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ANALYSIS OF ACCOUNT RECEIVABLE AND ACCOUNT PAYABLE AT THE ENTERPRISE (BASED ON MATERIALS OF PJSC "LVIV CONFECTIONERY "SWITTOCH")

The article considers economic essence and objectives of analysis of account receivable and account payable. Main methods and informational support of the analysis of settlements with buyers and suppliers are determined. The analysis of the dynamics and of account receivable and account payable of PJSC "Switoch" for 2016-2017 was revealed and the analysis of the ratio of receivables and payables.

Keywords: analysis, account receivable, account payable, settlements with buyers, settlements with suppliers.

Analysis of receivables and payables is an important part of the financial analysis of the company and can detect not only the performance of the current (at the time) and prospective solvency, but also the factors that affect their dynamics and assess the quantitative and qualitative trends in financial state of business in the future.

The relevance of this analysis is that stability and efficiency of the enterprise largely depends on its ability to pay its current and long-term obligations and on adequate time to get payments from sales of products, services, to maintain the continuity of the reproduction cycle.

For complete economic independence in the choice of markets of products, suppliers and contractors, in finding funding sources the special attention should be paid by an enterprise to settlements with various contractors. The account receivable is the most complex and controversial issue that cause the problem of non-payment and determine the relevance of the research.

According to theoretical and practical research, to the question of receivables and payables analysis the insufficient attention was paid, which complicates compliance to the basic methodological principles of accounting, creates information about financial condition of the enterprise, status of payments, reduces the effectiveness of management decisions making. At the same time, multidimensional problems are caused by the complexity and diversity of subjects and objects of settlements and payments relations that affected the



contradictory nature of regulations and the level of development of some theoretical and practical aspects of the methodology for the analysis of accounts receivable and accounts payable.

There are different interpretations of receivables and payables in modern economic literature. Thus, Y.S. Tsal-Tsalko in relation to payable terminology determines it as “involvement of assets in business activity of enterprise by temporarily free acquisition of property of other entities. Relations with creditors may provide penalties for late payment obligations”.

And V.O. Metz emphasizes that “receivables have a significant share in the composition of current assets and affect the financial position of the company. Therefore, in analyzing the turnover of working capital an important place by the company should be given to the analysis of receivables”.

The main sources of information for the analysis of receivables and payables are: financial statements (form № 1 “Balance”, form № 2 “Report on financial results”, form № 5 “Notes to the Annual Financial Statements”), primary documents and other sources.

Account receivable and account payable: essence and main objectives of analysis. Accounts receivable (A/R) and accounts payable (A/P) are recordings on a company’s financial statements that show how much is owed to the company and how much the company owes, respectively. On a balance sheet, businesses want to see a higher A/R and a lower A/P. A/R is considered an asset on the balance sheet; A/P is considered a liability.

In many cases, there is a difference between cash and revenue. For example, if the company sells a product and did not exchange it into cash – in other words, the buyer will perform after-payment – the revenue can be recorded, but only in the form of accounts receivable. Account receivable is the amount of goods and services owed by buyer that a company allowed to purchase on terms of after-payment. Similarly, any amount of money that the company owes to another entity must be recorded as accounts payable. Both A/R and A/P are considered current, meaning that the amounts owed are expected to be paid within 12 months.

Another way to look at the terms is to consider lending and borrowing. When a company has A/R, it has actually lent out money. That is, the company exchanged goods or services for a promise to pay. When a company has A/P, it has in fact borrowed money from another company.

It is worth to generalize main information about account

receivables and account payables in table 1.

Table 1

Comparison chart of account receivables and account payables

Features of comparison	Accounts Payable	Accounts Receivable
Refers to	Money that the company owes to others	Money that others owe to the company
Abbreviation	A/P or AP	A/R or AR
Paid to whom?	Accounts payable are amounts that a company owes because it purchased goods or services from a supplier or vendor on terms of after-payment.	Accounts receivable are amounts a company has a right to collect because it sold goods or services to a customer on terms of after-payment.
Recorded as	Liability (payable is always a liability)	Asset (receivable is always an asset)
How each affects a business?	Accounts payable will decrease a company's cash amounts	Accounts receivable will increase a company's cash amounts
What causes this Transaction?	Purchasing goods on terms of after-payment	Selling goods on credit on terms of after-payment

Source: generalized on the basis of <http://gogreenplus.org/nuts-and-bolts-guide/performance-nuts-and-bolts-guide/financial-practices/accounts-receivable-accounts-payable/> source

Meaning of the analysis of accounts receivable especially increases during inflation when immobilization of asset is very unfavorable. The main source for this analysis is balance sheet; for internal analysis may be also used the data from analytical accounting.

