Functions of receivable account team and payable account team at finance department. The influence of average collection period on financial health and the process of payable management at Ernst and Young Vietnam

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2021 Laurea

Laurea University of Applied Sciences

FUNCTIONS OF RECEIVABLE TEAM AND PAYABLE TEAM, THE INFLUENCE OF AVERAGE COLLECTION PERIOD AND PAYABLE MANAGEMENT AT ERNST AND YOUNG VIETNAM

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Service Business Management
Thesis

May 2021

Laurea University of Applied Sciences **Abstract**
Service Business Management
Bachelor's Degree

Thesis writer: Thu Nguyen
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Year 2021 Number of pages 48

Within any business, revenue and expenses are the two most important factors that affect the profit of the company. Regarding revenue, most companies will either accept a one-time payment or periodical payment. The second type of payment gives the company more risks and disadvantages as the revenue is not yet received. In addition to ensuring revenue, most businesses put great effort into finding ways to minimize and control operational expenses. The primary responsibilities of the finance executives are managing unreceived income and controlling payments.

The purpose of this thesis project was to analysis how the finance department of Ernst and Young in Vietnam operated in the year of 2020 with a focus on three objectives. The first objective was to explore the functions of the account receivable team and account payable team, as well as their collaboration. The second objective was to determine the influence of the average collection period on client decision-making and the third objective was to clarify the company's procedure of managing payable account. The knowledge base of the thesis project discusses the process of management and operation in each team of the Finance department: account receivable and account payable. The concept of average collection period as well as essential financial ratios for payable assessment is also discussed. For further development, this study can be utilized as a useful tool for business within the same field.

The project was carried out using qualitative research through the case study method. Specifically, data was collected from the author's observations and experience at the workplace. Another source of data came from surveys which were designed for two groups of respondents: the managers and the staff. While the staff's responses were mostly collected through mail or hardcopy, face-to-face interviews were held with the managers because of the nature of the questions asked. The result of the thesis project was a comprehensive understanding of the operating apparatus of one of the members of the Big four of Accounting and Auditing services providers.

Keywords: Finance, Account Receivable, Account Payable, Receivable Turnover, Average Receivable Period, Leverage Ratio.

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1 Introduction

Within any business structure, finance always plays a vital role in the stability and development of the company. In general, people at this department take the responsibility of managing and controlling the financial health of the whole company, which mainly contribute to the long-term existence of an organization. Through finance reports, the executive-level managers can picture the performance of the business in a particular period of time by financial ratios and summaries. Particularly, the most crucial aspect that greatly pulls the attention of the managers is the flow of the cash. When doing business, a company will simultaneously experience the cash-in flow as well as the cash-out flow. The cash-in flow can gain from different sources; however, the largest and most concerned proportion of cash-in originates from the revenue of the sales. Meanwhile, the cash-out flow indicates expenses and consumptions that the company is obliged to pay for maintaining the operation. Finance department is given the duty to well manage the revenue together with balance the expenditure. Therefore, any study regarding the financial management system is worth analyzing as it facilities the researcher with more knowledge, information and experience of all the elements contributing to a successful business.

The purpose of this bachelor’s thesis is making investigation and analysis on the procedures at Finance department of Ernst and Young Vietnam. With the chance of being an internee for Ernst and Young Vietnam, the writer of the paper is appointed to the position of account payable assistant. Within the payable account segment, the writer’s work task covers the duty of handling and processing internal expense from the staffs. To sum up, managing internal expense is the process of receiving, reviewing and implementing reimbursement to all staffs through banking system. It goes without saying that the most demanded characteristic for this position is the meticulousness. Due to the seize of business, especially with service providers such as Ernst and Young, the burden of expense reports from both business activities and entertainment activities is remarkably immense. Most of the expenses are prepaid by staffs and expense reports will be made afterward for claiming. The majority of the costs originate from business dinners together with encouraging meals for particular lines during the peak season. A payable accountant for this task is required to give great concern on the formal invoice from the supplier and the approval from the high level of managers.

2 Research question

In this paper, there are three research questions that will be investigated. Each research question consists of two sections.

