THE EFFECTS OF RECEIVABLE MANAGEMENT PRACTICES ON RECIEVABLES IMPAIRMENT IN SUGAR COMPANIES IN KENYA

OMONDI JOSEPH WILLIAM

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LIST OF ABBRIVIATIONS

COMESA	Common Market for Eastern and Southern Africa
FP	Financial Performance
GoK	Government of Kenya
IAS	International Accounting Standards
KESREF	Kenya Sugar research Foundation
KSB	Kenya Sugar Board
SDL	Sugar Development Levy

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The sugar industry, which plays a significant role in socio- economic development of the Kenyan economy by the nature of its operations, faces a myriad of challenges (Gongora, Otieno and Nasimiyu, 2013). With the liberalization of the sugar industry evidenced by the recent rise in the number of private sugar factories in Kenya, effective management practices has become a necessity.

Accounts receivable constitute a substantial portion of current assets of several companies' balance sheets, highlighting the importance of the management and financing of this type of asset since it plays an important role in a firm's performance, risk and value (Smith, 1990). A firm is therefore required to maintain a balance between liquidity and profitability while conducting its day to day operations. Liquidity is a precondition to ensure that a firm is able to meet its short-term obligations and its continued flow can be guaranteed from a profitable venture.

According to Gitman (1984) and Bhattacharya (2001) risk and return tradeoffs is inherent in working capital policies. Thus, the manager of a business entity is in a dilemma in achieving desired tradeoff between liquidity and profitability in order to maximize the value of a firm. The nature of accounts receivable is such that decisions made elsewhere in the organization are likely to affect the level of resources that are expended on the management of accounts receivable. Firms therefore try to keep optimal level of accounts receivable that maximize their value (Deloof, 2003).

1.1.1 Receivable Management Practices

Accounts receivable is an interim debt arising through credit sales and recorded as accounts receivable by the seller and accounts payable by the buyer (Brigham 1986). Trade credit has been described as the oil of commerce and is an indispensable catalyst in stimulating production, selling and expansion in both small and large scale businesses existing in private and public sector. The main reason why firms sell on credit is to expand their sales and maintain the market share. Credit policy helps to retain old customers and create new customers by winning others from competitors.

If a firm expands its sales as a result of credit policy, it incurs incremental production and selling costs, administration cost such as credit investigation and supervision costs and collection costs such as bad debts increases. According to Ross (2004) optimum accounts receivable in a business is one that maximizes the value of a firm when the incremental rate of return (marginal rate of return) of an investment is equal to the incremental cost of funds (marginal cost of capital) used to finance the investment. The incremental cost of funds is the rate of return required by the suppliers of funds given the risk of investment in Debtors. As the firm liberalizes its credit policy its investments in debtors becomes more risky because of increase in slow paying and defaulting debtors.

Accounts receivable management is a very important aspect of corporate finance since it directly affect the liquidity and profitability of the company (Pandey, 2010). It is useful to think of the decision to grant credit in terms of carrying costs and opportunity costs. Carrying costs are the costs associated with granting credit and making investment in accounts receivable. It includes the delay in receiving cash, the losses from bad debts and the costs of managing accounts receivable. Opportunity costs are the lost sales from refusing to offer credit. In the sugar industry, this involve insufficient raw material as farmers have land but may not have the resources to develop the cane (Rose, Westfield, Jeff and Jordan 2008). Finance manager can vary the level of accounts receivable in keeping with the trade-offs between profitability and risk. Economic conditions and the firm's credit policies are the chief influences of the level of accounts receivable to be maintained by a firm at any given time (Horn 2007).

Debt management requires that an organization put in place a credit policy whose main aim is to maximize shareholders wealth by increasing sales. A firm may follow a lenient or stringent credit policy. Lenient policy allows the organization to sell to customers on very liberal terms while stringent policy allows a firm to sell on credit on a highly selective basis to customers who have proven record creditworthiness (Pandey 2010).

Trade credit involves receivables which the firm expects to collect in the near future and has some risks (Pandey 2010). These include risk of bad debts where the debtor totally fails to pay. Secondly, the risk of loss of economic value of money due to inflation as a result of delayed payment. The investment in accounts receivable depends on the volume of credit sales or the objective of offering credit and the collection period (Manasseh1990). According to Peel and Wilson (1996), good receivable management practice is being pivotal to the health and performance of both small and large firms a like.

