on interest for lending money

2. Loan to affiliated companies

3. Loan to officers and employees

All receivables that are expected to be realized in cash within a year are presented in the current section of the balance sheet, where as receivables that are not currently collectable, such as long term loans should be listed under the caption "investments" bellow the current asset section. (Fees warren, principle of Acct.16th ed. P.317)

2.3   Internal Control over receivables

The internal controls that apply to receivables include the separation of responsibility for related functions, so that can serve as a check on the work of another employee. The principles of internal control for all assets can be used to established procedures to safe guard receivables. The controls include

1. Separation of the business operations and the accounting for receivables, so that the accounting records can serve as an independent check on operations. Thus, the employee who handles the accounting for notes and account receivable should not involve with approvals or collection of receivables.

2. Separations of responsibility for related functions, so that the work of one employee can serve as on the work of another employee, say the handling of the account receivable ledger and the general ledger should be separated.

3. Supporting the general ledger notes receivable account by a notes receivable register if there are numerous notes. The register would contain details of each note. Frequent reference to the due date section directs attention to those that are due for payment. In this way the maker of the note can be notified when the note is due, and the risk the maker will over look the due date can be minimized.

4. Authorizing and assigning responsibility for key tasks related to receivables, like approval of credit seals after a customer rating, adjustments of accounts receivable such as sales return and of allowance and sales discount.

5. Establishing effective collective procedures to ensure timely collection and to minimize losses for uncollectible accounts.

6. Proper use of controlling account and account receivable ledger. This increases the effectiveness of the control over account receivable. (Fees warren, principle of Acct.16th ed. P.317)

2.4   The Accounting System

Business enterprises with a large volume of credit sales usually computerized their accounting records. This enables the operator to record the credit sales, post to controlling accounts, post to subsidiary ledger accounts, in a single operation. Such a system also facilitates the preparation of financial statements and aging of account receivables in which the individual account receivables are categorized according to age (the aging schedule) and applies a historical collection loss percentage to each category to determine the required ending allowance. (Intermediate Acct. 6th ed p.345)

2.5   Methods of Accounting for Receivable:

Extended, some amount of uncollectible receivables is generally inevitable regardless of the care taken in granting credit and the control procedure used. The operating expense incurred because of the failure to collect receivables is called uncollectible accounts expense or bad debts expense or doubtful account expense.

When does an account as note become uncollectible? There is no general rule for determining when an account receivable becomes uncollectible. The fact that the debtor fails to pay an account receivable according to a sales contract or fails to pay a note on the due date does not necessarily mean that the account receivable will be uncollectible. The debtor's bankruptcy is one of the most significant indications of partial or complete uncollectability. Other indications include the closing of the customs business and the failure of repeated attempts to collect firms attempt to develop a credit policy neither too conservative (leading to excessive lost sales) nor too liberal (leading to excessive uncollectible accounts). Past records of payment and the financial condition and income of customers are key inputs to the credit grating decision. There are two methods of accounting for uncollectible receivable namely, the allowance method which provides an expense for uncollectible receivables in advance of this write off (removals for the ledger) and the direct write-off method, which recognizes the expense only when accounts receivables are judged to be worthless. (Fees warren, principle of Acct.16th ed. P.334)

1. **Allowance method**: - if uncollectible receivables are both probable and estimable, an estimate of uncollectible accounts must be recognized in the period of sale, under the matching principle. Accounts receivable and income are reduced to reflect future uncollectible from current year sales. Estimated uncollectibles are recorded in bad debt expense, an operating expense usually classified as a selling expense. If uncollectible accounts are not probable or estimable, no adjustment to income or accounts receivable is required. The allowance methods of accounting for bad debts matches the expected loss from uncollectible account receivable against the sales they helped produce. We must use expected losses since management can not exactly identify the customers who would not pay their bills at the time of sale. This means at the end of each period the allowance method requires us to estimate the total bad debits expected to result from that periods sales. An allowance is then records for this expected loss. This method has two advantages over the direct write off method:

- Bad debt expense is charged to the period in which the related sales are recognized.
- Account receivable is reported on the balance sheet at the estimated amount of cash to be collected. The allowance method estimated bad debt expense at the end of cash accounting period and records it though an adjusting entry. Allowance for doubtful account is a contra account to accounts receivable and is used because of the identity of specific uncollectible accounts is unknown at the time of adjusting entry. Net account receivable is an estimate of the net realizable value of the receivables.

