

MANAGEMENT OF ACCOUNTS RECEIVABLE AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS LISTED IN NAIROBI STOCK EXCHANGE, KENYA

Muthoni, Jane Gitahi*, Kiprotich Isaac Naibei, Kipyego, Livingstone***

* *Accounting and Finance Department, University of Kabianga*

** *Accounting and Finance Department, University of Kabianga*

*** *Karatina University College*

DOI: 10.29322/IJSRP.X.X.2018.pXXXX

<http://dx.doi.org/10.29322/IJSRP.X.X.2018.pXXXX>

** Naibei2008@yahoo.com

ABSTRACT

Management of receivables is a key aspect of working capital management. This paper seeks to establish the relationship between management of accounts receivable on financial performance of manufacturing firms listed in NSE. The study used descriptive research design where data was collected in order to establish the current status of the population. The population of the study comprised of 147 finance and accounts staff of all the manufacturing firms listed in NSE for period of Six (6) months from April to October 2016. Data was collected by use of self-administered questionnaires and analyzed using both descriptive and inferential data analysis. Study established that there was significant relationship between Credit extension policies, further it established that financing receivables has significant effect on the financial performance and receivable collection period has significant effect on the financial performance of the firm. The results of the study showed a value of $R^2=0.889(p=0.01)$ this means that independent variables collectively account for 88.9% of the depended variable. The study established that there was significant relationship between accounts receivable management and financial performance of manufacturing firm. The study recommends that the management of the manufacturing firms should have clear policies on management of accounts receivables, that is, credit extension policy, financing receivable and receivable collection period since it significantly affected their financial performance of the firms.

Key words: *Working capital management, Performance, NSE*

I. INTRODUCTION

Accounts receivable is money owed to a firm when it sells its products or services on credit and it does not receive cash immediately (Pandey, 2004). The objective for managing accounts receivable is to collect them as quickly as possible without losing sales from high-pressure collection techniques. The primary goal of accounts receivables management is to maximize the value of the enterprise by striking a balance between liquidity, risk and profitability (Hrshikes, 2002). The main purpose of maintaining receivables is not sales maximization nor is it for minimization of risks involved by way of bad debts but growth of sales, the concern would have opened credit sales to all sorts of customers. Contrary to this, if the aim had been minimization of risk of bad debts, the firm would not have made any credit sale at all. That means a firm should indulge in sales expansion by way of receivables only until the extent to which the risk remain within an acceptably manageable limit.

According to Waweru (2013), poor management and control of accounts receivable often results in disruption of the firms daily operations caused by cash flow problems which results in non-payment of suppliers of goods and services, it also impacts negatively on profits in two ways; first, bad debts written off reduce the firm's profitability. Secondly, when a lot of funds are tied up in accounts receivable, the company may find itself borrowing funds to finance operations; these borrowed funds attracts interest which also reduces profit.

<http://dx.doi.org/10.29322/IJSRP.X.X.2018.pXXXXwww.ijsrp.org>

Waweru (2013) further argues that Ineffective management of accounts receivable may also result to poor credit rating from financial institutions. This makes it difficult to obtain financing from the institutions to finance the firms' working capital and if it does then it is at a high interest rate since it is unable to negotiate for better terms. Severe liquidity problems caused by so much funds held in accounts receivable may lead to total collapse in production since the firm can no longer meet its financial obligations, which in extreme cases may lead to the firm becoming insolvent and consequently being placed under receivership. Ultimately, the firm may be wound up. Efficient receivables management entails the management of various elements which include the credit extension policy, receivable conversion period, accounts receivable turnover and financing of receivable, this is because they affect the financial performance. Cash conversion cycle (CCC) is used as an overall measure of working capital, as it shows the gap between expenditure for purchases and collection of sales (Padachi 2006). According to Arnold (2008) the shorter the CCC, the fewer are the resources needed by the company. Therefore, the longer the cycle the higher will be the investment in the working capital, while on the other hand; longer cycle could increase sales, which could lead to higher profitability. Pandey (2004) argued that an extended collection period delays cash inflows which impairs the firm's liquidity position and increases the chances of bad debt losses which then impact negatively on the financial performance.

Financial performance involves measuring the results of a firm's policies and operations in monetary terms. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Miller and Craig 2001). Financial performance is measured through liquidity, profitability, financial efficiency and repayment capacity. Efficient management of receivables impact positively on the financial performance.

According to Pedro and Pedro (2008), trade credit has an effect on the level of investment in assets and consequently may have an important impact on the profitability and liquidity of the firm and also granting trade credits improves the sales for the firm but over-investment in accounts receivables can be costly due to increase of investment in current assets. Considering the importance of management of receivables and its impact on the financial performance, most researchers have done research on the entire working capital management, but very few research have been done particularly on accounts receivables as an element of working capital. Research studies by Samiloglu&Demrigunes (2008) and Mathura (2010), in turkey and Kenya respectively, all point out to a negative relation between accounts receivable and firms' profitability. At the same time, managers are faced with the challenges of achieving optimal profits, improving the company's performance and maximizing the shareholders wealth which can only be achieved through increase in revenue obtained from sales and cost cutting on expenses (Barad, 2010).