The key principles of accounts receivable management that a firm should adhere to are ageing of accounts receivable, evaluating the potential customers ability to pay using criteria such as integrity of the customer, financial soundness, collateral to be pledged and current economic conditions should be analyzed, establishment of credit terms and limits, collection of trade credit, assessment of default risk and responsibility and the financing of accounts receivable until it has been paid by the purchaser (Schaum ,1998). . The goal of accounts receivables management practices are to maximize shareholders wealth. Receivables are large investments in firm's asset, which are, like capital budgeting projects, measured in terms of their net present values (Emery et al., 2004). There are three characteristics of accounts receivables include; the element of risk, economic value and futurity (Laziridis & Tryfonidis, 2006). The management of receivables is basically a problem of balancing recoverability and liquidity. The costs associated with accounts receivables include capital, administrative, collection and default costs (Pandey & Parera, 1997).When the firm resorts to liberal credit policy, the asset value of the firm is not protected. However, such a policy results in increased investments in receivables and the problem of liquidity is created. On the other hand, a stringent credit policy protects the asset value and increases the liquidity of the firm. The management should consider the following factors in keeping the level of investment in receivables within the controllable limits. The effectiveness of accounts receivable management should be analyzed from time to time with the help of certain ratios such as average collection period, debtor's turnover ratio, receivable current assets ratio (Laziridis & Tryfonidis, 2006).

1.1.2 Impairment of Accounts Receivable

According to IAS 36 an asset is said to be impaired if there is evidence of obsolescence or there indication that the economic performance of the asset is, or will be, worse than expected. Accounts receivables here refers to loans granted to farmers in the form farm inputs and services to develop cane to be delivered to the factories. This is meant to stimulate the supply of raw material to these factories. The loans are supposed to be recovered from the cane proceeds when the cane is harvested to the factories. These loans according to the sugar firms are recoverable within the expected life of the cane which is usually approximately four years for both plant cane and two other ratoons. Where the loans exist beyond the life of the cane, the recoverability of the accounts receivable is doubtable thus impairment.

The accounts receivable of the sugar firms are significantly impaired or irrecoverable as evidenced from the high level of bad debts and provisions for bad debt sitting in the audited financial statements of these firms as well as the cash flow problems experienced by these firms.

1.1.3 Effects of Receivable Management Practices on Receivable Impairment

Receivables Management means planning, organizing, directing and controlling of receivables. It deals with a shortened collection period, low levels of bad debts and a sound credit policy; it often improves the businesses financial performance. Hence there is need for sound receivable management practices that will ensure that accounts receivable is effectively recovered (Ross, 2008). Losses as a result of bad debts written off and provisions for bad debts constitute the receivable impairment as the carrying amounts of accounts receivable in the financial statement is far less than what is recoverable (Pandey, 2004).

Firms that are efficient in receivables management determine their optimal credit, which minimizes the total costs of granting credit (Ross, 2008). As observed by (Michalski, 2007), an increase in the level of accounts receivables in a firm increases both the fund and the costs of holding and managing accounts receivables and both lead to a decrease in the value of the firm. A study by Lazaridis and Dimitrios (2005) found that firms who pursue increase in accounts receivables to an optimal level increase their profitability. A study by Juan & Martinez (2002) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Deloof (2003) who established that the length of receivables collection period has a negative effect on a firm's performance. A study by Sushma & Bhupesh (2007) also affirmed that, putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms.

1.1.4 Sugar Industry in Kenya

The development in the sugar industry started with private in vestment in a sugar factory at Miwani in Kisumu in 1922 followed by Ramisi Sugar factory at the coast province in 1927 (KSB 2010). After independence, six additional factories were established namely: Muhoroni (1966), Chemelil (1968), Mumias (1973), Nzoia (1978), South Nyanza (1979 and West Kenya (1981).

The establishment of parastatals was driven by a national desire to accelerate social, economic development, address regional economic imbalance, increase Kenya citizen's participation in the economy, promote indigenous entrepreneurship and promote foreign investment through joint venture.