2. **Direct write off method or the direct charge off method**:-

   This recognizes the expense only when certain accounts are grudged to be worthless. The direct write off method of accounting for bad debts records the loss from uncollectible account receivable at the time it is determined to be uncollectible. No attempt is made to predict uncollectible accounts expense. In

contrast to allowance method, the direct write off method directly charges the identified uncollectible accounts receivable to an expense account, uncollectible accounts expense. No adjusting entry is made to record estimated uncollectible accounts. But the direct write off method is rarely used because uncollectible accounts expense might not be matched against the sales that credited them. Direct write off method is usually not acceptable for financial accounting because 1) it does not properly matched expenses and revenues 2) it over states accounts receivable in the balance sheet since the allowance account is not used. Companies in the first year of operation or in new lines of business may have no bases for estimating uncollectible. In such cases, and when uncollectible accounts are immaterial Generally Accepted Accounting Principles (GAAP) allows receivables to be written of directly as they become uncollectible. No adjusting entry is made at the end of an accounting period under the direct writing off method. The inability of estimate uncollectible accounts a great several unavoidable problems as listed above.

Estimating uncollectible

The allowance method of accounting for bad debts requires an estimate of bad debt expense. There are two common methods. One is based on the income statement relationship between bad debt expense and sales. The second is bases on the balance sheet relationship between accounts receivables and the allowance for doubt full accounts. Both methods required past experience.

1. **Estimating based on sales /percentage of sales**

   The percentage of sales method estimates the uncollectible accounts from the credit sale of a given period. If cash sales are small or make up fairly constant percentage of total net sale, the calculation can be based on total net sale. Since at

least one of these conditions is usually met total net sales rather than credit sale are commonly used. If cash sale is small, the total sales are used instead of credit sale and if the ratio of sales on account to cash sales does not change very much from year to year, the result obtained will be equally satisfactory. The estimated amount is added to whatever balance exists in allowance for doubtful account. The credit sale/percentage sale method emphasizes the income statement because its primary focus is on bad debt expense. The matching principle is the conceptual base for this method because bad debt expense is based on sales. The method is simple and economical to implement. The percentage applied to credit sales should be up dated periodically to approximate the rate of actual write offs. (Fees warren, principle of Acct.16th ed. P.328)

2. **Percentage of receivable method**

The longer notes receivables remain outstanding, the less likely that they will be collected. Thus we can base the estimate of uncollectible accounts on how long the accounts have been outstanding. For this purpose, we can use a process called aging receivables which examines each account receivable to estimate the amount of uncollectible. Receivables are classified by how long they are past their due date. Then, estimate of uncollectible are made assuming the longer an amount is past due, the more likely it is to be in collectable. After outstanding amounts are classified and analyzed in the aging schedule, the expected balance for the allowance for doubtful accounts will be estimated. An amount estimated to be uncollectible is not the adjustment amount required for the current period because this estimated amount is the expected balance of the allowance for doubtful accounts after adjustment rather than the current year provision for uncollectible accounts expense.

Therefore, to determine the current year provision, we must take into account the balance before adjustment in the allowance for doubtful account before adjustment. In the percentage of receivable method, either an overall rather may be use or a different rate may be used for each age category of receivables. Under the percentage of receivable method, any balance in the allowance account must be considered when adjusting for uncollectible accounts. When the percentage of receivable method is calculated by using a different rate for each age category of receivables, an aging schedule is used. Aging means the process of analyzing the past due. The base point for determining age is the due date of the account. An aging schedule classifies accounts receivable according to their age and uses a different uncollectability percentage rate for each age category. The percentage use is based on past experience. The older the receivable is the more likely it will not be collected. The sum of the estimated amounts uncollectible for all categories yields the total estimated amount uncollectible and is the desired credit balance in the allowance for uncollectible accounts. Since the aging schedule is under the percentage of receivable method, the journal entry to record uncollectible accounts is affected by the balance in the allowance prior to adjustment.