Particular attention in the analysis of accounts receivable is paid to the article «Accounts receivable for goods and services», which has the largest share in total volume of receivables. According to national accounting standards, this receivable is reflected in the balance sheet at net realizable value, as the sum of accounts receivable minus doubtful and hopeless debts. A significant share of sources of the company belongs to borrowed funds, including payables. Therefore, it is important to study and analyze payables together with receivables.

First of all we must verify the accuracy of information on types and timing of accounts payable. To do this, use the direct confirmation of counterparties, study contracts and agreements, personal



conversations with employees who have information about debts and obligations of the company.

In an analysis we must assess conditions of debt, pay attention to the terms, limitations of resources, opportunities to attract additional funding.

Objectives of analysis of account receivable include: analysis of receivables, its composition and structure; formation of analytical information that allows to monitor receivables; determination of the real value of receivables in a changing purchasing power of money; study of the conditions of giving the loan to individual customers; monitoring of the terms of giving the loan to customers and obtaining commercial credit from suppliers; predicting collection of receivables.

During the analysis of account payable the following objectives should be completed: explore payables – both long-term and current; establishing the causes and terms of indebtedness; verification of overdue accounts receivable; explore payable on which the limitation period has expired; ascertain the correctness of debt relief, the limitation period of which expired, validation display of the relevant balance sheet amounts payable; validation and justification of debt relief and processing, recording of debt for advances obtained.

Significance of analysis of accounts receivable and accounts payable is determined by the lack of attention to this issue, which can cause quite prosperous enterprise into bankruptcy, on the other hand - debt restructuring should be considered as a method of financial recovery of the company.

Methods and informational support of the analysis of account receivable and account payable. During the analysis of receivables it is necessary to identify the volume and dynamics of unnecessary debt, reasons of growth. Analysis and evaluation of receivables, in management system, enables to provide external and internal analysis, determine opportunities, risks and threats of the company, accounting resources and time restrictions on achieving goals, define the average amount of assets that are in the form of receivables, their share in the total assets turnover of the enterprise, the share and assessment of receivables for some of its types and maturity periods.

O.E. Fedorchenko developed and suggested model of receivables' analysis methods that is illustrated in Figure 1.

Analysis of indicators that characterize the state of receivables for the reported period, helps to identify key objectives of accounts receivable management.

Turnover ratio of receivables shows how many times receivables

recycled for analyzed period. It is calculated by dividing net income (revenue) from sale of products (goods and services) into the average value of receivables over the period under review. The growth of this ratio may indicate improvement of payment discipline of buyers (buyers' timely repayment of debt before the enterprise) or reduction in sales with deferred payment under terms or price of agreements.

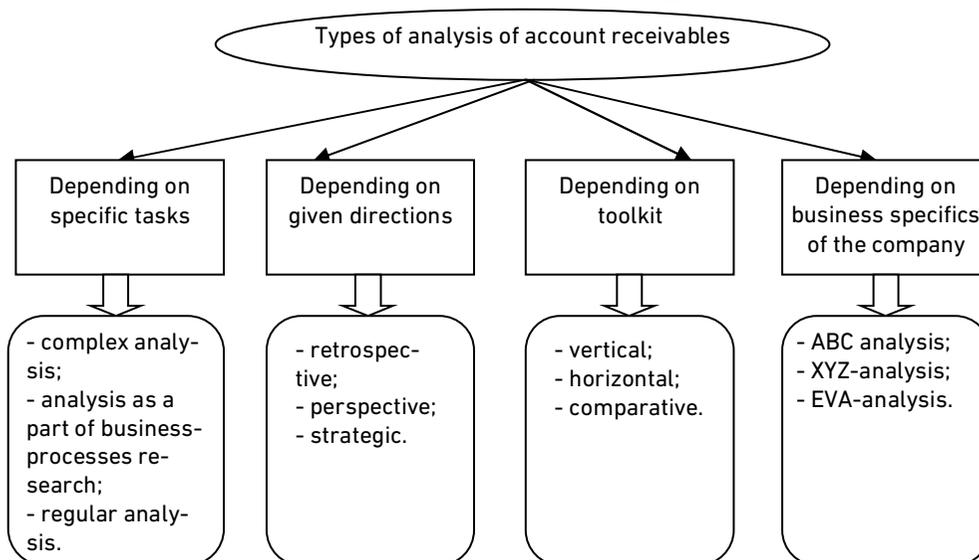


Fig. 1. Model of receivables' analysis methods

Source: generalized on the basis of <http://global-national.in.ua/archive/3-2015/176.pdf> source

