

A
PROJECT REPORT
ON

“ACCOUNTS RECEIVABLE MANAGEMENT”

AT

“ZENITH BIRLA (INDIA) LIMITED
(INDIAN TOOLS MANUFACTURERS).”

62/63, MIDC Industrial Area,
Satpur, Nashik - 422 007

.A Report submitted in partial fulfillment of **M.B.A.**

Degree of _____ **University**

By

(_____
(MBA Finance)

Let's Business

(Institute Name)

Year 20 - 20

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PROJECT GUIDE

Prof. _____.

IN PARTIAL FULFILLMENT OF M.B.A., degree of

_____ University

**Let's Business
(Institute Name)**

Year 20 -20

ACKNOWLEDGEMENT

It is a great pleasure to me in acknowledging my deep sense of gratitude to all those who have helped me in completing this project successfully.

First of all I would like to thank Pune University for providing me an opportunity to undertake a project as a partial fulfillment of MBA degree.

Special thanks to _____ (C.E.O), _____ (G.M.Finance), Mr. _____ (DGM-HR) for providing me an opportunity to work with Zenith Birla (India) Ltd. (Indian Tool Manufacturers Division), and providing me necessary information about their organization, their operations and providing guidance in developing my project.

I greatly appreciate the staff of the surveyed business unit, who responded promptly and enthusiastically to my requests for frank comments despite their congested schedules. I am indebted to all of them, who did their best to bring improvements through their suggestions.

I would like to thank our Director and Project guide Prof. _____ whose valuable guidance and encouragement at every phase of the project has helped to prepare this project successfully.

Finally, I would like to express my sincere thanks to my family, all the faculties, office staff, and library staff of my college and friends who helped me in some or other way in making this project.

Place:

(NAME)

Date: / /

MBA

(Finance)

DECLARATION

This is to declare that I, _____, student of Management of Business Administration (20 -20), _____ have given original data and information to the best of my knowledge in the project report title “**ACCOUNTS RECEIVABLE MANAGEMENT**” under the guidance of our Director and guide Prof. _____ and that, no part of this information has been used for any other assignment but for the partial fulfillment of the requirement towards the completion of the said course.

I have prepared this report independently and I have gathered all the relevant information personally. I have prepared this project for **M.B.A.** for the year **20 -20** .

I also agree in principal not to share the vital information with any other person outside the organization and will not submit the project report to any other university.

Place:

(Name)

Date: / /

M.B.A - (Finance)

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CHAPTER 1

INTRODUCTION



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1.1 Object of the project:

The project forms a very vital aspect during curriculum of master's degree in business administration. At the end of first year students are required to undergo summer training program. This summer training is an integral part of MBA course. Its importance lies in the fact that is the project that gives the students their first exposure to an organization. This exposure although strange certainly gives an overview about the organization various department working their different tasks performed skills and attributes required to perform such tasks.

The basic objective of the project was to get acquainted with the organization of Indian tools ltd, Nashik, its management philosophy is to study the various aspects of financial management. This particular project aims at the management of receivables which is an important part of credit management.

The main objective behind doing this project work was as follows:

- To get an opportunity for understanding the real life of business experience.
- To be able to apply the theoretical knowledge
- To get an opportunity to interact with dynamic managers and all other dyadic levels of organization
- To get acquainted with real organizational problems, perceptions and challenges.
- To get a basic idea about the credit policy and receivables management of industry and understand the product profile of the organization.

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1.2 Selection of the topic:

Money is an integral part of our day to day living. Money is means through which we archive our ends. Thus quality of our lives depends on how well we plan for it, the way we spend & the way we invest. In a country like ours we have this situation that means are limited in comparison with our unlimited wants. Thus one should property plan for his finance with earning, spending & investing as it is three avenues. In company what we invest we are getting back or not or we are in profit or whatever we plan are successfully running or not we should know.

Thus the project was selected and titled “Accounts Receivable Management” with a view to study the receivable and how much credit should be given to the customers.

Receivable management is a major component of current assets. This account emerges because of the existence of credit sales. Credit sales increase the turnover and profits of the business. But carrying permanently accounts receivable in the firm involves greater risk. Hence there is a need for management to establish the level of the accounts receivable.

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1.3 Objective of the study:

In the current scenario of cutthroat competition, every company has to survive to satisfy its customers by providing them quality products and services. The summer training at Indian tool was undertaken with a view to study certain fundamental as well as the commercial and operational aspects of the company. The training involved the study of the following:

- To know its product profile and to study its organizational structure
- To understand the entire procedure of receivable management
- To study the in voices and customer statistics
- To understand the efficient handling of high transaction volume.
- To study the accuracy and verification of transaction entry.
- To study the data relating to timely collection of accounts receivables transaction into general ledger interface file.
- To study on line customers account inquiry relating to credit limits, pending transactions detail not yet posted to accounts receivable statistics.
- To suggest possible improvement in the present accounts receivable system.

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1.4 Methodology of study:

Project methodology includes various steps. There should be a systematic way of collecting data and presentation of project report methodology is a systematic way of solving a problem. It includes the research methods and logic behind these methods. Collecting data and analyzing the some conducted the main study.

Primary Data:

- Asking questions to the concern staff members
- Question like how amount are collected
- Ways of collection
- Routinely method used in company

Secondary data:

- Employee of Account department
- Data related topic
- Monthly performance report

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1.5 Scope and limitations of the study:

The organization where in the study was conducted of mainly basis of primary data collected. On this it is studied for experience. The major limitation during the study was in the data collection stage. Some of them are as under:

- Time interval for conducting the project is just 60 days; hence an exhaustive data cannot be collected due to time constraint.
- The project was not a funded one and hence acquiring knowledge about the details of everything was not possible
- Some data is confidential so it is not given to trainee
- As per company's policy there is, a restriction on closing some data.

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1.6 Utility of the study:

Utility for the learner:

The first and foremost use was that the student got an opportunity to do some work and get some practical experience at Indian tools Nashik.

Secondly, as a student of finance the learner got a chance to understand a concept of accounts receivables. This study also enabled to learn something about the credit policy of the company. Fourthly this work has helped to improve communication skill and analytical abilities.

Utility to the organization:

Mr. G.B. Kalro,(financial manager) gave the topic for the project work after considering the needs of the organization and certainly it had some utility to them.

The utility to the organization was mainly awareness building. As the details were collected through interviews from the managers at different level, they themselves became more aware and started to think whether any alteration should be made in their portfolio.