2.6 Valuations of receivables

For most receivables the amount of money received and the due date can be reasonably determined. Accountants thus are faced with a relatively certain future inflow of cash and the problem is to determine the net amount of this inflow. A number of factors must be considered in the valuation of a prospective cash inflow. One factor is the probability that receivable actually will be collected. For any specific receivable, the probability of collection might be difficult to establish,

however, for a large group of receivable is an example of a loss contain agency because a future event (inability to collect) confirming the loss is probable and the amount of the loss can be reasonably estimated. If the estimate of possible uncollectible accounts can be made within a range, but not single amount appears to be a better estimate than any other amount within the range, the financial accounting standards board (FASB) recommended that the minimum amount in the range be accrued. In the measurement of the amounts of possible uncollectible accounts the FASB stated. (Mosich, 1989, P.343)

Whether the amount of loss can be reasonably estimated, will normally depend on, among other things, the experience of enterprise, information about the ability if individual debtors to pay, and appraisal of the receivables in light of the current economies environment. In the case of an enterprise that has no experience of its own, reference to the experience o other enterprises in the same business may be appropriate. Inability to make a reasonable estimate of the amount of loss from uncollectible receivables precludes accrual and may if, there is significant uncertainty as to collection suggest that the installment method, the cost recovery method, or some other method of revenue recognition be used. Another factor to be considered in the valuations of receivables is the length of time until collection. An amount of money due at some future time is not worth as much as the same amount due immediately the longer the time to maturity, the larger is the difference between the maturity value and the present value of a receivable. When the time to maturity is long, most contracts between debts and creditors require the payment of affair rate of interest, and the present value of such a contract is equal to its face amount. The present value of any non interest bearing receivable is less than the amount that will be received on the due date. If the time to maturity is short, this difference usually is ignored. The difference between present value and face amount of long term receivables always should be considered, because this difference may be material. (Mosich, 1989, P.344)

2.7 Uses of receivables as a source of cash

Business enterprises generally raise the cash needed for current operation through the collection of trade account receivables. It is possible to accelerate this process by 1) pledging receivables as collateral for loans 2) selling receivables 3) assigning receivables such procedures are quite common in some industries; in other industries, there may be done only in terms of absolute necessity. Enterprises engaged in the buying of receivables are known as factors, and the process of selling receivable is called factoring. Factors generally buy receivables out right that is without recourse. Alternatively, factors other lending institutions may buy receivables with recourse, or may lend money to the owner of receivable under a legal arrangement known as an assignment. In such cases customers generally are in structured to make payment directly to the factors or other lenders. Factoring is an important source of ready cash in industries such as textiles, furniture etc.

A pledge of accounts receivable as collateral for a loan involves no special accounting problems. (Mosich, 1989, P.356)

2.8 Assignment of receivable

Instead of selling receivables, a business enterprise may borrow money using the receivable as collateral. This may be involve a pledge of the receivable under a contract providing that proceed from the collection of receivable must be used to rates the loan. Alternatively, receivables may be assigned under a more formal arrangement whereby a borrower pledges the receivable to a lender and signs a promissory notes payable. Assignment gives the assignee the same right to bring action to collect the receivable that the assignor possesses. The assignor retains the credit risks and continues collection efforts, and promises to make good any receivables that cannot be collected. In most cases, customer are not notified of the assignment and make payments directly to the assignor however, they may be instructed to make payments raised by assignment of receivables is to measure the assignor's equity in the assigned receivables and the liability to the assignee.

