



Assessment of Receivable Management on the Financial Performance of NEA

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Abstract

This research examined the influence of effective management of receivables on the financial performance of the Nepal Electricity Authority (NEA), the sole electricity supplier in the country, with a specific emphasis on how effective receivables management influences its profitability. Within challenges such as seasonal power output adjustment and increasing unpaid dues, this research emphasizes the need for effective management of receivables for the enterprise's financial sustainability. This study uses multiple regression analysis of annual data from 2013 to 2022 to look into the connection between NEA's return on assets and important receivable management variables, namely the receivable collection period, the ratio of net sales to accounts receivable, and the ratio of accounts receivable to total assets. The study findings reveal a negative relationship between the receivable collection period and return on assets, whereas positive associations exist between the account receivable turnover ratio and the account receivable to total assets ratio. This suggests that NEA can enhance its financial performance by improving billing and collection procedures and efficiently managing accounts receivable. It is concluded that the NEA should regularly monitor receivable collection and management practices to ensure the financial well-being of the enterprise.

Introduction

Effective receivable management is a critical facet of financial strategy for enterprises, influencing their overall financial performance and sustainability. The handling of accounts receivable involves balancing the need for timely collections with maintaining positive customer relationships. The management of receivables is an essential aspect of business operations, as it not only ensures the retention of liquidity and profitability but also exhibits a strategic influence on the financial outcomes of an organization and the creation of value on a wider spectrum (Emery et al., 2004; Lynch, 2005). As a result, financial executives prioritize the identification of the underlying factors that influence accounts receivable and the establishment of an optimal level of holding to reduce risk, effectively plan for unforeseen circumstances, and enhance the overall operational efficiency of their organizations.

On August 16, 1985, the Nepal Electricity Authority Act of 1984



established the Nepal Electricity Authority (NEA). Its main objective is to ensure the generation, transmission, and distribution of adequate, dependable, and cost-effective electricity by improving efficiency and becoming a dependable supplier of services nationwide. NEA, the leading energy supplier in the nation, plays a vital role in the development of the power sector and in steering Nepal towards achieving energy independence. are two of the many obstacles that the NEA has had to overcome despite its expanding customer base and impressive financial performance for recent periods, NEA faced several challenges including seasonal balancing of power production and a rise in uncollectible dues. Effectively managing the receivables of an enterprise is crucial for dealing with these financial challenges and strengthening NEA's overall financial health. This study aims to assess an exclusive investigation of the connection between NEA's return on assets as a measure of financial performance and important factors inside its receivable management: the receivable collection period (RCP), the ratio of net sales to accounts receivable, and the amount of account receivable compared to total assets. Particularly within the context of NEA, the extent to which specific receivable management components influence financial outcomes is not fully explored, despite the critical role that receivables play in a company's cash flow and profitability. This study intends to examine important research issues by establishing them as empirical questions to be investigated. First, the study examines how the receivable collection period affects NEA's ROA; second, it inquires into the impact of net sales to accounts receivable on ROA; and finally, it investigates how the ratio of accounts receivable to total assets (AR/TA) influences NEA's profitability. This approach aims to bridge a gap in the existing literature by establishing a link between the dependent variable and the independent variable, thereby their collective impact on the well-being of NEA. Following the introductory section, the rest includes a literature review, research methodology, results and discussion, and the study conclusion.

Literature Review

Effective receivables management is essential for optimizing cash flow, profitability, and customer service, all of which are critical for the success of any business. The continuous conversion of cash into non-liquid assets and vice versa is a vital element of corporate operations. The obtained funds are thereafter used to acquire raw resources, which undergo a process of transformation to produce finalized goods for commercialization in the market. [Hrishiakes \(2002\)](#) posits that optimizing the value of accounts receivable is the primary objective of accounts receivable management through the attainment of a symbiotic equilibrium between profitability, risk, and liquidity. Therefore, to optimize shareholder value, managers strive to reduce the duration of inventory holding and receivables collection ([Raheman & Nasr, 2007](#)). A substantial body of research, such as that conducted by [Deloof \(2003\)](#), [Lazaridis and Tryfonidis \(2006\)](#), and [Tyas \(2020\)](#) have underscored the pivotal significance of working capital management in influencing the course of business operations and efficient working capital management can exert on the liquidity and profitability of an organization. This is predominantly attributable to the fact that they discovered an inverse association between the various components of working capital and the profitability of an organization.

