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EFFECT OF ACCOUNTS RECEIVABLE MANAGEMENT PRACTICES ON LIQUIDITY OF PUBLIC TECHNICAL TRAINING INSTITUTIONS IN RIFT VALLEY REGION, KENYA

Mutai Amos Kipkemoi
Jomo Kenyatta University of Agriculture & Technology, Kenya
peterkip09@gmail.com

Abstract

In Kenya Technical training institutions perform a very important function in training highly skilled artisans, craftsmen, technicians and technologists with the target of bringing about economic growth. For a technical training institution to carry out its activities as expected, it should have enough liquidity capabilities. However, there has been situations of the liquidity problem in technical training institutions. This has resulted in shortage of practical materials used by students in workshops, none payment of suppliers on due date, none payment of salaries to none teaching staff, delayed salaries for part time lecturers, shortage of food for boarding students and early closure of TVET institution each term. Specifically, the study intended to determine the effect of accounts receivable management practices on liquidity of public technical training institutions in Rift Valley Region, Kenya. This study was guided by operating cycle theory which is aligned to objective of the study. The study adopted census survey since the numbers of respondents were very few. Accessible population was 38 respondents comprising of 19 principals and 19 accountants. Questionnaires were self-administered. The pilot test was administered using five questionnaires to public technical training institutions in Nyanza region. Cronbach's alpha coefficient above or equal to 0.70 was considered sufficient for reliability test. The data collected was analyzed, with respect to the study objectives, using both descriptive and inferential statistics. Descriptive statistics include frequencies, percentages, mean, standard deviation and variance. Inferential statistics included product moment correlation analysis and multiple regression. The study findings indicated that accounts receivable management practices ($\beta = 0.141$; $\rho < 0.05$) was significant to liquidity of

public Technical Training Institutions in Rift Valley Region. The study recommended that the principals and stakeholders of TVET institution should ensure effective and efficient management of accounts receivable.

Keywords: Accounts Receivable, Management Practices, Liquidity, TVET

INTRODUCTION

Liquidity to institution commonly means its ability to meet its current liabilities and is usually measured by different financial ratios (Priya, 2013). Variables for working capital management practices like receivables, inventory and payables may affect liquidity. Current assets are liquid hence keeping more current assets can lead to high liquidity. Remember also that current assets have got items like cash which can diminish firm's profitability (Panigrahi, 2012). Quick (acid test) is a measure of a company's short term liquidity and is calculated as current assets net of inventories divided by current liabilities. It can weigh a company's capability to meet its short-term obligations with its most liquid assets thus eliminating inventories. The quick ratio evaluates the shilling amount of liquid assets present for every shilling of current liabilities. Therefore, a quick ratio of 1.5 means that a company has Sh1.50 of liquid assets present to meet each Sh1 of current liabilities. The bigger the quick ratio the better the institution's liquidity position (Brealey, 2012).

Liquidity is the available cash for the near future, after taking into account the financial obligations corresponding to that period. Liquidity is driven by accounts payable management (Priya, 2013). Liquidity is a significant aspect that conveys a good picture around the capacity of the institution to generate cash and repay liabilities as they fall due. Cash is the most liquid asset of all. In relations to accounting, liquidity can be well-defined as the ability to fulfil short-term obligation as they fall due (Award & Al-Ewesat, 2012). In terms of investment, it is the ability to quickly convert an investment portfolio to cash with little or no loss in value. A liquid institution is one that stores enough liquid assets and cash. It should also have the ability to generate funds easily from other source to facilitate it in meeting its maturing obligations in a timely manner. A liquid asset is one that trades in an active market and can easily change into cash at the current market price (Mudida & Ngene, 2010).

Accounts receivables is the money payable by students to the institution on school fees outstanding on arrears. Majority of the learning institutions controls accounts receivable by producing a reminder note then either mailing or electronically conveying it to the student or parent who must pay it inside time-honored frame called credit terms or payment terms

(Pedro & Martinez, 2010). Efficient accounts receivable management practices enable a learning institution to minimize the amount of tied up funds in accounts receivables and consequently reduces institution's percentage of bad debts. Good accounts receivable management practices are vital in the accomplishment of institution's liquidity capability (Mukherjee, 2014). The core duty of accounts receivables management is to optimize the balance between management of cashflow components. Cashflow management is basically involved with planning and control of cash inflows and outflows in any organization (Gill, Biger & Mathur, 2010).