Selling on credit is one of the company's approaches in enhancing sales and it has turned up to be an enticement for customers in retaining the business relationship with the company and in time increase the company's profit (Barad, 2010), eventually optimizing the company's profit. The purpose of offering credit is to maximize profit (Damilola, 2005). Management of accounts receivable is made complex because it forms an integral part of the marketing function as the granting of credit attracts customer thus resulting to increased sales and sales revenue (Cooper, 2008). Management of the accounts receivables asset is a complex task as it addresses the ramifications of practices and processes usually outside the span of the responsible manager, thus it requires to liquidate their investments in securities. The very fact that investors are certain of the possibility of selling out what they hold, as and when they want, is a major incentive for investment as it guarantees mobility of capital in the purchase of assets (www.nse.co.ke,2016).

Accounts receivable is an important component of the firm's current assets. Management of receivables is an important function of a finance manager to ensure that the firm is liquid enough to meet its short term obligations by ensuring that the debtors pay their debts when they fall due. Efficient management of receivables leads to profitability of the firm. Poor management of receivables leads to poor liquidity which means inadequate inventory hence low sales and eventually low profitability. The longer period of collection of account receivables could result into higher sales, and more sales bring more profit into the business. However, when there is a build-up of receivables, funds are unavailable to have been put into efficient use within the firm as to earn profit. Therefore they

could exist a relationship between accounts receivables management and financial performance of the firm. Research have been done on accounts receivable individually, but mostly as a part of working capital management, from various points of view, Manyo& Ike (2013) conducted a research on the effect of accounts receivables on return on assets (ROA) of selected Nigerian firms and found a negative relationship with return on assets. On the contrary Sharma & Kumar (2011) found a positive relation between Return on assets (ROA) and accounts receivable. There seems to be no conclusive finding which therefore calls for more research with defined variables. Effective management of the credit and accounts receivable process involves cooperation among sales, credit control marketing, finance and accounting function staff. Management of accounts receivable is made complex by the fact that it involves credit control, sales, marketing and finance functions of the business. It is therefore crucial that management formulate effective and efficient management of this sensitive yet important asset of accounts receivable so as to ensure that high turnover resulting from credit sales actually result to improved cash flows and higher profitability. This study is seeking to establish effects of management of accounts receivable on financial performance.

II. CONCEPTUAL FRAMEWORK

A conceptual framework is a model of presentation where the researcher conceptualizes or represents the relationship between variables diagrammatically. The purpose of the conceptual framework is to help the reader to quickly see the proposed relationship. Figure1 shows the relationship between the independent variables and the dependent variable of the study.