The first research question is regarding the operation of the finance department. The first part of the first research question is “What are the functions of account receivable team and account payable team”. Following that the second part of the first research question is “What is the harmony between the account receivable and the account payable”. For the first research question, when working at Ernst and Young Vietnam, it is notoriously amazed to know the structure of the Finance department is not as similar as common business has. In comparison to common structure of other companies, the finance management system of Ernst and Young is allocated based on the division of operating service line. In general, finance team consists of two primary parts: the account receivable and the account payable. Each team is functioned and managed by one head manager. Within higher level of executive, a chief accountant who is appointed by the Chief Finance Officer will be the coordinator within two teams. At the highest level of financial management, a chief financial officer will be the one who ultimately gives and approves any financial decision.

The second research question is “What are the consequences of modifying the average collection period?”. In addition, the second research question also includes the query “Can the average collection period become a competitive advantage for the company from the customer’s perspective?”. Ernst and Young is a large business working with numerous clients. Therefore, the situation that the customer ask for procrastination in payment is not unpredictable. The second research question will explore all the effect that a company might experience if it cannot collect the receivable upon the schedule.

The third question is “How a company manage its payable account?”. In the time of Coronavirus, Ernst and Young suffers with the wave of economic crisis when the revenue experiences with a downward trend. Meanwhile, the payables of the corporation remain similar to prior the pandemic. Furthermore, the organization also needs to follow hygiene regulation from the law so that the medical expense noticeably surges. The third question will exploit all possible approaches that a company will apply to manage its capability to pay obligations. In specific, the paper will analyze the case of Ernst and Young as this is a successful business model as the company still handles to overcome difficulties and gain profit in harshness.

3 The company

At the early stage of the establishment, Ernst and Young is the hindmost consequence of one of the most historic mergences in the world of finance between two immense players in this field Ernst & Whinney and Arthur Young & Co in 1989. In 2013, the company reached the decision on choosing EY as their commercial trading name. In addition, the symbolized color of the logo has officially turned into gray-yellow and still maintains its worldwide operation until now.

Figure 1: Ernst and Young official logo

With more than 30 years of doing business, Ernst and Young has proudly brought about more than 231,000 job opportunities to the labor market in 150 countries all around the world. Having approximately 700 offices worldwide, Ernst and Young locates the main headquarter in London, Britain.

Ernst and Young separates its geographical operation based on 4 primary regions: EMEIA (Europe, Middle Ease, India and Africa), Americas, Asia-Pacific and Japan.

Ernst and Young came into Vietnam in the year of 1992. The company also became the first 100% foreign investment auditing and advisory service provider having branch in Vietnam. The year 2017, Ernst and Young Vietnam marked the milestones of the 25^{th} anniversary of official establishment

Regarding the operation, Ernst and Young Vietnam provides main services in such divisions:

- Advisory: consulting service related to enterprise's dilemma
- Assurance: auditing service for all kind of business
- Tax: services related to tax dilemma
- Transactions: services related to crucial transactions within the firm
- Growth Markets: organizing business events such as entrepreneur of the year, entrepreneurial winning women…

- Specialty Services: other services in term of global climate change, particular service line for Japan's enterprise and family-owned business, …

Ernst and Young Vietnam belongs to Asia-Pacific region with head quarter situated in Hanoi- the capital of Vietnam and a branch office in Ho Chi Minh city. In addition, Ernst and Young Vietnam has expanded its market to two shared-border countries including Laos and Cambodia. Starting with only small number of employees (10 in 1992 and 15 in 1995), the company has scaled up its business to nearly 1000 employees. Moreover, around 70 auditors of the firm are officially certified by VACPA and Ministry of Finance.

Ernst and Young Global has built up good and strong relationship with well-known enterprises such as Google-world largest search engine, Facebook-world largest social network, Walmart- one of the largest and McDonald, famous provider of fast-food industry. In Vietnam, Ernst and Young has been in partnership with various large corporations such as ANZ Bank, Hoang Anh Gia Lai corporation, Daichi insurance company, Vietcombank,…

With the popular slogan "Building a better working world", Ernst and Young intentionally aims at creating better working environment for all their staffs. Not only building professionality, credibility among staffs and sustainability in development are also two factors that Ernst and Young always hopes to demonstrate at workplace. The company highly appreciates establishing helpful and coherent connection as well as network for staffs all over the world. In addition, finding and flourishing talents from the very early stage is also one of the company strategies in order to seeking for prosperous generation.

For Ernst and Young in Vietnam, the managers do also concentrate on organizing out-of-work activities for staffs. Annually, after 31st March – the last day of busy period of an auditor, all the employees from Assurance service line an participate in a program called "End of busy season". This is an outdoor activity for staff to relax and recharge energy after high peak season with full of stress and workload. Besides, many teambuilding activities are held throughout year to help workers get on well together.