Drawback/ shortcoming of the companies credit policy and procedures will be pointed out that will provide an opportunity to improve.

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CHAPTER 2

PROFILE OF THE ORGANIZATION



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2.1 HISTORY OF THE ORGANIZATION



(Nashik Plant)



(Aurangabad Plant)

Indian Tool Manufacturers established in 1937.

- **Pioneer in manufacture and supply of high speed steel cutting tools in India.**
- **Two Manufacturing units**
 - **Nashik**
 - **Aurangabad**
- **Certified by RWTUV**



Indian Tool Manufacturers (ITM) - A Division of Zenith Birla (India) Ltd, belonging to the Yash Birla Group, pioneered in the year 1937, the manufacture and supply of High Speed Steel Cutting Tools in India. Intensive research and development work has been an integral part of ITM's total operation on a continuous basis.

ITM Products popularly known as "Dagger Brand" made from the finest High Speed Steel and conforming to stringent international standards are now exported to the European and American Markets apart from being sold throughout India through an extensive Distribution Network.

An extensive range of High Speed Steel Cutting Tools in various grades (M2, M35, M42, & T42) and a catalogue product range of various types of Drills, an assortment of Milling Cutters, Reamers, Taps and Tool Bits are manufactured in ITM's two well equipped units in Maharashtra having ISO 9001:2000 certification. The first plant in Nashik where mainly special tools are manufactured as per customer requirement and the second plant at Aurangabad, manufacturing standard catalogue items.

ITM have established a wide marketing network of branches / resident representative / Distributors / Dealers at Ahmedabad, Bangalore, Baroda, Bhopal, Mumbai, Kolkata, Cochin, Delhi, Faridabad, Jamshedpur, Kanpur, Ludhiana, Chennai, Pune and Secunderabad.

2.2 PRODUCTS OF THE ORGANIZATION

Products	Product Range
1. Twist Drills	<ul style="list-style-type: none"> • Parallel Shank Twist Drills (Stub Series) • Parallel Shank Twist Drills (Jobbers Series) • Parallel Shank Twist Drills (Long Series) • Parallel Shank Twist Drills (Extra Long Series) • Taper Shank Twist Drills (With Standard Shank) • Taper Shank Twist Drills (With Oversize Shank) • Taper Shank Twist Drills (Long Series) • Taper Shank Twist Drills (Extra Long Series) • Taper Shank Core Drills • Shell Core Drills • Centre Drill Type A • Centre Drill Type B • Centre Drill Type R • Centre Drill B.S • Parallel Shank Subland Twist Drill • Taper Shank Subland Twist Drill • Taper Shank Twist Drills For Taper Pin Holes • Masonry Drills – Carbide Tipped
2. Reamers	<ul style="list-style-type: none"> • Parallel Hand Reamers • Long Fluted Machine Reamers • Parallel Machine Reamers • Machine Chucking Reamers With Parallel Shank • Machine Chucking Reamers With Taper Shank • Machine Jig Reamers With Taper Shank • Shell Reamers • Socket Reamers With Parallel Shank • Socket Reamers With Taper Shank • Taper Pin Hand Reamers • Taper Pin Machine Reamers • Machine Bridge Reamers • Hole Mills Unguided Type A (Roughing) • Hole Mills Guided Type B (Roughing/Finishing) • Taper Pipe Reamers
3. Milling Cutters (Bore Type)	<ul style="list-style-type: none"> • Cylindrical Milling Cutters • Side & Face Cutters (Straight Teeth & Staggerd Teeth) • Shell End Mills • Single Angle Cutters • Double Angle Cutters • Equal Angle Cutters

	<ul style="list-style-type: none"> • Shell End Single Angle Milling Cutters • Face Cutters • Slotting Cutters • Keyway Milling Cutters • Hollow Mills • Convex Milling Cutters • Concave Milling Cutters • Single Corner Rounding Cutter • Double Corner Rounding Cutter
4. Milling Cutters (Shank Type)	<ul style="list-style-type: none"> • Parallel Shank Milling Cutter • Taper Shank Slot Milling Cutter • Parallel Shank End Mills • Screwed Shank Slot Drills Short Series, Long Series • Screwed Shank End Drills Short Series, Long Series • T Slot Cutters With Parallel Shank • T Slot Cutters With Taper Shank • Dove Tail Milling Cutter • Woodruff Keyslot Milling Cutter With Parallel Shank • Countersinks 90 With Parallel Shank & Solid Pilot • Countersinks 90 With Mt Shank & Detachable Pilot • Counterbores With Parallel Shank & Solid Pilot • Counterbores With Taper Shank & Detachable Pilot • Countersinks With Included Angle 60,90,&120 With Taper Shank • Countersinks With Included Angle 60 90 & 120 With Taper Shank
5.Screwing Taps	<ul style="list-style-type: none"> • Hand & Short Machine Taps Coarse Pitch • Hand & Short Machine Taps Fine Pitch • Hand & Short Machine Taps Coarse Pitch • Hand & Short Machine Taps Fine Pitch • Hand & Short Machine Taps BSW • Hand & Short Machine Taps BSF • Hand & Short Machine Taps UNC • Hand & Short Machine Taps UNF • Long Shank Machine Taps Coarse Pitch • Long Shank Machine Taps Fine Pitch • NUT Taps Coarse Pitch • NUT Taps - BSW • NUT Taps - BSF • NUT Taps - UNC • NUT Taps - UNF • Hand Taps – BSCY
6. Tool Bit	<ul style="list-style-type: none"> • Ground Tool Bits

