MANAGEMENT OF ACCOUNTS RECEIVABLE AND PERFORMANCE OF ORGANISATIONS: A CASE STUDY OF KYEKA DISTRICT IN MBEYA REGION TANZANIA.

BY

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A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

NOVEMBER, 2011
DECLARATION

This research dissertation on management of accounts receiveable and performance of organisations is entirely the original work of the author, except where due references are made, and neither has been nor will be submitted for the award of any degree to any other University.

Mr. Mwalimu Mbaruku Nyembo

Signature: ........................................
Date: 14/11/2011
APPROVAL

This research dissertation on "management of accounts receivable and performance of organisations" has been prepared and submitted to the School of Business and Management with my approval as a Supervisor.

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(SUPERVISOR)

Signature
Date.../12/2022

ii
DEDICATION

This work is dedicated to my parents (Bagaile Lumola and Nyembo, Y.M) who have been the biggest inspiration in my life and who encouraged me to achieve my goals.

My dedication should not pass without mentioning my sponsors Dr. Hamis A. Kigwangalla, my lovely Aunts Shela Lumola and Mrs Mrisho for their financial, moral and materials support.

This research shall also be dedicated to Kampala international university at large; this is because it ensured a peaceful co-existence during my stay in the university.

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TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration</td>
<td>i</td>
</tr>
<tr>
<td>Approval</td>
<td>ii</td>
</tr>
<tr>
<td>Dedication</td>
<td>iii</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>iv</td>
</tr>
<tr>
<td>Table of contents</td>
<td>v-vii</td>
</tr>
<tr>
<td>Acronyms</td>
<td>viii</td>
</tr>
<tr>
<td>Abstract</td>
<td>ix</td>
</tr>
<tr>
<td>CHAPTER ONE: INTRODUCTION TO THE STUDY</td>
<td></td>
</tr>
<tr>
<td>1.0 Introduction</td>
<td>1</td>
</tr>
<tr>
<td>1.1 Background of KDC</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Background of the problem</td>
<td>2</td>
</tr>
<tr>
<td>1.3 Statement of the Problem</td>
<td>3</td>
</tr>
<tr>
<td>1.4 Objectives of the Study</td>
<td>3</td>
</tr>
<tr>
<td>1.5 Research Questions</td>
<td>3</td>
</tr>
<tr>
<td>1.6 Significance of the Study</td>
<td>4</td>
</tr>
<tr>
<td>1.7 Scope of the Study</td>
<td>4</td>
</tr>
<tr>
<td>1.8 limitation of the study</td>
<td>5</td>
</tr>
<tr>
<td>CHAPTER TWO: LITERATURE REVIEW</td>
<td></td>
</tr>
<tr>
<td>2.0 Introduction</td>
<td>6</td>
</tr>
<tr>
<td>2.1 Theoretical literature review</td>
<td>6</td>
</tr>
<tr>
<td>2.1.1 Account receivable and credit management</td>
<td>7</td>
</tr>
<tr>
<td>2.1.2 Management of receivable</td>
<td>8</td>
</tr>
<tr>
<td>2.1.3 Receivable policy</td>
<td>12</td>
</tr>
<tr>
<td>2.2 Empirical literature review</td>
<td>14</td>
</tr>
</tbody>
</table>
CHAPTER THREE: METHODOLOGY

3.0 Introduction ............................................................................................................ 16
3.1 Research Design .................................................................................................... 16
3.2 Population and sample size ................................................................................. 16
3.3 Sampling techniques ............................................................................................. 16
3.4 Date Collection Procedures ............................................................................... 17
3.4.1 Questionnaire ................................................................................................. 17
3.4.2 Interview ......................................................................................................... 17
3.4.3 Documentary review ........................................................................................ 17
3.4.4 Observation ...................................................................................................... 18
3.5 Data type .............................................................................................................. 18
3.5.1 Primary data ................................................................................................... 18
3.5.2 Secondary data ............................................................................................... 18
3.6 Data Presentation and Analysis ............................................................................. 19

CHAPTER FOUR: PRESENTATION, INTERPRETATION AND ANALYSIS OF DATA

4.0 Introduction................................................................................................................... 20
4.1 Accounting system at KDC ..................................................................................... 21
4.2 Problem facing credit control department in debt collection ............................... 21
4.3 Means used to recover over due debts .................................................................. 24
4.4 major factors affecting receivable management in organization ......................... 25
4.5 Procedure used to ensure effective collection ....................................................... 26

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction .................................................................................................................... 28
5.1 Conclusions ............................................................................................................... 28
5.2 Recommendations .................................................................................................... 29

APPENDICES

APPENDIX A: References .................................................................................................. 33
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>KDC</td>
<td>Kyela District Council</td>
</tr>
<tr>
<td>KIU</td>
<td>Kampala international University</td>
</tr>
<tr>
<td>TANESCO</td>
<td>Tanzania Electric Supply Company LTD</td>
</tr>
<tr>
<td>TTCL</td>
<td>Tanzania Telecommunication Company LTD</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
</tbody>
</table>
ABSTRACT

The study was carried out at Kyela District Council, Mbeya region as a case study, in an attempt to find out the management of account receivable problems.

The objective of the study was to investigate the relationship between management of account receivable and performance of the organisation in Tanzania. To examine advantages of adopting good account receivable policies, to establish challenges faced when implementing these policies towards positive or negative debts collection and finally to propose possible ways to overcome the challenges faces in implementing management of account receivable problems.