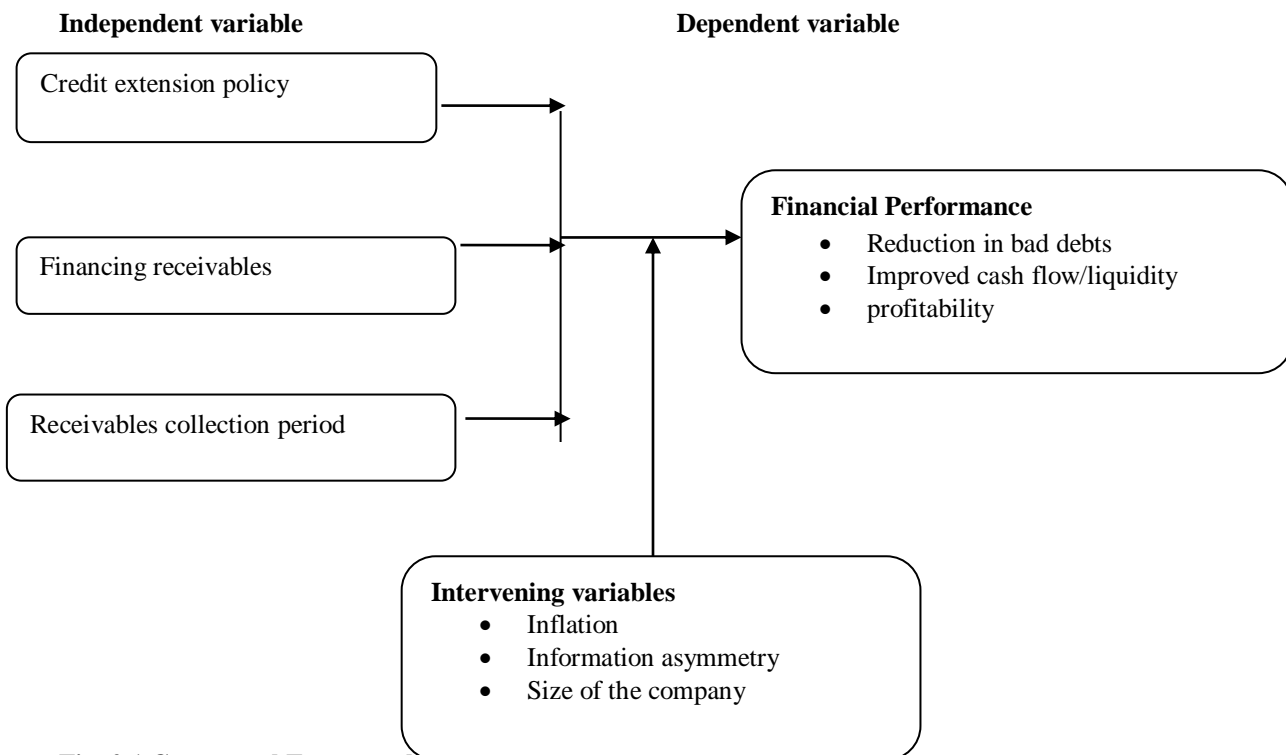


Fig. 2.1 Conceptual Framework

Credit Extension Policy A sound credit extension policy with optimal credit standards and credit terms will result to higher sales that will lead to improved profitability for the firm. Thorough vetting of credit applications before credit is granted will ensure that a firm only extends credit to credit worthy customers. This will in turn reduce the firms' exposure to risks of delayed payments and defaults. Credit risk analysis will therefore save the firms credit collection teams the agony of putting in additional efforts to make collections and hence saving on the administration cost related to collection of receivables.

Financing receivables These costs cannot be possibly eliminated altogether but should essentially be regulated and controlled. "Elimination of such costs simply mean reducing the cost to zero i.e. no credit grant is permitted to the debtors In that case a firm would no doubt escape from incurring these costs yet the other face of the coin would reflect that the profits foregone on account of expected rise in sales volume made on credit amounts much more than the costs eliminated.

Receivables collection period Receivable collection period is the average time a firm takes to collect its debt

Intervening variables

Inflation: The changes in prices may affect the value of the accounts receivable held by the firm since when the customers finally pay their accounts; the purchasing power of the money will be weaker.

Information asymmetry: when evaluating the credit status of potential customers, the firm may overlook or lack adequate information regarding the customer. This may lead to an otherwise good customer being denied credit and/or a wrong customer being granted credit.

III. RESEARCH METHODOLOGY

The study used descriptive research design to determine whether this relationship between the variables exists. The major purpose of descriptive research is to provide information on characteristics of a population or phenomenon Kothari (2004). Population is generally the total number of units with specific characteristic that the researcher can use to obtain a sample for the study. A population element is the subject such as a person, an organization, customer database, or the amount of quantitative data on which the measurement is being taken (Cooper and Schindler, 2003). The target population was all the finance and accounts staff of the listed manufacturing firms at the NSE. The study adopted census sampling since the population is small, therefore all the 9 manufacturing firms listed in the NSE were sampled.

The study used questionnaires for data collection. The questionnaire were be used since it was direct to the point and take shorter time for both the researcher and the respondents (Owen 2002). A standard questionnaire was designed in a simple way so as to guide and enable the participants to provide simple responses. According to Kothari (ibid) a questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The study also used document analysis for collecting secondary data. The documents analyzed were financial statements.

The study used descriptive and regression analysis. The aim of this was to assemble or reconstruct the data into a meaningful or comprehensible fashion (Jorgensen, 1989). The categorizing was typically based on the major questions guiding the study. Generalization from the themes about the phenomena in question and discussion in the light of the available literature was then made. The regression model was used to determine the relationship between dependent and independent variables. The effect of management of accounts receivable on financial performance was determined by the equation below.

$$Y = a + b_1 (X_1) + b_2 (X_2) + b_3 (X_3) + \mu$$

Where;

Y= Financial performance

X₁= Credit extension policy

X₂ = financing receivables

X₃ = receivable collection period

a = Constant Term

b₁, b₂, b₃, =Regression Co-efficient of Independent Variables

μ= Error Term

IV. RESULTS AND DISCUSSION

This chapter presents the findings of the study and discussion. The presentations are in form of tables and statements. The presentation is according to the objectives of the study and the hypothesis generated. The study targeted a sample of 147 respondents from the listed manufacturing firms at NSE. The high response rate (94%) shown in the table 4.1 resulted from the method of administration of the instrument, which was in this case researcher administered. This method was acceptable according to Mugenda and Mugenda (2003). This method also ensured that the respondents' queries concerning clarity were addressed at the point of data collection.

The respondents demographic characteristics which the researcher asked included; Age, Gender, Level of education and working experience.