One of the most popular waiting events of Ernst and Young Vietnam every year is the internship program which is organized into sequence of contest. The program aims at searching for talented students with outstanding academic performance together with passion for finance area. For instance, some remarkable contest should me mentioned such as Challenge for growth especially for Foreign Trade university's students, Talented auditor cup for the senior year students in Hanoi or Pathway to success particularly for National economy university's students. In addition, various office tours or company trips are introduced to students all year round to help outsider understand better about company culture, divisions and structure. This type of activity facilitates students with more information about their future workplace and create good impression on Ernst and Young.

Throughout the history since establishment, there are several milestones that marked the development of this corporation. For the Vietnam market, in 2015, Ernst And Young defeated all other three corporations in the Big Four in the race of number of auditing cases carried in public companies. The result is examined and certified by Accounting Today.

In 2016, the list of largest private organizations in the United States ranked Ernst and Young as the 11^{th}. In the same year, Ernst and Young Vietnam placed 85^{th} in the top 100 companies having the best workplace. In 2017, Ernst and Young stood at the position of 29 out of 100 best companies for workers in Vietnam according to Fortune magazine

4 Theoretical framework

The finance department of Ernst and Young Vietnam is organized to have two functional line: the receivable team and the payable team. Each team has an appointed line leader who will take the responsibility of supervising and coordinating the operation of its team. Furthermore, the line leaders are given the duty of working on financial reports of their team and those reports are straightforward submitted to the chief accountant. As the matter of fact that Ernst and Young Vietnam establishes two offices in two cities including Ho Chi Minh city and Hanoi, there are two chief accountants for each branch. The highest of finance department belongs to the chief finance officer. According to the business policy, monthly report must be internally published by finance team to the board of director so that the managing officer can have an overview on the performance all the service lines. The chief financial officer will be the one who

4.1 Receivable and payable

Undoubtedly, according to the book “Accounting for managers” written by the author Ramo Gopal, most of businesses will accept providing goods and services to customer for either down payment or on credit. Regarding the on-credit customer, it is mandatory for both the company and the client to create a form of agreement on deciding the due date for paying all the invoices after the service or goods are provided. Within the business side, for the sake of keeping track with this source of revenue, receivable is a financial term that indicates the amount of revenue derived from their customers for purchasing goods and service on credit. This is a tool for the managers and accountants to easily recognize the unrealized payment from the customer. In financial reporting, it is written in every periodic financial statement under an account named receivable account. (The Economic Times: Definition of “Account Receivables”)

According to the Generally Accepted Accounting Principles (GAAP), the account receivable is a part of asset section in the balance sheet as the money from this account represents an amount of revenue that will be earned in near future. Furthermore, not only demonstrating the amount that need to be collected, this account also apparently gives the manager the aspect on how capable the money in account receivable can be transferred into actual revenue. More importantly, by reading periodic financial statement, the manager can have an overview on the length of time a receivable is fully collected and become revenue. This perspective facilitates the managers with better control over the colleting procedure.

Working as a receivable accountant, the scope of work will cover the duty of managing this account for both management accounting as well as financial accounting purpose. Taken as a whole, there are three most fundamental responsibilities that an employee from receivable department ought to accomplish for this position. First and foremost, it is required to comprehensively recognize the source of receivables, which means there must be coherent connection between finance department with all the service lines bringing customer to the company. Second, after gathering sufficient information concerned the customer paying on credit, the accountant of the team takes the mission of systematically go through the procedure of colleting receivable. The final mission of the receivable team is giving analysis on the proportion between the receivables which turn into revenue and the one that cannot be collected so that become the bad debts.

On the other side of the fence, the writer of the book “Accounting for managers” published in 2009 also demonstrates that while having the receivables from customers, most of the business also face up with debts and liability owing to their suppliers and vendors when purchasing goods and services on credit. These obligations will come with invoices and are required to pay in short term period. Otherwise, if a company cannot manage those liability, the situation of default may probably occur. For this reason, accounting system categorizes short term debts and liabilities as payables and a payable account is a part of liability section in the balance statement. (The Economic Times: Definition of “Account Payables”)

Without doubt, this account serves the managers with the exact number of obligations that a company has been accumulating. Additionally, by comparing this number to all the asset and revenue from the operation, the management level might have a broad vision on how profitable and efficient the operation is. This most crucial meaning of this account is a remarkable reflection and indication of the liquidity of the company. With the economist Adam Hayes (2021) in the article “Liquidity”, a liquidity is regarding the capability of payout short term debts by using company’s cash or/and converting asset into cash.

