



THE COMPANY'S ACCOUNTS RECEIVABLE

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Abstract

This article examines the formation process of accounts receivable in enterprises, the key aspects of managing receivables, and the issues related to debtors. It explores the identification of receivables and their classification. Additionally, the article discusses the current regulatory framework in the Republic of Uzbekistan concerning the control procedures over receivables and the application of penalties for overdue debts. Detailed conclusions and recommendations are also provided.

Keywords: Accounts receivable, accounting for bad debts, management of receivables, overdue receivables, long-term receivables.

Introduction

On November 9, 2023, the President of Uzbekistan, Shavkat Mirziyoyev, stated in his speech at the 16th Summit of the Economic Cooperation Organization (ECO): "There are still many restrictions and problems in the path of establishing barrier-free trade. We must openly acknowledge these issues and approach the situation with a fresh perspective to bring about positive change." This highlights the importance of paying attention to accounts receivable issues in the development and operation of enterprises, as well as in foreign trade operations.

The term "accounts receivable" is widely used in accounting, law, and other fields, and serves as an object of record for organizations and enterprises. Accounts receivable refer to the amount of debt that legal or physical persons are obliged to pay to a company, organization, or institution as a result of business relations. It is sometimes referred to as "the freezing of working capital."



Accounts receivable is considered an important element of working capital. It is one of the assets of an enterprise and is associated with legal rights, including property rights. As is well known, accounts receivable have a certain value among an organization's assets and play a significant role in entrepreneurial activities.

Since accounts receivable are not directly goods, they can only be sold through the transfer of claim rights. Such a transfer acquires a specific price only when a use value is created. This value arises when the accounts receivable resulting from another transaction are repaid on time by the buyer, losses are avoided, the debtor provides beneficial goods or services to the buyer, and control is established over the debtor. This also underlines the relevance of the topic of this article.

Research Methodology

In conducting this research, methods such as deduction, induction, analysis, and synthesis were utilized. The state of accounts receivable of enterprises was analyzed, with a particular focus on short-term, long-term, and problematic receivables. An effort was made to provide a broader explanation through data analysis. As a result, problems were identified and scientifically based proposals were presented to address them.

Literature Review

A number of economists have presented various classifications and definitions of the concept of "accounts receivable" in academic literature. In most cases, it is identified as one of the main components of working capital, representing claims for payments for goods and services from both legal entities and individuals.

According to accounting standards, accounts receivable is the amount of debt owed to a company by debtors at a specific point in time. This amount is often determined based on accounting records as of the balance sheet date.

Most experts define accounts receivable based on the consequences of its emergence in an economic, accounting, or legal context. Definitions of accounts receivable formulated according to this principle, as well as its financial interpretation, can be seen in the following table.



1- Table

According to Application	Definition
Economic	The amount of debt to be paid by legal entities and individuals to the enterprise as a result of economic relations.
Accounting	An asset item on the balance sheet.
Legal	Property rights (claims) belonging to the organization as a creditor due to third parties' unfulfilled monetary obligations.
Financial	A financial category reflecting a set of specific financial relationships between suppliers and buyers based on payment methods and terms, taking the form of a current asset of the supplier – a potential positive cash flow.

Accounts receivable represent a property claim included in the assets of an organization in relation to other parties who are debtors in various legal relationships. When accounts receivable are recorded in accounting, they are measured at the amount specified in the agreement, based on the mutual consent of the parties involved in the transaction. If a company successfully regulates its accounts receivable, it does not lead to a decline in economic stability.

However, a high level of accounts receivable within a company's total assets increases the risk of financial losses and decreases the company's financial stability. Uncollected receivables lead to the diversion of funds from the company's turnover, resulting in problems such as cash shortages and an increased risk of failing to meet obligations. Therefore, one of the most important tasks of any company is to properly manage its accounts receivable. This necessity primarily stems from the fact that accounts receivable impact not only the volume of current assets but also the overall economic condition of the company. Generally, accounts receivable are expected to generate economic benefit for the company in the form of cash or cash equivalents received sooner or later. Accordingly, accounts receivable can only be recognized as an asset if there is a probable expectation that the debtor will make the payment. The size and condition of accounts receivable are among the most critical and urgent issues that a financial manager often needs to address. A lack of financial resources and liquid assets can delay the fulfillment of obligations or force company



management to seek more expensive financial resources through bank loans. The use of short-term borrowed funds increases the cost of production or services, which in turn reduces the financial results of operational activity. Effective management of accounts receivable not only improves the quality of debt management but also includes planning the organization's market development and operational prospects.

Analysis and Discussion

The concept of accounts receivable is used multiple times a day by every accountant. Nevertheless, there is no precise definition of this term in accounting legislation—possibly because its meaning is considered clear and self-explanatory. In conducting entrepreneurial activity, participants in property turnover aim not only to recover the funds they have invested but also to generate profit. However, from a management perspective, the company's accounts receivable indicator should be kept to a minimum.