4.3.1 Description of the Age of the respondents

The study obtained the age of the respondents in the manufacturing firms and it is shown in the Table 4.2

Table 4.2

Distribution of respondents according to age

Source: Research data (2016)

The findings in Table 4.2 show that people with 21 and 30 years stands at 19.6% , 31 and 40 years are 29.7%, 41 and 50 years are 41.3% and 51 years and above represent 9.4% this suggest that majority of the respondents were middle aged people (71%) aged between 31 and 50 years. The study sought and obtained details about the gender of the respondents in the manufacturing firms for purposes of knowing their number. Details of the respondents as per their gender are shown in table: 4.3

Table 4.3

Distribution of the respondent by their gender

Gender	Frequency	Percent (%)	Cumulative Percent (%)
Male	81	58.7	58.7
Female	57	41.3	100.0
Total	138	100.0	

Source: Research data (2016)

The analysis results in table: 4.3 show that majority of the respondents in this study are male (81) which represent 58.7% and female (57) represented 41.3%.

4.3.2 Description of the level of education of the respondents

The study sought to obtain the level of education of the respondents. Table 4.4 show the distribution of staff as per their education levels.

Table 4.4

Distribution of the respondents according to their level of education

Educational level	Frequency	Percent (%)	Cumulative Percent (%)
Masters Degree	45	32.6	32.6
Bachelors Degree	77	55.8	88.4
Diploma	16	11.6	100.0
Total	138	100.0	

Source: Research data (2016)

Table 4.4 shows that those with diploma (16) which represents 11.6%, Degree (77) which represent 55.8% and Master Degree (45) which represent 32.6%. The majority of the respondents are Master Degree, Bachelors Degree holders (122) which represent 88.4%. The study shows that majority of the manufacturing firms employees are those with Master Degree and Bachelors Degree.

4.3.3 Description of working experience of the respondents

The study also sought to find out working experience of the respondents. Table 4.5 show the working experience of the respondents

Table 4.5

Working experience of the respondents

Working experience	Frequency	Percent (%)	Cumulative Percent (%)
1-3years	22	15.9	15.9
4- 6 year	72	52.2	68.1
7 years and over	44	31.9	100.0
Total	138	100.0	

Source: Research data (2016)

Table 4.5 shows that 15.9% of the respondents (22) have 1 to 3 years experience, 68.1% (72) have experience of 4-6 years, 31.9% (44) have experience of 7years and above in the manufacturing firms. Study revealed that majority of the employees in the manufacturing firms have 4-6 years working experience.

4.4 Descriptive Statistics on effects of credit extension policy

In the Table 4.6 are details of measures of effects of the credit extension policy under different key statement obtained from the respondents this statement have been ranked in terms of their mean and standard deviation so as to deduce meaning out of the results.

Table 4.6

Mean and Standard deviation of responses to credit extension policy

	N	Minimum	Maximum	Mean	Std. Deviation
There is existing credit extension policy	138	1	5	3.91	.940
Credit terms affect the size of the receivables	138	1	5	3.80	.881
Lenient credit terms attract customers	138	0	5	3.67	1.069
There is credit risk and evaluation on credit customers	138	0	5	3.91	1.091

Source: Research data (2016)

The study (as reflected in Table 4.6) found that the respondents agree that there is existing credit extension policy in the organization with mean of 3.91. However, the corresponding standard deviation also revealed a significant value of 0.94. This shows that there is a clear variation in the responses provided by the respondents about the existence of credit extension policy. From the Table 4.6 respondents seemed to agree that credit terms affect the size of the accounts receivables as reflected by the mean value of 3.80 which is tending towards the maximum point of 5. However, a significant standard deviation of 0.881 suggests varied responses regarding credit terms affecting the size of the accounts receivables.

In Table 4.6 show a mean of 3.91. Which show that respondents agree with the statement that there is credit risk and evaluation on credit customers. Consequently, a standard deviation figure of 1.091 raises concerns regarding credit risk and evaluation on credit customers. The figure of standard deviation further reveals that the respondents had varied opinion about presence of credit risk and evaluation on credit customers. In the Table 4.7 are details of measures of effects of financing receivables under different key statement obtained from the respondents this statement have been ranked in terms of their mean and standard deviation so as to deduce meaning out of the results.

Table 4.7
Mean and Standard deviation of responses to financing receivables

	N	Minimum	Maximum	Mean	Std. Deviation
Financing receivables lead to high cost of capital	138	1	5	3.80	.830
Financing receivables increases administration cost	138	1	5	3.71	.890
Financing receivables leads to increase in production and selling cost in the firm	138	1	5	3.32	.770
Financing receivables leads to increase in default cost	138	1	5	4.11	.808

Source: Research data (2016)

From the results in Table 4.7, it is clearly evident that respondent were in total agreement that financing receivables leads to high costs capital as reflected by a mean value of 3.80 which is tending towards maximum value of 5 (i.e. strongly agreeing). However, the standard deviation of 0.830 suggests variations in responses by the various respondents. From the results of the study as reflected by Table 4.7, respondents agree as to whether the financing receivables increases administration costs. This is revealed by a mean of 3.71. However, a standard deviation of 0.890 suggests a significant variation in the responses generated by the respondents.

Results of the study as reflected in Table 4.7 also suggest that Respondents agree that the financing receivables leads to increase in production and selling costs in the firm. This is revealed by a mean of 3.31, although the standard deviation of 0.77 seems to suggest variation in the responses generated for the test. From the study, as reflected in Table 4.7, it can be deduced that respondents strong agree that financing receivables leads to increase in default cost; this is revealed by a mean value of 4.11, although the standard deviation under the same test revealed a variations of 0.808 in responses.