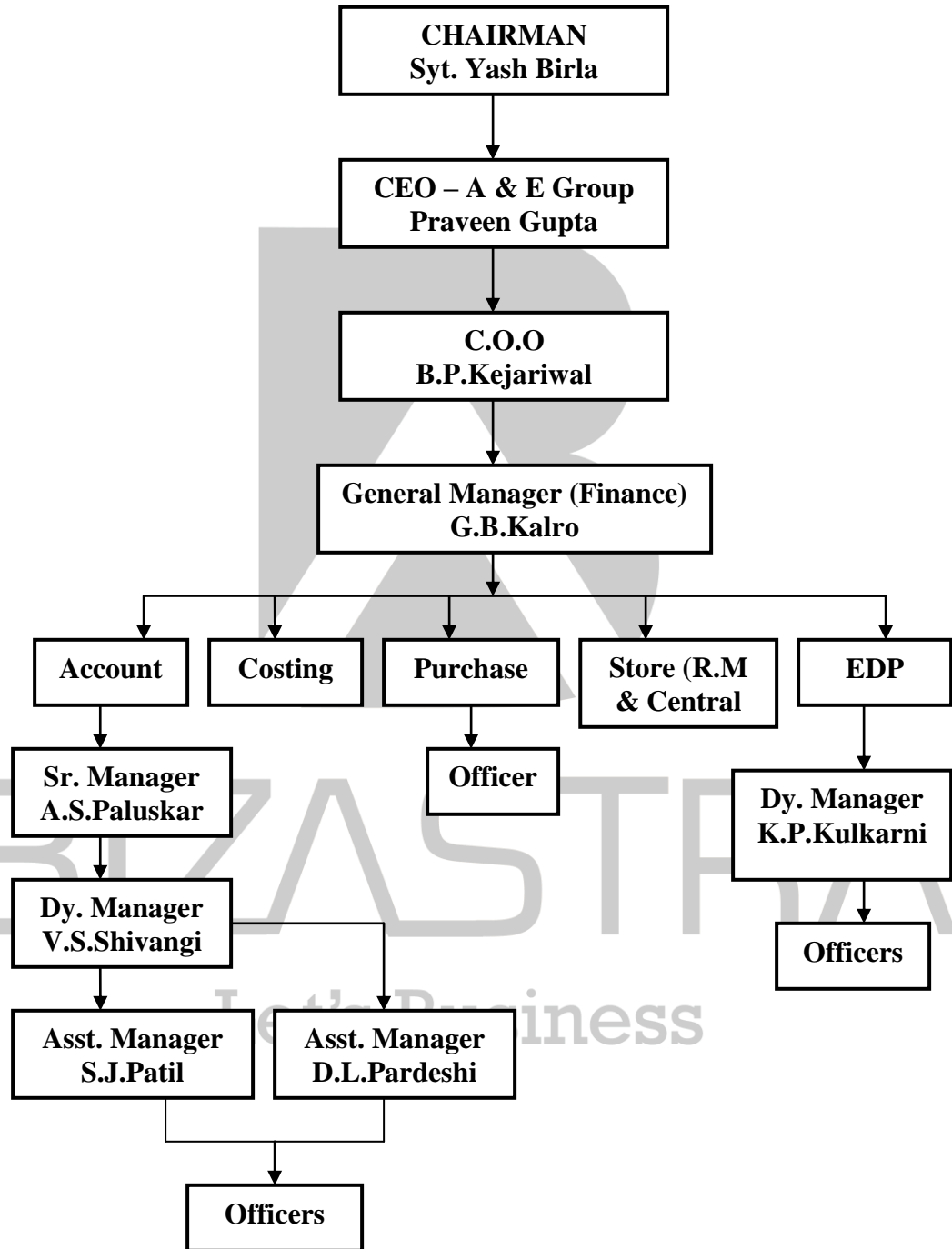
➤ Customer Satisfaction

- ITM has well established all India marketing network of [8-Branches](#), [6-Resident Representatives](#) located at major industrial consumption hubs.
- A strong network of [200 Dealers](#) throughout the country.
- A separate “[Product Development Cell](#)” to meet special tool requirements
- ITM caters to the requirement of tools in all types industries like Automotive, Engineering, Textile, Railways, Defense and Fabrication shops.
- ITM exports to developed countries like USA, Italy, Germany, France etc.
- ITM manufactures as per customer’s specific requirements in M-2, M-42 and T-42 materials.
- ITM has well established Testing Centre for manufacturing world-class tools.
- Fully integrated [ERP System](#) linking plants to branches.

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2.3 ORGANIZATION CHART



CHAPTER 3

CREDIT POLICY & RECEIVABLES

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3.1 DEFINING THE CREDIT POLICY

General credit policy

1. Reservation of rights:

The customers have no rights to demand credits. Credit is granted only when the company sees fit and the company has the right to refuse or withdraw credit facilities at any time.

2. Who is authorized to give credit?

The company clearly defines criteria under which the person granting credit must refer to the higher authority. The scale of authority begins with the credit manager and moves upward through the finance director to managing director. The head office of Indian tools is situated in Thane and the corporate sales dept. has an authority to fix the credit limit.

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3.2 FACTORS DETERMINING CREDIT PERIOD AND AMOUNT

The company studies the market position of the customers whether the customer is able to make the payments within a certain period allowed to him. The credit period is fixed depending upon the history of the company i.e. past sales, balance sheet, whether the product has further growth, expansion programmed etc. and soundness of the company.

So depending upon the financial position and business relationship the credit limits are fixed. Even then the customer is not able to make payments then,

- A) Reminder letters are sent to the customers about the payment which is overdue wherever applicable.**
- B) The interest is charged after the expiry of credit period.**

At the very beginning there is a negotiation between the seller and customer about the terms and conditions, rate, credit period allowed etc. when the goods are transported to distinct places it takes generally 5 to 8 days so this time should be included or excluded, whether further extension is therein a credit period is decided first during the negotiation.

Example- M/S Quality Tools Agencies,

The company supplies goods to M/S Quality Tools Agencies on credit. But their past experience was not good, no timely payment was done so the company decided that it will not grant credit to Quality Tools Agencies. So whatever transaction took place between Indian Tool and Quality Tools Agencies the company asks for LOC and then only supplies the goods to that company.

Generally the Indian Tool offer to its customers by considering following points;

1. Analysis of financial statements of the prospective customer is done.
2. The company gathers information from the independent credit rating agencies relating to the credit standing of the prospective customers.
3. Before extending the credit company ask question like-
 - What is the cash credit limit of the company?
 - How long has a customer been in the business?
4. Sometimes the customers are requested to advice their bankers to provide credit information.
5. The company then classifies their customer into several credit categories and accordingly provides credit information.

A large, stylized logo consisting of a grey letter 'B' with a white triangle cutout in the center, positioned above the word 'BIZASTRA' in a bold, grey, sans-serif font.