Average duration of receivables' turnover characterizes the average period for which accounts receivable are converted into cash; shows the average number of days required to obtain payment for shipped goods, works and services. It is calculated as the ratio of the duration of the analyzed period to the coefficient of receivables' turnover. Positively is estimated the reduction in average duration of receivables' turnover and vice versa – growth of this indicator suggests an increase in removed from circulation of enterprise funds. The higher the share of receivables in the total amount of working capital, the less mobile structure of property the company has.

The share of doubtful receivables in the total amount of receivables characterizes the quality of receivables. The growing tendency of this indicator means the decline of liquidity of the company.

Analysis of account payables starts with studying the composition, structure and dynamics of payables according to the form № 1 «Balance». To do this, the specific weight of each type of payables in total is calculated. These indicators are calculated at the reporting and



planned periods, and should be compared in order to determine abnormalities in the structure of payables, establish the causes of changes in its individual components and develop measures to regulate debt, especially those components which affect the company negatively. For qualitative analysis of account payable at enterprise several indicators are used. For instance, turnover ratio of payables and average duration of payables' turnover.

Turnover ratio of payables indicates the number of turnovers of accounts payable for the period, or in how many times revenue exceeds the average payables of the company. This ratio is calculated by dividing net income (revenue) from sales of products (goods and services) by the average value of payables over the period under review Its growth is showing a positive tendency.

Average duration of payables' turnover reflects the average period of debts return by the company. It is calculated by dividing the duration of the analyzed period, by the amount of payables turnover ratio. If payables turnover exceed receivables turnover, there is a reduction in costs of turnover (calculated above sum will have a negative value).

Important in the analysis is to control the ratio of receivables and payables. It measures the ability of the enterprise to pay off creditors at the expense of receivables and is calculated as ratio of average value of receivables to average value of payables over the period under review.

In the production process often happens that accounts payable exceed accounts receivable. Some economists believe that this demonstrates the rational use of resources, because the company attracted a turnover of more money than detracts from circulation. But practicing accountants evaluate this situation only negatively, because the company must repay its debt, regardless of the state of receivables. For analyzing accounts receivable and payable in decision-making process it is important to obtain full and objective information.

Comparative analysis of the composition, structure and dynamics of account receivable and account payable of PJSC "Lviv confectionery "Switoch". Today PJSC "Switoch" is one of the oldest companies in the confectionery industry in Ukraine, a leading domestic manufacturer. Nestlé Confectionery Business in Ukraine has become the fastest growing Nestlé confectionery business in Europe, showing growth of 33% compared to the previous year.

The company exports products to the following countries: Bulgaria, Germany, Kazakhstan, Poland and imports products from Austria, Belgium, Czech Republic, Denmark, France, Germany, Italy, Latvia, Lithuania, Netherlands, Poland, Slovakia, Spain, Sweden,

Switzerland, Turkey, United Kingdom.

PJSC “Lviv confectionery “Switoch” is famous for its unique high-quality chocolate and chocolates that combine ancient traditions, natural ingredients, exclusively proprietary recipe and pastry advancements in technology. Besides, the famous chocolate factory produces over 200 types of confectionery products both under its own brand and under the brand name «Nestle».

In the production process the enterprise purchases materials and other inventories, implement goods and services. If settlements for goods, works and services are made on terms of after payment, we can talk about getting a loan from enterprise’ suppliers and contractors. At the same time the company is a creditor of the buyers and customers in terms of advances issued to them for the future supply of products. In these circumstances, it is necessary to monitor the ratio of receivables and payables. A significant excess of accounts payable creates threat to the financial stability of the company. For more detailed estimation, structure of receivables and payables of PJSC “Switoch” should be shown in two different tables for different years. Data for 2016 is illustrated in table 2.