The sugar industry plays a significant in socio-economic development of the Kenyan economy directly supporting over 200,000 small-scale farmers who supply over 85 percent of the cane milled by the sugar factories. It is estimated that over six million Kenyan derive their livelihood directly or indirectly from the industry (KSB 2010). Other benefit accruing from industry are social amenities such as schools, roads and bridges, health facilities provided to the communities by the sugar companies. The industry has largely grown under protected environment over a long period of which has hampered technological advancement, export orientation and utilization of optimum capacity. According to the study conducted by Transparency International and Sugar Campaign for change (Sucam) in September 2009, the sugar firms are heavily indebted to Kenya Sugar Board and other creditors including farmers to the tune of Kshs.50 Billion. The high level of debt in the sector makes it difficult to privatize or commercialize the sugar mills until the debt situation is resolved. The industry is facing pressures from cheap import, globalization and trend towards merger and alliance which require financial stability and effective financial risk management practices. This means that The Kenya sugar firms are exposed to severe cash flow and liquidity problems. The sugar firms are also heavily taxed in terms of Value Added Tax (VAT), CESS and Sugar Development Levy (SDL) which erode the gains accruing to farmers and millers. The Kenya sugar sector is also identified with low level of technology, high cost of production, low market price and competition from cheap import from Common Market for Eastern and South African States (COMESA) protocol and political interference which are bewildering the industry.

Accounts receivable in the context of the sugar firms in Kenya arises from loans granted to farmers to develop cane in the form of service such as land preparation, planting, and farm input such as fertilizer and herbicides.

1.2 Statement of the Problem

Receivables management is a very important component of corporate finance because it directly affects the liquidity, profitability and growth of a business. It is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed (Atrill, 2006). It involves the planning and controlling of current assets and liabilities in a manner that eliminates the risk of inability to meet short -term obligations and avoid excessive investments in these assets (Lamberson, 2005). However, mismanagement of accounts receivables is disastrous for a firm and more often leads to liquidity problems to many firms (Waweru, 2013). The amount of impairment associated with receivables is normally a portion of the historical cost of the receivable that should be written off (Sushma & Bhupesh, 2011). It is derived from the estimated costs to restore the utility of the receivable. However, the actual impact of accounts receivable management practices on impairment of receivables is largely a perception with no factual empirical estimations (Waweru, 2013).

The sugar industry in Kenya by the nature of its operations faces a myriad of cash flow challenges as a result of accounts receivable management practices. Delayed payments to farmers, creditors, and other stakeholders have led to unpredictability of and cash flows in these firms. As a consequence farmer and the other stakeholder hold on critical raw material and spares as a result of the unpredictable payment patters occasioned by poor cash flows and this affect efficient factory operation. Accounts receivable in this context represent loans granted to farmers to develop cane in the form of service such as land preparation, planting, and farm input such as fertilizer and herbicides. The impairment of the accounts receivable approximate more than one billion for firms in the Nyando Sugar belt alone making it a major risk that threatens the very survival of the sugar sector. The management of this risk through sound practices cannot be overemphasized. This study therefore seeks to answer the question: do receivable management practices affect the impairment of the receivables?

Several studies have been advanced on the effects of accounts receivable management practices on the impairment of receivables (Mwangi, 2013; Lazaridis & Dimitros, 2009; Bowen, Murara & Mureithi, 2009). Mwangi (2013) in his study of receivable management practices in CDF funded projects in Kenya concluded that the efficiency levels on receivable management practices were average thus indicating that CDF funded projects embraced and implemented efficient receivable management practices in project operations hence the survival of CDF funded projects was eminent.

Lazaridis & Dimitros (2009) while examining the relationship between accounts receivable management and profitability of listed companies in the Athens Stock exchange concluded that there were other external factors that largely interfered with the impairment of receivables leading to losses other than the actual management practices. Bowen, Murara & Mureithi (2009) in their study of receivable management challenges among SMEs in Kenya conclude that indeed most SMEs were suffering from bad debts; a critical element of asset impairment; caused by poor receivable management practices. However, none of the above studies clearly outlines the actual impact of accounts receivable management practices on the impairment of the receivables; a gap this study seeks to fill by evaluating the effects of accounts receivable management practices on the impairment of receivables in the sugar companies in Kenya.

1.3 Objectives of the study

To determine the effects of accounts receivable management practices on the impairment of accounts receivable within the sugar companies in Kenya.