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3.3 NEED FOR CREDIT

Companies in practice feel the necessity of granting credit for several reasons:

- **Competition;** Generally the higher the degree of competitions the more credit granted by a firm.
- **Companies bargaining power:** If a company has a higher bargaining power vis-à-vis its buyers, it may grant more or less credit .The Company will have a strong bargaining power. If it has a strong product .monopoly power, brand image, large size or strong financial position.
- **Buyer's requirement:** In a number of business sectors buyers/dealers are not able to operate without extended credit. This is particularly in case industrial products.
- **Relation with dealers:** companies some times extended credit to dealers to build long term relationships with them or to reward them for their loyalty.
- **Marketing tool:** Credit is used as a marketing tool to promoter's sales and sustains competition.
- **Benefits emanating from credit sales:** The benefits are the increased sales anticipated profit because of a extend trade credit, that is, invest in receivables, they intend to increase the sales. the impact of a liberal trade credit policy is to take two forms---
 - a) It is oriented to sales expansion. In other words, a firm may grant trade credit either to increase sales to existing customers or attract new customers .this motive for investment in receivable is growth oriented.
 - b) The firm may extend credit to protect its current sales against emerging competition. Here the motive in sales-retention.

3.4 CREDIT POLICY VARIABLES

1) Credit period:

The credit period refers to the length of time customers are allowed to pay for their purchases. It generally varies from 15 days to 60 days. When a firm does not extend any credit, the credit period would obviously be zero. If a firm allows 30 days, say, 30 of credit, with no discount to induce early payments, its credit terms are stated as 'net 30'.

2) Cash discount:

Firms generally offer cash discounts to induce customers to make prompt payments. The percentage of discount and the period during which it is available are reflected in the credit terms. For ex. credit terms of 2/10, net 30 mean that a discount of 2% is offered if the payment is made by the 10th day otherwise the full payment due by the 30th day.

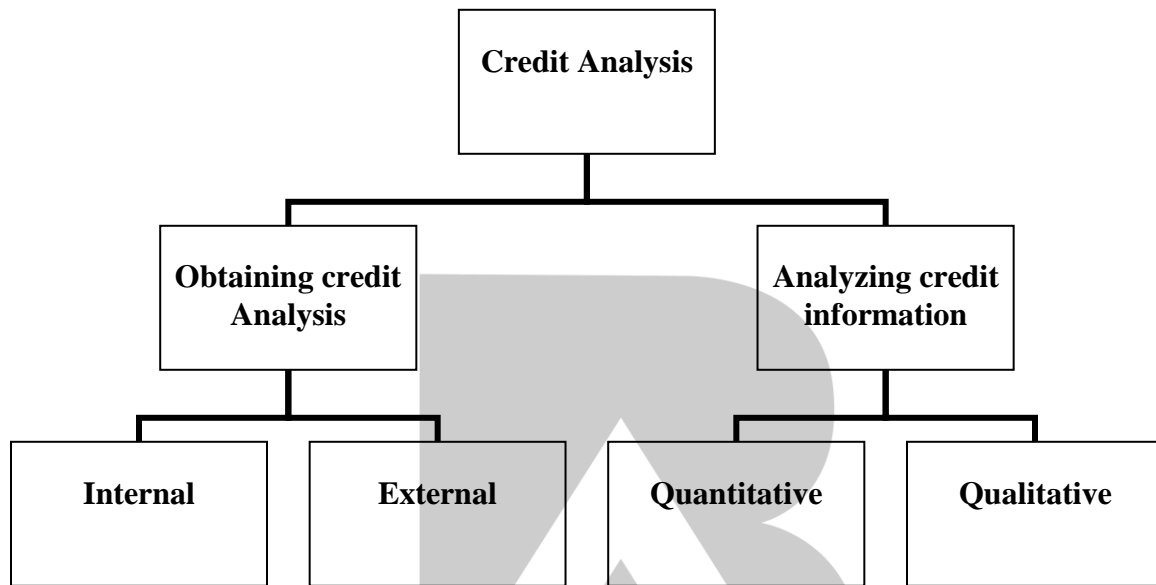
3) Collection effort:

The collection programmed of the firm, aimed at timely collection of receivables, may consist of the following,

1. Monitoring the state of receivables
2. Dispatch of letters to customers whose due date is approaching
3. Telegraphic and telephonic advice to customers around the due date
4. Threat of legal action to overdue accounts
5. Legal actions against overdue accounts

A rigorous collection programmed tends to decrease sales, shorten the average collection period, reduce bad debt percentage and increase the collection expense. A lax collection programmed, on the other hand, would push sales up, lengthen the avg. collection period increase the bad debt percentage, and perhaps reduce collection expenses.

3.5 PROCEDURE FOR GRANTING CREDIT



Credit analysis

Besides establishing credit standards a firm should develop procedure for evaluating credit applicant. The second aspect of credit policies of a firm is credit analysis and investigations. Two basic steps are involved in the credit investigation process ,

- A) Obtaining credit information and
- B) Analysis of credit information.

It is on the basis of credit analysis that the decision to grant credit to the customer as well as quantum of credit would be taken

A) Obtaining credit information

The first step in credit analysis is obtaining credit information on which to base the evaluation of the customers. The sources of information, broadly speaking, are 1) Internal 2) External

1) **Internal:**

Usually, firms require their customers to various forms and documents giving details about financial operations. They are also required to furnish trade references with which the firms can have contacts to judge suitability of the customers for credit. This type of information is obtained from internal source of credit information.

2) **External:**

The availability of information from external sources to access the credit worthiness of the customers depends upon the development of institutional facilities and industry practices. In India the external sources credit information are not as developed as in the industrially advanced countries of the world.

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B) Analysis Credit Information:

Once the credit information has been collected from the different sources, it should be analyzed to determine the worthiness of the applicants. Although there are no established procedures to analyze the information, the firm should devise one to suit its needs. The analysis should cover two aspects 1) Quantitative 2) Qualitative.

1) Quantitative:

The assessment of the quantitative aspects is based on the factual information available in this type of assessment is to prepare an *Ageing schedule* of the accounts payments of the applicant as well as calculate the average of the accounts payable. This exercise will give an insight into the past payment pattern of the customers.

2) Qualitative:

The quantitative assessment should be supplemented by a qualitative/subjective interpretation of the applicant's credit worthiness. The subjective judgment would cover aspects relating to the quality of management. Here, the references from other suppliers, bank references and specialist bureau reports would form the basis for the conclusions to be drawn.