Firstly, there is the risk that customers may refuse to pay their debts. In practice, it is often the case that companies are unable to collect debts from their counterparties for various reasons. Accounts receivable may remain unpaid for many months or even years. An increase in accounts receivable can lead to a deterioration in the financial condition of a company, and in some cases, even bankruptcy.

Secondly, this results in a reduction of freely circulating working capital, which in turn lowers the company's liquidity. On the other hand, especially when the goal of sellers is to increase sales volume rather than to raise net cash income, they may be interested in accounts receivable. Creating favorable conditions for buyers often serves as an important factor in increasing sales volume. Of course, nowadays it is very difficult to operate without extending credit, and such credit must be provided. However, all factors must be accurately calculated and assessed during this process. Therefore, the main challenges aimed at improving the financial stability of business entities include the following:

- establishing a proper system for recording accounts receivable,
- analyzing accounts receivable,
- identifying factors influencing its growth,
- calculating reserves to reduce unjustified and long-overdue debts.

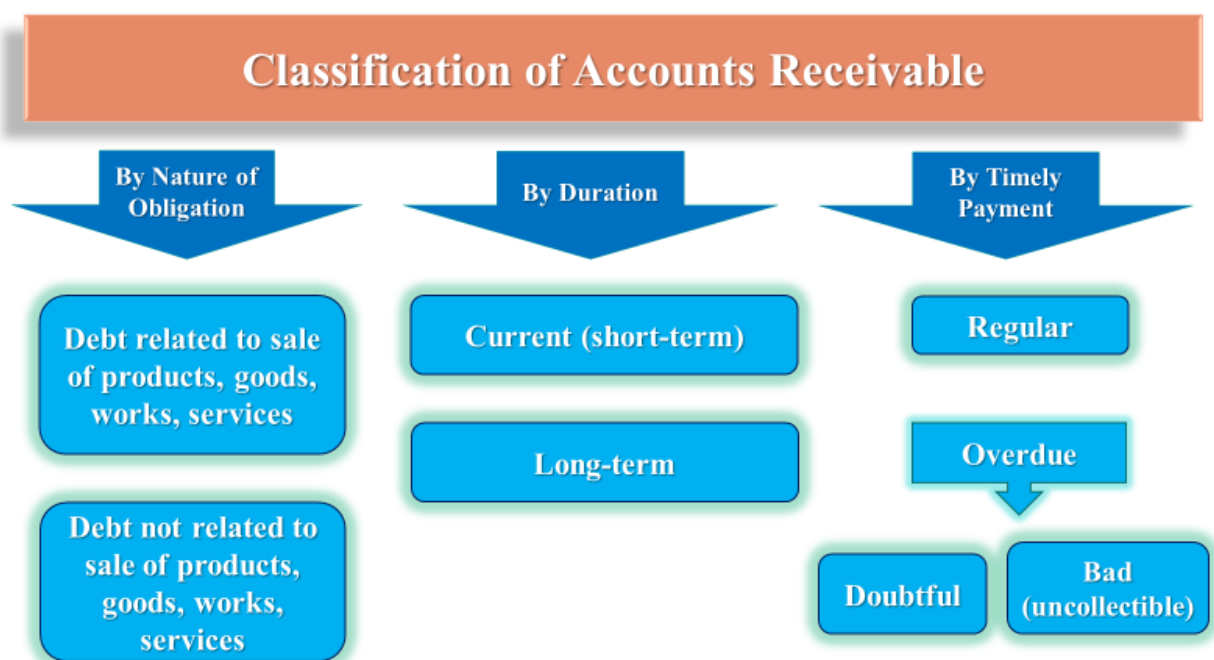
The timing of the emergence of accounts receivable is determined by the terms of the contracts concluded. Once a company transfers ownership rights for goods, work, or

services to the counterparty, the client assumes the obligation to pay, resulting in the creation of accounts receivable.

Accordingly, accounts receivable are often recorded as follows:

- after the documentation for the shipment of goods has been completed;
- after the act of acceptance for completed work (services) has been signed.

Depending on the perspective from which accounts receivable are considered, there are various classifications.



Classification of Accounts Receivable

According to the timeliness of payment, accounts receivable are divided into regular and overdue receivables. A regular account receivable refers to a debt for goods or services for which ownership has been transferred to the buyer, but the payment due date has not yet arrived.

Overdue receivables are monetary obligations for products that have not been paid for within the timeframe specified in the contract. Overdue accounts receivable, in turn, are classified as doubtful and bad debts.