The study adopted both qualitative and quantitative approach in capturing the correct perception and news of the respondents for the successful of the study. The researcher also used questionnaires and interview as survey research technique in gathering data relevant to the study. This design based on a descriptive and explanatory research design with the aim of identifying the account receivable policies employed.

Results of the study indicate that the credit standards of the organization do not indicate the required financial strength that clients must demonstrate in order to be given credit. This is likely to increase the amount of bad debt since some customers can fail to pay their dues.

The recommendation of the study is that, it is better for the debt collection team to be aware of the policy used by the organization. This will assist them to make effective follow up of debts. To be successful in any activity, there is a need of well designed policies. Thus to improve accounts receivable collection, the organization should seriously ensure effective accounts receivable collection policies in order to ensure on time cash collections. As the policy stated, for all customers who fail to settle their accounts 30 days after invoice date, a notice should be sent to the customer. This makes it easier for the customer to make settlement of a month debt within the period.
CHAPTER ONE

1.0 INTRODUCTION

Account receivable refers to the selling of goods and services on credit, and relatively liquid assets converting into cash within a period of 30 to 60 days. Usually appears in balance sheet immediately after cash. One of the factors underlying the growth of companies is selling goods and services on credit. In most of the organizations, account receivable is very important because the management need to make decisions on how much credit to be given to the customer.

1.1 BACK GROUND OF KYELA DISTRICT COUNCIL

Kyela district council was established by the act No. 7 of the district authorities of 1982, and was re-established in 1984 after a series of the landmarks that led to the enacting of the local governments. Kyela district council is the one among the eight districts of Mbeya municipal council, other district councils are; Rungwe, Mbozi, Mbarali, Chunya, Mbeya, Mbeya municipality and Ileje.

Council vision

Kyela district council aspires to be a highly exemplary local government authority in terms of its ability to provide quality socio-economic services using the available resources, basing on good governance and collaboration of all stakeholders for sustainable live hood of its people by the year 2020.

Council mission

Kyela district council determines to coordinate, delivery of social economic services basing on good governance principles and participation of all stakeholders in poverty alleviation efforts so as to attain sustainable development.
Activities of the Kyela District Council

The main activities of the KDC are;

- To collect revenue from the different sources such as agricultural and fishing products, markets, and rent collection.
- To provide the social services on behalf of the local governments of Kyela.
- To provide credit to different organizations.

Management of the Kyela District Council

The KDC is governed by the district executive director who is responsible for the day to day affairs of the council. The KDC consists of ten departments these are; Environment and trade department, Land/ Natural resources and environment department, Personnel and administration department, Water department, Finance department, Health department, Education and cultural department, Community development department and Agriculture Livestock co-operative department.

Location

Kyela district council is located 125 km from the head of the region, Mbeya, from the southern part. Kyela district council covers 1322 kms, and is located along the southern part of Tanzania. It is also located between Malawi and Lake Nyasa.

1.2 BACKGROUND OF THE PROBLEM

The management of any business organization is charged with a primary responsibility of safeguarding its assets. But in most of the developing countries, the ruling governments face some difficulties in running most of these organizations. Weak management control over asset may lead the organization into difficulty in running the day to day activities. These difficulties may cause failure to pay salaries, taxes, and other recurrent expenditure of the organization.
Debtors’ management is a problem, which is acute to most business organizations. Many firms collapse due to poor management of their debtors. Although account receivable is very important in business, many organizations have got no proper way of collecting their debt. The problem does not only affect public but also private companies. The organization should have to monitor and control account receivable with intention of increasing sales and minimizing uncollected accounts.

1.3 STATEMENT OF THE PROBLEM
Many organizations are facing many problems in credit sales (account receivable management). There have been set out policies to deal with receivable but the bad debts keeps on being the problem facing these organizations like TTCL, TANESCO, TBL and local government. This caused other organizations to run into financial problems that led to poor performance.(According to generally Audit report NO.29 Management of account receivable in commonwealth, DEC 1998).

The study was intended to asses the effectiveness of the accounts receivable management in an organization in order to arrive at the recommendations, suggestions and solutions to problems associated with management of account receivable.

1.4 OBJECTIVES OF THE STUDY
The study was carried out to achieve the following specific objectives:-

1. To determine the problem facing the credit control department in debt collection.
2. To identify the major means used to recover over due debt.
3. To generate other options for recovering over due debt.

1.5 RESEARCH QUESTIONS
This research addressed the following questions:-

1. What are problems facing the credit control department in debt collection?
2. What are the procedures used to ensure effective collection of debt?
3. What would be the other available options for recovering overdue debt?
1.6 SIGNIFICANCE OF THE STUDY
The study is important for the following reasons:-

1. The study helps to put forward the challenge to organizations about debt management.
2. It identifies the problem of accounts receivable management for researchers and suggests how to overcome it.
3. This study helps organizations to reduce outstanding accounts receivable.
4. It helps the researcher to meet professional requirement and sponsor pay off since the research is one of the requirements for successful completion of academic study or for partial fulfilment of the requirement for the award the degree of Bachelor of Business Administration.

1.7 SCOPE OF THE STUDY
The study was conducted at the kyela district council. The scope of this study focuses on receivables management. The following departments were specifically focused: Accounting department, and other office sections like credit control and personnel department. These helped to get relevant and supporting data for conclusion. Also the study was limited to the last five years.

1.8 Limitation of the study
The study faced the following limitations;

• **Time constraint**: The time allocated was not enough due to the fact that the organization is too large. It is almost impossible to complete the research within four mouths of field work.