The nexus between financial performance and receivable management in businesses has been extensively investigated, highlighting a critical part of financial well-being and operational effectiveness. [Brigham and Houston \(2013\)](#) claimed that accounts receivable management affects corporate profitability. Moreover, efficient management of receivables is crucial for improving a company's financial well-being, resulting in increased cash flow and credit sales, decreased losses from unpaid debts, and reduced administrative expenses ([Salek, 2005](#); [Buchmann & Jung, 2008](#)). According to [Muthoni et al. \(2020\)](#), how a company handles its receivables has a substantial effect on its profitability. Poor management of receivables can result in liquidity issues, which in turn reduce sales, inventory levels, and ultimately profit margins. Conversely, efficient management of receivables can significantly improve profitability. Extensions of the collection periods for accounts receivable have the potential to stimulate sales, consequently augmenting profitability. Nonetheless, the accumulation of receivables impedes the firm's ability to generate profits through the efficient use of funds. [Anandasayanan \(2014\)](#) performed research that revealed a significant negative association between net operating profitability and key financial operational parameters. The research found that as the average collection period, inventory turnover in days, and the average

cash conversion cycle increase, it leads to a negative impact on net operational profitability. This result highlights the significant influence of effective cash flow and inventory management on a company's financial well-being. Therefore, they suggest that a relationship might exist between how accounts receivable are managed and the financial performance of an organization. This literature review comprehensively analyses current research and theoretical frameworks regarding the relationship between return on assets (ROA) and important measures in receivable management, including the receivable collection period (RCP), the ratio of net sales to accounts receivable, and the ratio of accounts receivable to total assets.

Table 1: Summary Matrix of Empirical Literature Review

Author(s)	Year	Research Focus	Methodology	Major Findings
Anandasayanan	2014	Investigating the impact of working capital management on profitability, liquidity, and firm value.	A pooled regression analysis, using data from 2003 to 2009.	A negative relationship of profitability with the average collection period, inventory turnover in days, and the average cash conversion cycle.
Deloof	2003	The relationship between working capital management and corporate profitability in large Belgian non-financial firms.	Employed OLS, fixed and random effects, GMM, and SGMM over the period from 2007 to 2018	Corporate profitability can be increased by reducing days accounts receivable and inventories. Less profitable firms delay bill payments.
Divya, Simran, & Vartika	2017	Impact of receivables management efficiency on firm profitability in India's commercial vehicle industry.	Employed multiple regression approach covering the periods from 2009 to 2016	A positive relationship between debtor turnover ratio and firm profitability.
Dirie & Ayuma	2018	Examining the impact of accounts receivable management on the financial performance of SMEs	Pearson correlation coefficient and descriptive statistics using opinion survey	Highlighted the significance of accounts receivable management for the financial performance of SMEs in emerging economies.
Lazaridis & Tryfonidis	2006	Exploring the link between corporate profitability and working capital management among companies listed on the Athens Stock Exchange (ASE).	Employed descriptive, correlational, and regression analysis techniques	A statistically significant relationship exists between corporate profitability, measured through gross operating profit, and the cash conversion cycle.
Mbula, Memba, & Njeru	2016	Impact of accounts receivable management on the financial performance of firms funded by government venture capital in Kenya	Employed regression technique on census approach with 24 firms, using questionnaires and record survey sheets for secondary data.	A positive relationship between accounts receivable management and the financial performance of firms, with accounts receivable explaining 25.7% of financial performance variance.

Author(s)	Year	Research Focus	Methodology	Major Findings
Munene & Tibbs	2018	Impact of accounts receivable management on the financial performance of Embu Water and Sanitation Company Limited	Descriptive research using secondary data	Inventory turnover in days negatively affects Return on Equity (ROE), while the average collection period and current ratio have a significant positive association with ROE.
Tyas	2020	Effectiveness of accounts receivable management on profit increase through credit sales policies	Descriptive research with quantitative methods, utilizing interviews and financial statement analysis.	Profits decreased to 27.79% in 2019 due to increasing average receivables, affecting operating costs.

The association between managing receivables and the financial success of organizations has been the main focus of much academic research. Divya et al. (2017), for instance, conducted the relationship between receivables management efficiency and profitability in the Indian commercial vehicle industry, finding a significant positive correlation between debtor turnover ratio and profitability. Similarly, Dirie and Ayuma (2018) have found a positive correlation between accounts receivable management and the financial performance of SMEs in Mogadishu, Somalia, emphasizing the significance of efficient receivable management.

