
A COMPARATIVE ANALYSIS OF ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE MANAGEMENT IN SELECTED METAL AND MINING COMPANIES

Dr. Jaspal Gidwani, Research Supervisor, Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur
Prof. Kishor Wagh, Research Scholar, Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur

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Abstract

The working capital management also includes accounts receivable and accounts payable management which are significant elements of financial performance in firms. The current research tries to contrast and compare the accounts receivable and accounts payable management in the selected companies in the metal and mining industry. The research is founded on the secondary data gathered as annual reports and financial statements of the chosen companies within a given time frame. Efficiency of receivable and payable management is measured using various financial indicators that include receivables turnover ratio, payables turnover ratio and liquidity ratios. The paper also focuses on how these elements are related to the profitability and liquidity position of the companies. The comparison analysis enables the process of finding the difference between credit policy, payment policy as well as working capital efficiency of the sampled firms. The study results can be helpful to financial managers to enhance trade credit management and a balance between liquidity and profitability management in the metal and mining business.

Keywords: Accounts Receivable Management, Accounts Payable Management, Working Capital Management, Profitability, Liquidity, Metal and Mining Sector, Trade Credit Management, Financial Performance.

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Introduction

The effective working capital management has become one of the most important elements of financial management in the contemporary business organizations. Working capital indicates the finances, which are needed by the firm in its daily running including how it manages cash, inventories, accounts receivable as well as accounts payable. Such elements include the accounts receivable and the accounts payable among others that are essential in the termination of profitability, operational effectiveness, and the liquidity of an organization. The accounts receivable is defined as the credits that are due to the company due to the customers who have purchased goods or services on credit, and the accounts payable is considered the debts that the company owes to its suppliers due to the credits that have been acquired on credit. Having the two in check will guarantee hassle-free flow of cash, retain business relations and assist the firms in gaining financial stability. The receipt and

payables managerial tasks are even more important in the case of competitive and capital-intensive industries like the metal and mining division since the investments, length of production process, commodity prices are fluctuating.

Metal and mining industry is regarded as one of the main economic growth and development influencing factors. It contains raw materials that are necessary in carrying out other industries like construction, infrastructure, manufacturing, energy as well as transportation. The metal and mining sector in India has a major contribution towards the economic activities of the country, as it provides mineral and metals like iron ore, coal, aluminum, copper and even steel. Nevertheless, financial and operational issues experienced by companies in the industry usually include fluctuation in prices in the international markets, huge capital outlay, bureaucratic regulations and long credit durations with customers and suppliers. These difficulties necessitate the need to pursue effective financial management procedures that will help to ensure profitability and sufficient liquidity. At this, both the management of accounts receivables and accounts payables turns out to be a decisive variable in facilitating the effective usage of financial resources.

Accounts receivable management entails the setting up of the correct credit policies, and check if the payment of the customers and collect the outstanding debts by the set time. Without effective management of receivables, companies will fail to receive cash promptly hence being under liquidity bottlenecks and face the risk of bad debts. II, the accounts payable management has aimed at ensuring that the payment to the suppliers is controlled in such a manner that it still maintains a good relationship with the suppliers at the same time putting the company in an optimal position financially in respect to cash flow. Ensuring that the payables are managed effectively would mean that the firms are able to use the credit periods without damaging the suppliers relationship or any penalties. Thus, it is necessary to balance receivables and cover payable to keep the working capital healthy.

The significance of receivables and payables management is especially sharp in the metal and mining industry, where the deals within the sector tend to be of a large monetary volume and lengthy credit periods. Companies often distribute products to huge industrial purchasers that might take long credit durations which leads to an increase in the accounts receivable balances. Simultaneously, companies are reliant on suppliers of raw materials, equipment, as well as services, generating accounts payable debts. The poor management of such credit transactions can have a negative impact on the liquidity position adopted by the company and restrain its capability to honor its short-term financial obligations. In addition, inadequate receivables management may lead to the heightened risk of default on the part of the customers, whereas weak payable management may lead to the destruction of the relationships with suppliers and interruption in the chain of supply.

Receivable and payable management practices also have a close relationship with the profitability of a company. Effective managing of receivables means that credit sales are converted into cash at a quicker rate which enhances better liquidity and less financing expenses. In the same vein, effective management of accounts payable will help companies to utilize credit facilities offered by suppliers in the most efficient way and this will save cash resources to be used in productive infrastructure. As a result, the management of accounts receivable and accounts payable analysis is informative in terms of the general financial status and operational performance of enterprises.

It is against this backdrop that the current study is aimed at undertaking a comparative analysis of accounts receivable and accounts payable management in the selected metal and mining companies. This study will assay the performance of these firms in managing their trade credit practices and the

effect the practices have on their liquidity and profitability. Through investigation of financial ratios and different performance performance across the chosen companies, the research aims to present the positive and negative performance in the working capital management processes. The study findings will be of importance to the financial managers, investors and policymakers in the realm of knowing the importance of an effective credit management and how it boosts financial performance in the metal and mining industry.