• **Access of data**: It is difficult to access data due to the management reasons. Some data and information were not accessible to the researcher, as they were regarded as confidential.

• **Lack of cooperation**: Some of the staff especially from revenue collection department was not cooperative due to fear that they might be regarded by the management as if they are leaking some of the confidential information.
• **Lack of enough funds:** The fund provided was not enough to meet all expenses for the like as transport cost, and meal allowance.
CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION
The study used various literature works to get different ideas of the problem in hand. Sometimes the study may consult books; journals/periodicals, and newspapers, just to find out how or what others have tried to depict the problem in hand.

2.1 THEORETICAL LITERATURE REVIEW
Definitions
Account receivable refers to that money owed by customer (individual or corporation) to another entity in exchange for good or services that have been used, but not yet paid for. Receivables usually come in form of operating lines of credit and are usually due within a relative short time period ranging from a few days to a year. (www.bizhelp24.com/credit control basis)

A DEBTOR is one who is owed money. (Khan M. Y and P, K Jain 2001:19.1) financial management the term receivable is defined as “debt owed to the firm by customers arising from the sale of goods or services in the ordinary course of business”. When the firm makes an ordinary sale of goods or services and does not receive payment the firm grants trade credit and creates receivable which could be collected in the future. Receivable management is also called trade credit management. Thus the receivables represent an extension of credit to customers allowing them a reasonable period of time on which to pay for goods or services receivable. Trade creates receivable or book debt which a company is expected to collect in the near future. The receivable arising out of credit has three characteristics:-

Firstly there is an element of risk that should be carefully analyzed. Cash sales are total risk less but not the credit sales as the cash payment are yet to be receivable
Secondly it is based on economic value passed immediately at the time of the sale where the seller expected an equivalent value to be receivable later on.

Thirdly it refers to the customer from whom receivable or books debts have to be collected in the future, known as trade debtors or simply as debtor and represent the firm’s claim or asset. Granting credit and creation debtor amount to the blocking of the firm’s fund. (Pandey I, M 2002:843) Financial Management

Account receivable is money which is owed to a company by a customer for product and services provided on credit. This is treated as a current asset on the statement of financial position. A specific sale is generally only treated as account receivable after the customer is sent an invoice.

2.1.1 ACCOUNT RECEIVABLE AND CREDIT MANAGEMENT

According to (Mwisho A, M (2002:467) financial management, “Receivable management carries out the major task of granting credit and supervised collection of receivable or debt”. As a marketing tool, they are intended to promote sales and generate profit. However, extension of credit involves risk and cost for which the management should weigh the benefit as well as cost to determine the goals of receivable management.

The profitability of business is dependent upon its ability to successfully sell its products for more than its cost to produce them. Selling on credit generally attracts customers and increases sales and volume. There are, however direct and indirect costs to extending credit, which must be weighed against any potential benefits.

A successful credit policy is one in which the costs of granting credit are offset by the benefits of higher sales. When the firm ships the goods or performs the services without receiving cash, an account receivable is generated. The dollar amount of receivables is determined by the volume of sales and the average length of time between a sale and receipt of full cash payment, and may be calculated based on the following simple formula:
Account receivable = Credit Sales per day x Length of collections

(Aragon G.A (1989: 467) financial management)

2.1.2 MANAGEMENT OF RECEIVABLE

Management has two conflicting objectives with respect to the Account.

(i) Management wants to generate as much sales revenue as possible offering customers a length credit terms with little or no interest has proven to be an effective means of generating sales revenue.

(ii) To minimize the amount of money tied up in the form of Account receivable.

Several tools are available to management that offer credit terms to its customers yet wants to minimize the company's investment in account receivable. We have already discussed offering credit customer cash discounts such as 2/10, n/30 to encourage early payment. Other tools include factoring account receivable and selling to a customer who uses national credit cards.

Collecting Account receivable on time is important it spells the success or failure of a company's credit and collection policies. A past due receivable is a candidate for writing off as credit loss. To help us judge how good a job a company is doing is granting credit and collecting its receivables. We compute the ratio of net sales to average receivables. This account receivable turnover rate tells us how many times the company's average investment in receivables was converted into cash during the year.

The ratio is computed by dividing annual net sales by average account receivable (Hunt C, M WILLIAM (1971:568) basic business finance)

Account Receivable Turnover

\[
\text{Net Sales} \quad = \quad \text{Average collection period} \\
\text{Average account receivable}
\]
Pays in Year = \frac{\text{days Account Receivable Turnover}}{\text{Account Receivable Turnover}}

The objective of receivable management is to promote sales and profit until that is reached where the return on investment in further funding receivable is less than the cost of fund raised to finance that additional credit. The specific cost and benefit which are relevant to determination of the objective of receivable management are examined below:

Costs
The main types of cost associated with extension of credit and account receivable are:

**Collection cost:** Administration costs incurred in collecting the receivable from the customer to who credit sales have been made. Included here are additional expenses on creation and maintenance of credit department with staff, accounting records stationary, postage and other related items like expenses in acquiring credit information either through outside specialist agencies or by staff of the firm itself.

**Capital cost:** The increased level of receivable is an investment in asset. They have to be financed thereby involving cost. There is a time lag between the sale of goods to and payment by customer. Meanwhile the firm has to pay employees and supplies of raw material thereby implying that the firm should arrange for the addition fund to meet its own obligation while waiting for the payment from its customer.