In the Table 4.8 are details of measures of effects of the receivable collection period on firm performance under different key statement obtained from the respondents this statement have been ranked in terms of their mean and standard deviation so as to deduce meaning out of the results.

Table 4.8
Mean and Standard deviation of responses to receivables collection period

	N	Minimum	Maximum	Mean	Std. Deviation
--	---	---------	---------	------	----------------

There is clear receivables collection policy in the firm	138	2	5	4.44	.904
Customers observe their credit period promptly	138	1	5	3.04	.895
Extended receivables collections period leads to delay in cash flow	138	1	5	3.67	1.054
Receivable collections period helps customer retention	138	1	5	4.06	1.016

Source: Research data (2016)

Results of the study in Table 4.8 shows a mean of 4.44 which is above the average; this suggests that respondents believe that there is clear receivable collection policy in the firm. However, a standard deviation of 0.904 suggests varied responses as to whether there is clear collection of receivables. From the results of the study in Table 4.8, respondents seem to agree that customers observe their credit period promptly. This is revealed by a mean of 3.04 which is the average of 3. However, a standard deviation of 0.895 suggests a significant variation in the responses generated by the respondents. The study as reflected in Table 4.8, it can be deduced that respondents agree that extended receivable collection period leads to delay in cash flow, this is revealed by a mean value of 3.67, although the standard deviation (1.054) under the same test revealed a variations in responses generated

From Table 4.8, respondents seem to strongly agree that receivable collection period helps in customer retention as reflected by the mean value of 4.06. However, a significant standard deviation figure of 1.016 reveals varied responses from the respondents on the same statement.

4.7 Descriptive statistics on financial performance

Table 4.9: Mean and Standard deviation of responses to financial performance

	N	Minimum	Maximum	Mean	Std. Deviation
High liquidity in the firm	138	2	5	3.98	.678
High profitability in the firm	138	2	5	4.01	.645
Reduction in bad debts in the firm	138	1	5	4.04	.744

Source: Research data (2016)

Table 4.9 show that respondents agree that there was high liquidity in firm presented by a mean of 3.98 and a standard deviation of 0.678. They also strongly agreed that there was high profitability in the firm as shown by mean of 4.01 and standard deviation of 0.645 and reduction in bad debts in the firm as represented by the mean of 4.04 and standard deviation of 0.744

Table 4.10

Correlation analysis

	Financial performance	Credit extension policy	Financing receivables	Receivable collection period
Financial performance	1**			

Credit extension policy			.929**	1**					
Financing receivables			.359**	.227**		1**			
Receivable collection period			.296**	.352**		.215*			1*
Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	R ² Change	F Change	df1	df2	Sig. F Change

**r=0.01 (correlation is significant at 0.01)

*r=0.05 (correlation is significant at 0.05)

Table 4.10 presents the relationship between dimensions of account receivable management measured by credit extension policy, financing receivable and receivable collection period against financial performance of manufacturing firms listed in NSE. The results show that all the dimensions relate positively. Specifically, credit extension policy relates positively with financial performance with $r=0.929$ ($p<0.01$), the relationship between financing receivable and financial performance was significant at $r=0.359$ ($p<0.01$). Receivable collection period also relates positively with the financial performance with $r=0.296$ ($p<0.01$).

A Pearson coefficient of 0.929 ($p < 0.01$) shows a strong, significant, positive relationship between credit extension policy and financial performance of manufacturing firms listed in NSE as shown in Table 4.10. The results of the study agreed with the findings of study done by Muthuva (2010) which found that there is significant relationship between credit management policies and firms financial performance. Waweru (2011) found that receivable management policies have positive relationship with financial performance of a firm also Duruet *al* (2014) conducted a study on accounts receivable management and corporate performance of companies in the food & beverage industry in Nigeria and found that there was significant relationship between accounts receivable management and corporate performance. Therefore basing on these findings the study rejects the hypothesis that there is no significant relationship between credit extension policy and financial performance of manufacturing firms listed in NSE.

The results in table 4.10 indicate a positive relationship between financing receivables and financial performance of the firms listed in NSE with $r=0.359$ ($p<0.01$). This is in agreement with the findings of Lazaridis&Tryfonidis (2006) and Narware (2004) who concluded that financing receivables will significantly affect the financial performance of the firm. Therefore we can conclude that the study rejects the hypothesis that there is no significant relationship between financing receivables and financial performance of manufacturing firms listed in NSE. Results in table 4.10 also shows a positive relationship between receivable collection period and financial performance of the manufacturing firms listed in NSE with $r=0.296$ ($p<0.01$). This in line with the findings of Sushma&Bhupesh (2007) that affirm that, putting in place proper debt collection procedures is pivotal in improving efficiency in receivables management hence the financial performance of firms

Multiple regression equation was used to determine the level of prediction of the independent variable (Receivable collection period, Financing receivables, and Credit extension policy) for accounts receivable management, by the dependent variable for financial performance of manufacturing firms listed in NSE.