Assigned receivables are transferred to a separate ledger account, as signed accounts receivables and a liability to the assignee are recorded. As collections are received by the assignor, assigned receivables are reduced, and the liability to the assignee is correspondingly reduced when cash is remitted by the assign or to the assignee, fees and interest charges are included in the remittance and are recorded as expenses. The assignor's equity in assigned receivables generally is reported in the assignor's balance sheet by deducting the balance of notes payable to the assignee from the amount of the assigned receivables, offsetting the liability against the asset may be justified in this situation because collection of assigned receivables must be used to liquidate the loan. Pledging of accounts receivable is a less formal way of using receivable as collateral for loans. Proceeds from receivables must be used to pay the loan, but account receivables are not reclassified. If the pledge (borrower) defaults on the loan, the pledge (creditor) has the right to use the receivables or the loan is not affected by pledging when the loan is extinguished, the pledged is voided. (Mosich, 1989, P.358)

2.9 Presentation of receivables in the balance sheet

In the current section of the balance sheet, material amount of the following classes receivables are reported separately 1) Notes and other receivables are rising from written negotiable contracts, 2) ordinary trade receivables 3) installment accounts receivable 4) receivable from the US government and 5) other current claims.

Negotiable notes and contracts have a special status because of the ease with which they may be counteracted to cash through discounting. Andy discount or premium related to notes receivable is reported in the face amount of the note. And also receivables that have been pledged are identified and receivables that are uncollectible are excluded. (Intermediation Acct. Mossech 6th ed. P.370)

2.10 Credit Management

Ledger wood (1996,66) defines credit as borrower funds with specified term for repayment. As ledger wood (1997;67) explains loans are generally made for productive purpose that generate revenue with in the business.

Action Aid (1992; 1) also explain that credit is provided for an activity which involves needs proper selecting activity, source of funding, detail planning, implementation saving components of evaluation loan constitutes the largest asset in the balance sheet of micro finance institutions. As it is so large related to other assets, micro finance institutions must make an effort to ensure and maintain its quality.

2.11 Credit policy

Credit policy is a set of decision that includes a firm's credit period, credit standards, collection procedure and discount offered. Credit policy consists of four variables:

1. Credit period, which is the length of time buyers are given to pay for their purchase
2. Credit standards; which refers to the minimum financial strength of acceptable credit customer and the amount of credit available to different customers.
3. Collection policy, which is measured by it is toughness or laxity in the following up on slow paying accounts
4. Discount amount and period.

2.12 Credit period

The credit period is the basic length of time for which credit is granted. The credit period varies from industry to industry. If a cash discount is offered, then the credit period has two components: the net credit period and the cash discount period. The net credit period is the length of time the customer has to pay. The cash discount period is the time during which the discount is available.

2.13 Optimal credit policy

In principle the optimal amount of credit is determine by the point at which the incremental cash flows from increased sales are exactly equal to the incremental cost carrying the increase in investment accounts receivables.

2.14 Collection policy

Collection policy is the final element in credit policy. Collection policy involves monitoring receivables to spot trouble and obtaining payment on past due accounts. Monitoring outstanding accounts is crucial. To keep track of payments by customers, first of all, a firm will normally keep track of its average collection period through time and also uses aging schedule. A firm usually goes through the following sequences. of procedure for customers whose payments are overdue.

1. It sends out a delinquency letter informing the customer of the past due status of the account.
2. It makes a telephone call to the customer
3. It employees a collection agency
4. It takes legal action against the customer. (Fundamentals of corporate finance 6th ed.)

CHAPTER THREE

DATA ANALYSIS AND INTERPRETATION

3.1. DATA ANALYSIS AND STUDY FINDINGS

In this section attempts have been made to assess the receivable management activities by using the primary data collected from questionnaires. Twenty questionnaires are distributed to employees working in OCSSCO, Stadium branch which is found in Addis Ababa, out of 20 questionnaire distributed 18(90%) of them were returned and 2(10%) were not returned. Accordingly, the analysis and findings of this paper are based on the number of respondents of the questionnaires distributed to managers, staff workers and employees.