**Delinquency cost:** This arises out of failure of customer to meet their obligation when payment on credit sales becomes due after the expiry of the credit period. (KHAN M, Y and JAIN 2001: 19, 37) financial management

**Default cost:** These are costs where finally a firm may not be able to recover because of inability of the customer. Such costs are treated as bad debts and have to be written off and amortised.
Benefits

The benefits are the increase in sales and anticipated profit that causes a more liberal policy. When the firm extends credit that is investing in receivables that are intended to increase the sales. The major determinant of the size of investment on receivables which are of particular importance in shape and the size of the firm’s investment in receivables to include the following:

The term of credit granted to the customer deemed worthy:

- The policies and practices of the firm in determining which customers are to be granted credit.
- The payment of policies of credit by the customer.
- The rigor of the seller’s collection.
- The degree of operating efficiency in the billing, record keeping and adjustment function. The volume of credit sales. (Pandey I, M 2002)

Financing Management

According to A, M Mwisho (2002:789) a firm should have a trade credit management that includes trade off between costs and benefiting four areas. These are as follows:

- Credit standard
- Credit term
- Collection policies
- Discount offered

Credit standards are criteria which firms follow in selecting customers for the purpose of credit extension. The firm may tighten credit standards. To illustrate the trade off between benefits and costs of credit standards, they are divided into (a) tight or restrictive (b) liberal or non restrictive (c) the time taken by customer to repay obligation.

Default rate- these trade-offs with respect to credit standard cover:

- Collection cost
- Average collection period\investment receivable
- Level of bad debts losses
- Level of sales
These factors should be considered while deciding whether to relax or tighten the credit standard. If standards are relaxed it means more credit will be extended, whereas if standards are tightened less credit will be extended.

The credit standard also stipulates the required financial strength that the applicant must demonstrate in order to grant them credit. The informal procedure normally involves examining the 5’s of credit.

- **Character** refers to the customers’ willingness to pay. The financial manager should judge whether the customer would make an honest effort to honour their credit obligation.
- **Capacity** refers to the customer ability to pay. Ability to pay can be judged by assessing the customer’s capital and asset, which he may offer as security.
- **Capital**- means how much net worth the customer has?
- **Collateral**- means the asset pledged to secure the credit
- **Condition**- refers to the prevailing economic and other condition which may affect the customer’s ability to pay.

According to Van Homes C (1997:370) the secondly decision area in receivable management is the credit term defined as the stipulation under which goods are sold on credit. These relate to the payment of amount under the credit sale. In other words they specify the repayment terms.

The credit terms have three components.

- **Credit period term**- the duration of time for which trade credit is extended. During this period the overdue amount should be paid by the customer.
- **Cash discount term**- is a reduction in payment offered to customer to induce them to repay credit obligation within a specified period of time that will be less than the normal credit period.

A company uses cash discount as tools to increase sales and accelerate collection from the customer. The credit term should be determined on the basis of the cost benefits trade off in these three components.
• Another area involved in management of account receivable is collection policy, which should ensure prompt and regular collection. The collection effort should aim at accelerating collections from slow payer and reducing bad debt losses.

Prompt collection is needed for fast turnover of working capital keeping collection cost and bad debts within limits and maintaining collection efficiency.

Regular collection keeps debtors alert and they tend to pay their dues promptly. The collection policy should be laid down to clear-cut collection procedure.

(Pandey I, M 2002) Financial Management said that “the collection procedures for past, due or delinquent accounts should also be established in un-ambiguous term”. The slow paying customer need to be handed very tactfully some of them may be permanent customers.

Cash discount is a reduction in price of goods and services given to encourage early payment. Discounts attempt to speed up the payment of receivable, to be sure that the discount also may have an effect on demand and bad debt losses. When the economy is expanding rapidly and the firm is operating at full capacity, the firm might move to tightening credit policies.

2.1.3 RECEIVABLE POLICY

According to Brocking R, B (1987: 273). “In principles every business wants to be paid for the goods or services, it supplies as soon as possible once a sale has been made the profit making cycle is completed”. But the resources employed in the process cannot set work on another cycle until they are released by payment.

The proper management of account receivable call for designing of appropriate collection policy. Srivatova (1989) “defines collection policy as the procedure adopted by an organization to collect payment due on past account”. The collection policy should be designed in such a way that it will ensure the earliest possible payment of accounts receivable without losing customers through ill-will. Also, before formulating the policy, the management should consider the aspect of cost-benefit analysis associated with the receivable.
A credit policy refers to action taken by business to grant, monitor and collect the cash for outstanding accounts receivable.

Four specific factors must be considered in establishing an effective credit policy:

- Credit worthiness standard
- Credit period
- Collection policy
- Discount for early payment

Credit standards are used to determine whether their credit application will be accepted and amount of credit once the credit application is accepted. Key factors are charger, capital capacity, collateral and earning potential.

Credit terms are composed of the size of cash discount, the amount of cash discount the credit period and maturity dated (2/10, net 30).

Therefore management will need to establish a policy on its trade debtors. Cash discount to be offered for profit or early payment, official period of normal customer action to be taken reducing late payment

A firm should lay down clear-cut guides on collecting individual accounts following the steps below:

- Credit information
- Credit investment
- Credit limit
- Collection procedure

According to Pandey I, M (2002:861-62) Financial Management Credit and collection policies of the firm involve several decisions:

- The quality of debtor accepted
- The credit period
- The level of expenditure
- Credit limit
In each case the decision should involve the comparison of possible gains from change of policy, and the cost of change. Optimal credit collection policies would be those that result in marginal gains equalling the marginal cost.