Table 2

The dynamics and structure of account receivables and account payables of PJSC “Lviv confectionery “Switoch” for 2016

Indicators	Receivables		Payables		Deviation (+, -)		
	Sum, ths. UAH	Structure, %	Sum, ths. UAH	Structure, %	Absolute ths UAH	Relative, %	Structure, %
Payments for goods, works and services	558877	93,08	360810	99,99	-198067	64,56	6,91
Settlements with budget	29679	4,94	71	0,009	-29608	0,24	-4,931
Other debt	11852	1,98	8	0,001	-11844	0,07	-1,979
Total	600408	100	360889	100	-239519	60,12	-

Source: personal elaboration.

This analysis indicates that receivables exceed payables on 198067 ths. UAH. The main position in which this excess can be seen is Payments for goods, works and services, as their deviation is 64,56%. It occupies – the largest share in the composition of receivables and payables and is the result of mutual non-payments. Due to the analysis the largest share in the structure of receivables and payables in 2016 still take payments for goods, works and services. Quite significant impact on the total volume also have receivables for advances paid and



settlements with budget. The share of other components of payables is insignificant. So, in 2016, following conclusion can be made: at the enterprise receivables dominate, as a result, the higher rate of payables' reversal compared to accounts receivable. Since most payables revolve faster than receivables, – in businesses may not appear free money.

To find out, how PJSC "Switch" progressed during the analyzed period and if the enterprise improved its payments, the structure and composition of receivables and payables for 2017 should be analyzed. It is shown on table 3.

Table 3

The dynamics and structure of account receivables and account payables of PJSC "Lviv confectionery "Switch" for 2017

Indicators	Receivables		Payables		Deviation (+, -)		
	Sum, ths. UAH	Structure, %	Sum, ths. UAH	structure, %	absolute, ths UAH	relative, %	structure, %
Payments for goods, works and services	605726	99,55	235722	94,3	-370004	38,91	-5,25
Settlements with budget	368	0,06	14222	5,69	13854	3864,67	5,63
Other debt	2389	0,39	18	0,01	-2371	0,75	-0,38
Total	608483	100	249962	100	-358521	41,08	-

Source: personal elaboration

According to the analysis of 2017 the excess of receivables by 370004 ths. UAH is observed. Total value of receivables increased, probably, because the enterprise expands scopes of production and sales. The biggest share still has Payments for goods, works and services – 99,55% of receivables and 94,3% of payables. The situation totally changed in Settlements with budget, as enterprise' debts to the government increased for 13854 ths. UAH. External users of information could be interested in the state of receivables of the enterprise, since its growth is always an evidence of financial instability and deterioration of solvency, due to a shortfall of cash. Above all there is observed worsening of cash and cash equivalents turnover (the speed of funds' rotation).

For a deeper analysis of the dynamics of the account receivable and account payable we made an analysis of the ratio of receivables and payables (data from the balance at the end of each period). The optimal value of the coefficient ranges from 0.9 to 1.0, that is payable should be

only 10% higher than the receivables. Comparative analysis of values of account receivables and account payables of enterprise in dynamics for 2012–2017 yy. is shown in Figure 2.

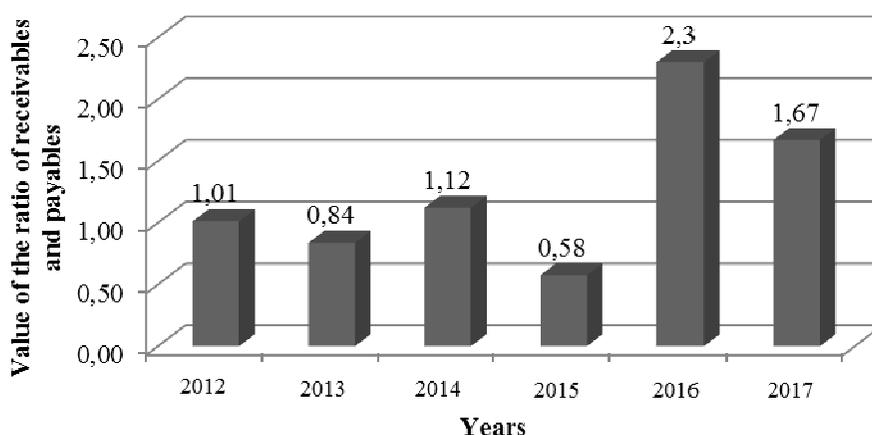


Fig. 2. Dynamics of the ratio of receivables and payables of PJSC “Lviv confectionery “Switoch” for 2012–2017 yy.