4.2 Average collection period

Upon any commercial agreement between two parties, when the customer choose to pay on-credit, the contract itself will clearly state the due date for paying the invoice sent by the receivable team. However, in the reality, it goes without saying that not all customers have an ability to comply with the agreed term due to financial problem. Consequently, an extension period will be given to the customer to assist them with more time for liquidating the contract. Within finance area, according to Invest FAQ website, it can be simply defined that

> “Average collection period is a measure of how many days it takes a firm, on average, to collects its receivables. It indicates the efficiency of the collection process and the lower it is the shorter the cash cycle of the business is, which has a positive impact on its profitability.”

William Sihler and his companions conclude from the book “Smart Financial Management: The Essential Reference for the Successful Small Business” that the implied meaning of this ratio gives the management level two sharp vision on the financial scene of the company. The first point is in term of the liquidity of the business. By having an idea on how long it takes a business to recoup the capital it puts into investment and operation, the cash cycle will be determined when the sales confirmedly come to the bank account. This indicator provides a realistic picture of how the collection’ procedure work. Therefore, it is tremendously crucial for the team to receive payment for goods or services rendered in a timely manner. As the company always needs to generate its cash flow for paying expenditures and making bigger investment. A positive sign of average collection period brings good level of liquidity. If average collection period is too high, it is obvious that the billing department of company has been suffering difficulties with following up the due invoices to make sure the customer pays for the purchase. Eventually, shortages in cash from revenue might cause huge disadvantages in dealing with expenses and costs from production.

Besides maintaining liquidity, the average collection period allows the company to create it budget plan for future costs and schedule potential expenditures. From timing perspective, being aware of when exactly the amount of comes in the business helps the managers prepare proper plan for covering expenses together with making schedule for upcoming expenditure in a long-term strategy. Apparently, the smaller the average collection period, the better it is for the company. It simultaneously points out that the customers have actively kept their commission to take less time to pay the bill and the company welcomes the cash-in flow faster. Even though setting the goal for reaching a fast collection period might be good for cash flow, it also might be bad for keeping the customer stay loyal to the business. A longer length of time for paying invoices with same type of goods or services from the competitor can diminish customer from choosing the company. Therefore, building up tactical and appropriate average collection period should be meticulously considered. From that, the strategy for making average collection period become one of the competitive advantages of the company ought to be carefully planned.

The formula of the average collection period is:

$$Average\ collection\ period = \left(\frac{Accounts\ Receivable\ Balance}{Total\ Net\ Sales}\right) * 365$$

Average collection period components explanation:
1) Accounts receivable balance: The sum of the beginning and ending balance of the account receivables divided by 2, for the period under evaluation.

2) Total net sales: The total sales made through commercial credit as the mean of payment

The cautious dilemma happens with determining the total net sales. Since the financial statement are prepared and published on the yearly basis, it is widely used the annual net sales for this ratio. However, according to Steven M Bragg from the book Business ratios and formulas: a comprehensive guide, “If the total sales for the year are used, this may result in a skewed measurement, since the sales associated with the current outstanding accounts receivable may be significantly higher or lower than the average level of sales represented by the annual sales figure. This problem is especially common when sales are highly seasonal”. The possible solution to this problem is “annualize the sales figure for the period covered by the bulk of the existing accounts receivable” as suggestion from the author of the book.

4.3 Leverage ratio

The leverage ratio are any formulas that give comparison on the proportion between debt with other financial elements such as capital or assets. (Bragg 2012, 67). As the company finances its operation and investment from the mixture of equity and debts, it goes without saying that being completely aware of all the financial obligations the company is holding helps the financial controllers with precisely evaluating and predicting the ability to pay off debts. In addition, leverage ratio gives informative perspective on the company’s mix of operating expenses to know how much changes in output might affect the operating income.

As this is a debt comparison tool, a high leverage ratio illustrates great dependency of the operation to debts. The company must hazardously maintain its business by making more debts because of not getting attraction and interest from stakeholders or positive cash-flow from revenue. However, this is just a slight overview for most of the companies. In some circumstances, a relative high leverage ratio may demonstrate potential development for the business.

