ACCOUNTING FOR RECEIVABLES AND PAYABLES: INTERNATIONAL PRACTICES AND TRENDS

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Abstract: This article analyzes the accounting system for receivables and payables, their presentation in financial statements, compliance with international accounting standards, and their impact on effective financial management. Furthermore, the comparison between advanced international practices and national approaches is provided, along with recommendations for improvement.

Keywords:accounts receivable, accounts payable, IFRS, financial reporting, accounting, assets, liabilities.

Introduction

Receivables and payables are among the primary indicators of a business entity's financial position. Proper accounting and management of these items not only ensure liquidity but also reflect the level of trust the company holds among investors and stakeholders. Accounting in accordance with International Financial Reporting Standards (IFRS) is an integral part of global economic integration.

Nature and Types of Receivables and Payables

Accounts receivable represent funds owed to a company by third parties for goods sold or services rendered. In financial reporting, these are classified as current assets.

Accounts payable refer to a company's obligations to suppliers or service providers, whether due or overdue, and are classified as current liabilities.

IFRS Approaches to Receivables and Payables

IFRS 9 and IFRS 15 play a critical role in the recognition and measurement of receivables:

IFRS 15 requires revenue to be recognized based on contracts with customers, thereby forming the basis for receivables.

IFRS 9 introduces the Expected Credit Loss (ECL) model for financial assets, including receivables, which must be assessed for potential losses.

Payables are recognized as liabilities under IFRS and must be reported based on contractual obligations.

Comparison Between National and International Practices

While Uzbekistan's national accounting standards give attention to the recognition of receivables and payables, there are differences when compared with international practices. These include:

Loss assessment models,

Revenue recognition timing,

Application of discounting methods.

Challenges in Managing Receivables and Payables

Many enterprises face increasing receivables, leading to disrupted cash flows and higher reliance on credit. Recommended measures include:

Improving credit policy;

Implementing customer rating systems;

Enhancing monitoring of payment deadlines.

Financial Analysis of Receivables and Payables

Analyzing the ratio between receivables and payables provides insight into cash flow, financial discipline, and management efficiency:

Receivables turnover ratio = Sales / Average Accounts Receivable

Payables turnover ratio = Purchases / Average Accounts Payable

Low receivables turnover indicates poor payment discipline by clients, while high payables turnover may signal liquidity pressure due to quick supplier payments.

Digital Management of Receivables and Payables

Digital transformation and ERP (Enterprise Resource Planning) systems have significantly enhanced the efficiency of receivables and payables management. These systems provide:

Complete historical data on each client or supplier,

Automated alerts for due dates,

Real-time reporting capabilities.

Widely used systems include SAP, Oracle NetSuite, and 1C Accounting.

Sectoral Differences

Receivables and payables vary across industries:

Retail and trade: High turnover and short-term receivables;

Construction and manufacturing: Longer credit terms and phased payments;

Service sectors: Often operate on advances or contract-based payments.

These variations must be considered in developing accounting policies

Risk Management in Receivables and Payables

To minimize financial risks, the following practices are recommended:

Setting credit limits for customers;

Insuring large receivables;

Diversifying the customer base;

Creating reserves for risky customers under IFRS 9.

10. Representation in Financial Statements

Receivables and payables must be correctly classified and presented:

Statement of Financial Position:

Receivables under "Current Assets"

Payables under "Current Liabilities"

Cash Flow Statement:

Increase in receivables reduces cash flowIncrease in payables may indicate cash savings

Income Statement: While not directly listed, receivables and payables influence revenue and expense flows.

Causes of Bad Debts

Uncollected receivables often result in bad debts due to:

Weak financial condition of clients;

Lack of strict contract terms;

Poor monitoring systems;

Weak internal controls;

Economic downturns and decreased payment discipline.

Implementing risk assessment systems is vital.

Normalization of Receivables and Payables

Normalization involves setting optimal levels for receivables and payables. Recommendations include:

Maintaining a balanced ratio (ideally near 1);

Implementing standard payment terms (e.g., "Net 30");

Conducting regular internal audits.

Empirical Findings

Global studies show that high receivables are associated with:

Liberal credit policies in SMEs;

Competitive strategies in new markets;

Delayed payments in government-related contracts.

These findings lead to the need for policy improvements.

Practical Recommendations

1. Implement customer credit scoring systems.

2. Include strict payment terms and penalties in contracts.

3. Use digital platforms for real-time monitoring.

4. Negotiate extended terms with suppliers to improve liquidity.

5. Strengthen reserve policies in line with IFRS 9.

Conclusion

Accurate accounting and effective management of receivables and payables are crucial for the financial stability and credibility of any business entity. Considering international experience, national approaches should be enhanced, particularly by fully adopting IFRS to improve financial transparency and investor confidence.

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