Prudent Debt Management for Business Development

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ABSTRACT

India with increased business expansion and operations the debt collection has become a specialized problem. The institutional and legal arrangements in the country are still not effective to provide good results to the increasing problems of recovery of bad debts and managing the bad debts through a systematic procedure. This article focuses on the needs of managing bad debts through better collections management and provides necessary valid solutions which are applicable practically in all business organization on majority basis to solve the Debt collection and recovery problem. Finally, the benefits of implementation of key ERP solution for managing financial supply chain to avoid bad debts problems and its solutions are discussed.

KEY WORDS: Collections management, Bad debts, Receivables management, Financial supply chain.

INTRODUCTION

"Even without success, creative persons find joy in a job well done. Learning for its own sake is rewarding".

- Mihaly Csikszentmihalyi

Every company has an aim of improving its cash flow and reduce its bad debts expense when the firm sells its commodity and services on credit it does not receive cash immediately and to increase the sales companies in India grant Credit for several reasons such as competition, buyer's requirements and status, company's relationship with dealers and common industry practice, this task involves formulation of good credit policy and following appropriate "Account Receivables Management". The recovery of that amount granted as credit becomes an important work for the company so the tools and techniques of collections management helps in improving the Cash flow position of the company and reduce the bad debts and increase the financial soundness of the organization.

MEANING OF BAD DEBT

A bad debt is an amount that is written off by the business as a loss to the business and classified as an expense because the debt owed to the business is unable to be collected and all reasonable efforts have been exhausted to collect the amount owed. This usually occurs, when the debtor has declared of bankruptcy or the cost of pursuing further action in an attempt to collect the debt exceeds the debt itself.

THE PRESENT SCENARIO IN INDIA

1. Collection business and unregulated scenario in India

The Institutional arrangement of collection business has its own inherent shortcomings due to unregulated and primitive nature of collection business in our country being unregulated the procedures are not standardized; still litigation is used as the last resort tool for recoveries.

2. Indian legal system and collection of debt

The Indian legal system has the remedies available under the law to collect the debt, if the debtor does not agree to pay under normal circumstances. The creditor may file a suit for his recovery; debts based on written contracts could be recovered by followed fast track procedure.
If the debtor is a company, creditor/his lawyers may apply in the 'company court for winding up the company due to non-payment of substantial amount of debt. Summary trial is another way the process may take time 1 to 2 years (Trust man & co, New Delhi).

3. Taxation

Section 36(I)(Vii) of the Income Tax Act, 1966 enables the Assessee to claim deduction on account of Bad debt while determining its profit and gains of the business or profession. Pradip Kedia (2004) in his research paper of "Bad Debt- An unresolved controversy" as given his statements like:-

i) An Assessing officer of Income Tax has the power to enquire into the genuineness of the claim for deduction of the bad debts proved, the Assessee has to prove the debt as bad while claiming the deduction under section 36(i)(Vii) of the Income Tax Act, 1963.

ii) The Assessee who is an individual or company usually write off any debt which is bad to reduce his profit of the previous year merely on the basis of an entry in the books of accounts the Assessing officer still has no wide powers to enquire about the genuineness of the claim on legally sound basis.

SUGGESTIONS FOR MANAGING BAD DEBTS

1. Improve Cash Flow

Increase profit and reduce your bottom line with streamlined, customizable, and highly efficient Collections activities.

2. Reduce Bad Debts Expense

By centralizing your customer contact and collection functions, you can lower the collection expenses with automated customer tracking and follow-up.

3. Target Overdue Customers

Target overdue customers effectively seek out for those customers who meet specific criteria for overdue payments, and automatically send them collections, letters, email notices, statements, and invoices.

4. Increase Sales Productivity

Improve productivity by feeding collection contact notes and other customer details back to the sales force.

5. Manage Collections Effectively

Assign customers to credit managers, create "To Do Lists" and track all following up activities.

SAP RECEIVABLES MANAGEMENT AND COLLECTIONS MANAGEMENT SOLUTIONS

Efficient receivables management can be difficult to achieve without the proactive management of past due accounts, profits can remain elusive and account receivables employees are pressured to process more they can. As a result, there is unnecessary errors, receivables losses, and the soaring costs of in efficiency all of which you can easily avoid by implementing SAP collections management application.

Key Benefits of SAP Collections Management Application

1. Proactive Collection of outstanding receivables.
2. Faster processing through the automatic identification and prioritization of customer accounts.
3. Improved customer relationships through customer specific receivables management.
4. Reduced days sales outstanding
5. Improved cash flow
6. Increased efficiency due to automated work lists.
7. Mitigation of Credit risk and potential closes through tight integration with the SAP credit management application.
8. Follow up of invalid disputes through integration with the SAP Dispute Management application.
Managing Complete Financial Supply Chain

SAP Financial Supply Chain Management (SAP FSCM) set of applications is a complete set of financial supply chain management applications in the SAP ERP application. SAP FSCM handles the following areas:-

1. Receivable management (with SAP collections Management).
2. Electronic billing and payment (with the SAP Biller Direct application)
3. Efficient resolution of payment deductions and other receivables-related disputes (with SAP Dispute Management)
4. Automated Credit decisions (with SAP Credit management)
5. Management of liquidity positions (with the SAP cash and Liquidity Management application)
6. Payment Factories (with the SAP In-House Cash application)
7. Management of financial positions and market risks (with the SAP Treasures and Risk management Application).

CASE STUDY: MICROSOFT

US Company Microsoft decided to improve its financial supply chain by replacing third-party and in-house developed legacy software systems that were very costly to maintain. Microsoft, which is headquartered in Redmond, Washington, provides information technology, operating systems, middleware solutions, small/ mid-size business applications, professional services, and other software solutions. The company reported annual sales in 2008 of more than US$60 billion and had more than 90,000 employees worldwide.

The main business drivers for the company were:
• Better data integration between applications.
• Elimination of manual intercompany processes and month-end bank account reconciliation.
• More transparent accessibility to real-time data such as bank account balances, financial transactions, and accounts receivable and payable.
• More efficient usage of excess funds and better working capital management.
• Increased straight-through processing of foreign exchange trading.
• Reduction of bank fees and more cost-effective processing of payments.
• Risk reduction and better control of cash flows. • Better utilization of human resources.

Microsoft decided to implement a vendor’s financial supply chain management solution to complement its existing enterprise resource planning (ERP) landscape. The company realized a number of benefits from the project and was, for example, able to automate the confirmation process in the foreign exchange settlement fully. Exception rates are now smaller than 5%, the settlement process went from four hours to less than 15 minutes, and the percentage of settlement errors is approaching 0%.

CONCLUSION

The problems of managing bad debts can be solved by a company appointing credit management teams in management or by hiring factoring services or collection agency services, further in today's modern business the ERP solutions implementation in company avoids, wastage of time, cost and Losses in risk of losing financial resources of the business. Appointing a team for Credit Collection and Implementing recovery techniques/and training personnel in debt collection training programme these strategies Avoid huge Losses due to inefficient management of bad debts.

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