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3.6 CREDIT POLICY OF THE COMPANY

CREDIT PERIOD /CREDIT LIMIT/CASH DISCOUNT POLICY EFFECTIVE FROM 1ST April 2008

Credit period policy:

- Credit period policy is 60 days.
- In the event of their price increase and year-end situation, one can exceed up to maximum 33% of the credit limit on these two occasions, but credit time will be 60 days only as explained in the enclosure.
- Head office will raise interest debit note for delay payments @1.50%/month from 61st day.
- Confirmation of the debtors must be taken at every sixth month.

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Credit limit policy;

- 1) Since. ITM has to buy raw materials at reduced credit period /L/C basis and also on cash basis. ITM has to recover its money faster from its customer, without blocking excess funds beyond credit limit with any one customer.
- 2) Each and every dealer and direct customer has been given a maximum credit limit amount. Under no circumstances material can be supplied beyond this maximum limit at any given point of time. Supply should stop automatically on reaching the maximum limit.
- 3) Basis of credit limit/calculation amount.
 - Sales p.m. during 2007-2008.
 - . Credit period as new policy-60days
 - . Expected growth during 2008-2009=10%
 - Hence each Dealer/Customer will have normal credit limit and maximum credit limits (for peak period).

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Example-1 :(Normal credit limit)

1. A Dealer's sale during 2007-2008 p.m. is Rs.5 lakhs. (say)
2. Then his credit limit is Rs.10 Lakhs.
3. Credit Limit because of expected growth= $10 \times 1.1 = \text{Rs.}11.00$ Lakhs.

Example-2: (Max. credit limit)

To take into consideration the up and downs of the market or special circumstances like price rise-(+33%)

Maximum credit limit: Normal credit limit \times 1.33 i.e. in case of Example-1 $11 \times 1.33 = \text{Rs.}14.63$ Lakhs

This will mean at any given point of time that dealers outstanding will not be more than Rs.14.63 lakhs but will also be within credit period limit of 60 days as well as (i.e. sale made in last 60 days).

Supplies to dealers can be resumed only after all his over due outstanding are Cleared/and/or outstanding is brought within limit of 60 days as well as within Maximum credit limit

The branches will send to H.O. normal and maximum credit limit of each Dealer by 10th April for H.O. approval.

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CASH DISCOUNT POLICY:

1. As a policy, no cash discount policy exists.
2. Each & every Dealer and Direct customers has been given a maximum credit limit amount. Under no circumstances material can be supplied beyond this maximum limit and/or if overdue outstanding beyond credit period allow, at any given point of time. Supply should stop automatically on reaching the maximum limit or if overdue outstanding is created without endangering recovery of outstanding.
3. All above policy frame work is also applicable to direct customers/consumer w.e.f.1st April2008.



3.7 Ageing Schedule

The ageing schedule (AS) classifies outstanding accounts receivable at a given point of time into different age brackets.

D.code	CUSTOMER NAME	OUT- STANDIN G	DUE	<= 30	< = 60	< = 90	> 90
D04B01	M/S. B.I.P.L MUMBAL.(GOREGOAN)	22280003	5862954	886365	4976589	4976589	
D04B06	M/S.BIPL.MUMBAI (PRARTHNA SAM)	15187002	12830659	2288714	2217817	2222722	6101406
C02F01	M/S.FAIZ & CO.	11375467	11375467		5697075	5678392	
D05B01	M/S.B.I.P.L.AHMEDABAD.	5871492	1122055	1122055			
D17A01	M/S.AZAD TRADING CORPN,BHOSAR	4414837	1619408	1025549	593859		
C20B01	M/S.BHAL HARDWAR,(FINANCE-SATOR)	3766059	3756196	223571	529351	986730	2016544
D17A05	M/S.AZAD TRADING CO.GANESH PET	3173440	922631	490838	431793		
C18B01	M/S.BHEL HYDRABAD.(A/C OFFICE)	1906263	1619746	236863	665685	215938	501260
C06W01	M/S.WBA BAU-GERMANY.	1626778	518142	190470	327672		
C19B01	M/S.BHEL BHOPAL.(SUPPLY BILLS)	1608976	1207329	193908	133017	106594	773810
C16G01	M/S.GHATEGE PATIL INDUSTRIS,K	957240	873465	110074	74418	483792	205181
C61M01	M/S.MUNJAL SHOWA LTD.GURGON,H	933157	583223	349934	233289		
C44H01	M/S.HERRAMIEN, MAXICO.	841752	496428		496428		
C36S01	M/S.SCHILL S.A., FRANCE.	840866	94114	94114			
D09R01	M/S.R.K TRADERS,AURANGABAD	802823	478976	113416	199450	166110	
C69M01	M/S.MRK ENTERPRISES,GHATKOPAR	723511	281337	30362		250975	
C17T05	M/S.TATA MOTORS LTD, PIMPRI, PUNE.	676424.89	331951.9	42729	8135		
C61M02	M/S.MUNJAL SHOWAL LTD,MANESAR	549397	349934	349934			
C11P01	M/S.PTG MBH, HAGEN GERMANY.	526743	526743	444389	82354		
C11I01	M/S.CENTRO UTENSILI, ITALI.	494992	180315	180315			
	TOTAL	78557223	45031073	8373600	16666932	10111253	9879288

Comment-

Indian Tool decided to arrange top 20 debtors programmed .In this programmed 80 % of amount recovered of debtors .So Ageing scheduled helps to recovered maximum amounts of debtors.

