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EFFECT OF ACCOUNTS RECEIVABLE ON THE PERFORMANCE OF FIRMS IN THE SOFT DRINK INDUSTRY: A SURVEY STUDY OF ALMASI BOTTLERS LTD IN WESTERN KENYA

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Abstract: *Working capital is the money required to finance the day-to-day operations of an organization. Working capital may be necessary to bridge the gap between buying stocked items to eventual payment for goods sold on account. WCM plays an essential role in overall corporate strategy to create shareholder value. In Almasi Bottlers Ltd, there has been experienced a lot of challenges which resulted from the merging of the three regional companies. There has been a lot of resistance to this particular merger due to some of the working policies leading to reduced production even shut down some of the regional companies, especially Kisii Bottlers. The current working capital cannot sustain the operations of the three merged companies leading to reduced productivity. The general objective of this study was to determine the effect of working Capital Management on the performance of firms in the soft drink industry. This study was guided by the specific objective to determine the effect of accounts receivable on the performance of Almasi Bottlers Ltd. The study applied a descriptive approach with a correlation research design. A correlation research design is the most suitable technique to explore and test relations between the variables. The target population comprised of 552 employees from Almasi Bottlers Ltd. The study used simple random sampling technique where by the target population were put into clusters or sub-groups from a sample size of 307 respondents were selected. The study sought to find out the effect of accounts receivable and performance of Almasi Company. The Pearson (r) correlation coefficient showed a positive and significant relationship between accounts receivable and performance of firms in the soft drinks industry ($r = 0.492$; $p < 0.05$). This means that as accounts receivable leads to an increase there is an increase in performance of Almasi Beverages Company.*

Keywords: *Accounts Receivable, Inventory Management, Working Capital Management*

Introduction

Inventory, receivables, and payables are managed to help establish the balance between risk and return, thus contributing to the firm's value. Less inventory and receivables investment will reduce profits, whereas too little investment will increase the risk of missing commitments (2017). Inventory, short-term and current assets, are included in working capital, while current liabilities are excluded. Some observers view these financial measures as valuable tools for determining a company's financial capacity to meet current operations. Thus, maintaining an appropriate level of working capital is crucial to business survival (Harris, 2005).

Sales on credit are a necessity in the business world today, because without selling products on credit, no business can exist. There are two categories of accounts receivable in business: trade credit, which is given to other businesses, and consumer credit, which is given to customers (Joshi, 2000). A study by Shah (2009) found that, while cash sales remain predominant, credit sales are increasing. A company's credit policy has the potential to greatly affect its overall performance. Finally, a company also gives customers trade credit to protect its sales from competitors and to draw in potential customers. Delivering goods or rendering services on credit will result in accounts receivable (Machiraju, 2005). In essence, receivables represent claims against others that must be honored in the future for future receipt of money, goods, or services. until such time that the firm settles its debt by making payment (Singh, 2008).

The investment in trade debtor is viewed as a means to increase profits by attracting new customers and retaining existing customers. According to Pandey (2009), trade credit is important for moving goods through the production and distribution stages and on to customers, acting as a bridge for the flow of goods. as the business sells more and earns a higher profit, it has carved out a niche market niche and raised its standing among competitors (Joshi, 2000). To ask the question is not to debate the significance of credit to a business's overall performance. Rather, it is to define the ideal credit policy. Meyer et al (1992) discover that a company's financial managers must also factor in several controllable variables, including credit standards, credit terms, and collection effort, in order to properly control receivables. A study suggests that increasing the amount of accounts receivable within a business decreases net working capital, which causes an increase in holding and managing accounts receivable costs, which both lead to a decrease in the company's value (Michalski, 2009). It has been found that operating accounts receivables at a maximum level will increase a company's profitability due to higher sales and market share (Lazaridis, 2008). firms should seek to balance the cost of granting credit with the cost of rejecting or restricting credit (Sabato, 2008).

According to studies, businesses can generate value by reducing the amount of days invoices remain outstanding. In Deloof (2009), findings from a study demonstrated that receivables collection period has a negative impact on a business's results. A debt collection procedure must have a certain amount of finesse. It has also been confirmed by Nyakundi (2009) that having a sound credit policy in place ensures proper debt collection procedures and is therefore critical to improving overall receivables management efficiency, as well as a company's ability to manage their debt. Because of this, management must make important decisions such as setting credit terms, choosing credit customers, and monitoring the level of accounts receivable (Smith, 2010).

In making decisions, risk-versus-reward calculations are required. The profitability of many firms is strongly tied to the strength of the credit evaluation and risk control processes in place. Mureithi is creative (2009). People rarely pay attention to evaluation criteria. The results of a separate study done by Shah (2012) revealed that, out of all businesses that accepted credit cards, approximately 95% ended up selling to whomever requested to buy. Only 30% of respondents used a credit reporting service on a regular basis. In this case, about two-thirds of businesses had no formal procedure for aging accounts receivable, and one-third imposed a late-payment charge. Total bad debts amounted to 1.75% of sales, with a high of 10% in a few businesses. Credit control systems were highly used even in the smallest companies in the UK.