Table 4.11:
Summary of regression model

1	.943 ^a	.889	.887	.235	.889	359.090	3	134	.000
---	-------------------	------	------	------	------	---------	---	-----	------

- a. Predictors: (constant), Receivable collection period, Financing receivables, Credit extension policy
- b. Dependent variable: Financial performance

Table 4.11 shows a summary of the regression model. The predictors in this model are Receivable collection period, financing receivables, credit extension policy and the dependent variables is the financial performance. Findings revealed that collectively the predictors accounts for 88.9% of the financial performance of the firm as shown by $R^2=0.889(p<0.01)$. This indicates that there is a significant relationship between accounts receivable management and financial performance of the manufacturing firms listed in NSE

Table 4.12:
Regression Coefficients

Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients			
			Beta			
	(Constant)	-.559	.240		-2.328	.021
	Credit Extension Policy	.834	.028	.913	29.334	.000
1	(x ₁)					
	Financing Receivables (x ₂)	.340	.062	.165	5.521	.000
	Receivable Collection					
	Period(x ₃)	-.053	.027	-.061	-1.978	.050

a. Dependent Variable: Financial Performance

Table 4.12 shows analysis of the regression coefficient model and it established a positive beta coefficient of 0.834 with p-value of 0.00, 0.340 with p-value of 0.00 and a negative beta coefficient of -0.53 with p-value of 0.05. The constant value was -0.559 with p-value of 0.021. Therefore, the constant and the credit extension policy, financing receivables, and receivable collection period contribute significantly to the financial performance of the firms. The regression equation is presented as: Financial performance (Y) = -0.559+0.834x₁+0.340x₂-0.053x₃

V. SUMMARY, CONCLUSION AND RECOMMENDATIONS

The results show that credit extension policy relates positively with financial performance of the firms with 0.929 (p < 0.01), the results shows that good credit policies in firms and ensuring that there is a good credit terms to its customers, lenient credit standards and credit risk and evaluation on credit customers affects the financial performances of the firms. Therefore, ensuring that there are good clearly established credit management policies positively affects the financial performance of the firms (Muthuva 2010; Waweru 2011).

There was a positive relationship with financial performance of the firm with r=0.359 (p<0.01) thus the null hypothesis that financing of receivables has no significant effect on the financial performance was rejected implying that there is statistically significant relationship between financing of receivables and financial performance of the firm. Lazaridis&Tryfonidis (2006) and Narware (2004) concluded in their studies that financing receivables affect financial performance.

Receivable collection period related positively with the financial performance of the firms with r=0.296 (p<0.01). Clear receivable collection policy in the firm and ensuring Customers observe their credit period promptly, affects positively the financial performance financial performance of the firms. Proper debt

collection and management procedures is pivotal in improving efficiency in receivables management (Sushma&Bhupesh 2007)

It can be concluded that effective receivable management in the firms leads to improved financial performances of the firms listed in the NSE. Therefore, the firms should ensure they put in place very effective and clear credit extension policies.

It can also be concluded that cost associated with receivable in manufacturing firm affected the financial performance. Further, it can be concluded that receivable collection period significantly affected the financial performance of the manufacturing firms, and therefore manufacturing firms should have clear receivable collection period in the firms.

Finally the study therefore, concludes that manufacturing firms should ensure that they have a very effective accounts receivable management as this will help improve their financial performance.

From the findings discussed above the study recommends that management of manufacturing firms should put in place effective management of accounts receivables.

The firms should put in place a sound credit policy that ensures proper debt collection procedures since it's important in improving efficiency in receivables management hence the performance of firms.

The firms should adopt a shorter receivable collection period since a longer period delays cash inflows, impairs the firm's liquidity position and increases the chances of bad debt losses. As a result, the firm will be forced to borrow money at high interest rates to finance its operations and hence lower its performance.

Further research should be conducted on the effect of receivables management on performance taking into account the prevailing macroeconomic situation in the country. A study should be done on the effect of receivables management on the performance of government entities. The study was limited to accounts receivable management. Further studies should be done on other elements of working capital such as cash flow management, accounts payable management and inventory management