The term accounts receivables refer to an amount owed to a business by its client arising after the sale of goods or delivery of a service on credit terms. Goods and services are loaned to a customer and he or she is expected to pay within a specified period of time. Extension of credit to customers exists to facilitate sales (Njeru, Namusonge & Kihoro, 2012). The drive of credit control is to safeguard recovery of trade debts early enough before they become uncollectible in future inviting liquidity problem to the institution (Gill, Biger & Mathur, 2010). There are six C's of credit which credit managers should consider when extending credit: character, capacity, capital, collateral, condition and contribution. They added that the six C's aids institutions to reduce their nonpayment percentage as they get to be familiar with their customers. Evidence on the C's can be found from numerous sources comprising the organization's previous involvement with the clients, financial reports for prior years, credit reporting agencies and even the customer's financial institutions (Kalunda, Nduku & Kabiru, 2012).

Statement of the Problem

In Kenya Technical training institutions perform a very important function in training highly skilled artisans, craftsmen, technicians and technologists with the target of bringing about economic growth. For a technical training institution to carry out its activities as expected, it should have enough liquidity capabilities. The management of liquidity is very important for all institutions (Kungu, Njui & Kimani, 2014). However, there has been situations of the liquidity problem in technical training institutions (Ng'ang'a & Kibati, 2016). This has resulted in shortage of practical materials used by students in workshops, none payment of suppliers on due date, none payment of salaries to none teaching staff, delayed salaries for part time lecturers, shortage of food for boarding students and early closure of TVET institution each term (Musau, 2015). In the long run the objectives of technical training institutions will not be met. It can also lead to total closure of the institution (Yator, 2018).

Objective of the Study

To determine the effect of accounts receivable management practices on liquidity of public Technical Training Institutions in Rift Valley Region, Kenya.

Research Hypotheses

H_o: There is no significant relationship between accounts receivable management practices and liquidity of public Technical Training Institutions in Rift Valley Region, Kenya.

THEORETICAL REVIEW

Operating cycle theory was developed by Richard and Laughlin (1980). The operating cycle determines the duration it takes a company to turn purchases in form of stock into cash from its eventual sale. The three components of operating cycle include accounts receivable turnover days, inventory turnover days and payable turnover days. When put together they form the whole measurement of operating cycle days (Dong & Su, 2010). Payable turnover days is the duration of time in which the institution monitor how fast they can settle their financial obligations to suppliers. Inventory turnover is the number of times the institution sells and renew their stock over time. The accounts receivable turnover days is the duration in which the institution is assessed on how quick they can receive payments for their credit sales. When combined all of these elements, the operating cycle is complete. Credit collection policies directly affects accounts receivables either positively or negatively and the frequency of conversion of receivables into cash. In short-term financial management, giving the students relaxed credit policies will make a learning institution's liquidity to decrease in the short term but the liquidity will be increased in long run (Singhania, Sharma & Yagnesh, 2014).

Operating cycle theorists assume that the money is first blocked in raw materials, labor and other conversion costs come later, selling and distribution costs come in the end. Selling and distribution costs would be blocked in inventory and revenue would be blocked in accounts receivables (Richards & Laughlin, 1980). The operating cycle theory is applicable in showing the institution's true liquidity. By referring to the past records of the operating cycle of an institution and comparing it with those of other institutions in the same industry. This will give stakeholders and investors liquidity capability of an institution. A short organization operating cycle is desirable because an organization will receive its payment quickly. It also allows a company to quickly acquire cash to use for reinvestment. A long business operating cycle means it takes longer time for a company to turn purchases into cash through sales (Singhania, Sharma &

Yagnesh, 2014). Undoubtedly, the different parts of working capital management practices are accounts receivable, accounts payable and inventory. This theory has been criticized in that these components are managed in dissimilar means to maximize the profit or to increase the institution's value. Therefore, it requires various experts hence increasing cost to the institution (Anagnostopoulou, 2012).

The theory will be important to this study because receivables are directly affected by the operating cycle activities, for example they are influenced by the credit collection policy of the institution and the frequency of converting the outstanding amount into cash affects the accounts receivable management. An organization's changes in collection and credit policy directly impacts on the average outstanding balances of account receivables maintained relative to the annual sales of institution (Sharma & Kumar, 2013). Developing of more liberal credit terms leads to a larger, current investment in receivables and less liquidity leading to a longer operating cycle. A company's decision to maintain large average receivables investment can lead to high current and acid-test ratios (Anagnostopoulou, 2012). Therefore, the length of the operating cycle will determine the attainment of management objectives in terms of accounts receivables.

