Assessing Financial Health of the Firm Through Accounts Payable

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Abstract- The main objective of the study is to find out the company ability to pay its accounts payable using operating cash flow at PROCONNECT SUPPLY CHAIN SOLUTION LIMITED. The secondary objectives of the study is to suggest the remedial measures based on the findings. In this study about the account payable performance in the company. Primary data such as balancesheet of the company for past three years is collect for the annual report of the company. Generally statistical tools such as Ratio analysis and Regression method have been used for analysis and interpretation.
This financial analysis delves into key liquidity and liability ratios to assess a company's short-term financial health. The current ratio, quick ratio, payable as a percentage of total liabilities,cash flow payable ratio, and accounts payable turnover ratio have been scrutinized. Moreover, the observation of a smaller proportion of total liabilities in the form of payables suggests efficient liability management, presenting an opportunity to reduce reliance on short-term debt.

Keywords: Total liability, cash flow payable ratio and accounts payable.

INTRODUCTION

Accounts payable
Accounts payable (AP) is a short-term debt and a liability on a balance sheet where a business owes money vendors/suppliers that have provided the business with goods or services on credit. When a company purchases goods on credit which needs to be paid back in a short period of time, it is known as Accounts Payable.

REVIEW OF LITERATURE

1. Kanaparthi, V. K. (2023).
Accounts Payable (AP) is a time-consuming and labor-intensive process used by large corporations to compensate vendors on time for goods and services received. A comprehensive verification procedure is executed before disbursing funds to a supplier or vendor. After the successful conclusion of these validations, the invoice undergoes further processing by traversing multiple stages, including vendor identification; line-item matching; accounting code identification; tax code identification, ensuring proper calculation and remittance of taxes, verifying payment terms, approval routing, and compliance with internal control policies and procedures, for a comprehensive approach to invoice processing. At the moment, each of these processes is almost entirely manual and laborious, which makes the process time-consuming and prone to mistakes in the ongoing education of agents.
2. Mutai, A. K., & Kimani, E. M. (2019).
The content of validity of the data collection instrument was determined through discussing the research instrument with the research supervisor. 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 payable management practices ($\beta = 0.428$; $\rho < 0.05$) 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 negotiate for better terms of credit with their suppliers, this elongates the accounts payable.
3. Mittal, S., & Monika. (2020).
Trade credit is important as a funding source for companies having a liquidity shortage. Trade credit comprises of both accounts receivable and payable. The financial literature has discussed the impact of accounts receivable or payable on a company's

financial performance. However, there is a lack of studies on the effects of accounts receivable and payable on each other and further its effect on the financial performance of small-cap companies. Financial performance is determined using the profitability and value of the company. The researchers examined the financial performance implications of offering and receiving trade credit for a sample of 193 BSE small-cap manufacturing companies in India during the period 2011–2019.

4. Einkamerer, T. F., & Maqbool, J. (2017).

The function of accounts payable has seen a great increase of information that the function hasto process. This is true even for smaller organizations and research has proven that there is a great cost involved in processing an invoice. This increased cost has lead organization to look at the accounts payable process and make changes to the processes, systems and technology tohelp create efficiencies in the accounts payable department to reduce the cost involved with processing invoices as well as become more compliant to recent changes in reporting standards. Changes to improve systems are required in almost any organization; effective management ofthis change will ensure the successfulness and longevity that particular change can offer.

5. Schaeffer, M. S. (2002).

Trade credit is an important source of finance for firms and has been well researched, but the focus has been on financial trade-offs. In this paper, we consider the trade-offs with inventoriesand develop a simple model that recognizes the incentives a firm faces to offer and receive trade credit. Our model identifies the response of accounts payable and accounts receivable to changes in the cost of inventories, profitability, risk and liquidity, and importantly, this influence operates through a production channel. Our results support the model and complement many existing studies focused on explaining the financial terms of trade credit.

OBJECTIVE OF THE STUDY:

- To determine outstanding days payable on the firm.
- To determine and compare accounts payable of the company with its current and totalliabilities.
- To determine the timeline of company payments to its suppliers.

RESEARCH METHODOLOGY

Data collection

Secondary data:

- The data are collected from the annual reports maintained by the company for the past five years viz.., 2019-2023.
- Data are collected from the company's website.

Tools and analysis:

The following statistical tools are used to analyze the company's outstanding bills to suppliers.

- Ratio analysis

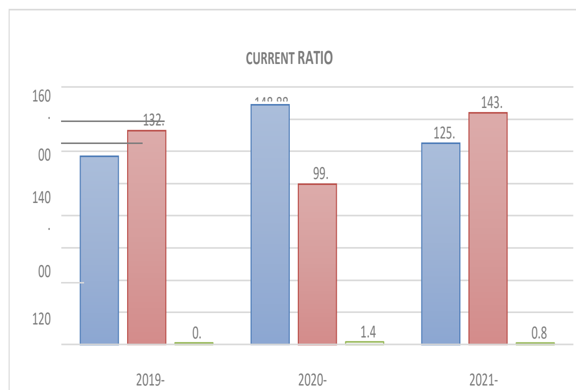
ANALYSIS AND INTERPRETATION RATIO

Ratio Analysis:

CURRENT RATIO

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Years	Current Assets in (Rs.)	Liabilitiesin (Rs.)	Ratio in Times
2019-20	116.81	132.82	0.87
2020-21	148.88	99.57	1.495
2021-22	125.07	143.82	0.869



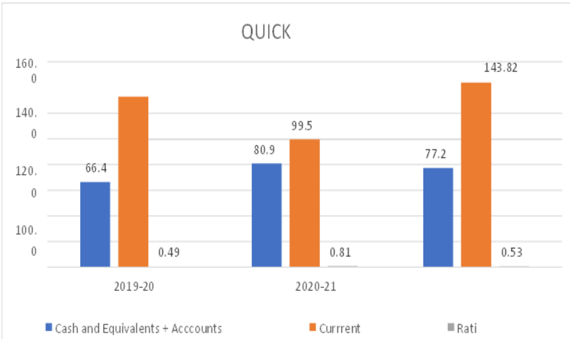
Interpretation

According to the above table, the current asset of 0.87 is lesser in the 2019-20, while the 1.49 is higher in the year 2020-21.