3.7 RATIO ANALYSIS

1. DEBTORS TURNOVER RATIO

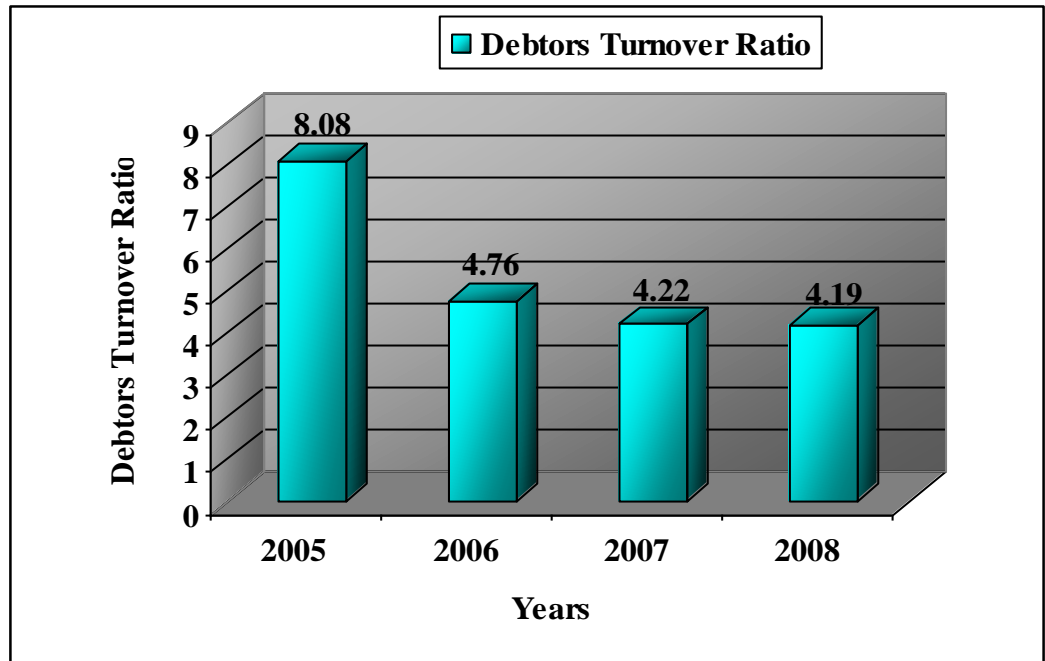
It is determined by dividing net credit sales by average debtors outstanding during the year. The analysis of debtor's turnover ratio supplements the information regarding the liquidity of one item of current assets of the firm. The ratio measures how rapidly debts are collected. A high ratio is indicative of shorter time-lag between credit sales and cash collection. The low ratio shows that debts are not being collected rapidly.

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Debtors}}$$

$$\text{Average Debtors} = \frac{\text{Opening} + \text{Closing}}{2}$$

Year	<u>Net Credit Sales</u> <u>Average Debtors</u>	Debtors Turnover Ratio
2005	<u>571,118,380</u> 70,665,180	8.08
2006	<u>482,553,300</u> 101,301,080	4.76
2007	<u>570,499,580</u> 135,318,475	4.22
2008	<u>688,510,180</u> 164,265,710	4.19

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Comment:-

Debtors Turnover Ratio measures how rapidly the debts are collected. Higher ratio is indicative of shorter time lag between credit sales and cash collection. A low ratio shows that debts are not rapidly collected.

Indian Tool Manufacturers Ltd. has a turnover ratio of 8.08 which signifies that debtors got converted into cash 8 times in a year 2005. From year 2006 onwards it is seen that debtors turnover ratio is decreasing slowly, it signifies that debtors are getting converted to cash 4 times in a year. The company should improve its debtor's turnover ratio.

2. DEBT COLLECTION PERIOD

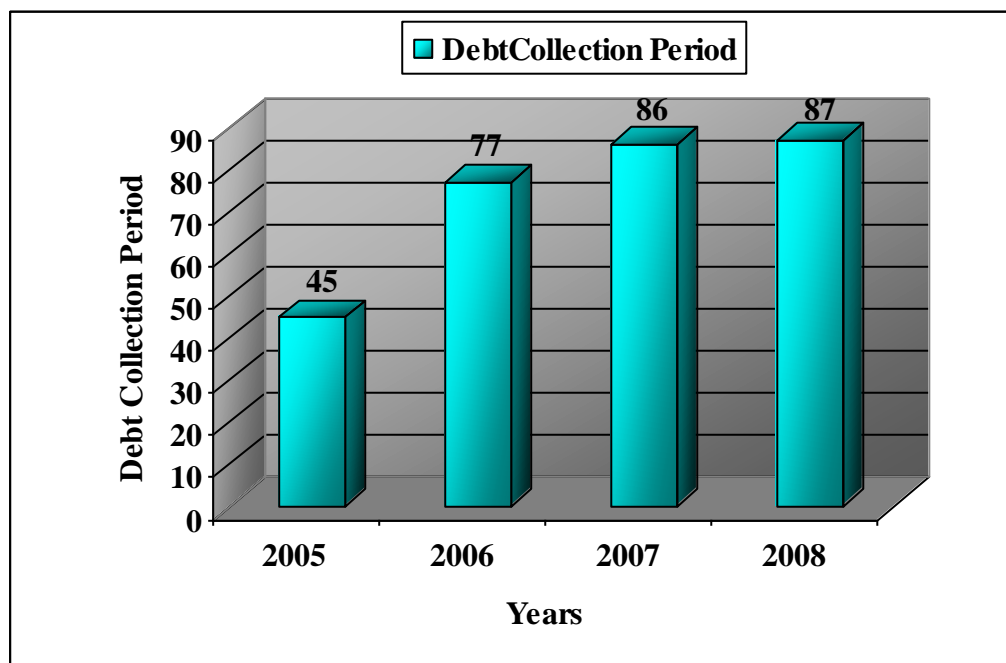
This ratio measures how long it takes to collect amounts from debtors. The ratio represents the average number of days, for which a firm has to wait before their receivables are converted into cash.

$$\text{Debt Collection Period} = \frac{365}{\text{Debtors Turnover Period}}$$

Year	$\frac{365}{\text{DTR}}$	Debt Collection Period
2005	8.08	45 days
2006	4.76	77 days
2007	4.22	86 days
2008	4.19	87 days

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Comment:-

The higher the ratio, lower is the collection period while lower ratio indicates high collection period.

In year 2005, Indian Tool manufacturers Ltd. has higher turnover ratio and shorter collection period, so there was better trade credit management and the better liquidity of debtors, as short collection period and high turnover ratio imply prompt payments on the part of debtors. On the other hand from 2006 onwards the Co. has lower turnover ratio and higher collection period which indicates delayed payments by debtors. In general, Co. should prefer short collection period.

CHAPTER 4

ACCOUNTS RECEIVABLE MANAGEMENT



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MEANING OF ACCOUNTS RECEIVABLE MANAGEMENT

The term Receivable is defined as “debt owned to the firm by customers arising from sale of goods or services in the ordinary course of business.”

When a firm makes an ordinary sale of goods or service & does not receive payment, the firm grants trade credit & creates Account receivable which would be collected in the future. Receivable management can also be called as Trade Credit Management, Trade Debtors Sundry Debtors etc. Thus accounts receivable represents an extension of credit to customers, allowing them a reasonable period of time within which they have to pay for the goods & services retained by them.