I. General Characteristics of respondents

Tablel. Sex

	Number	**Percentage**
• Male	10	55.5%
• Female	8	44.5%
Total	**18**	**100%**

Sources: Questionnaires

As shown in table 1, 10(55.5%) are male respondents and 8(44.5%) are female respondents. The above data indicate there is little variation between male and female respondents. It today's' Ethiopian condition the participation of Women in every respect is increasing. This shows that the current transformation and development program is highly motivated.

	Number	Percentage
• Below 25 years	Nill	0%
• 25-30 years	13	72.2%
• 31 - 40 years	3	16.7%
• Above 40 years	2	11.1%
Total	18	100%

Sources: Questionnaires

Regarding age the majority of the respondents 13(72.2%) range between 25-30 years, were indicate that they take responsibility in responding to the questionnaire. The respondent ages between 31-40 years were 3(16.7%). This show that they are able to analyze the questionnaire well and the remaining 2(11.1%) have a wide view on the questionnaire.

Table3. Educational Background

	Number	**Percentage**
• Certificate & below	6	33.3%
• Diploma	8	44.4%
• Degree	4	22.2%
• 2nd degree & above	0	0%
Total	**18**	**100%**

Sources: Questionnaires

Concerning the educational background of respondents the largest group who (responded) 8(44.4%) are diploma holders. The second largest group (33.3%) are certificate and below and 4(22.2%) are degree holders. There is no second degree and above holder. This data shows that the majority of the employees are diploma holders. This implies that the employees are in a position to understand and respond to the questionnaire items.

	Number	Percentage
• Less than 5 years	4	22.2%
• 5-10 years	12	66.7%
• Above 10 year	2	11.1%
Total	**18**	**100%**

Source: Questionnaires

Regarding work experience the majority of respondents served 5-10 years 12(66.6%) shown in table 4, the next largest group is employees who served 5 years or less 4(22.2%) the remaining groups said they worked above ten years. This indicates that a good number of employees have served the institution for considerable years that they are more familiar with the objectives and importance of receivable management activities.

Table II. Receivable Management Activities

Table5. Values attached by respondents to the significance of the following factors in facilitating the receivable management activities.

Factor	Very good	Good	Poor	Total
Providing employees required professional training	10 55.5%	6 33.3%	2 11.1%	18 100%
Assigning the right worker to the right work.	7 38.8%	6 33.3%	5 27.7%	18 100%
Good interdepartmental relationship	11 61.1%	4 22.2%	3 16.7%	18 100%
Good relation with customers	12 66.7%	4 22.2	2 11.1%	18 100%

Source: Questionnaires

As indicated in the table 5, out of 18 respondents the majority 10(55.5%) said the practice of employee training is very good and 33.3% good. This has high contribution in

facilitating the receivable management activities. The above table also shows that 13(72.1%) of the respondents said that the right worker is assigned to the right work. This facilitates the receivable activities. The employees were also asked to rate the value of the interdepartmental relationship and facilitating receivable management activities. The majority of the respondent 11(61.1%) said the interdepartmental relationship is very good. This facilitates the receivable management activities and 3(16.7%) rated as poor, the remaining 4(22.2%) rated as good in facilitating receivable management activities. With regard to good relationship with customers the majority of respondents 12(66.6%) rated it as very good. From this we can infer that Oromia credit and saving Share company institution, has good opportunity of sharing information and assisting customers to facilitate effective payment and achieving their target.

III. Loan Requirement

Table6. Requirement of Oromia credit and saving institution Addis Ababa stadium branch before granting loan

	Response	Number	percent
Is there any requirement before granting the loan?	Yes	18	100%
	No	Nil	0%

Source: Questionnaire

According to table 6 requirements of OCSSCO, Stadium branch before granting loan all said (100%) OCSSCO has requirement before granting loan. This show all customers must fulfill the granting requirement.