1.4 Value of the Study

The study shall be of great importance to government agencies in formulating policies and regulations that promote sound receivable management practices to reduce on the level of debt cancellation.

The study shall add to existing knowledge whereby researchers may want to explore and expand their knowledge on accounts receivable management practices and working capital. The study will also contribute to the existing theories of financial management.

The study shall help managers in the sugar companies to understand the good practices of managing accounts receivable to reduce high default rate in debtor recoveries in the entire sugar sub-sector. It will also help educate the general public on the benefits of having a strong and efficient credit management practices that can realize financial gains.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter is organized into five parts. The first part looks at reviews of theories of accounts receivable management. The second part describes the empirical studies of accounts receivable and is organized into three parts. The first part focuses on the review of theories of working capital management which accounts receivable is part of. The second part describes the empirical studies. The third part contains determinants of asset impairment and the final part contain the summary of empirical studies.

2.2 Theories on Working Capital Management

The theories below explain the principles and practices of working capital management which accounts receivable is a significant component.

2.2.1 Value Chain Theory

Rappaport's (1986) theory on shareholder value network is adapted here because it explains the linkage between the corporate objective of value creation and its value drivers (Irene, 2010). He argues that to be effective, management must be guided by a set of principles that can be applied to decision making in various situations (Irene, 2010). To this end, he also developed a number of financial management approaches and basic principles applicable to the management of working capital which accounts receivable is a major component. Two major principles are the objective of shareholder value creation and cash flow approach to decision making. Rappaport (1986) felt that the objective of shareholders value maximization is critical as owners of a firm hire a manager to act in their best interest by generating profits (Irene, 2010). Shareholders value/wealth maximization criterion therefore becomes a basic approach to formulate and evaluate a firm’s objective (Irene, 2010).

2.2.2 Operating Cycle Theory

The theory looks explicitly at current assets which accounts receivable is a major component and gives income statement measures of a firm's operating activities which includes production,

distribution and collection.

Accounts receivable for instance are directly affected by the credit management policy of an organization and the frequency of converting these receivable into cash differ from one industry to another. For instance a liberal credit policy will increase the profitability of a firm at the expense of liquidity hence the need for tight balancing.

2.2.3 Transaction Cost on Working Capital Theory

The theory focuses on the transaction costs as well as its implications on the management of working capital including accounts receivable. A firm can create value by properly managing transaction costs of their backward linkages with providers of goods and services (suppliers) and forward linkages with customers. A firm should therefore reduce these transaction costs by developing distinctive competencies in its value chain. A transaction is a fundamental unit of economic activity where one party consents to take action in return for equitable reciprocal value. According to Emery (1984)' transaction occurs if goods and services is transferred across a technologically separable interface and can therefore occur within the firm (hierarchy) or outside the firm (market)

2.3 Determinants of Asset Impairment

It is important to highlight that the possible population of receivables that have potential for meeting the definition of impairment are identified through significant events or changes in circumstances that may suggest that the service utility of a receivable may have declined significantly and unexpectedly (Sushna & Bhupesh, 2011). The events and circumstances surrounding an impairment case are usually known by the institution’s financial management and are generally known from discussions by the regents, senior management, or the media (Waweru, 2013). Other sources of information that should be used to identify potential impairments to receivables may include the institution’s press releases (Sundgren & Schneeweis, 2010). The events and circumstances surrounding receivables impairment are prominent, conspicuous and, as expressed above, are not considered to be normal and ordinary. Any known event should be properly reported, regardless of the amount (Sundgren & Schneeweis, 2010).

In order to perform a review for potential unknown circumstances, they should be considered significant. Institution review efforts should focus on identifying events and circumstances that may lead to potential impairments (Sundgren & Schneeweis, 2010). If during the normal course of recording transactions during the year there are “insignificant” events or circumstances that

result from any of the indicators of impairment, they should be recorded (Sundgren & Schneeweis, 2010).