Even though it is not a positive sign for high rate of leverage, a low leverage ratio may also contradictorily make the shareholder feel unsatisfactory. Based on research result from the book of author Ramo Gopal, a small number of this ratio apparently express a fact that the money is used for granting operation dominantly take from the equity fund and asset source. By this reason, it is implied that the shareholders take the majority responsibility of financing the business without the attention from the lenders. From the shareholder's perspective, a moderate leverage ratio would the most beneficial to them as this means the business has put effort to minimize the use of equity for operating activities. Another situation that high debt is acceptable is the market of monopoly or duopoly. With the mentioned markets, it is easily to understand that cashflow for service debt tend to be more consistent over time. The lenders of this market have stable foundation for belief in good cashflow so that there is always sufficient money for interest payable. In this case, it should be mentioned that the debtors need to have faith in the faith of return that can cover the interest charge.

Basically, there are numerous indicators that need to be used to accurately assess the performance of a business. According to the specialists, the most 4 common leverage ratios are debt ratio, debt to equity ratio, current ratio and equity multiplier. The reason behind this selection is because those ratios make comparison between the most crucial elements for the operation: asset, liability and equity. Regarding the shareholders, a huge attention always put on the debts that the company is holding as this factor creates considerable damage to the business if the managers overlook or being too objective. Hence, 3 out of 4 deliberated rates concern the status of the available debts. Thanks to these ratios, any readers who are either professional in the field or not, 4 mentioned ratios contribute a meaningful vision on how the business has been operated throughout the period. Since that, the shareholders will have concrete evidence for their forecast and future strategy.

4.3.1 Debt ratio

First and foremost, debt ratio also known as debt to asset ratio is a financial measurement between the total liability and total asset that the company owes. (Hayes 2021)

$$Debt\ ratio = \frac{Total\ Debts}{Total\ Assets}$$

Obviously, the proportion between financial obligations that the company needs to pay compared with what the company has directly demonstrates the level of solvency of the company which reveals whether the financial health of the company can meet its long-term liability and continue to operate efficiently. The ratio can be expressed either way by decimal or percentage. Researcher Adam Hayes who is the writer for online financial learning website Investopedia states that a debt ratio higher than 1 means the company is having more debts than their assets and this is definitely not an optimistic situation for the business. In addition, this also informs that operating process of the business is being financed mostly from the source of debts and financial obligations. Meanwhile, a less than 1 debt ratio shows that the organization has more assets than its debts. As the result, too high debt-to-asset ratio may cautiously prevent the firm from the ability of borrowing more money. Otherwise, the lenders only accept with high interest rate. Consequently, maintaining proper debt ratio is a stable and durable financial tactic with all financial controller and mangers.

However, depending on the characteristic of the industry, the debt ratio widely varies across fields. With the industry that requires large investment for producing goods such as automobile manufacturing or transportation production, the fund from shareholders will not be sufficient for the whole costs and expenses. Besides, dividing risks is also a chosen strategy of capital-intensive industry so that the organizing may also seek for the money from banks and other financial supporting institutions. Therefore, the percentage of liabilities occupied in the capital structure in those companies from related industry is relatively extravagant compared to assets. As the cash flow in this industry is stable and consistent, higher debt ratio is a norm. All in all, the debt ratios diversify from different industries. According to Adam Hayes from the webpage Investopedia, it has been carried with lots of survey and research that “acceptable levels of the total debt service ratio, in percentage terms, range from the mid-30s to the low-40s”

4.3.2 Debt to equity

Like the debt ratio compared the debt to the assets the company possesses, the debt to equity also known for the D/E is a formula for evaluating the proportion between the total liabilities and shareholder equity. The ratio is only expressed in decimal form.

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Liabilities}{Total\ Shareholder's\ Equity}$$

The D/E is considerably key metric in the corporate finance. This ratio is widely important to the creditors and the investors as the relationship between debt and equity reveals the ability of shareholder equity to cover all financial obligations in case of business downturn or liquidation. At an overall glance, a high debt-to-equity demonstrates that the company is aggressively running its business by external debts but not from the investment of shareholders. When the debts are way too much larger than the total equity, both leverage institution and shareholders definitely take serious concern. (Bragg 2012, 107)

To be more specific, in the book “ Business Ratios and Formulas: A Comprehensive Guide” of writer Steven Bragg published in 2012, from the creditors view, when the debt-to-equity ratio is too high, it infers the situation that the company is financing its operation by money from borrowing and taking liabilities rather than receiving financial support for the shareholders.