The respondents also describe requirements as:

    ♦♦♦ He/she must be industrious citizen with minimum income which is less than to over expenditure for subsistence's that is in rural people who possess oxen or less

and in sum urban and urban localities with monthly income of less than birr 1000/month

♦♦♦ He/she is with age of 18-60 years.

♦♦♦ He/she would be free from debts for many other institutions

♦♦♦ He/she must be free from addictions and other miss behavior

♦♦♦ He/she must be free from disabling disease mainly from mental illness

IV. Opinions of Employees

Table7. Opinions of employees on receivable management of the institution

	Yes	No	Total
Did the office give any training about the loan utilization for credit beneficiaries either before or after taking the loan?	18 100%	Nil -	18 100%
Was the loan collected according to repayment schedule?	5 27.7%	13 72.3%	18 100%
Does the office follow up and supervise the clients about the usage of loan for the specified purpose?	11 61.1%	7 38.9%	18 100%
Did your institution have any coordination with woreda & kebele administration?	18 100%	Nil -	18 100%
Does the institute have credit and collection policy manuals?	18 100%	Nil -	18 100%

Source: Questionnaire

From the table 7 we can see that regarding training about the loan utilization for credit beneficiaries either before or after taking the loan, all the respondent 18 (100%) said yes there is training. This contributes to the effectiveness of receivable management. Concerning the loan collection according to re-payment schedule the majority of respondent 13(72.3) said that the collection is not made according to schedule and the

reaming 5(27.7%) said yes. From this we can see that the loan is not collected according to repayment schedule and this leads to long outstanding loan which may not be collected.

Regarding follow up and supervising the clients about the usage of loan for the specific purpose, the majority of respondent 11(61.1%said yes there is follow up and supervision while the remaining 7(38.9%) said no. From this we can say that the institution is effective in following and supervising clients usage of loan whether they use the loan for it specific purpose or for other purpose.

Concerning coordination of the institution with woreda and kebele administration all of the respondent 18(100%) said yes there is coordination. This shows that the institution can perform its activity effectively since it can select the appropriate clients.

From the above table we can also see that all of the respondents 18%(100%) said yes there is credit and collection policy manuals. And from this we can understand that the institution has credit and collection policy manuals which contribute to the effective receivable management.

V. Major Customers
Table 8. Who are the major customers of the institution?

		Number	Total	percentage
Who are the major customers of the institution	Farmers	18	18	100%
	Hotel business owners	18	18	100%
	Small scale business	18	18	100%
	Domestic traders	18	18	100%
	Government workers	18	18	100%

Which customers have long outstanding debt?	Farmers	18	18	100%
	Hotel business owners	18	18	100%
	Small scale business	18	18	100%
	Domestic traders	18	18	100%
	Government Workers	18	18	100%
What is the consequential measure taken by the institution for receivables that are outstanding above their due date?	Discussion with customers	14	14	77.7%
	Accuse customers legally	16	16	88%
	Transferring collateral to the institution	18	18	100%

Source: Questionnaires

From the table 8 we can see that regarding the major customers of the institution 18(100%) said that the major customers of the institutions are farmers, hotel business owners, small scale business, domestic traders and government workers. From this the OCSSCO comprise of all the social groups.

Concerning customers who have long outstanding debt 18(100%) said that farmers, government workers, hotel business owners, domestic traders and small scale business have long outstanding debt. From this we say that the receivable management of the institution is ineffective because it has long outstanding debt for major customers which may intern lead to receivable uncollectibility.

Regarding the consequential measures taken by the institution for receivables that are outstanding above their due 14 (77.7%) said that the institution uses discussion with customers, 16(100%) said that the institution uses accusing of customers legally and 18(100%) said that the institution uses a mechanism of transferring collateral to the

measures.

Table 9. Long outstanding loan Receivable

	Yes	No	Total
Is there any long outstanding loan receivable?	10 (55.6%)	8 (44.4%)	18 (100%)

Source Questionnaires

From the table 9 we can see that the majority of the respondent 10(55.6%) said that yes regarding long outstanding loan receivable, while the remaining 8(44.4%) said no. from this we can understanding that the institution is vulnerable to receivable un collectability since the longer of the receivable the lesser the collectability.