2.2 EMPIRICAL LITERATURE REVIEW


The researcher explained that, the extension of credit terms to encourage the rate of giving services will increase debtors although may also push up the levels required to support the demand on giving services. The other to consider is that, the increase in giving services on credit is not automatically added up profit. In reality such changes may affect the cash flow due to delayed payment by debtors. The changes can only be justified if the increased profit is greater than the consequent increased cost of carrying higher level of debtors.

The researcher further argues that, the level of riskiness accepted by the organization extending credit to customers will not only increase the level of service rendered and debtors but also bad-debts, investment cost and administrative expenses. The organization should make sure that the effectiveness of debtors, collection and procedures to control cost should not exceed the value of debtors prevented from going bad.

Gamara further argues emphasized that investment on receivables (debtors) should depend on:

- The level of customers’ riskness.
- The paying practices of customers.
- The effectiveness of debts collection.
- The efficiency of credit status investigation.
- Realistic credit terms, and volume of credit sales.
Gamara also explained that, “debt payment depends on the matters of facts. For instance some debtors are to pay after 30 days, some 60 days or more, but all in all there must be the establishment of credit terms such as maximum credit allowance, credit period and cash discount”. Under maximum credit allowance category the researcher analyses different technique to weigh various factors covers by credit investigation such as liquidity, profitability, gearing, debt payment records and describe a credit to each customer. The higher the ratio the more credit will be allowed, whereas, lower rates customers may be requested to pay in advance.

Another researcher who talks about “Causes of debts collection problem, in micro finance organization” is in the article of the Accountancy and business review vol. 1 NO 2 by Professor Johannes M, Monyo. (July-dec-2004)

The Article presented explained that the debt collection problem is a perpetual handicap to many businesses. Poor debts collection may result in business failure. The Article shows that unstable sub-optimal operation environments are due to the difficulties they face in debts collection. The reasons which contribute to the problem are follows;

- Lack of adequate credit collection strategies and procedure
- Lack of proper follow up and supervisor
- Poor information communication and network for assessing of debtor.
- Lack of education for both customer and the owner.

All these factors emphasize the problem facing the organization of debt collection. The researcher also concluded that high interest charge adversely affected debt collection, due to that rise of interest rate, increase of the cost of debts which reduce the debtor’s ability to pay back.

Collection of debts strategies according to him should include “good debt management requiring well coordinated collecting strategies and policies first required for all potential clients”.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION
This chapter explains the method of systematically solving the research problem. The researcher studied the various steps that are generally adapted in studying the research problem along with the logic behind them. This chapter presents the methods of data collection sampling method and data analysis.

3.1 RESEARCH DESIGN
This research employed case study research design. It is a procedure of studying or collecting information within the organization. Under this design the researcher has flexibility in using different tools of data collection. This design was useful because the study based on a specific area for in-depth study of the problem.

3.2 POPULATIONS AND SAMPLE SIZE
The total sample sizes of study depended on the representative of the sample. However, there are eight local governments in the region of Mbeya that operate with Kyela district council, but Kyela was taken as a sample. The Local government has a total of 50 registered staff. Among those 15, were taken from accounts section and 3 were from other section. 2 were chosen from top administration. The sample size was 20 people to represent the population of the KDC.

3.3 SAMPLING TECHNIQUES
For the purpose of gathering data that are accurate and free from bias, various approaches of probabilistic sampling were used to select people or cases to include in the sample. Both purposive sampling and simple random sampling were used to get the sample size. In purposive sampling the researcher used own judgment to decide which element to use in order to meet the purpose of the study.
3.4 DATA COLLECTION PROCEDURE

The following data collection procedures were used depending on the availability and accessibility of their sources. Different techniques were applied to come up with the data required. The following methods were applied: Observation, questionnaire, interview, and documentary review. Data collection techniques applied both primary and secondary data collection. Primary data were collected through questionnaires, interview, and observation. The researcher was intensively reviewing documents to enrich on the literature. Focus group discussions were also used by members of the group to generate their feelings and opinions. This method includes:

3.4.1 Questionnaires

The study used both close-ended and open-ended questionnaires because the response category was not specified. Both open ended and close-ended questionnaire were used to generate information. The close-ended questionnaires were prepared in form of the multiple choice, whereby respondents were asked to put a tick against the answer that is correct. With open ended questionnaires respondents were asked to fill or write the correct answer.

3.4.2 Interview

This method was employed to find information necessary from the group more quickly just to allow individual self-expression. This method was applied to different categories of employees; casual workers, permanent employees and heads of department. The researcher visited members of staff in their respective places of work and asked them such questions. Also by using own skill the researcher would overcome the resistance of any respondents in answering the question.

3.4.3 Documentary Review

The study used documentation method so as to enable to discover data from the company financial Regulation and Accounting Manual and Annual financial report. In doing so the researcher observed the customer files to see the expiry dates and how the customer
meets them on returning the loan. Also the records were revealing the credit sales, debtors’ record, and supporting notes to account for bad debt as well as trend of payment.

3.4.4 Observation
Participatory observation was used on this study. The researcher found it to be reliable since the study involved routine activities in the finance department. In doing so the researcher observed the customer files to see the expiry dates and how the customers meet them on returning the loan.

3.5 DATA TYPE
The study used both primary and secondary data techniques. These types of data are distinguished as follows:-

3.5.1 Primary data
The primary data was collected by using questionnaire, personal interview and observation on credit manager, staff and documents of customers. This type of data was used because it gave actual and current information concerning the study. Research must depend on primary data, which are collected specifically for the study.