Munene and Tibbs (2018) in their study used operational motive, cash conversion cycle, and transaction costs theories and found that the average collection period and current ratio positively impacted equities, suggesting improved financial performance. Mbula et al. (2016) studied the impact of accounts receivable management on the financial performance of Kenyan government venture capital organizations. They identified a significant direct association between accounts receivable and financial performance but neglected to evaluate the influence of bad debts on accounts receivable, which significantly impacts institutions' financial position.

Examining these linkages is particularly relevant within the framework of the Nepal Electricity Authority (NEA), which, despite its crucial role in advancing Nepal's energy sector towards self-reliance, has distinct financial and operational obstacles.

Framework and Hypotheses for Research

The research framework, shown in Figure 1, establishes a linkage between return on assets (ROA), the dependent variable, and three significant independent variables: receivable conversion period (RCP), net sales to accounts receivable (NS_AR), and accounts receivable to total assets (AR_TA). This framework is blended from an extensive review of existing literature on financial performance indicators and receivable management practices, together with an author's judgment.

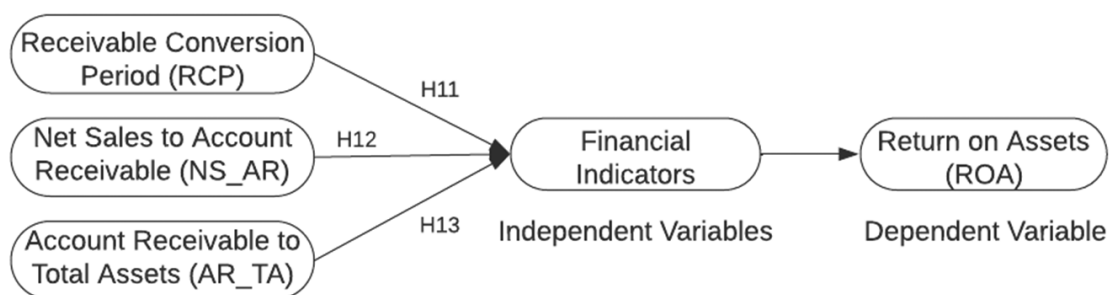


Figure 1: Research Framework

Return on Assets

The dependent variable in this analysis is the return on assets (ROA), which serves as an indicator of a company's performance in converting its assets into profits and is thus measuring its utilization to generate profits. Better financial performance and efficient asset management are indicated by a higher ROA. It is computed using the following formula.

$$ROA = \frac{Net\ Income}{Total\ Assets} \dots\dots\dots (1)$$

Receivable Conversion Period

The independent variable that determines how long it typically takes a business to be paid by consumers after the sale is completed is called the receivable conversion period (RCP). It provides an understanding of a company's efficiency in managing its accounts receivable and collecting cash from customers. A shorter receivable conversion period indicates effective credit management and liquidity due to accelerated payment collection from credit sales and is thus expected to have a negative association with the return of assets. This is computed using the following equation:

$$Receivable\ Conversion\ Period, RCP = \frac{Accounts\ Receivable}{Daily\ credit\ sales} \dots\dots\dots (2)$$

Net Sales to Accounts Receivable

Net sales to account receivable (NS_AR) evaluates the relationship between a company's net sales with accounts receivable. A higher ratio suggests quicker turnover of receivables relative to net sales and is thus expected to have a positive association with profitability.

$$Net\ sales\ to\ account\ receivable = \frac{Net\ sales}{Account\ receivable} \dots\dots\dots (3)$$

Account Receivable to Total Assets

The ratio of accounts receivable to total assets (AR_TA) expresses the fraction of a company's assets represented by its accounts receivable. A higher ratio indicates a significant reliance on accounts receivable to support total assets and is thus expected to have a positive association with return on assets.

$$Accounts\ receivable\ to\ total\ assets = \frac{Account\ receivable}{Total\ assets} \dots\dots\dots (4)$$

Research Hypotheses

- H1: There is a negative association between receivable conversion period and return on assets
- H2: There is a positive association between net sales to account receivable ratio and return on assets
- H3: There is a positive relationship between account receivable to total assets ratio and return on assets

Research Methodology

The primary focus is on understanding the relationships between the dependent variable, return on assets (ROA), and three key independent variables: receivable collection period, net sales to receivables ratio, and receivables to total assets ratio. The choice of return on assets as the dependent variable allows for a comprehensive evaluation of a company's financial performance, capturing its efficiency in utilizing assets to generate profit. The independent variables-receivable collection period, net sales to receivables ratio, and receivables to total assets ratio-are selected to explore their potential impact on ROA. This research employs a quantitative approach, utilizing statistical analyses to uncover patterns and associations within the dataset, providing valuable insights into the factors influencing return on assets in the context of receivables management and financial performance of NEA.