Statement of the problem

A company's success depends on effective working capital management. The most important aim of the business is to maximize profits, and as a result, the increase in profits will ultimately lead to the growth of shareholder value. Managing working capital presents a major challenge due to the balancing act between profitability and liquidity. A company could experience a decrease in profits if this increase in profit is paid for by reducing the company's amount of liquidity. This could lead to legal issues, the liquidation of assets, and even possible bankruptcy (Malik, M. S., & Bukhari, M., 2014). In the majority of businesses, there are separate collection and payment rules. To maintain liquidity, profitability, and solvency of each, it is important to pinpoint the most crucial areas that will need to be maintained. A general metric for efficiency and performance for any company is working capital management. It's possible that if a business has a lot of liquidity, it could be because it has an abundance of idle funds, resulting in low profits and the potential to harm the company's reputation and creditworthiness. Alternatively, it might shut down if it doesn't have enough liquidity since it will be unable to pay its creditors. When it comes to WCM, the two scholars stated that it is the most effective way to manage accounts receivables to maximize the return. To determine that a firm is liquid, they discovered that the more liquid the firm is, the easier it is for it to invest in profitable opportunities instead of working capital. Challenges have arisen from the company's merger with the three regional companies. Several of the employees have protested the proposed merger, citing some of the company policies that reduce production, shut down the regional companies in Kisii, and even lead to the loss of jobs. Currently available working capital will not be enough to cover the three companies' operating costs. As a result, some of the companies were go out of business. Therefore, this study sought to fill, to determine the effect of WCM on the financial performance of Almasi Bottlers Ltd.

Objective of the Study

The general objective of this study was to determine the effects of Working Capital Management on the performance with a specific objective to determine the effect of accounts receivable on the performance of Almasi Bottlers Ltd, Kenya.

Research Methodology

The study applied a descriptive approach with a correlation research design. A correlation research design is the most suitable technique to explore and test relations between the variables. The target population comprised of 552 employees from Almasi Bottlers Ltd. The study used simple random sampling technique where by the target population were put into clusters or sub-groups from a sample size of 307 respondents were selected. Primary Data was collected using questionnaires and analyzed using the statistical tools to help achieve the study objectives such as the descriptive statistics and inferential statistics. The collected data was presented in form of tables.

Descriptive Results of Risk assessment

The researcher sought to find out the effect of accounts receivable and performance of firms in the soft drink industry and the findings are as shown below; -

Table 1: Accounts Receivable and Performance of Firms in the Soft Drink Industry

	SA		A		N		D		SD		Mean	StD
	F	P	F	P	F	P	F	P	F	P		
This organization has a debt control policy in offering services	13	15%	30	35%	10	12%	20	24%	11	13%	3.09	.92
This organization uses a sales ledger in recording all accounts receivable transaction	10	12.0 %	30	35%	8	9.0 %	25	29.0 %	10	12.0 %	2.52	.86
This organization has a debt limit when delivering services	8	9%	15	18%	10	12%	40	47%	12	14%	2.87	.85
This organization has a product discount on all services offered in credit	2	2%	26	31%	17	20%	35	41%	5	6%	1.09	.94
This organization conducts the accounts receivable age analysis	10	12%	30	35%	8	9%	27	32%	10	12%	3.06	.97

Source: Field Data (2019)

From the study it was found out that organization uses sales ledger in recording all accounts receivable where by 12% of the respondents strongly agreed, 35% of the respondents agreed, 9% of the respondents were neutral, 21% of the respondents disagreed and 12% of the respondents strongly disagreed. For purposes of accountability, the use of ledger facilitated proper recording procedures that rendered the organization vital information for decision making.

From the study it was established that on the factor that organization has a debit limit when delivering services where by 9% of the respondents strongly agreed, 18% of the agreed, 12% of the respondents were neutral, 47 of the respondents disagreed, and 14% of the respondents strongly disagreed. This shows that by providing debit limit protected working capital management hence safeguarding organization investment.

From the findings it was revealed that 2% of the respondents strongly agreed that organization has product discount on all services offered in credit, 31% of the respondents agreed, 20% of the respondents were neutral, 41% of the respondents disagreed and 6% of the respondents strongly disagreed. This implies that product discount was offered to all services in credit this was purposely done to ensure that service delivery in done in the most cost effective way to satisfy the demand requirements.

From the study it was established that on the factor that the organization conducts age analysis on the accounts receivable where by 12% of the respondents strongly agreed, 35% of the respondents agreed, 9% of the respondents were neutral, 32% of the respondents disagreed and 12% of the respondents strongly disagreed. This implies that age analysis was among the factors prioritised in effective working capital management. Age analysis in most organizations was very vital in sound decision making by the management.

Relationship between Accounts Receivable and Performance of Soft Drinks Industry

Table 2 outlines the results of correlation analysis between accounts receivable and performance of firms in the soft drink industry.

Table 2: Correlation between Accounts Receivable and Performance of Soft Drinks Industry

		Performance of firms in the soft drinks industry	**Accounts Receivable**
Performance of firms in the soft drinks industry	Pearson Correlation	1	.492***
	Sig. (2-tailed)		.006
	N	264	264
Accounts Receivable	Pearson Correlation	.492**	1
	Sig. (2-tailed)	.006	
	N	264	264

**. Correlation is significant at the 0.05 level (2-tailed).

The Pearson (r) correlation coefficient showed a positive and significant relationship between accounts receivable and performance of firms in the soft drinks industry ($r = 0.492$; $p < 0.05$). This means that as accounts receivable leads to an increase there is an increase in performance of Almasi Beverages Company.

Summary

The study sought to find out the effect of accounts receivable and performance of Almasi Compny. The Pearson (r) correlation coefficient showed a positive and significant relationship between accounts receivable and performance of firms in the soft drinks industry ($r = 0.492$; $p < 0.05$). This means that as accounts receivable leads to an increase there is an increase in performance of Almasi Beverages Company.

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