A doubtful debt refers to any debt arising from the sale of goods, performance of work, or provision of services that has not been paid within the period agreed in the contract. In such a case, the receivable is considered doubtful in relation to the



taxpayer. If, for certain reasons, the organization is unable to collect the debt from its debtors, the amount is classified as bad debt.

For example, if the statute of limitations (typically three years) has expired, or if the debtor has been liquidated, the debt is deemed uncollectible. However, if the debt is later paid by the debtor, it is recognized by the creditor organization as non-operating income.

In terms of duration, accounts receivable are classified as short-term and long-term. A short-term receivable is the debt owed by a buyer to the organization that is expected to be paid within 12 months from the date the contract was signed. A debt that is expected to be collected in more than one year is called a long-term receivable. An increase in the share of long-term receivables can significantly reduce the liquidity of a company's assets. When the growth rate of accounts receivable exceeds the growth rate of income, a portion of the revenue used to finance current operations is effectively "frozen."

Another classification of accounts receivable is based on the nature of the obligation. The delay may be related or unrelated to the sale of goods, products, work, or services. It is important to note that accounts receivable are not goods. Their value is formed based on key characteristics, the amount of receivables, and documentation describing the rights of claim and obligations.

Conclusion and Recommendations

To control all types of accounts receivable in a company, it is recommended to prepare a monthly **reconciliation statement**. In our opinion, this is an effective tool for managing receivables because:

- On one hand, it serves as a reminder to the debtor of their existing debt.
- On the other hand, it allows for the timely identification of discrepancies in the records of the creditor and the debtor, helping to prevent disputes.

Often, such disputes force the parties to take the matter to court. The reconciliation statement is prepared based on the accounting data of both parties. This document must include references to the contracts and original documents under which the debt arose, as well as the debt amount, with Value Added Tax (VAT) shown separately.

The reconciliation statement is an **auxiliary accounting document** that reflects the state of settlements between enterprises. Unlike a mutual reconciliation act, this



document specifically indicates the amount of debt to be repaid by each party. To prevent the formation of bad debts, it is recommended that companies maintain an aging register of receivables based on the reconciliation statements. Special attention should be paid to overdue receivables in this register.

If it becomes clear that an overdue receivable cannot be collected, it is classified as a bad debt. A doubtful (problematic) receivable refers to a current receivable where its repayment is uncertain or in doubt.

Bad (Uncollectible) Accounts Receivable Include the Following:

1. Debts for which the statute of limitations has expired

- The *statute of limitations* refers to the time frame within which a violated right can be enforced in court, and it is typically **three years**.

2. Debts that are impossible to fulfill

- According to civil legislation, debt obligations may be canceled due to decisions made by government authorities or the liquidation of the debtor organization.

Debts for which the statute of limitations has expired and other uncollectible debts must be written off. Before writing off such debts, the enterprise must conduct an inventory of its accounts receivable. Based on the results of this inventory, and with a written justification and the approval of the company's management, each uncollectible obligation is covered using the reserve allocated for doubtful debts.

The Problem of Managing Accounts Receivable. One of the primary tasks of any business is to prevent bad debts and minimize problematic receivables. When analyzing the formation process of accounts receivable, it is important to consider the main causes, which may include:

- **Subjective factors** – reasons caused by the creditor itself (e.g., fear of losing a customer);
- **Objective factors** – deterioration in the financial condition of the customer.

In all cases, it is crucial to evaluate the customer's honesty and reliability. The process of debt collection begins with gathering comprehensive information about the debtor's financial condition and reviewing the documentation confirming the debt. Next, the debtor's attitude is assessed: If the debtor agrees to repay the debt, a payment schedule is prepared and its implementation is monitored. **Relevance of Accounts Receivable Management** In a developing market economy and amid growing competition in product markets, there is a rising need to enhance the



financial stability and investment attractiveness of enterprises. Effective management of accounts receivable includes the following:

- **Analysis of debts from previous periods**
- **Establishing a credit policy with buyers**
- **Developing a procedure for indexing accounts receivable;**
- **Creating a system to monitor the movement and timely recovery of accounts receivable.**

The main goal of the analysis is to evaluate the dynamics of accounts receivable over previous periods. Particular attention is given to overdue receivables and the reasons behind their occurrence. When analyzing the development of accounts receivable, relative indicators are used—meaning current year results are compared with indicators from previous years. The final stage of the analysis is to determine the efficiency of funds invested in accounts receivable. To do this:

- The additional profit gained from increased sales volume is calculated;
- This profit is then compared with the costs of issuing credit, the expenses related to debt collection, and the potential financial losses in case the debt is not repaid.

Accurate and timely reflection of accounts receivable data in accounting records and registers is crucial for correctly assessing the financial condition of the company. Therefore, one of the key responsibilities of every manager is to properly develop a credit policy, which in turn allows the company to maximize profits and minimize accounts receivable.

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