Almost all the business enterprises today carry on their business on credit basis. There will be both buying & selling on credit basis when credit sales take place. This allows for smoothness in trade activity & results in good turnover to the business & better profitability. Hence Accounts Receivables is an account maintained by the firm that shows the amount owing to the firm it is permanent investment.

A firm grants trade credit to project its sales from the competencies & to attract the potential customers to buy its product at favorable terms, the finance manager has to determine the level of this account so, that there will be an easy flow of working capital. The management must see that debtors turn fast. Maintenance of debtors turn fast. Maintenance of debtors at optimum level. The degree of credit sales to be made, making the debtors turn fast involves Accounts Receivables Management. The Receivable Management is a decision making process which takes into turnover & minimizing the cost of borrowings of working capital, due to lack of funds in Accounts Receivables. The main object of Accounts Receivables management is to maximize sales & profit with liberal but sound credit policy.

BENEFITS OF ACCOUNTS RECEIVABLE:

- 1) The firm increases its sales to existing customers.
- 2) Attract new customers to place the order.
- 3) Sales volume and market share improves.
- 4) The firm protects its current sales level in the competition. Here “Customers Retention” is archived.

The firm increases its profit and sales because of more liberal credit policy.



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4.1 PROCESSING THE ORDERS

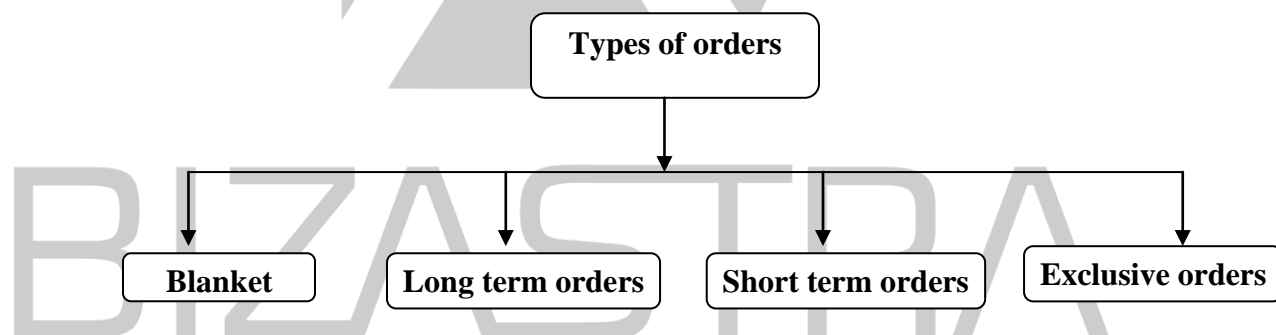
Order booking and acknowledgement

- A) Types of order
- B) Customer order follow ups
- C) Schedule of suppliers
- D) Order validation

In Indian tools, receivables procedure starts from order booking. All the customer orders are being sent to corporate sales department at company's head office Thane.

A) Types of orders

It is contract between the Indian tools and a customer.



1) Blanket orders: **Let's Business**

These orders are placed on yearly basis. Whole year the order is placed and accordingly goods are supplied to customers. Ex. Yearly orders of Rs. 100000 pieces of Drills.

- Long term orders:

In these types of orders the period is fixed. Generally it is up to 6 months.

Ex-The order is valid up to six months and good ordered are 100000 pieces

- Short term orders:

This is a period in which small amount of orders are placed
Ex-The order of 1000 drill.

- Exclusive orders:

In this orders only one order is received at a time.

Ex-The order of 50 drills. It mentions the part no's quantity rate. The terms and conditions are already fixed; there is negotiation between the suppliers and customer, so on the basis of this the goods are supplying.

B) Customers orders form:

In this form customers mention the item code, quantity, and rate and accordingly place the orders. The standard order forms are given to the supplies by customers and the company furnishes those forms in the logistic department.

The steps involved in order booking are

- Scrutiny of order booking
- Order validation

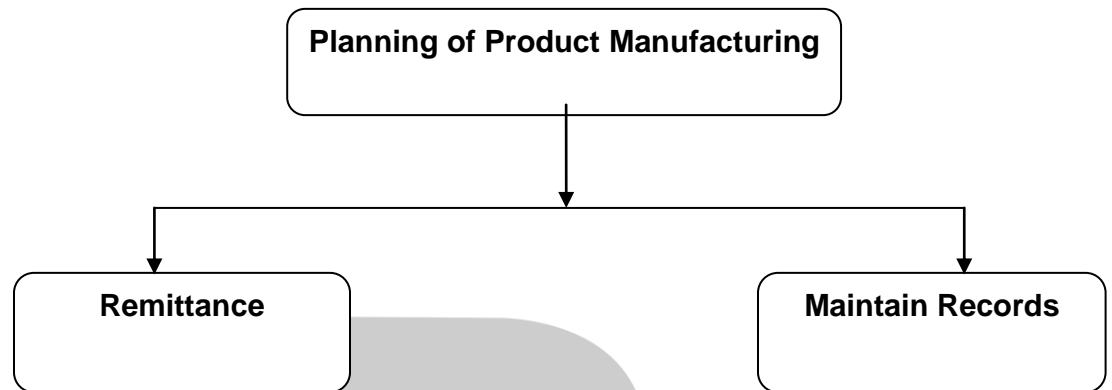
C) Schedule of suppliers is prepared:

When the orders are received the production planning department prepares the schedule and sent to shop. The schedules help the company to know how much quantity is to be manufactured and in what time it should be completed and delivered. It generally mention the time period within which the products are to be manufactured.

D) Order validation

During order validation, payment terms, inspection request, cheque details, excise details, etc. are cheque and the entry is made in the system excise duty whether it is inclusive or exclusive of price list is entered. original and duplicate copy for transfer are being sent to customer along with consignment from the data available the invoice are generated .Total four copies of invoice are generated. one copy is sent to accounts department, one copy sent to sales department ,one copy to customer and extra copy for office records.

4.2 Planning of product manufacturing



1) Remittance by four sales offices and company:

The company's sales offices situated in Mumbai, Chennai, Calcutta and Bangalore are getting remittance from customers and the amount to respective plants.