QUICK RATIO

$$\text{Quick ratio} = \frac{\text{Cash and Equivalents + Accounts Receivable}}{\text{Current liabilities}}$$

	Cash Equivalents+ Accounts Receivable	Current Liabilities	Ratio
2019-20	66.4	132.82	0.499
2020-21	80.96	99.57	0.813
2021-22	77.26	143.82	0.537

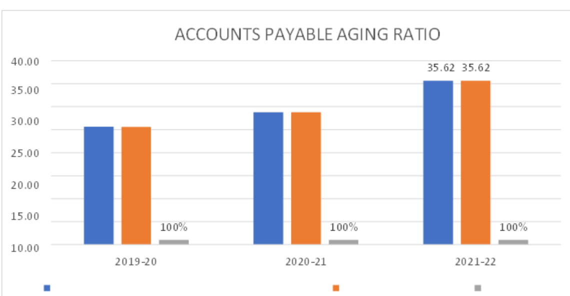


Interpretation:
According to the above table, the year 2019-20 quick ratio is below 0.499, while the potential liquidity challenges.

ACCOUNTS PAYABLE AGING RATIO

$$\text{Accounts Payable Aging Ratio} = \frac{\text{Accounts Payable Due within a Specific Time Period}}{\text{Total Accounts Payable}} * 100$$

Years	Accounts payable duewithin a specific timeperiod	Accountspayable	Percentage
2019-20	25.62	25.62	100%
2020-21	28.84	28.84	100%
2021-22	35.62	35.62	100%

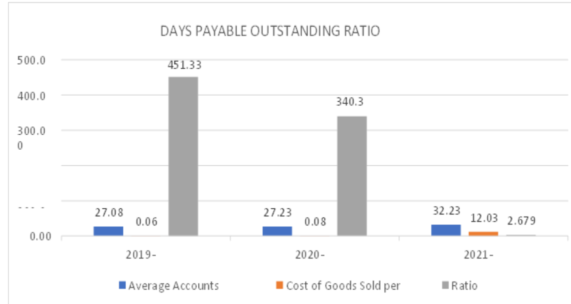


Interpretation:
According to the above table, the accounts payable aging ratio in the year 2019-22 is higher ratiois faster payment cycle.

DAYS PAYABLE OUTSTANDING RATIO

$$\text{Days Payable Outstanding ratio} = \frac{\text{Average Accounts Payable}}{\text{Cost of Goods Sold per Day}}$$

Year	e Accounts Payable	ds Sold perDays	Ratio
2019-20	27.08	0.06	451.33
2020-21	27.23	0.08	340.37
2021-22	32.23	12.03	2.679

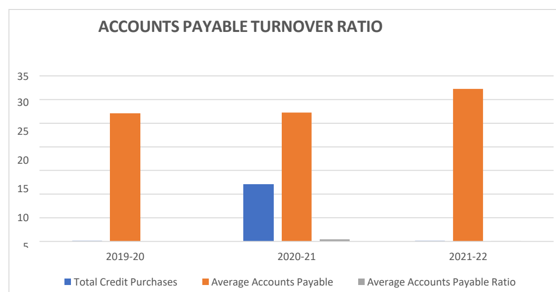


Interpretation:
According to the above table, the days payable outstanding ratio in the year 2019-22 the company takes longer to pay its suppliers, potentially improving its cash flow by delaying payments.

ACCOUNTS PAYABLE TURNOVER RATIO

$$\text{Accounts Payable Turnover Ratio} = \frac{\text{Total Credit Purchases}}{\text{Average Accounts Payable}}$$

Years	Total Credit Purchases	e Accounts Payable	Ratio
2019-20	0.13	27.08	0.004
2020-21	12.11	27.23	0.444
2021-22	0.14	32.23	0.081



Interpretation:
According to the above table, accounts payable turnover ratio of the year 2019-22 is 0.081 the company is managing its payables more efficiently, paying suppliers.

SUGGESTION

- From this study a company recommend prioritizing cash reserves through cost-cutting measures and increased cash flow initiatives. Additionally, optimizing inventory levels and improving accounts receivable processes can enhance liquidity.
- The company recommend to conducting regular financial assessments to monitor liquidity trends

and make strategic adjustments will be instrumental in ensuring the company's financial stability and ability to meet short-term obligations.
- The company should implementing automated payment systems can streamline processes and ensure timely settlements, enhancing supplier trust and reliability.
- From this study the company should implementing efficient accounts payable management systems can help streamline invoicing and payment workflows, reducing delays and optimizing cash flow.

CONCLUSION

The findings underscore critical aspects of the company's financial health, highlighting areas for improvement and strengths to leverage. It's evident that the company faces challenges in meeting short-term obligations, as indicated by the gradual increase in average accounts payable and the quick ratio below 1.00. However, the company exhibits efficient payment practices and a reduced reliance on short-term debt, reflecting commendable management of liabilities.

To address these challenges and capitalize on strengths, the suggestions provided offer actionable steps for enhancing liquidity, optimizing cash flow management, and fostering positive supplier relationships.

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