This study utilized the secondary data from the balance sheets and income statements of the Nepal Electricity Authority, spanning 2013 to 2022, to capture relationships among the variables over this extended timeframe. The simple linear regression model used to examine the relationship is presented in equation (5) as:

$$ROA_t = \beta_0 + \beta_1RCP_t + \beta_2NS_AR_t + \beta_3AR_TA_t + \epsilon_t \dots\dots\dots(5)$$

Where, ROAt is the dependent variable, representing the Return on Assets at time “t.” β_0 is the intercept term, representing the value of ROA when all independent variables are zero, RCPt: This is the independent variable representing the Receivable Collection Period at time “t.” NS_ARt: This is the independent variable representing the Net Sales to Account Receivable ratio at time “t.” AR_TAt: This is the independent variable representing the Account Receivable to Total Assets ratio at time “t.” β_1 to β_4 are the respective coefficients associated with the explanatory variables. ϵ_t represents the error term, which includes all other factors that influence ROA at time “t” but are not explicitly included in the model. ROA. ϵ_t : This represents the error term, which includes all other factors that influence ROA at time “t” but are not explicitly included in the model. It captures the model’s inability to explain all variability in ROA.

Descriptive Statistics

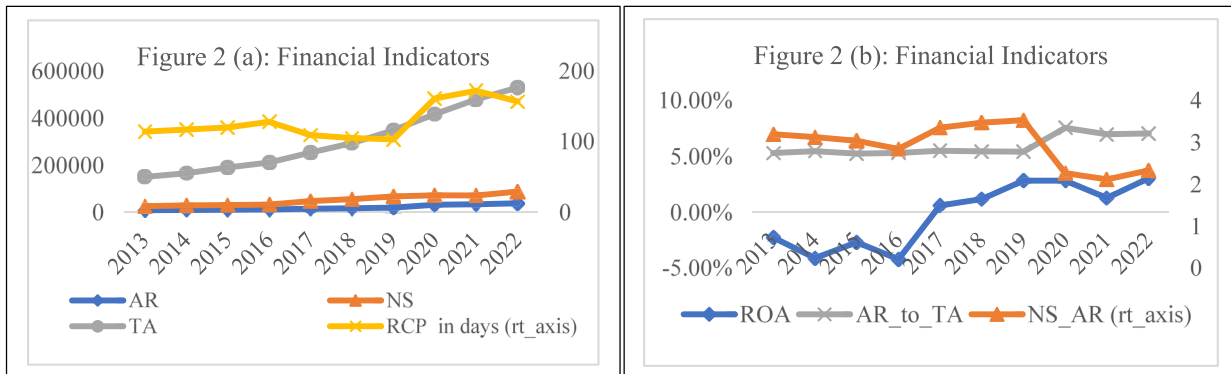
Table 2 presents a descriptive statistical analysis of the variables of interest. As anticipated, the accounts receivable (AR) amount is relatively smaller than both net sales (NS) and total assets (TA). However, there is noteworthy variability in the figures for accounts receivable, net sales, and total assets, underscoring the dynamic nature of these financial metrics. The ratios of net sales to accounts receivable (NS_AR) vary from a minimum of 2.12 to a maximum of 3.53, with an average ratio of 2.93, with a standard deviation of 0.52, suggesting a moderate level of variability around the mean. The variable AR_TA, which represents the ratio of receivables to total assets, is a crucial indicator of the financial profiles within the given dataset. The values range from the smallest of 0.0524 to the highest of 0.0756, indicating the degree of variability in these ratios. The standard deviation, which is 0.01, quantifies the degree of dispersion in these ratios. The negative mean return on assets (ROA) suggests a potential profitability issue for the Nepal Electricity Authority (NEA). The average receivable collection period (RCP) of 128.69 days, coupled with a low standard deviation of 0.2533, indicates a consistently prolonged collection period. These statistics collectively point toward potential weaknesses in NEA’s receivable management practices.