Table 10. Initiation Mechanisms for Receivable Settlement

What are the mechanisms that the institution uses to initiate its customers to settle receivable on time?		**Number**	**Total**	**%age**
	Group lending system	18	18	100%
	Punishment on delinquent clients	18	18	100%
	Work closer customer	18	18	100%
What types of incentive are given to customers?	Financial incentive	18	18	100%
	Are given the amount of credit they need immediately	18	18	100%

Source. Questionnaires

From table 10 we can see that regarding the mechanisms that the institution uses to initiates customers to settle receivable on time, 18(100%) said that the mechanisms that the institution uses to initiate its customers to settle receivable on time are punishment on delinquent clients, group lending system, and work closer to the customers. From this we can say that institution uses good mechanisms to settle receivable on time.

Concerning the types of incentive given to customers the respondent 18(100%) described, the financial incentive and giving the amount of credit they need immediately are the institution incentives to the customers.

Table 11. Reward for customer

	Yes	No	Total
Is there any reward for customer who effect payment on time?	12 66.7%	6 33.3%	18 100%

Source. Questionnaires

From table 11 we can see a reward for customers who effect payment on time, the majority of the respondent 12(66.7%) said yes there is a reward. This shows the institution is motivating customers for their payment on time.

VI. Receivable Management
Table 12. Follow up for receivable collection

	Very good	Good	Poor	Total
How is the follow up of collection effectiveness on account receivable of the organization?	8 44.4%	7 33.3%	3 16.6%	18 100%
How do you range the over-all collection receivable management of the organization?	10 55.5%	6 33.3%	2 11.1%	18 100%

Source: Questionnaire

The respondents were also asked to rate the effectiveness of the organization's collection follow up, the majority of the respondents 8(44%) rated very good and 7(33.3%) rated as good, the remaining 3(16.6%) rated poor. From this the organization is effective in its collection follow up. Regarding the overall receivable management of the institution the majority of the respondent 10(55.5%) rated very good and 6 (33.3%) rated as good the

Table 13. Evaluation Methods

	Type	Number	Percent
What type of methods used to evaluate for receivable in the branch?	Direct write off	13	72.2%
	Allowance	3	16.7%
	Both	2	11.1%
	Total	18	100%

Source. Questionnaires

The above table 13 also shows that concerning valuations of receivable as the majority of respondents 13(72.2%) replied the institution uses direct write off method of valuation of receivables, 3(16.7%) replied as the institution uses allowance method and the remaining 2(11.1%) replied both method. As we understand from the above table the institution most of the time uses direct write off method. As the researcher observed from the above table OCSSCO, Stadium branch used direct write off method. But this does not agree with generally accepted Accounting principles, especially with the matching principle,

CHAPTER FOUR

4. SUMMARY, CONCLUSION AND RECOMMENDATION

4.1 SUMMARY AND CONCLUSION

The purpose of this study was to assess and evaluate the causes and effect of receivable uncollectability in the Oromia Credit and saving institution, Addis Ababa stadium branch in achieving its targets so as to suggest the possible solutions to prove uninterrupted activities. To answer these points' data was collected through questionnaires. The questionnaire was dispatched to twenty selected workers of the institution. As sample of the questionnaire dispatched, 18(90%) were returned. The analysis was based on questionnaire from the sample respondent. The question is similar to all workers and the response were analyzed and expressed in terms of percentage and qualitative descriptions. And finally, through analysis the following conclusions are drawn.