There are five common indicators of impairment (Sushna & Bhupesh, 2011). For non-current assets, the first one is when there is evidence of physical damage, such as for a building damaged by fire or flood, when the level of damage is such that restoration efforts are needed to restore service utility (Sushna & Bhupesh, 2011). The second one is enactment or approval of laws or regulations or other changes in environmental factors (Sushna & Bhupesh, 2011). The third is technological development or evidence of obsolescence, such as that related to a major piece of diagnostic or research equipment. The fourth is change in the manner or expected duration of use of a capital asset, such as closure of a building prior to the end of its useful life (Sushna & Bhupesh, 2011). The fourth is construction stoppage, such as stoppage of construction as a result of a lack of funding (Sushna & Bhupesh, 2011). For accounts receivable, impairment is evidenced by the bad debts as a percentage of the total debts (Sushna & Bhupesh, 2011).

2.4 Empirical Studies

In his study of receivable management practices by Kenyan firms, Kotut (2013) found a strong significant relationship between the measures of receivable management and corporate liquidity. Kotut (2013) asserts that all impairment losses must be recorded as an operating impairment loss unless they specifically meet the definition of a special or extraordinary impairment loss; for example, a major renovation of an institution building where a portion of the existing structure has to be demolished, or a fire started in a laboratory that destroys a major portion of a building may be considered an operating impairment loss. Kotut (2013) further claims that features between an operating impairment loss and either a special or extraordinary impairment loss depend on whether the event or circumstance is either unusual, infrequent, or both. However, Kwame (2010), in his study of receivable management practices of SMEs in Ashanuti region of Ghana, claims that generally, recording an impairment loss as special and/or extraordinary is difficult to justify. Kwame (2010) findings suggest that managers can increase liquidity by reducing the number of day's accounts receivable is recovered. This is particularly important for both small and large firms who need to finance increasing amounts of debtors.

According to Aaron and Namoi (2004) firms suffer from cash flow problems as a result of poor accounts receivable management practices. Narasimhan and Murty (2001) stress on the need for businesses to improve their return on capital employed (ROCE) by focusing on critical areas

such as accounts receivable management and improving working capital efficiency. Some research studies have been undertaken on the effect of accounts receivable management practices of both large and small firms in India, UK, US and Belgium using either a survey based approach (Anand, 2001; Deloof, 2003) to identify the push factors for firms to adopt good receivable management practices or econometric analysis to investigate the association between receivable management and profitability (Anand, 2001; Deloof, 2003).

Afza and Nazir (2007) carried out a study on the relationship between the aggressive and conservative working capital policies for a large sample of 263 public limited companies listed on Karachi Stock Exchange using cross- sectional data for the period 1998-2003. Using variance analysis and Least Significant Difference test, the study found out significant difference among their working capital investment and financing policies across different industries. Rahemen and Nasr (2007) carried out a study on working capital management and profitability, a case 0f 94 Pakistani firms on Karachi Stock Exchange for a period of six years 1999-2004. Their main objective was to establish the relationship between working capital management including accounts receivable and profitability of firms. Their findings were that there was a strong negative relationship between net operating profitability and the average collection period for firms Listed on the Karachi stock exchange. The result suggested that managers should create value for their shareholders by reducing the number of days of accounts receivable to minimum.

Academicians have studied accounts receivable individually, but mostly as a part of working capital management, from various points of view. Bougheas et al. (2009), for example, focuses the research on the response of accounts receivable to changes in the cost of inventories, profitability, risk and liquidity. The other authors explore the impact of an optimal receivables management, i.e. the optimal way of managing accounts receivables that leads to profit maximization. Researches realized by Deloof (2003), Laziridis and Tryfonidis (2006), Gill et al (2010), Garcia-Teruel and Martinez-Solano (2007), Samiloglu and Demirgunes (2008) and Mathuva (2010) done in Belgium, Greece, USA, Spain, Turkey, and Kenya respectively, all point out to a positive relation between accounts receivables and asset impairment . In other words, having an accounts receivable policy which leads to a low as possible accounts receivables has as a result the lowest rate of asset impairment.

However, the main body of the literature of accounts receivables focuses on studying in the environment of developed capital markets and during the non-crisis period. The consequences of accounts receivables management practices on the impairment of the assets are of enormous

relevance (Bastos and Pindado, 2012). As to researches that study relationship between accounts receivables management practices and asset impairment during current global crisis period, it is worth mentioning the study done by Baveld (2012). It this study that investigates how public listed firms in the Netherlands manage their working capital, two periods is compared - the non-crisis period of 2004-2006 and the financial crisis period of 2008 - 2009.

