

Research on Accounts Receivable Management of Guoxuan Gaoke

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Abstract: In recent years, the state has actively supported the auto industry to develop new energy vehicles to cope with today's harsh climate change and promote green development around the world. Power battery, as a key technical component of new energy vehicles, has received widespread attention, and power battery is a capital-intensive industry with obvious scale effect, so it is especially necessary to do a good job of accounts receivable management. This paper takes Guoxuan Gaoke as the research object, selects its financial related data from 2017 to 2021, analyzes many problems in its current accounts receivable management, and proposes relevant improvement countermeasures.

Keywords: Accounts Receivable; Credit Management; Credit Sales Management

1. An overview of accounts receivable in China's battery industry

In 2020, the Ministry of Finance, the Ministry of Industry and Information Technology, the Ministry of Science and Technology, and the National Development and Reform Commission jointly issued the Notice on Further Improving the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles, which further refined the subsidy standards and technical requirements for the new energy industry. Delays in subsidy payments have led to delays in payments from automakers to battery manufacturers. According to research institutions, high corporate accounts receivable are the main obstacle to the development of the energy battery industry, so that some battery companies' accounts receivable exceed their sales revenue. Table 1-1 shows the overview of accounts receivable in some battery industries. From the table, we can see that the overall accounts receivable turnover rate of the battery industry is low, and the accounts receivable turnover rate of Guoxuan Gaoke is even lower than other companies in the same industry.

Table 1-1 Accounts Receivable Turnover Ratio in Selected Battery Industries between 2017 and 2021 Unit: times

Year	2017	2018	2019	2020	2021
Ningde Shidai's Accounts Receivable Turnover Ratio	2.88	4.56	5.32	4.29	5.49
Yiwei Jianeng's Accounts Receivable Turnover Ratio	2.14	2.18	2.76	2.46	3.08
Xinwanda's accounts receivable turnover ratio	3.42	4.16	3.08	3.95	4.37
Guoxuan Gaoke's Accounts Receivable Turnover Ratio	1.36	0.96	0.80	1.03	1.49

Data source: Oriental Wealth Network

2. Current Status of Receivables Management of Guoxuan Gaoke

2.1 Introduction of Guoxuan Gaoke

Hefei Guoxuan Gaoke, established in May 2006, was successfully listed on the Shenzhen Stock Exchange in 2015 under the shell of Dongyuan Electric, and its stock abbreviation was changed from Dongyuan Electric to Guoxuan Gaoke, its stock code is 002074, and the company name was changed to Guoxuan Hi-Tech. Ltd. ("Guoxuan Goke"), and the former Hefei Guoxuan became a wholly-owned subsidiary of Guoxuan Gaoke.

2.2 Current status of receivables management of Guoxuan Gaoke

2.2.1 Analysis of accounts receivable status

From 2017 to 2021, only the amount of operating revenue exceeds the amount of accounts receivable in 2017, 2018 and 2021. Due to the limited market scale, the relatively fierce market competition and the special nature of the new energy battery industry, most of Guoxuan Gaoke's new energy batteries are sold on credit. The accounts receivable balances of Guoxuan Gaoke at the end of 2019-2021 are 6,328 million, 7,623 million and 8,097 million, respectively. In 2019 and 2020, the amount of accounts receivable even exceeds the operating revenue of that year. In the past five years, the accounts receivable turnover ratio of Guoxuan Gaoke is not very high and lower than the industry level.

Table 2-1 Analysis of Receivables Status of Guoxuan Gaoke 2017-2021

Guoxuan Gaoke	2017	2018	2019	2020	2021
Amount of accounts receivable (billion)	38.85	50.01	63.28	76.23	80.97
Operating income (billion)	48.38	51.26	49.59	67.2	103.6
Accounts receivable as a percentage of operating revenue	80.30%	97.56%	127.61%	113.44%	78.16%
Accounts receivable turnover ratio (times)	1.36	0.96	0.80	1.03	1.49
Days of turnover of accounts receivable (days)	264.71	375.00	450.00	349.51	241.61

Data source: Guoxuan Gaoke Annual Report 2017-2021

3. Problems with Accounts Receivable

3.1 Problems in the ex ante management of accounts receivable

3.1.1 Unreasonable accounts receivable system

Accounts receivable are used to acquire customers and increase sales and revenues as a result of a company's credit sales activities. However, although accounts receivable is an asset on the company's books, the timing and amount of its collection is highly uncertain and its susceptible to subjective and objective factors. Therefore, there is great uncertainty for the company, and Guoxuan Gaoke has not established a systematic and effective management system to effectively warn and manage accounts receivable in advance in the past operation and production process.