Based on the analysis of data gathered through questionnaires we found out that the institution has got both strong and weak side. The strong side of the institution is that it has credit policies and work flow procedures through which it can carries its activities very smoothly, conduct follow up and take defaulters to legal case. Though the institution is strong , in the other side it has weakness in that it lucks loan recovery & rehabilitation unit that facilitate rehabilitation and recovery of sick loans, the absence of this which resulted in long outstanding loan in its account. In addition to that the method the institution is using in recognizing uncollectable is direct write of method. This method as it is well known is not recommended unless and other wise there are exceptional cases. Cases such as institutions in infancy period were historical background to estimate their allowance for doubtful expense is unavailable. On the other hand GAAP accept the application of the method in the assumption of materiality concept. The Method also violate revenue matching principle as it recognizes expense when clients are judged to be defaulters contrary to allowance method which record provision in each accounting period & adjusts on year end.

4.2 RECOMMENDATION

The study focused on assessing the causes and effects of receivable uncollectible in the OCSSCO, Stadium branch. The researcher would like to give recommendations on certain aspects of the receivable management.

The researchers try to suggest solutions for the problems that are observed when conduct data analysis and interpretation on receivable management. Based on the analysis of data the researchers proposed the following recommendations as a promote measure. These recommendations are:-

- OCSSCO, Stadium branch, should inform and negotiate with customers to pay the debt amount on time.
- The institution must provide better reward to those customers who settled on due date
- The institution has to use allowance method of accounting system.
- The institution should not tolerate long outstanding debts by major customers, since it cause more bad debt expense. So it has to take measures.
- The institution should minimize long outstanding loans receivable by creating awareness of cash management skills to customers.

St' Marry University Faculty of Business
Department of Accounting

Questionnaire

The aim of this questionnaire is to gather data and information for research work on receivable management of Oromia Credit and Saving Share Company ; Stadium Branch. The supply of your grant and honest answer will greatly contribute to the success of the research. We extend our deepest thanks for your kind cooperation. We assure you that the information provided will be used strictly for academic purpose and confidential.

N.B
1. **No need of writing your name**
2. **Unless required to give brief written answer, you are kindly requested to tick on the box.**

I. Personal Information

1. Sex

    Male **[**__)   Female **[**___)

2. Age

    Less than 20 years **[**__]   30-40 years **[**__]

    20-30 years [__]   above 40 years **[**__]

3. Educational back ground

    Certificate or below **[**__]   Diploma **[**__]

    Degree **[**__]   MA/MSC or above **[**__]

4. Years of Service

    Below 5 years **[**__]   5-10 years **[**__ 1 above 10 years [_   ]

II. How do you rate the following?

1. Providing employees with professional training?

   Very good [__)   Good 1__]   Poor[_)

2. Assigning the worker to the right work

   Very good [__)   Good [__]   Poor1_J

3. Good interdepartmental relationship

   Very good [__)   Good [__]   Poor1_J

4. Good relation with customers

   Very good [__]   Good [__[Poor[_]

5. Is there any requirement before granting the loan?

   Yes   No J___]

6. If your answer for Q 5 is yes, what are the types of requirement?

7. Did the office give any training about the loan utilization for credit beneficiaries

   either before or after taking the loan?

   Yes Q   No □

8. Was the loan collected according to repayment schedule?

   Yes Q   No □

9. Does the office follow up and supervise the clients about the usage of loan for the specified purpose?

Yes □   No | 1

10.   Did your institution haveany coordination with worda and kebele administration?

Yes □   No | 1

11.   Does the institution have credit and collection policy manual?

Yes □   No | 1

12. Who are the major customers of the institution?

13. Which customers have long outstanding debt?

14. What are the consequential measures taken by the institution for receivables that are outstanding above their due date?

15. Is there any long outstanding loan receivable?

Yes □   No | 1

16. What are the mechanisms that the institution uses to initiate its customers to settle

receivable on time?

17. Is there any reward for customers who effect payment on time?

Yes □   No | 1

18. If yes, what types of incentives are given to customers?

19. The effectiveness of the organizations collection follow up is

Very good /_)   Good 1__]   Poor 1__ 1

20. How do you feel about overall receivable management of the institution?

Very good /_]   Good /__]   Poor /__ 1

21. What method of evaluation of receivable does the branch use?

Direct write off /__] Allowance [1 Both [1