EMPIRICAL REVIEW

Nyagah (2011) investigated on the effect of receivables management on the financial performance of technical, industrial, vocational and entrepreneurship training (TVET) institutions in Nairobi province, Kenya. A descriptive research design was used in carrying out a sample survey. That research adopted Semi-structure questionnaire. All the TVET institutions were targeted in Nairobi as per the Ministry of Higher Education Directorate of Technical Education list by the end of December 2010. A total of 241 TVET institutions both public and private were in Nairobi by the end of December 2010. The study used 48 TVET institutions which was equivalent to 20 % of the total population. Secondary sources included records found at the Ministry of higher Education science and technology. The study findings showed that there is a positive relationship between receivable management and the financial performance of TVET institutions. Inadequate information was collected since accountants were only interviewed. In the current study accountants and the principals were interviewed therefore more information were received for analysis.

Yator (2018) carried out a study on effect of receivables management practices on financial performance of private TVET institutions in Eldoret town. The study adopted the census technique because of the fewer numbers of middle level colleges and employed a random sampling technique to target the 86 respondents who occupied the office of financial

managers/owner and the accountants from the 43 Middle level colleges listed by the ministry of education at Eldoret Town. Structured questionnaires were used during the research. The data collected were analyzed using descriptive and inferential statistics to determine and to estimate the fundamental relations among the financial performance variable and the receivable management variable. However, the study did not focus on the liquidity capabilities of TVET institutions.

Mbula, Memba and Njeru (2016) researched on effect of accounts receivable on financial performance of firms funded by government venture capital in Kenya. Twenty-four firms were the target population that were supported by government venture capital in Kenya. The research took on a census approach since the number of organizations was small. The researcher developed and utilized questionnaire to gather primary data on independent variables and a record survey sheet was utilized to gather secondary data on the dependent variable. Regression analysis and Analysis for variant (ANOVA) were utilized to test the hypothesis. The research findings showed that there was a positive relationship between accounts receivables and financial performance of firms funded by government venture capital in Kenya. The scope was too small. It can be extended to other components of working capital management like accounts payable and inventory management.

RESEARCH METHODOLOGY

Research Design

In this study descriptive research design was adopted. Descriptive research design refers to the gathering of data from a big population and concentrating on the respondent's opinions in order to catch pertinent information on independent and dependent variables using questionnaires to attain the research objectives. The main drive of descriptive research is description of the state of affairs as it exists. Descriptive research includes survey method, observational method and case study method (Sekaran & Bougie 2010).

Target Population

Target population comprises of all contributors of an existent or assumed set of people, activities or stuffs from which a researcher needs to take an expansive assessment on the outcomes of their study (Newing, 2011). The target population was principals and accountants of Public Technical Training Institutions (PTTI) in Kenya as per Technical and Vocational Education and Training Authority (TVETA) list of August 2017. Accessible population was 38 respondents composed of 19 principals and 19 accountants of PTTI institutions in Rift Valley Region, Kenya as per TVETA list of August 2017.

Sampling Size and Sampling Technique

Census survey method was used in this study. It is a survey carried out on the full set of observation objects belonging to a given population or universe. This study interviewed all the 38 respondents composed of 19 principals and 19 accountants of PTTI institutions in Rift Valley Region, Kenya. This is as per the list of TVETA on August, 2017. The census method is warranted since the data collected using census can lead towards collection of unbiased data signifying all individuals' opinions in the research population on a study problem (Musau, 2015).

Research Instruments

Primary and secondary data was adopted in this research study. Primary data is the one gathered for the first time by the researcher hence can be said to be original. Primary data was gathered from the principals and accountants of PTTI institutions. Secondary data was gathered from other previously carried out research or sources such as financial journals, published financial statements and documents (Emory, 2011). The Secondary data collected was used for enrichment and endorsement of the primary data gathered. Secondary data include all the data collected for the purposes other than the completion of a research questionnaires and it was used to gain initial insight into the research problem (Oso & Onen, 2011).

Data Processing and Analysis

Each filled questionnaire was tallied for every response before any other processing was done. The responses were edited, coded and cleaned in case of any abnormalities. It was keyed into the computer and later on uploaded into statistical package for social sciences (SPSS) version 20.0 (Cooper & Schindler, 2011). The data gathered was analyzed using descriptive and inferential statistics. Descriptive statistics tools used included frequencies, percentages, mean, standard deviation and variance. Inferential statistics included use of product moment correlation analysis and multiple regression (Vance, 2011).