Moreover, it is commonly attributed that lack of support and reluctant participation results in less responsibility and effort. This would make the lenders believe that their loans are at excessively high-risk level that might probably not be repaid. For this reason, the lenders will surely demand for possible requirements before giving out final determination. With Steven M Bragg, the author of the book "Business ratio and formulas: a comprehensive guide", he believes that restrictive covenant will be reasonably adapted in most cases. Some actions that he mentions in the book are like "forcing excess cash flow into debt repayment, restrictions on alternative uses of cash, and a requirement for investors to put more equity into the company". There is no doubt that these measurements works effectively as it not only obliges more responsibility from the business but also minimize the risk of insolvency.

On the investor side, increase in financing the growth by debts instead of asking for capital from shareholders might facilitate the business to upgrade its scale. From that, an ideal scenario occurs when the earnings greatly exceed the amount of interest payable for the liabilities. In term of financial ratio, high debt ratio will make the investors should be the most beneficial in this case. However, writer Jason Fernando from website Investopedia has pointed out that "if the cost of debt financing outweighs the increased income generated, share values may decline". A company with so high debt volume cannot receive must attention as well as diminish in the operation efficiency.

Quite similar to the debt-to-asset ratio, the debt-to-equity ratio deviates upon the industry as the appropriate debts should be obtained vary across industry group. In the reality, the investors frequently put their concentration on modifying the D/E to focus on the percentage of long-term debts as the risk correlated with long-term liabilities are totally different from short-term liabilities and the payables. For instances, Andrew Bloomenthal, an experienced financial journalist for online learning webpage Investopedia, technology-oriented companies make their investment in lots of research and development so that the ratio usually appears at approximately 2 or below. Large manufacturing and stable publicly traded companies have ratios between 2 and 5. After various interviews and meetings, Knight believes the point of risky debt to equity ratio that creates unambiguity agitation to most of the investors is approximately 5 and above. Especially with the banking and financial-based businesses, the abnormal debt to equity ratio of 10 or even 20 can uniquely happen to some ones.

To calculate this ratio, it is commonly used among the accountants the formular:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debts}{Total\ Shareholder's\ Equity}$$

In this formular, the total debt can be considered as the total liabilities of the company.

However, to some extent, the Corporate Finance Institute webpage has discovered that some companies make some modification to the formula to a mor e detailed one as:

$$Debt\ to\ Equity\ Ratio = \frac{Short\ term\ Debt\ +\ Long\ term\ Debt\ +\ Fixed\ Payment\ Obligations}{Shareholders's\ Equity}$$

Noticeably, the modified formular does not consist of the element of account payable. The given explanation is because the account payable is usually recognized as a current liability which will be paid in one year or less. These sorts of debt are not as risky. Moreover, the accountant would like to take a deeper analysis on the influence of risky leverage.

With Steven Bragg from the book Business Ratios and Formulas: A Comprehensive Guide, using this ratio throughout years can help predicting the future scenario of cashflow and financial health of the business. However, the amateur trader might miss the relationship between the interest and the principal payments for each year. To him,

> "The reason for this approach is that a large amount of total debt on the balance sheet may not reveal a true picture of a company's ability to pay it off if the debt is not due for payment until a required balloon payment at some point well into the future."

In addition, Joe Knight, the author of the HBR TOOLS: Return on Investment and cofounder and also the owner of website www.business-literacy.com, makes a statement based on his study that small businesses may have a tendency in diminishing the D/E by the elimination of non-interest bearing debt for the purpose of having a low debt to equity rate. Another case similarly takes place with private business. Knight found out that "private businesses tend to have lower debt-to-equity because one of the first things the owner wants to do is get out of debt.".

All in all, the investors do not make up their decision by only looking at the proportion of debts and shareholder's equity. The actual desire of the creditors is the assessment and speculation on the notion of balance from the business operation strategy. Healthy companies use an appropriate mix of debt and equity to make their businesses tick.

4.3.3 Current ratio

Current ratio which is also known as working capital ratio is a liquidity indicator. In general, this ratio demonstrates the ability to manage and allocate sources to meet short-term obligations that are due within one year or less. (Bragg 2012, 81). Beyond that, it is clearly pointed out whether the company has sufficient financial support to pay all the debts over the next 12 months. By this element, the lenders have evident belief in the liquidity capability of the company in order to give out the determination of lending or not. In specific, most of future creditors base on the current ratio to decide whether to make the short-term loans to business. The rate broadly depicts a sense of the operation efficiency with the cash flow cycle, which refers to the ability of transferring inventory and resources into cash to settle current debts and payables.