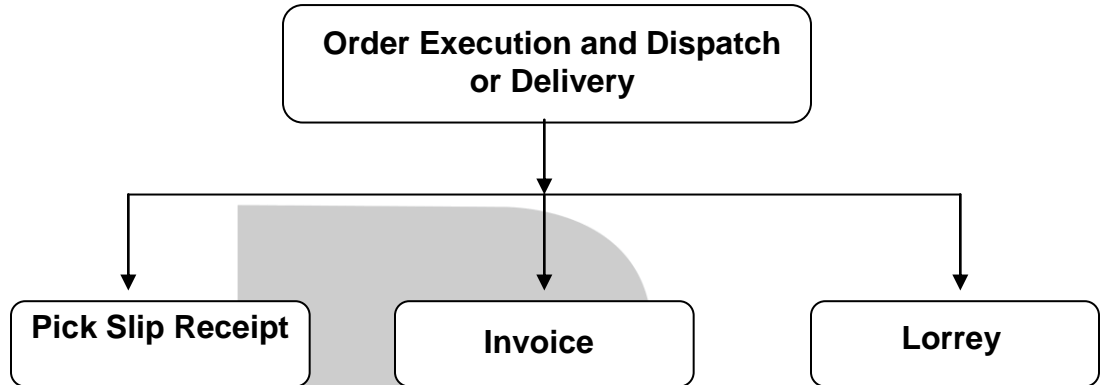
2) Maintain Records:

After the verification is done, the account number and customer code is written for further references. The payment terms are studied according to date and the corresponding entry regarding the same is made in the system. The details like customer code account number customer name, bank name, cheque amount, order acknowledgment value etc. are entered into the system.

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4.3 ORDER EXECUTIONS AND DISPATCH DELIVERY

Order Executions and Dispatch delivery



The attention is given towards the order of a customer which is to be exhibited within a limited time and as early as possible. The goods manufacturer send to finished goods store and depending upon the requirements pick slip and invoice is prepared. The stores then make arrangements for packing.

Then the transporter is called to transfer the goods at Customer place. Transfer here prepares a lorrey receipt in which the total quantity amount, item code and weight is mentioned. This receipt is a very important document by which the goods are transported to the customer.

When the goods are delivered to the customer there are some terms and condition which are to be fulfilled such as:-

Freight paid: - the freight is paid by the company.

Freight to pay: - The freight is to be paid by customer and after paying freight the transporter delivers goods to customer.

The deliveries of goods are made in following manner:

- Door delivery
- Office delivery
- Goods loading note (GLN)

CHAPTER – 5

CONCLUSIONS AND SUGGESTIONS

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In the present scenario where recession has hit many industries, it is only a firm base of receivables management that determines the very existence of the organization. A smooth cash flow indicates efficient working capital management of which receivable is one element. The company not only has to final it efficiently but also has to final ways and means to keep it more effective and efficient.

The learner studied the procedure of account receivable management. It starts from order booking and acknowledgment. The top management of the company set the standards. The entire procedure of receivables management right from order booking to follow up is very good and sound except for the following, where in my opinion there is some possibility for improvement.

During this training the learner observed that all orders are booked with the company's head office situated in Thane. If they get order of cutter, which is manufactured in Nashik branch then the order is transferred to Nashik branch. So there is no direct contact between the customer s. for this the company should have direct contacts with the customers from getting purchase order-----

There should be a separate commercial policy for the new direct customer. This policy should high light discounts structure minimum order value, credit limits and payment terms. At the present there is no such commercial policy for direct customers.

Generally, Indian tools allow 30 to 60 days credit to it customers. All the sales are credit sales. It means that they don't cash so-they allow either letter of credit or direct payment.

When the credit period expires the company has the right to stop dispatching to that particular customer. This action must be taken after proper investigation of the payment which is not received by the customers

When the Indian tools receive the payment from its customers at that time there are some deductions due to which the differences in the amount arises. The customer does not mention the reason for the deductions. Due to this accounts department has to follow up all the procedure and try to find out the reasons for deductions. So, the customers must mention the detail information relating to the deductions done by him. E.g. If the total amount of the invoice of RS 1 lac and customer pays only 90000 in this case the accounts department is not able to know the exact cost of the deductions. For this customer give a debit note as the company has to follow up with their regional offices. So, they must know the cause for deductions

In the case of letter of credit some terms and conditions are mentioned. The account department has to generate 3 copies of invoices and after ward bank insist the insurance policy with the consignment. So, the department has to generate 1 more copy of invoice. So, this type of conditions must be first mentioned in the letter of credit by the customer at the same time the terms and conditions are mentioned. The letter of credit should be clearly stated and seen Periodic balance confirmation statement of receivables from the customers should be obtained. This would be an acknowledgment form the customers that they are yet to clear their dues this will also be useful for their follow ups- collection of over dues as well as back up of the document in the case of future disputes.

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REASONS FOR OVER DUES:

From company's point of view

There is no emphasis on the credit policy. The credit policy is not strictly followed. So, due to the wrong credit policies the payment is overdue. While giving the credit there is no proper assessment of the credit worthiness of the customers.

- The procedure followed for the assessment of the credit is not proper so to avoid this company should revise its credit policy periodically in the light of internal and external changes.
- There should be better coordination between sales production and finance department. The firm should examine the published statement of prospective customers with greater vigor.
- Reference provided by the prospective customer should be consulted and necessary follow up action must be taken.
- A well defined collection of program must be developed a company should dispatch letters to the customer whose due date is approaching, so that they are aware about the payment to be made.
- A company should inform the customers about the orders and if not cleared earlier the legal action can be taken. If the customer is making the payment before or on the time when some concessions are made, then such facilities should be provided.

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From the customer's point of view:

- The main reasons for the over dues must be due to improper management.
- The customer is not able to make payment due to over buying.
- There must be wrong application of funds. So they are not able to make payments on time.
- The customer may be having wrong attitude regarding the company's credit policy.

So, to avoid this, customer should buy that much quantity which they actually need and is able to make proper application of funds. So that payment should be made on time.



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BIBLIOGRAPHY

Before and at the time of preparing the project report following books were referred which supported me with some important guidelines for the analysis and the documentation of project report.

The books used for this purpose are –

1. **Financial Management – BY KHAN & JAIN**
2. **Financial Management – BY N.M. VCHELEKAR**
3. **[Www.Indian Tool.Com](http://www.IndianTool.com)**

A large, faint watermark logo is centered on the page. It consists of a stylized letter 'B' in a light gray color. Inside the upper curve of the 'B', there is a white triangle pointing upwards. Below the 'B' is a solid gray triangle pointing downwards.

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