FINDINGS AND DISCUSSIONS

Descriptive Analysis of Effect of Accounts Receivable Management Practices on Liquidity of Public Technical Training Institutions in Rift Valley Region, Kenya

The study sought to evaluate the effect of Accounts Receivable Management (APM) practices on liquidity of Public Technical Training Institutions (PTTI) in Rift Valley Region, Kenya. The respondents were asked on how they agree with the statements. From the findings the respondents agreed (Mean = 4.03; Std Dev = 1.132) with the statement that average collection period on school fees payment affect liquidity capability of institution. Respondents also agreed

(Mean = 4.42; Std Dev = 0.708) that bad debts review on students' payment of school fees is done regularly. The findings of this study further indicates with (Mean = 4.36; Std Dev = 0.962) that institution set Credit policy for students on school fees payment and implement it. The study also showed that with (Mean = 4.18; Std Dev =1.158), Institutions take action on students who default paying school fees. In addition, respondents also concurred with (Mean = 4.05; Std Dev =0.81) that institution circulate information on HELB loan to reduce school fees defaulter. This means that most of the respondents were in agreement on the statements relating the effect of accounts receivable management practices on liquidity of public Technical Training Institutions. This was supported by an average mean of 4.24. This finding concurs to Nyagah (2011) who established that there is a positive relationship between receivable management and the financial performance of TVET institutions. Also Mbula, Memba and Njeru (2016) indicated that there was a positive relationship between accounts receivables and financial performance of firms funded by government venture capital in Kenya. A grand mean of 4.24 showed that respondents agree to the statements. Thus TVET institutions should improve on accounts receivable management practices for better liquidity capability.

Inferential Analysis

This section puts into viewpoint the relationship amongst the independent variables and the dependent variable. It also put into view the effect of the independent variable on the dependent variable. This part outlines the findings of both correlation and multiple regression analysis.

Correlation Analysis

Table 1 Relationship between Accounts Receivable and Liquidity

		Liquidity
Accounts Receivable	Pearson Correlation	.713**
	Sig. (2-tailed)	.000

**. Correlation is significant at the 0.01 level (2-tailed).

These research findings showed that the relationship between Accounts Receivable Management practices and liquidity of PTTI institutions was positive and statistically significant ($r = .713$; $p<0.05$). This implies accounts receivable management practices positively and significantly influences liquidity of PTTI Institutions in Rift Valley Region. These findings concur with the findings by Nyagah (2011) who stated that there is a positive relationship between receivable management and the financial performance of TVET institutions.

Regression Analysis

The study sought to established the effect of accounts receivable management practices on liquidity of Public Technical Training institutions in Rift Valley Region, Kenya.

Table 2 Multiple Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.860[a]	.739	.712	.34425

a. Predictor: (Constant), Accounts Receivable Management

b. Dependent Variable: Liquidity.

The findings indicate that the relationship between Accounts Receivable Management Practices and liquidity of PTTI institutions was positive (Adj R^2=0.712). Findings indicated that 71.2% of the variation in liquidity of PTTI institutions is accounted for by Accounts Receivable Management Practices. The 28.8 % of the liquidity of PTTI institutions resulted from other factors not investigated by the study.

Assessing the Fit of the Multiple Regression Model

Multiple regression analysis was conducted to test the influence of predictor variable on liquidity of PTTI institutions. The test results are shown in table 3.

Table 3 ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.722	3	3.241	92.346	.000[b]
	Residual	3.437	29	.119		
	Total	13.159	32			

a. Dependent Variable: Liquidity

b. Predictors: (Constant), Accounts Receivable Management Practices

The findings of the study in Table 3 showed that there was a statistically significant relationship between the independent variable and the dependent variable (F= 92.346; p< 0.05). The finding therefore indicates that the multiple regression model was a good fit for the data.

CONCLUSIONS AND RECOMMENDATIONS

Accounts Receivable Management practices are predictors for liquidity of Public Technical Training institutions. The study also concluded that, average collection period on school fees payment affect liquidity capability of institution, bad debts review on students' payment of school fees is done regularly. In addition, the institutions set Credit policy for students on school fees payment and implement it, take action on students who default paying school fees and circulate information on HELB loan to reduce school fees defaulters.

The study recommends that principals and stakeholders of Public Technical Training institution should ensure effective and efficient management of accounts receivables, this ensures the reduction of time between sales of goods or provision of services and receipt of payment and this will determine the liquidity of the institutions. The study found that Operating cycle theory explains that Accounts Receivable Management practices are directly affected by the operating cycle activities, for example they are influenced by the credit collection policy of the institution and the frequency of converting the outstanding amount into cash affects the Accounts Receivable Management. Institution's changes in collection and credit policy directly impacts on the average outstanding balances of account receivables maintained relative to the annual sales of institution.

LIMITATIONS

A limitation is an aspect of research that may influence the result negatively (Mugenda, 2008). The researcher encountered some limitations especially when obtaining information. This was because most of the respondents were not willing to disclose information. The study overcame this limitation by having an introduction letter from JKUAT to assure the respondents that information provided was to be used for academic purposes only. The second limitation was delay in returning the questionnaires. To overcome this limitation, ample time was given to the respondents. Frequent calls, mails, texts were also given to facilitate the response rate.

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