3.1.2 Inadequate credit management system

Guoxuan Gaoke's credit investigation of customers is unclear, credit policy is not standardized, and the ex-ante prevention mechanism for accounts receivable risk is missing. The company should establish an effective accounts receivable risk identification and assessment system. Excessive performance indicators will lead to short-term business behavior, and the company's performance assessment should consider the balance between KPI indicators and accounts receivable risk management, including accounts receivable management. Customer credit assessment should be continuous and evolving, but failure to continuously update customer information in a timely manner can increase a company's sales risk.

3.2 Problems in the management of accounts receivable

3.2.1 Lack of an effective dynamic tracking system

Companies do not continuously track and manage their accounts receivable after credit sales have occurred. Due to the rapidly changing market environment, companies need to manage risk for each major receivable, predict business risks in a timely manner, adjust credit sales strategies in a timely manner, accelerate fund recovery and minimize the possibility of losses.

3.2.2 The accounts receivable analysis system is lagging behind

The company does not have a clear system for analyzing accounts receivable and only performs a simple due date analysis at the final annual closing. The information feedback is seriously lagging behind to provide timely and useful information for accounts receivable management and to track and monitor accounts receivable in real time, resulting in long delays in accounts receivable and increased risk of bad debts.

3.3 Problems in the ex post facto management of accounts receivable

3.3.1 Inadequate collection system

The Company has not yet established a sound system for collecting accounts receivable and has not designated a special department or personnel to be responsible for the collection of accounts receivable, the responsibility for collection is not clearly divided, and the means that can be used to collect accounts receivable are not clearly defined, which directly leads to the overdue accounts receivable not being paid attention to by the whole company and not being collected in a timely manner, resulting in the current situation of ineffective collection of accounts receivable.

3.3.2 Slow realization of accounts receivable

The accounts receivable turnover ratio, which is the most direct data indicator of the company's accounts receivable fund turnover. The company does not actively use some payback methods to make its receivables liquid. This is mainly due to the weak voice of the company on one hand, forcing it to choose passive acceptance, and on the other hand, the company has not taken action to effectively utilize its accounts receivable.

4. Strengthen the management of accounts receivable countermeasures

4.1 Pre-control

4.1.1 Establishment of an independent credit management department

Enterprises should implement commercial and bank loan management models, allocate a number of people to the credit management departments of their corporate customers according to their scale and sales status, and strengthen accounts receivable management. We should widely collect information on customers' creditworthiness, conduct in-depth and detailed research on customers' creditworthiness, and use qualitative and quantitative analysis to properly assess customers' creditworthiness.

4.1.2 Improvement of accounts receivable management system

The enterprise should clarify the rights and status of the credit management department and ensure that the credit management department has a certain authority. Establish and improve customer credit files, collect and analyze customer information in advance, conduct dynamic control and early warning of accounts receivable in the event, set early warning indicators, and urge sales staff to recover accounts receivable in time; meanwhile, do a good job of recovering and analyzing accounts receivable at a later stage, make reasonable recovery plans, and reduce the bad debt rate of accounts receivable.

4.2 Control during the event

4.2.1 Regular Inventory

This is because between the signing of an order contract and full payment by the customer, the customer's information will change to a certain extent, such as the size and assets of the enterprise will change. Therefore, sales enterprises must establish invoice tracking management system to provide institutional guarantee for timely collection of accounts receivable in the future, and at the same time, they can prepare for the collection of customer information after order fulfillment.

4.2.2 Timely follow-up of customer dynamics

Enhance the communication and reporting of the daily dynamic status of accounts receivable. After the collection occurs, the company's finance department shall communicate the dynamic information of accounts receivable to the relevant business units, responsible managers and company executives in the form of tools and forms for a specific period of time, and encourage and spur the

collection by the aforementioned personnel and relevant departments. The company shall keep abreast of the business units' operating and financial status. Establish a system of regular customer reconciliation, dynamic monitoring and decisive decision making.

4.3 Post-event control

4.3.1 Establish accounts receivable system

Companies need to establish various systems to manage accounts receivable. The enterprise should establish a sound accounts receivable accounting management system, strengthen the risk prevention consciousness of accounts receivable from the root, implement the responsibility to the handling and related personnel, strengthen the daily audit, ensure the authenticity and accuracy of accounts receivable, complete relevant credentials, and reduce the error rate.

4.3.2 Establishment of accounts receivable rewards and penalties

The company should implement the responsibility system and lifelong responsibility system. When designing the assessment index and evaluation system for sales personnel, not only the sales but also the debt recovery results should be assessed. The sales incentive of the responsible person will be deducted in proportion to the bad debt business, and the responsible person will be rewarded for the customers with good payback, so as to fully mobilize the sales staff's motivation to payback.

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