Table 2: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Standard Deviation
AR	10	7,930.00	37,372	18,917	11074.35
NS	10	25,355.00	87,120	51359.3	22032.46
TA	10	149,513.00	529,402	303,382	134853.03
NS_AR	10	2.12	3.53	2.93	0.52
AR_TA	10	5.24%	7.56%	5.93%	0.01
ROA (in %)	10	-4.00	3.00	-0.1	2.88
RCP (in days)	10	103	172	129	0.25

Figure 2 (a) provides a visual representation of the variables: accounts receivable (AR), net sales (NS), and total assets (TA) from 2013 to 2022. The financial data indicates a steady increase in accounts receivable (AR) from 7,930 in 2013 to 37,372 in 2022. The net sales had a significant rise, rising from 25,355 in 2013 to 87,120 in 2022, particularly in recent years. The total assets (TA) increased from 149,513 in 2013 to 529,402 in 2022. Return on assets (ROA), account receivable to net sales (AR_NS), account receivable to total assets (AR_TA), and receivable collection period (RCP), all of which are measured in days, can be seen in Figure 2 (b). The return on assets (ROA) witnessed volatility over the years, reaching a minimum of -4.22% in 2016 and a maximum of 3.04% in 2022. The AR_NS and AR_TA ratios exhibited fluctuations, reaching a peak ratio of 47.26% in 2021

and a ratio of 7.56% in 2020. However, RCP has shown fluctuations throughout time.



These observations emphasize the ever-changing character of the financial environment throughout time, specifically focusing on the increase in accounts receivable, net sales, and total assets. The fluctuation in return on assets and the ratios of accounts receivable to key financial parameters highlight the need for attentive monitoring and analysis of these indicators to get a deeper understanding of the financial well-being and performance of the entities being evaluated.

Regression Results

The regression analysis aimed to analyze the association between return on assets (ROA) and the following predictors: account receivable to total assets ratio (AR_TA), net sales to account receivable ratio (AR_NS), and receivable collection period (RCP). An estimated 0.001 unit decrease in the return on assets (ROA) is linked to each additional unit increase in the receivable collection period (RCP), assuming all other predictors remain constant.

A negative coefficient signifies that an increase in the time required for collecting receivables is associated with a reduction in the expected return on assets. A marginal increase of one unit in the net sales to account receivable ratio (NS_AR) is projected to result in an additional 0.223 units in the return on assets (ROA) when considering the receivable turnover ratio. A positive coefficient suggests that a positive correlation exists between the proportion of accounts receivable to net sales and the expected return on assets.

It is projected that the return on assets (ROA) will increase by 3.954 units for the accounts receivable to total assets (AR_TA) ratio. This positive coefficient simply shows that a higher percentage of accounts receivable to total assets is linked to a higher projected return on assets. A p-value of 0.004 from the F-statistics test indicates that at least one predictor contributes substantially to explaining the variance in ROA. With an adjusted R-squared value of 0.814, the model accounts for approximately 81.4% of the variance in ROA. The findings indicate that the combined influence of RCP, NS_AR, and AR_TA contributes to clarifying the variability observed in ROA, thereby offering significant insights into the magnitude and direction of these associations.

Table 3: Regression Coefficients

Dependent Variable: Return on Assets (ROA)

Model	Beta Coefficients	Standard Error	t-statistics	P-value
Constant	-0.049	0.044	-1.111	0.309
RCP	-0.001	0.000	-2.100	0.080
NS_AR	0.223	0.090	2.471	0.048
AR_TA	3.954	1.178	3.356	0.015

Results and Discussions

The primary objective of this research was to examine the relationship between three significant predictors and return on assets (ROA): the receivable collection period (RCP), the net sales to account receivable ratio (AR_NS),

and the account receivable to total assets ratio (AR_TA).

The presence of a negative coefficient for the Receivable Collection Period (RCP) indicates that an increase in the time required to collect receivables is associated with a reduction in the anticipated return on assets. This situation signifies deficiencies in the collection procedure, which have resulted in challenges with the Nepal Electricity Authority's (NEA) liquidity. This observation is consistent with the conclusions drawn by [Jindal and Jain \(2017\)](#) and [Owuor et al. \(2021\)](#), indicating that the financial performance of the companies is significantly impacted by the management of accounts receivable. Simply put, the inverse association between accounts receivable management and financial performance indicates that improved financial performance results from a shortened average collection period for receivables. The consistent results obtained from multiple studies suggest the existence of a recurring trend that emphasizes the importance of efficient receivables management. As a consequence, the overall financial performance is negatively impacted by the delaying of receivables payment.