The current ratio is calculated by dividing current assets by current liabilities:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

In the same book written by Mr Bragg, according to financial reports, a current ratio of 1:1 is considered to the absolute minimum level of liquidity ability. The current ratio equal 1 indicates the company instantly possesses a sufficient bulk of assets that can cover exactly the level of short-term debts. However, to the extent of liquidity assessment, this is not a positive sign of a profitable business as the current asset of the firm might completely run out in short period if the firm is caught into trouble of doing business. The most favorable ratio is equivalent to 2 when the volume of assets doubles the obligations the company owes. A current ratio of 2:1 leave the financial health at a comfortable stage for most enterprises. In the reality, most of the enterprises set the target to reach the rate of 1.5:1 as within this proportion between current asset and current liability is still acceptable for the finance well-being. As a matter of fact, this leverage index slightly fluctuates from industry to industry.

In case the ratio is suffered with the value below 1, this is surely a negative signal for the liquidity capability from the lender's point of view. It can be indirectly inferred that the company is having some difficulties in meeting financial obligations. However, the creditors also need to have an eye on it is operating cash flow as it can be crucial additional information to compose the picture of liquidity. Even though the amount of current asset cannot ease the burden of short-term debt as the ratio indicates, a good operating cash flow demonstrates the efficient loop of getting inventory in and out, which means the company is doing well with the sales. Another common case for the company which always maintain the current ratio at the rate 1:1 or lower, some firms have a strategy of keeping the cash balance at the minimum level and only replenish the cash when it is absolutely forced to pay the obligations. These types of companies mostly are new to the market or just enter the market so that cash are always in a need and the managers will draw down cash from the line of credit.

On the other side, when current ratio is calculated to be larger than 2, the company is accused of not using the current assets or short-term financing facilities effectively. This would mean the business is also in the stage of encountering problems in working capital management. In particular, there are few companies adapt the aggressive cost capitalization when costing its inventory. From Steven M Bragg research, these mentioned companies "will add all possible costs to its cost allocation pools and then use allocation methods that tend to charge the highest possible amounts of these costs to inventory", which abnormally enlarge the real value of the inventory in the current asset part. As can be seen, the current ratio from this company can be uniquely greater than other competitors or the frequent rate.

Therefore, the advice from Steven M Bragg, a financial specialist, is that when looking at current ratio of a firm, the reader also need to get pay attention to the operating cash flow especially with the inventory account. This sort of account will contribute to the current assets but hard to liquidate in short term.

4.3.4 Equity multiplier

Equity multiplier is a leverage ratio that compares the portion of the accumulative assets of the company to the total amount of shareholder's equity (Ganti 2020). The formula for equity multiplier:

$$Equity\ Multiplier = \frac{Total\ Assets}{Total\ Shareholder's\ Equity}$$

The result of this formula literally indicates how much the asset of the business is built up from the investors rather than from making debts. Basically, on the accounting basis, the entire amount of asset is calculated by the sum of the total liabilities and the total shareholder's equity. Therefore, if the money from the investors pocket is sufficiently facilitate the company with smooth operation, the enterprise does not have to take a burden on taking out for loans from financial institute. Accordingly, by using the equation for equity multiplier, the higher the scale of the equity contributes to the asset the lower the equity multiplier is. In contrast, when the equity multiplier is reported to gain a high rate, people may understand that the proportion between equity to asset is relatively low. In addition, by looking at this data, it can be simultaneously figured out the level of debt stands in the structure of the assets.

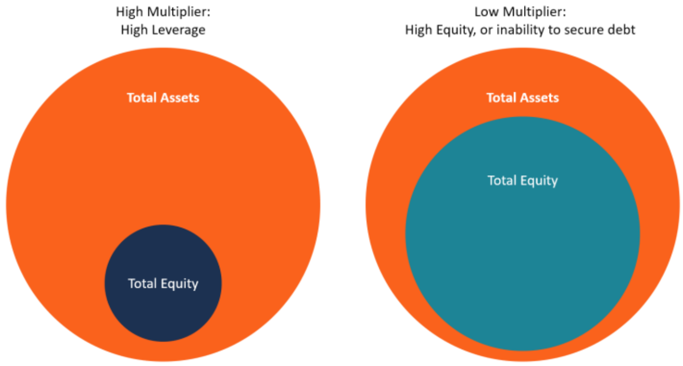

Figure 2: The influence of relationship between equity and asset

When observing the Figure 2, it can be seen easily that high multiplier equals to high leverage in asset structure, which illustrates an aspect that the company is greatly relying on its cash input from the source of creditors while the shareholders seem not to take the interest in investing for the business anymore. On the other hand, a low equity multiplier reveals the information that the financial support of the firm mostly obtained from the continuous investment of the shareholders.