Source: personal elaboration

According to this figure, it can be concluded that the receivables and payables ratio was at acceptable level in previous years. In 2012 the indicator was equal 1,01 that is within normal values. The next year shows decreasing of the indicator to 0,84 and, as follows, increasing of liabilities of the enterprise. In 2014 and 2015 a similar situation can be observed: at first, the positive excess of receivables by 12%, but then rapid worsening of enterprise' payments by 42%. This phenomenon was probably forced by the crisis situation of the company. At 2016 the inflation processes started and affected not only the value of receivables and payables, but the state of receivables from goods, works and services, as receivables exceed payables more than twice. In 2016 situation improved, as ratio equals 1,67 and the excess of receivables is less significant. It determines a positive tendency for the enterprise and its debt repayment. However, that large excess cannot be considered as positive because receivables and payables should be maintained in balanced proportions.

Therefore, enterprise must constantly perform analysis of the ratio of receivables and payables, and make every effort to reduce this indicator. In fact, revenue from sales is the only way to pay off all



accounts payable. Reducing debt by reducing the period of maturity, but not due to reduction in sales, describes the positive management of accounts receivable and accounts payable.

Conclusions. In general, settlements with debtors and creditors are related to incoming and outgoing financial flows. The status of calculations may be revealed through the amount of accounts receivable and accounts payable. Receivables and payables have a considerable impact on financial results and business activity in general. Thus, significant amounts of receivables result in reduction of working capital of the enterprise and this in turn leads to an increase of accounts payable to suppliers, debt for taxes and other payments.

Analysis of main financial indicators of PJSC "Lviv confectionery "Switoch" for 2015–2016 years showed a positive tendency, as a type of the current financial stability of the enterprise improved and there is an opportunity to increase income and volume of production.

The analysis also showed that the largest share in the structure of receivables and payables during the analyzed period take payments for goods, works and services. Quite significant impact on the total volume is played by receivables for advances paid and settlements with budget.

The receivables and payables ratio, an important indicator that was calculated, – from 2012 to 2017 was changing irregularly. At 2012 it was at acceptable level, equal 1,01, but within next years normative proportions are not observed. For example, in 2015 was indicated the lowest value of the ratio, receivables exceeded payables by 42%. This is an evidence of negative phenomenon of the enterprise activity. In 2016 the ratio was equal 2,3 and in 2017 – 1,67. Thus, the positive trend was determined for the company for the following years. Receivables and payables should be maintained in balanced proportions. Therefore, enterprise must constantly perform analysis of the ratio of receivables and payables and make every effort to reduce this indicator.

So, in order to improve the financial condition, PJSC «Lviv confectionery «Switoch» should practice effective management of its receivables and payables, ensure their optimal ratio. The proposed areas to minimize receivables and payables will enable the company to reduce their share in the balance, improve efficiency and solve current financial problems.

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АНАЛІЗ ДЕБІТОРСЬКОЇ ТА КРЕДИТОРСЬКОЇ ЗАБОРГОВАНOSTІ ПІДПРИЄМСТВА (ЗА МАТЕРІАЛАМИ ПАТ «ЛЬВІВСЬКА КОНДИТЕРСЬКА ФАБРИКА «СВІТОЧ»)

У статті розглянуто економічну сутність та напрямки аналізу дебіторської та кредиторської заборгованостей, визначено основні методи та інформаційне забезпечення аналізу розрахунків з покупцями та постачальниками, наведено аналіз динаміки та структури дебіторської та кредиторської заборгованості ПАТ «Світоч» за 2016-2017 рр. та аналіз співвідношення цих показників.

Ключові слова: аналіз, дебіторська заборгованість, кредиторська заборгованість, розрахунки з покупцями, розрахунки з постачальниками.

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АНАЛИЗ ДЕБИТОРСКОЙ И КРЕДИТОРСКОЙ ЗАДОЛЖЕННОСТИ ПРЕДПРИЯТИЯ (ПО МАТЕРИАЛАМ ПАО «ЛЬВОВСКАЯ КОНДИТЕРСКАЯ ФАБРИКА «СВИТОЧ»)

В статье рассмотрены экономическая суть и направления анализа дебиторской и кредиторской задолженностей, определены основные методы и информационное обеспечение анализа расчетов с покупателями и поставщиками, приведен анализ динамики и структуры дебиторской и кредиторской задолженности ПАО «Свиточ» за 2016-2017 гг. и анализ соотношения этих показателей.

***Ключевые слова:* анализ, дебиторская задолженность, кредиторская задолженность, расчеты с покупателями, расчеты с поставщиками.**