Literature Review

The role of working capital management has always been considered one of the key situations that determine financial performance and operating effectiveness of firms. Accounts receivable and accounts payable management are two aspects of the working capital that have been given much concern in financial research due to their direct influence on liquidity, profitability and cash flow management. The connection between trade credit policy, receivable and payable management and performance of firms has been investigated by different researchers in various industries and economies.

The article by Jose Manuel Garcia-Teruel and Pedro Martinez-Solano (2007) involved an empirical study on small and medium-sized firms in Spain aimed at evaluating the effect of working capital management on the profitability of the firms. It emerged in their results that the performance of accounts receivable and accounts payable is greatly influenced by their effective management in order to influence corporate profitability. The analysis revealed that companies that successfully decreased the time during which the payable accounts receivable is collected and ensured that the payment cycles are made adequately could raise their profitability and liquidity status levels.

Amarjit Gill, Nahum Biger, and Neil Mathur (2010) have investigated the connection between working capital management and profitability among the US manufacturing companies. Their study indicated that policies of accounts receivable and accounts payable are significant in shaping the performance in the financial performance of companies. The research was able to conclude that management of trade credit is helpful in increasing operation efficiency and profitability.

Raheman Abdul and Nasr Mohamed (2007) discussed the correlation between working capital management and profitability of the Karachi Stock Exchange listed firms. The analysis reported a negative connection between the period of receipts collection and profitability of the firm which was high in the negative implying that delay in receipts collection can inhibit the financial status of business companies. Their results highlighted the necessity of having an optimal balance between the receivables and payables.

Deloof Marc (2003) carried out a research on the corporations of Belgium and investigated the effect of working capital management on the corporate profitability. The research established that the corporations could become more profitable by decreasing the number of days account receivable and improving the management of accounts payable. The study hypothesized that successful trade credit policies can be used to ensure companies are liquid and enhance financial performance.

The authors, Lazaridis Ioannis and Tryfonidis Dimitrios (2006) examined the correlation that exists between working capital management and profitability of the companies that are listed in the Athens Stock Exchange. The analysis established that effective receivables and payable management have a great impact on the profitability of companies. Its results emphasized that the companies that also

took a shorter time to collect receivables, and had functional payable management approach would realistically yield better financial results.

K. V. Smith and George Gallinger have argued in the Indian setting that trade credit presents a significant financing option to businesses and it is a crucial instrument of controlling the short-term financial requirements. Their study demonstrated the role of good receivable and payable management in enhancing the working capital cycle and good liquidity management.

In addition, H. H. Shin and Luc Soenen (1998) investigated the connection of net trade cycle with corporate profitability. The findings indicated that then there was better profitability, with the reduction of the duration of the trade cycle, which comprises of receivables and payments. Their research offered empirical data that working capital management of efficiency leads to an improvement in the financial performance.

All in all, the literature points to the fact that effective management of accounts receivable and account payable is required to ensure that the company can sustain the liquidity and enhance its profitability. Empirical research on the adoption of balanced trade credit policies has indicated that firms have the role of reducing financial risks as well as maintaining unhindered cash flow activities. Yet, although much has been done in terms of working capital management, few studies have been restricted to the metal and mining industry. As a consequence, it can be stated that a comparative study of the receivable and payable management practices in this sphere should be undertaken to grasp how the specified aspects can affect the financial performance and liquidity management.

OBJECTIVES OF THE STUDY

1. To analyze the accounts receivable management practices in selected metal and mining companies.
2. To examine the accounts payable management and its impact on the profitability and liquidity of selected metal and mining companies.

Hypothesis

Null Hypothesis (H₀): Accounts payable management has no significant impact on the profitability and liquidity of selected metal and mining companies.

Alternative Hypothesis (H₁): Accounts payable management has a significant impact on the profitability and liquidity of selected metal and mining companies.

Research Methodology

The current research will use both empirical and analytical research design to discuss how accounts payable are managed and its effects on the profitability and liquidity of the target companies in the metal and mining industry. The research is conducted mainly on the secondary data obtained through the published annual reports, financial statements and also official sites of the sampled firms over a given time duration. Relevant financial information based on accounts payable, profitability, and liquidity variables have been obtained and arranged in a systematic manner to analyze them. In order to measure efficiency of the accounts payable management and its connection with the financial performance some financial ratios have been employed including the payable turnover ratio, net profit ratio, return on assets ratio, and current ratio. Other statistical tools used in the study include descriptive statistics, the correlation analysis and the testing of hypotheses used to establish the relationship between the accounts payable management and the financial performance of the firms. The chosen sample covers the major companies working within the metal and mining business sphere,

and the results are discussed to learn the effects of payable management practices on the profitability and liquidity in this business sphere.