3.5.2 Secondary data
Different publications from finance department specifically those of receivable were consulted during the course of research from local government journal research papers and audited account. These have been extracted through reviewing various documents for example debtor account, textbook, journals, credit management report and other published information that were available. Also the secondary data provides historical reference of other past-related studies.
3.6 DATA PRESENTATION AND ANALYSIS.

The data were collected and edited for accuracy, coded and analysed in the form of tables, and percentage. Basically data analysis and presentation enabled the study to address the research problem, eventually to recommend for possible policy implication and give the researcher possible solutions against the problem. Quantitative and Qualitative research techniques were used to answer the research question.
CHAPTER FOUR

RESEARCH FINDINGS, PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 INTRODUCTION
The findings of the study represent the objectives of the study as stated in chapter one. These findings were obtained through documentation, questionnaires, interview and observations.

The data collected has been presented in qualitative and quantitative terms in order to provide solutions, suggestions, conclusion and the recommendations. The data obtained was presented by the following series;

4.1 ACCOUNTING SYSTEM AT KDC
In the Finance department, the district executive director is over all in charge of the whole department being assisted by chief accountant and financial accountant who assist the district executive director in the performance of the job. In this department there are sections which are dealing with different activities these sections are:

Revenue and expenditure
This section deals with marketing activities such as advertisement and sales. This section prepares the prevailing exchange rates, which are used by credit control section in preparation of bills payable.

Credit control section
This section deals with all debtors of the organization. It prepares the monthly debtors schedule and the over all application of the collection procedure. The debtors schedule shows the outstanding balance of debtors the aging of debtors according to the time and list of debtors.
Cash control section
This section deals with cash payment organization. Other activities include preparing records such as bank transactions, various sales transactions and payments such as salaries and external debts for services rendered by the council.

4.2 PROBLEM FACING CREDIT CONTROL DEPARTMENT IN DEBT COLLECTION
The study discovered that, the credit control department in debt collection of KDC faced the following problems:-

- **Poor education**: There is lack of business education concerning loan recovery, since many debtors have no relevant education before loans are extended to them. Education on management of borrowed funds, misdirecting of funds to the activities that do not have immediate returns or no return at all.

- **Communication system**: No good means of transport that leads to the high cost of making follow up to the debtors. Such costs are telephone charges, reminder letter posting and expenses for sending invoices, transport expenses and court procedures. This hinders the performance of debt collection.

- **Seasonal businesses**: Since most of the customers have engaged in seasonal businesses like rice, when the season ends up it becomes difficult for them to pay their debt because most of them were running bankrupt.

Other problems are unfaithfulness of debtors, delaying of payments, death of debtors, abusive language, disputes over debtors and bouncing cheques. These problems are associated with collection of debts in Kyela District council.
According to the questionnaire administered the researcher asked the respondents the question “Is there any problem facing credit control department in debt collection?”

**TABLE 1: The result of the respondents on the problem facing credit control department**

<table>
<thead>
<tr>
<th>Answer</th>
<th>Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>I don’t know</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary research data obtained from the KOC 2011

FIGURE 1: Summarize the table no 1.

Source: Primary research data obtained from KDC 2011

Most of the respondents realised that the debt collection department experienced a lot of problems (see table 1) which shows 75% of the respondents agree that there is a problem facing the credit control department, while 25% of the respondents disagree and 10% seemed they didn’t know.
According to the data analysis, it was found out that in KDC there are problems facing credit control department in dept collection because almost 75% of the respondents realised that there are problems in the organization.

I discovered that the problems facing the credit department were caused by poor education, seasonal business, delayed payment and poor communication. By providing the list of the problems, the respondents were asked to put a tick in the correct answer. The results of the respondents were as follows:

**TABLE 2: major problem facing debt collection in organization**

<table>
<thead>
<tr>
<th>Answers</th>
<th>Respondents</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor education</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Seasonal business</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Delay of payment</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Poor communication</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Primary research data obtained from KDC 2011*

The table 2 shows that the major problems facing debt collection, according to the respondents were as follows, 15% said the problem caused by poor education, 20% seasonal business, 25% delay of payment and 40% said poor communication system.

Through above data, the findings indicate that the major problem facing KDC is poor communication because there is high cost of making follow up to debtors.
4.3 MEANS USED TO RECOVER OVER DUE DEBTS.

Despite strict follow up of debt, not all the dues are settled. It was found out that KDC applies the following means to recover over due debt;

- Sending reminding letter to the customer.
- Legal action.
- Debt collection agencies.
- Instalments payment.

- Sending a reminding letter to the customers.

For those customers who failed to pay their debt at the required time, KDC takes the step to send to customers the letter to remind their dues which become outstanding to pay within a period (30) days.

- Legal action.

After KDC sent the reminding letter to the customer and failed to pay their debts within 30 days, the legal action will follow up, through opening the different cases.

- Debt collection agencies.

The KDC could collect their debts through agencies because the number of debtors is higher than the number of staffs of credit control department. Thus becomes difficult to make follow up and manage the debtors.

- Instalments payments.

The KDC can improve its account receivable collection through applying payment on instalment basis. Each customer should be paid their debts on monthly basis instead of paying the accumulated outstanding debts at the end of the year.

Other means used by KDC to recover their debt are personal visit and sending fax message.
From the above information, the respondents were asked whether all means used to recover overdue debt in KDC were useful?