Baveld's (2012) study indicates a statistically significant positive relation between accounts receivables management practices and recoverability of the assets.

2.5 Summary of the Empirical Studies

Most studies reviewed point out to a positive relation between accounts receivables management out the extent to which poor receivable management practices impairs the receivables in the SMEs and impairment of receivables; for example Kotut (2013); Bastos and Pindado (2012). However, the studies do not highlight the extent of the relation.

Kotut (2013) does not clearly bring out the effects of poor receivable management practices on the impairment of the receivable. However, he links the impairment of the receivables to poor performance and liquidity levels of most companies in Kenya. This study will therefore seek to critically bring out the link between accounts receivable practices and impairment of receivables.

Kwame (2010) claims that generally recording an impairment loss as special and/or extraordinary is difficult to justify for SMEs in Ashanuti region of Ghana. In other words, having an accounts receivable policy which leads to a clear detection of the net effect of the impairment of receivables does not come out from his study as well as other studies analyzed above (Aaron and Namoi (2004); Baveld (2012)). It is therefore clear that the consequences of accounts receivables management practices on the impairment of the assets are of enormous relevance. However, the studies do not clearly explain the level of relation between accounts receivable management practices and asset impairment. In Kenya several studies have been done by various scholars on accounts receivable arising from credit sales management but not on accounts receivables that relate to loans to farmers. It is against this backdrop that this research seeks to fill the gap by seeking to establish effect of accounts receivable management practices and the impairment of the asset.

Moreover, most studies analyze receivable management practices from the working capital perspective; mostly as a part of working capital management, from various points of view

(Bougheas et al. (2009); Deloof (2003); Laziridis and Tryfonidis (2006); Gill et al (2010); Garcia-Teruel and Martinez-Solano (2007); Samiloglu and Demirgunes (2008) and Mathuva (2010)). Bougheas et al. (2009), for example, talks about the response of accounts receivable to changes in the cost of inventories, profitability, risk and liquidity while other authors explore the impact of an optimal receivables management, i.e. the optimal way of managing accounts receivables that leads to profit maximization.

This study will therefore seek to critically analyze accounts receivable practices and impairment of receivables without diverting to other financial variables.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The chapter contains the various steps involved in the execution of the study to meet the research objectives. These steps include; research design, population, data collection instruments data analysis procedures and data reliability and validity.

3.2 Research Design

The study will adopt a cross-sectional descriptive design since it focuses at one point in time. Dooley (2007) defines a research design as the scheme, outline or a plan that is used to generate answer to research problems. Cooper and Schindler (2010) recommend descriptive survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers. (Zikmund 2003) says surveys provide quick, inexpensive, efficient and accurate means of accessing information about the population The method is rigid and focuses on the objectives of the study (Gay, 2009).

3.3 Target Population

A population refers to an entire group of individuals, events or objects having a common observable characteristic (Orodho, 2003). The study shall focus on the all the sugar firms registered and regulated by the Kenya Sugar Board. The population for the study comprises a total of eight sugar companies registered and regulated with Kenya Sugar Board (KSB, 2014). The study will specifically target the finance and agriculture officers of all the eight sugar companies since the population size is small. However, the study will adopt systematic random sampling to pick five respondents from every sugar company; giving a sample size of 40 respondents as shown below.

Table 1: Target population

S/NO	Sugar Firm	Respondents
1.	Chemelil sugar company limited	5
2.	Muhoroni Sugar Company Limited	5
3.	Kibos & Allied Sugar Company limited	5

4	Nzoia Sugar	5
5	Sony Sugar	5
6	Butali Sugar	5
7	SOIN Sugar	5
8	West Kenya Sugar	5
	TOTAL	40

Source: Survey data

3.4 Data Collection Instruments and Procedures

Primary data will be collected. A semi- structured questionnaire will be used to collect primary data. The questionnaire is preferred in this study because respondents of the study are assumed to be literate and quite able to answer questions asked adequately. It contains a mix of questions, allowing for both open-ended and specific responses to a broad range of questions.

According to Kothari (2007), questionnaire is the most appropriate instrument due to its ability to collect a large amount of information in a reasonably quick span of time. It guarantees confidentiality of the source of information through anonymity while ensuring standardization (Churchill, 1991). It is for the above reasons that the questionnaire will be chosen as an appropriate instrument for this study.