REFERENCES

- [1] [1]. Adembo, C. (2014). *Effect of trade receivables on profitability of manufacturing and allied firms listed at Nairobi securities exchange.* (Unpublished MBA research paper). KCA University, Nairobi, Kenya
- [2] Afza, T., & Nazir, M. S. (2009), *Working Capital Management Practices of Firms: Empirical Evidence from Pakista. 9th South Asian Management Forum (SAMF) held on February 24-25, pp. 334-343, North South University, Dhaka, Bangladesh*
- [3] Arnold, G. (2005). 3rd Edition *Corporate Finance Management*; London Financial times Publishing Inc.
- [4] Arnold, G. (2008). *Corporate Financial Management* (4thed.). London, Prentice Hall.
- [5] Banerjee, S., Gatchev, V.A., & Spindt, P.A. (2007). Stock Market Liquidity and Firm Dividend Policy. *Journal of Financial and Quantitative Analysis*, 42(2), 369- 398.
- [6] Barad, M (2010). *Analysis of Receivable Management*; Retrieved November 18, 2012 from <http://www.shodganga.inflibnet.ac.ic/bif stream>.
- [7] Bastos, R. B., & Pindado, J. (2007). An Agency Model to Explain Trade Credit Policy and Empirical Evidence. *Journal in Applied Economics*, 39(21), 2631- 2642.
- [8] Bhattacharya, H. (2008). Theories of Trade Credit: Limitations and Applications Available from: <http://ssrn.com/abstract=1286443> [Accessed 25 JANUARY 2015].

- [9] Brigham, F, Houston J. F, Eugene F. (2009). 6th Edition *Fundamentals of Financial Management*; Coincise Edition. South Western.
- [10] Chant, E., & Walker, D. (1988). "Small Business Demand for Trade Credit". *Journal of Applied Economics*, 20 (1988), pp. 861–876
- [11] Clerke, C. J (1999). *Strategic Risk Management*; The New Competitive Long Range planning Journal.vol 32. Elseier Ltd. Comparison. *Managerial Finance*, 23(4), 63-72.
- [12] Cooper, S (2008), *The adoption of value-based management in large UK companies*, Journal of Applied Accounting Research, Vol. 9 Issue 3 pp. 148 – 167
- [13] Damilola, D.A (2005). 1st edition *Corporate Finance Issues Investigations, Innovations and Applications*; Lagos. High Rise Publications.
- [14] Danielson, M. G., & Scott, J. A. (2000). Additional Evidence on the Use of Trade Credit by Small Firms: The Role of Trade Credit Discounts. Available from: SSRN: <http://ssrn.com/abstract=236260>. [Accessed 113 February 2015].
- [15] Deloof, M. (2003). Does Working Capital Management Affect Profitability of Belgian Firms? *Journal of Business Finance Accounting*, 30(314): 573-587
- [16] Demirgüç-Kunt, A., & Maksimovic, V. (2001). Firms as Financial Intermediaries: Evidence from Trade Credit Data. elibrary.worldmanufacturingfirms.org/doi/pdf/10.1596/1813-9450-2696.
- [17] Duru, A. N., Ekwe, M. C., & Okpe, I.I. (2014). Accounts Receivable Management and Corporate Performance of Companies in the Food & Beverage Industry: Evidence from Nigeria. *European Journal of Accounting Auditing and Finance Research*, Vol.2, No.10, pp.34-47, December 2014
- [18] Emery, G. W (1984). *A pure financial explanation for trade credit*; Journal of Financial and Quantitative Analysis No. 19, 271 – 285.
- [19] Feris, J.S (1981). *A transaction theory of trade credit use*; The quarterly journal of the financial Review Vol 39, No 4.
- [20] Houston, J. et al (2009). *Fundamentals of financial management*; South Western Cengage.
- [21] Hrishikes, B. (2002). *Working capital management: Strategies and Techniques*; Prentice Hall New Delhi.
- [22] Jain, N. (2001). Monitoring Costs and Trade Credit. *Quarterly Review of Economics and Finance*, 41(1), 89-110
- [23] Juan, P. G., & Martinez, S. (2002). Effects of working capital management on SME profitability. *Journal of Business Finance Accounting*, 30(3–4): 1-14.
- [24] Kalunda, E. Beatrice, N. John, K. (2012). *Credit Risk Management Practices*; Research Journal of Finance and accounting Vol. 3 No.5.
- [25] Kent, H. Gary, E, (2005). *Understanding Financial Management: a Practical Guide*; John Willey & Sons, Inc.
- [26] Kombo, D. K. and Orodho, A. J. (2002). *Research Methods*. Nairobi Kenyatta University, Institute of Open Learning.
- [27] Kothari, C.R. (2004). *Research Methodology: Methods and technique* (2nd Ed). New Delhi: New Age International Publishers
- [28] Lazaridis, I., & Dimitrios, T. (2005). *The relationship between working capital management and profitability of listed companies in the Athens Stock Exchange*. Retrieved from: <http://ssrn.com/> on 13th April 2015.
- [29] Lazaridis, L. & Tryfonidis, D. (2006). Relationship between Working Capital Management and Profitability of Listed Companies in the Athens Stock Exchange. *Journal of Financial Management and Analysis*, Vol. 19, No. 1
- [30] Manyo, T.S., & Ike, U.J. (2013). The Effect of Accounts Receivable on Return on Assets of Performance of Companies in the Food & Beverage Industry: Evidence from Nigeria. *European Journal of Accounting Auditing and Finance Research* Vol.2, No. 10, pp.34-47.