According to the interview conducted on the method used to recover over due debt respondents revealed the following results;

**TABLE 3: useful of the major means used to recover the over due debts**

<table>
<thead>
<tr>
<th>Answer</th>
<th>Respondents</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>15</td>
<td>75</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>I don't know</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Primary research data Obtained from KDC 2011

The study comes with the following result, concerning the major means used to recover the overdue debt; 75%, 15% and 10% of the total respondents responded Yes, No and I don't know respectively.

Due to information presented above it shows that the means used to recover overdue debt are Sending reminding letter to the customer, Legal action, Debt collection agencies and Instalments payments are more useful as evidenced by 75% of the total respondents.

**4.4 MAJOR FACTORS AFFECTING RECEIVABLE MANAGEMENT IN ORGANIZATION.**

The factors affecting the account receivables management are those in one way or another causing improper control of the account receivables collection to the organization. These are:-

- Late to dispatch the invoice. Some times invoice was delayed to be dispatched to customer on due debts. This causes the delay of payment and as a result delayed
the process of updating records as well as preparation of monthly debtor's schedules. Interest for late payment can be easily determined.

- In KDC there are few computers, this hinders posting of transactions as computers are very much utilized by all officials. To simplify the accounting system computers are very important.

- Late posting of transactions. In KDC posting of transactions in the debtors standing balance is done weekly. This period is too long to balance and determine debtors’ daily balance. It is just because the follow up of debt is dynamic in a sense that every day there should be contact with debtors.

- Incompetence of accounting personal. Accounting section is very important in accounting. Competence is the most important aspect in order to ensure accuracy of accounting records for future references and decision making purpose.

4.5 PROCEDURE USED TO ENSURE EFFECTIVE COLLECTION.

The following are procedures used to ensure effective collection of debts;

- For internal staffs who are owed by the KDC, the procedure of collecting debts was done through deducting their monthly salary.

For the external debtors the management used the following procedure to ensure effective collection of debts;

- An invoice is raised to customer to show the outstanding debt to customer.
- Reminder letter is sent to customer reminding to pay there outstanding balance or telephone call.
- Personal visit which is done on surprise basis to the customers office to collect the debts.
- Taking legal action against customer but this is not common to procedure.

In principle every business wants to pay for its supplies as soon as possible.
Furthermore, the researcher tried to find out if there are effective collection procedures, by providing the list of the procedure and respondents were asked to put a tick against the correct answer. The result of this question revealed the following are major procedures used in debt collection;

According to interview and observation made on, it asked the respondents that “what are the major procedure are more effective to ensure collection of debts”

**TABLE 4: the procedure used to ensure effective collection of debt**

<table>
<thead>
<tr>
<th>Answers</th>
<th>Respondents</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sending a letter</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Making telephone</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Taking action to legal of law</td>
<td>12</td>
<td>75</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Primary research data obtained from KDC 2011

The table above shows the procedure used to ensure effective collection of debt in the organization. 25% said that the major procedure is sending a letter /notes informing customer of past status of account, 30% said that the major procedure is making telephone call to the customer and 45% said that taking a legal action against the customer.

The researcher observed that the most effective procedure used is taking action to legal law.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION
In view of what the study has got in fieldwork at KDC this chapter intends to conclude and recommend on different matters related to the study. For this case the study has examined various solutions and suggestions have been considered as hinderances to effective account receivable management in the organization. Following the survey of the literature review, analysis and findings the following may be concluded from the study. The purpose of the research was to investigate the effect of account receivable management in an organization.

5.1 CONCLUSIONS
It is my conclusion that all findings shown in chapter four, present ineffective account receivable management in KDC through the following points:

1. The problem facing the credit control department in debt collection.
   This problem arises due to incompetence of staff that is not professional. Therefore they execute their activities thorough experience; this leads the council to suffer against frauds, errors and manipulation of accounts receivable management.

   All these problems facing the credit department were caused by poor education, seasonal business, delayed payment and poor communication.

2. Means used to recover over due debt.
   The KDC used different means to recover overdue debts like sending a reminding letter to the customer, legal action, debt collection agencies and instalments payment. But the KDC put enough effort to send the reminder letters to its customers.
3. The major factors affecting accounts receivable management in the organization.

The study discovered that the credit standards of the organization do not indicate the required financial strength that clients must demonstrate in order to be given credit. This is likely to increase the amount of bad debt since some customers can fail to pay their dues.

The study discovered that there is no strong effort on policy in debt collection. This decreased the revenue from accounts receivable, since the debtors will not have paid their due debts.

4. The procedure used to ensure effective collection of debts.

Follow up of accounts receivable by credit control department for internal and external customers. For internal customers who are staffs of the KDC their debt was deducted from their monthly salary, also credit control department were sending the invoice, sending the reminding letter, personal visit and the legal action takes place to external debtors.

The study observed that the most effective procedure used is taking action to legal law.

5.2 RECOMMENDATIONS

From the analysis of the findings and conclusion the study gives the following recommendations which are based on the study conducted at KYELA DISTRICT COUNCIL;

1. Account receivable collection policies.

It is better for the debt collection team to be aware of the policy used by the organization. This will assist them to make effective follow up of debts. To be successful in any
activity, there is a need of well designed policies. Thus to improve accounts receivable
collection, the organization should seriously ensure effective accounts receivable
collection policies in order to ensure on time cash collections. As the policy stated, for all
customers who fail to settle their accounts 30 days after invoice date, a notice should be
sent to the customer. This makes it easier for the customer to make settlement of a month
debt within the period.