In the same way, a positive coefficient for the net sales to account receivable ratio (NS_AR) signifies that an increased proportion of net sales concerning accounts receivable is likely to result in a greater expected return on assets. This may suggest that the organization is capable at gathering past-due receivables and managing its assets to the extent, of the findings of earlier studies such as [Samiloglu and Demirgunes \(2008\)](#). The inverse relationship between these variables is consistent with established financial principles, underscoring the adverse impact on the profitability of a greater proportion of accounts receivable with net sales.

The presence of a positive coefficient for the account receivable to total assets ratio (AR_TA) indicates that firms that have a higher AR_TA are more likely to anticipate a higher return on their assets. There is consistent evidence in the research (for instance, [Tibbs & Munene, 2018](#)) that the account receivable to total assets ratio (AR_TA) and return on assets (ROA) are positively correlated. Although numerous studies provide support for the idea that a higher ratio indicates successful financial management, others ([Muthoni et al., 2020](#)) may highlight the potential risks associated with allocating a substantial portion of assets to receivables.

Test of Hypothesis

The examination of the hypotheses, as outlined in Table 4, yielded three important results. Hypothesis 1 (H1) posited that the return on assets would be significantly and negatively impacted by the receivable collection period. Nevertheless, the p-value for its beta coefficient is surpassing 0.05. A beta coefficient of 0.223 and a p-value below 0.05 supported Hypothesis 2 (H2)'s prediction that there would be a positive and statistically significant relationship between the net sales to receivables ratio and the return on assets. Hypothesis 3 (H3) proposed that there would be a noteworthy and favorable influence of the accounts receivable to total assets ratio on the perceptual benefits with a p-value within the range of 0.05.

Table 4: Summary of Hypotheses Testing

Statements	Results	Remarks
H1: <i>The receivable collection period has a negative and significant impact on the return on assets.</i>	$\beta = -0.049; p > 0.05$	Rejected
H2: <i>Net sales to receivable ratio has a positive and significant impact on return on assets.</i>	$\beta = 0.223; p < 0.05$	Accepted
H3: <i>The account receivable to total assets ratio has a positive and significant impact on the perceived benefits.</i>	$\beta = 3.954; p < 0.05$	Accepted

Conclusion

For the Nepal Electricity Authority (NEA), this study investigated the relationship between return on assets and three important predictors: receivable collection period, net sales to account receivable ratio, and account receivable to total assets ratio. The results showed that profitability is linked to financial factors. Despite the positive coefficients revealed for the account receivable turnover ratio and the account receivable to total assets ratio with return on assets, the receivable collection period shows a negative association. These findings align with our initial hypothesis, highlighting significant implications for the Nepal Electricity Authority (NEA) in

terms of credit collection and controlling the accounts receivable ratio. Specifically, the NEA may benefit from implementing targeted strategies to enhance billing and collection processes, thereby improving return on assets and overall financial performance. It is crucial for the NEA to continuously monitor receivable collection practices and accounts receivable ratios. Periodic reviews and adjustments of financial policies are recommended to ensure the effectiveness of strategies in maintaining a healthy financial position. Furthermore, as a public enterprise, the Nepal Electricity Authority (NEA) must navigate the delicate equilibrium between accountability and autonomy. Striking a balance between functioning as a commercial entity and fulfilling its role as a government service provider is crucial for fostering efficiency, innovation, and sustainability in delivering power energy to the people of Nepal. In addition, the NEA should actively pursue independence from government interventions to ensure flexibility and adaptability in its operations.

The further research scope can be expanded by integrating diverse variables and methodologies, offering a more comprehensive insight into the factors influencing the financial performance of the Nepal Electricity Authority. Exploring additional dimensions, such as assessing the potential impact of regulatory changes, understanding stakeholders' perspectives, analyzing the implications of existing technologies in power generation, and evaluating the effectiveness of human resource management, can further enrich the performance analysis of NEA. Overall, the research has the potential to contribute to the collective understanding of revenue management by public enterprises in the energy sector, offering practical recommendations for improvement that can positively impact various stakeholders.

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