- [31] Mathuva D, (2009). The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms. *Research Journal of Business Management*, 3: 1-11.
- [32] Megginson, L. Scott, B. (2008). *Introduction to corporate Finance*; South Western Publishers.
- [33] Michalski, G. M. (2007). Small and Medium Enterprises Accounts Receivable Management. Available at: <http://ssrn.com>. Accessed on 12th May 2015.
- [34] Miller, A, Michael., & Craig, D. (2001). Key Financial Performance Measures for Farm General Managers. *Journal of Agricultural Economics*. Retrieved on May 14, 2015.
- [35] Miller, M. (2002). *Credit Reporting Systems and the International Economy*; Asco Typesetters, Hong Kong.
- [36] Nadiri, N. T, (1969). *The determinants of trade credit terms in the US total manufacturing sector*; *Econometrica* 37. 408 – 423.
- [37] Naibei, I. K. (2015). *Research Methodology for Social Sciences*. Study Manual, press, University of Kabianga.
- [38] Narware, P.C. (2004). “Working capital and profitability-an empirical analysis”, *The New Delhi, India*.
- [39] Norrbin, S. C., & Reffett, K. L. (1995). Trade Credit in a Monetary Economy. *Journal of Monetary Economics*, 35, 413–30.
- [40] Orodho, A. J. and Kombo, D. K. (2002). *Research Methods*. Nairobi Kenyatta University, Institute of Open Learning.
- [41] Oyuke, J. (27th Oct 2011). *How Bad Debts led a manufacturing firms to close doors*; *Business Journal* Retrieved November 18 2012 from <http://www.standardmedia.co.ke>.
- [42] Padachi, K. (2006). Trends in working capital management and its impact on firms’ performance. An analysis of Mauritanian small firms. *International review of business research papers* 2 (2), 45-58.
- [43] Pandey I. M. (2010): *Financial Management* (10th ed.), Vikas Publishing House (PVT) Ltd
- [44] Pandey, I (2004). *Financial Management*; New Delhi – 110014: Vikas publishing house Pvt. Ltd.
- [45] Pedro, J., Pedro. M (2008). *A dynamic approach to accounts receivables A study of Spanish SMEs*; journal of European financial management, Blackwall Publishing, 1 – 19.
- [46] Periassamy, P. (2009). 2nd Edition. *Financial management*; MCGrawHill Publications.
- [47] Petersen, M. A., & Rajan, R. G. (1997). Trade Credit: Theories and Evidence. *The Review of Financial Studies*, 10(3), 661-691.
- [48] Phelan, C & Wren, J (2005). *Exploring Reliability In Academic Assessment*, University of Northern Iowa, College of Humanities and Fine Arts Student Outcomes Assessment Web Site; <http://www.uni.edu/chfasoa/reliabilityandvalidity.htm>
- [49] Pinson, L. Jinnett J (2006) 6th Edition: *Steps to small Business start up*; Kaplan Publishing U.S.A,
- [50] Raheman, A & Nasr M., (2007). *Working capital management and profitability*. A Case Study of Pakistani Firms. *International Review of Business Research Papers* 3 (2) 275-296.
- [51] Richard, C. (Oct 2008). *Keys to Effective Credit Management*: Retrieved on November 18 2012 from <http://www.credit-cash-advisor.com>
- [52] Salek, J. G. (2005). 5th Edition *Accounts Receivable Management Best Practice*; John Wiley and Sons Inc. Hoboken, New Jersey.
- [53] Samiloglu, F., & Demirgunes, K. (2008). The Effect of Working Capital Management on Firm Profitability: Evidence from Turkey. *International Research Journal of Applied Economics and Finance*, Vol. 2 (1), Pp. 44-50.
- [54] Schwartz, A. (1974). An Economic Model of Trade Credit. *Journal of Financial and Quantitative Analysis*, 9, 643-657
- [55] Shanhverzy, T. (2003). *Market and community as strategies for change*, International handbook of educational change, (1) 576-595. Dordrecht: Kluwer Academic Publishers
- [56] Sharma, A.K., & Kumar, S. (2011). Effect of Working Capital Management on Firm Profitability: Empirical Evidence from India. *Global Business Review*, 12(1), 159–173.

- [57] Stowe, J., & Gehr A. (1985). Contract Costing and Trade Credit. *Paper presented at the Western Finance Association Meeting*, June
- [58] Sushma, V. & Bhupesh, S. (2007). *Effect of Working Capital Management Policies on Corporate Performance*. *Global Business Review*, pp. 8-267.
- [59] Waweru, K.M. (2013). *Determining Impairment Management Practices: A case study of SACCOs in Nakuru district*. Unpublished MBA project. Egerton University
- [60] Wei, P., & Zee, S. M. L. (1997). Trade Credit as Quality Signal: An International
- [61] Weston, F. (2008). 1st Edition *Strategic Financial Management: Applications of Corporate Finance*; Thomsons South Western World Inc.
- [62] Weston, J, Coperland, T. (1995). *Financial Theory and corporate Policy*; Boston: Pearson Addison.
- [63] Wilson, M. (2006) *Assessment to improve learning in higher education: The BEAR assessment systems* Higher Education