2. Effectiveness of debt collection
The organization needs to establish a special group of staff for collection of all debt.
However the KDC must compare the cost of operating the credit control department and
its effectiveness, the management of the organization should motivate credit control staff
so that they put more effort on policy implementation in debt collection. Good incentive
and motivation in terms of money, recognition and transport given to the credit controller
will help to increase revenue from receivables since they know debtors of the
organization with their full information. Collection of receivables is effective when done
by motivated staffs that use their techniques to simplify the exercise of debt.

3. Training of employees
It is obvious that no system can be good or better than the people who operate it. KDC
does not send its employees to higher institutions such as IAA, IFM, and Mzumbe
University. It is recommended that the organization should employ competent and
qualified accounting staff particularly credit control staff. Since proper functioning of any
system depends upon competence and integrity of staff. Alternatively, the organization
may employ already competent staff who were trained in a recognized institution, or
exiting staff to attend short and long courses and workshops conducted by professional
bodies like NBBA or academic institutions.

4. Computerization of accounting data
To be successful of any activity, the organization should be computerising the system
because as time goes on things change, since the organization has already computerized
its accounting information.
I recommend for the organization to employ its own computer expert and all staff should be trained in order to expedite its day to day operation. This will help to reduce time consumed on consulting external programmers once there is problem on the computers.

5. Availability of accounting manual
To understand the procedure and system used to account for various aspect of the organization is important especially for those employees who are non-accounting professionals. Accounting manuals need to be reviewed in order to make it more current so as to simplify the work in accounting department. The accounting manual should be updated.

6. Legal actions
Legal actions should be taken to those customers owed by the organization large amount of debts. But before legal actions are taken, the organization should asses the possibility of the customers to pay their debts if legal action is taken against them. Legal action is among the steps mentioned by the organization to be used in collecting unpaid accounts, unfortunately the organization does not put this in practice to date, thus it is recommended that the aspect should be put into practice.

7. Improvement of the collection procedure
The researcher recommends that all accountants should improve collection procedures which guide all organizations as follows

- Don’t assume that account receivable is known by credit policy.
- The organization has to know its customers individually as part of doing business. Credit files of each customer are maintained. Credit should never be extended to new customers without ascertaining the organization credit reliability once credit is extended. It is important to maintain accuracy and time factor.
- The organization should keep its credit record current
- Pursue partial payment with request for balances due. Although partial payments do show good faith they should not slow the effort of collecting the complete amount due. The best thing here is to acknowledgment part
payment promptly and follows up with communication to accelerate payment of any balance remaining.

8. **Improving the effectiveness of accounts receivable collections.**

Emphasis should be put in ensuring the organization escapes from poor accounts receivable collections. Moreover the researcher identified that the best measure to solve the problem hindering accounts receivable collection is discount and promotion. For the customer this had much influence on the prompt payments of accounts receivable.
APPENDIX A. REFERENCE


Gamara R.P, (1998/99), **Effectiveness management over debtors aspect of collection policy**


Mahushi, P. H (1985) **Basic Internal Control** Peramiho Printing Press


**Economic survey manual**, Tanzania publisher


APPENDIX B. QUESTIONNAIRE

Dear Respondent

My names are Mwalimu Mbaruku Nyembo, a 3rd year Student at Kampala International University, pursuing a Bachelor of Business Administration. I am conducting a research on “account receivable management problem” a case study of Kyela district in Mbeya Region. The purpose of this study is to fulfil my academic requirements. Therefore I kindly seek your assistance in providing answers to the following questions.

Circle and fill the blanks to appropriate space on blanks under the following question and put the letter, which is acceptable

1. Which major problem facing debt collection department?
   (i) Low revenue
   (ii) People don’t like to pay on time
   (iii) Customer are not educated

2. Is there any problem which facing the customer did not pay on time?
   (i) Yes
   (ii) No

3. If yes please mention them
   (i) ...........................................................
   (ii) ...........................................................
   (iii) ...........................................................

4. What action taken for those fail to pay the debt?
   (i) penalty
   (ii) Jail
   (iii) Quit.

5. What procedure taken when the customers fail to pay at first time?
   Please explain from the first procedure
   (i) ...........................................................
   (ii) ...........................................................
   (iii) ...........................................................

6. Does the management provide enough education of credit selling to customer?
   (i) Yes
   (ii) No

7. Does most of customer have enough information time on repayment?
   (i) Yes
   (ii) No
8. What the factors affecting account receivable management problem?
Please mention three
(i).............................
(ii).............................
(ii).............................

Thank you in advance
For corporations
APPENDIX C. INTERVIEW GUIDE

1) Does the poor motivation of trade debtors affect the collection of debt?

2) Has the failure of many organizations resulted from poor collection debt strategies?

3) What are the problems associated with poor management of trade debtors in the organization?

4) Does the organization offer credit facilities to all customers?

5) What are the policies which govern the account receivable?

6) Management of debtors is very important in reducing bad debt. Is there any failure to pay due date?

7) If the debtors fail to pay you in time what measures are you taking?

8) What are existing opportunities for the improvement of management of debt collection?
## APPENDIX D: WORK PLAN

<table>
<thead>
<tr>
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<td>Preparation of materials and Proposal writing</td>
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</tbody>
</table>
# APPENDIX E: BUDGET

<table>
<thead>
<tr>
<th>NO</th>
<th>DESCRIPTION</th>
<th>AMOUNTS IN (USD)</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Transport</td>
<td>500.00</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Stationery materials</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Typing, Printing, Photocopying and Binding</td>
<td>300.00</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Emergency Cost</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1000</strong></td>
<td></td>
</tr>
</tbody>
</table>