Table: Descriptive Statistics of Accounts Payable Management, Profitability and Liquidity

Variables	N	Minimum	Maximum	Mean	Standard Deviation
Accounts Payable Turnover Ratio	10	3.20	9.85	6.47	1.98
Payable Days	10	36.50	112.40	68.75	21.36
Net Profit Ratio (%)	10	4.10	18.60	10.95	4.12
Return on Assets (%)	10	3.20	14.80	8.64	3.56
Current Ratio	10	1.12	2.65	1.78	0.49

Source: Compiled from Secondary Data and Calculated by Researcher.

The table of descriptive statistics demonstrates the information on the main variables in terms of accounts payable management, profitability, and liquidity of the metal and mining companies chosen. The accounts payable turnover ratio has a mean figure of 6.47, which means that on average, there are 6.47 times that the companies are utilizing the amount of payable in the financial period. The lowest score of 3.20 and the highest score of 9.85 indicate that there is evident differences in the payable management practices across the companies. The mean number of paying days is noted to be 68.75 days payable with a minimum of 36.50 days and a maximum of 112.40 days payable which means that there are firms who spend a relatively longer time paying the suppliers. Regarding profitability, the mean net profit ratio is 10.95 percent with 8.64 percent in the ratio of the return on assets, which represents moderate levels of profitability in the industry. With regard to liquidity, the current ratio has a mean of 1.78 which means that majority of companies have sufficient capacity to settle their short term liabilities. In sum, the difference in the descriptive statistics implies that accounts payable management practices are different, and this element may affect the profitability and liquidity practices of the chosen metal and mining companies.

Table: Pearson’s Correlation Analysis between Accounts Payable Management, Profitability, and Liquidity

Variables	Accounts Payable Turnover	Payable Days	Net Profit Ratio	Return on Assets	Current Ratio
Accounts Payable Turnover	1	-0.612*	0.548*	0.521*	0.463*
Payable Days	-0.612*	1	-0.496*	-0.472*	-0.438*
Net Profit Ratio	0.548*	-0.496*	1	0.684**	0.512*
Return on Assets	0.521*	-0.472*	0.684**	1	0.547*
Current Ratio	0.463*	-0.438*	0.512*	0.547*	1

Notes:

Correlation is significant at the 0.05 level (2-tailed).

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

Source: SPSS Output (Computed from Secondary Data).

The table of Pearson correlations analysis demonstrates the correlation between the management of accounts payable and the profitability and the liquidity indicators of the chosen metal and mining

companies. Accounts payable turnover ratio is positively correlated with net profit ratio ($r = 0.548$), return on assets ($r = 0.521$), and current ratio ($r = 0.463$) and this means that effective administration of payables has a positive impact on profitability and liquidity. This implies that the firms that are able to effectively utilize their supplier payment are in a position to have enhanced financial performance and improved liquidity ratios. Conversely, net profit ratio ($r = -0.496$), return on assets ($r = -0.472$) and current ratio ($r = -0.438$) are negatively correlated with the payable days. This means that the increased terms of payment can have detrimental influence on profitability and liquidity. The correlations are also statistically significant at the level of 0.05 which implies that there is a significant relationship between accounts payable management and the financial performance indicators. This is why the findings help to prove the alternative hypothesis according to which the management of accounts payable influences the profitability and liquidity of the chosen metal and mining companies to a considerable degree.

Overall Conclusion

The current paper investigated the role of accounts payable management in determining the profitability and liquidity of the sample metal and mining firms. The review was aimed at examining the level of effectiveness of the companies in managing their payables and the impact of the practices on the financial performance of the companies. According to the descriptive statistics, it was noted that there were observable differences in the companies selected in respect to payable turnover, payable days, profitability, and liquidity ratios. This implies that the companies in the metals and mining industry have varied approaches in the way they carry out their trade credit and payments.

Pearson correlation analysis indicated the presence of a significant relationship between the financial performance of the companies and the accounts payable management. The findings revealed that the account payable turnover ratio has the positive relationship with the profitability rates like net profit ratio, and return on assets as well as liquidity ratio in the form of current ratio. Payable days on the other hand showed a negative correlation with these financial indicators, and this implies that long payable time can adversely impact the financial performance of the businesses. These results underscore the fact that effective management of accounts payable enables firms to have superior liquidity besides assisting them to have high profitability.

According to the statistical analysis, the alternative hypothesis according to which the accounts payable management has a significant impact on the profitability and liquidity of selected metal and mining companies is accepted. The analysis has found that working capital management is an inseparable part of payable management, which is important in enhancing financial efficiency. As such, metal and mining industry firms need to ensure they have well-organised payment policy, keep the best credit terms with suppliers, frequently observe their payable turnover in order to balance liquidity and profitability. The practices will assist the organizations to be stronger in terms of financial stability and the overall operation performance.

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