3.4.1 Data Reliability and Validity

According to Borg and Gall, (1986) validity is the degree to which a test measures what it purport to measure. In other words, validity is the degree to which results obtained from the analysis of the data actually represent the phenomena under study. According to Borg and Gall (1983), validity of an instrument is improved through expert judgment.

As such, the content validity will be ascertained by supervisors; who will constantly check, evaluate and highlight the errors in this research.

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials using the same subjects under the same conditions (Mugenda & Mugenda, 1999). Pretesting of the research instrument will be carried out before the actual data collection. The reliability of the data will be arrived at by using the test retest technique which involves the following procedures: selecting an appropriate group of subjects, administering the questionnaire

to the subjects, keeping all initial conditions constant, administer the sample questionnaire to the same subjects after two weeks, correlating the scores from both testing periods. The Cronbach Alpha will be used to test internal consistency of the items in the questionnaire. According to Fraenkel and Wallen (2000), a reliability coefficient of 0.70 and above is acceptable for descriptive research surveys. The instrument will be revised to remove some items that will be found not to elicit appropriate information.

3.5 Data Analysis and Presentation

The process of data analysis will involve several stages namely; data clean up, frequency tables, percentages and means will be used to present the findings. Both qualitative and quantitative methods of data analysis will be adopted in this study. Qualitative analysis will involve content analysis of accounting records. Quantitative analysis will involve use of ratios, percentage, mean, standard deviation and variance. Relationships between the dependent variable and the independent variable will be tested using the simple linear regression model-$X_i=MY_i+K$; where X is the Dependent variable which is receivable impairment; while Y is the Independent variable which is receivable management practices and M is the rate of change while K is a constant. Receivable impairment will be measured by bad debts written off and provisions for bad debts as a percentage of accounts receivable in the income statements. Accounts receivable management practices will be indicated through sound credit policy, factoring, provision of collateral security, evaluation of credit worthiness and proper record keeping. Intervening variables in this study include government policy regarding sugar sector and COMESA safeguards.

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APPENDICES

Appendix I: Letter from the University

Appendix II: Questionnaire

QUESTIONNAIRE TO ELICIT VIEWS ON THE RECEIVABLE MANAGEMENT PRACTICES AND IMPAIRMENT OF ASSETS WITHIN THE SUGAR COMPANIES IN NYANDO SUGAR BELT

Date of Interview: ____

A: GENERAL

1. Sugar Company's Name: ______________________________________

2. Gender of the respondent:

Male [ ]   Female [ ]

3. Duration the respondent has worked in the sugar company?

0-5yrs [ ]   5-10yrs [ ]   10-15yrs [ ]   Over 15yrs [ ]

4. Highest level of education attained:

Primary [ ]

Secondary [ ]

Graduate [ ]

Postgraduate [ ]

Other (specify): ____

5. What is your job title? ____

B: RECEIVABLE MANAGEMENT PRACTICES.

6. . Is the company currently owed any debt by cane farmers?

Yes

No

7 Does your Company have credit policy?

Yes

NO

8. If yes, state the approximate amount?

____

9. Do you use factoring in collecting overdue accounts?

Yes

No

10. If yes, what is the success rate?

Rating	Tick
Very successful	
Averagely Successful	
Poor	
Very poor	

11. Does the company have a collection period for debts?

Yes

No

12. If yes, what is the average debt collection period?

Less than 1year

1-2years

Over 2 years

13. Do you have any evaluation mechanisms for farmers' credit worthiness?

Yes

No

15. If yes, which ones?

----

16. Do you keep proper records for accounts receivable?

Yes

No

17. If yes, which ones?

Records	Tick
Statement of accounts	
Summary of invoices	
Correspondences letters	
Demand notes	
Others	

18. Are the records automated or manual?

	Tick
Automated	
Manual	

SECTION C: THE IMPAIRMENT OF THE RECEIVABLES

Have you experienced the following situations in your company before? (Please Tick)

	FACTORS	**Yes**	**No**
19	Inability to collect debts from farmers in time		
20	Existence of bad debts		
21	High level of provision for doubtful debts		
22	Cash flow problems		
23	Inability to meet current financial obligations as they fall due		
24	Written of bad debts		