In this context, from the financial specialist, there are two hypothesis that can be considered for the performance of the business. First and foremost, the performance of the firm is increasingly positive with good financial ratio so the investors are willing to supply more capital. The business does not feel pain about capital for operation. However, within the second theory, low equity multiplier demonstrates the situation of heavily depending on debts to finance its manufacture. The consequence of incurring too many loans is the immerse debt services charges and contemporaneously leads to the inability in borrowing more debts due to the insecure in paying back the loans. In this situation, it is stereotype for the lenders to have hesitation on the decision of whether to give our debt or not. Since then, only when raising additional cash flows to meet its obligations or maintain its operations that the company might be overcome the hardship of paying out debts. Undoubtedly, when looking at a company which mainly subsidizes its activities by debts, neither the creditors nor the investors would feel reluctant to furnish further financing to the company. Being highly leverages can be an obstacle for the enterprise to receive favorable evaluation from stakeholders.

In overall, a higher equity multiplier indicates the company possesses higher leverage. However, in exceptional considerations, the company is revealed to have high equity multiplier ratio but it does not involve in the investment risk probability of the firm. With some specific enterprises in special industry, emphasizing financial source from debts would be an innovative idea when the assets and resources for operation can be strategical purchased at a very low price.

5 Account payable assessment

The process of controlling payable account might vary from different companies. Depending on working culture and the nature of industry, the procedure for effective probe of financial obligations is designed to facilitate the finance department well manage its operation. However, in any process, the crucial point that help the controller recognize problems timely and proactively is setting standards. Regarding the finance department, the standards give the frame for the managers to understand the financial health of the company. Literally, setting standards within this department will mainly base on financial ratios and stages in process of making imbursement. By having stable requirements for accounting system, the accountant can keep track with the cashflow situation of operation.

With Mary. S. Schaeffer, the author of Account payable: a guide to running an efficient department, it is pointed out from her experience that there are four popular types of aberration that can be caught with payable team. These three most severe mistakes consist of the situation of giving exception and rush check, duplicate payments and making imbursement without the availability of original invoice.

5.1 Rush check and giving exception

5.1.1 Rush check

From the definition of Mary's book, a rush check is described as "any request that does not go through normal channels and disrupts the normal workflow of the payables department". In general, all the people come to finance department to seek for assistance from payable team commonly may have a similar idea that their dilemma is in emergency with high priority. With this type of mindset, they frequently demand for a rush check from the team member or directly from the payable manager. However, it is admitted that most of the employees who particularly ask for a rush check are not aware of a fact that any document takes about 15 to 30 minutes for completely checking and endorsing. In another way, a rush check will largely interrupt a normal work process as time will be unexpectedly taken from the scheduled plan to deal with external request. This phenomenon might occur with high frequency if permitted or the payable team cannot demonstrate strict policy on code of conduct.

Taking everything into account, company with large amount of rush check is probably revealed to have inefficiencies in the operation of other departments. Mostly, the problems arise from the carelessness, unawareness or misunderstanding of accounting principles for handling documents. From the experience when working at Ernst and Young Vietnam, the writers recognize that most of the faulty documents are made due to the lack of knowledge from the staffs. Even though notified email will be sent to all the employees with the top priority mark, the colleagues seem to be audacious to give serious attention to those instruction guidelines in the email. As the result, when getting rejection or difficulties with the case, they are not able to trace for reasons and solutions. The only momentary idea comes to the employee's mind is going straight to the payable department and ask for exceptional rush check from the staffs.

5.1.2 Exception

Even in worse circumstances, some cases are requested to be handled as an exception though it might be against the policies and regulations. Predictably, a call for exception occasionally originates from managers level or executives. In other words, it is assured that the immense pressure from these people is an emergent urge for the payable team captain or even the CFO to take care of their problems. Theoretically, this act will surely create negative precedents in the working culture and goes against the code of conduct to some extent. However, the reality of being an internee at Ernst and Young has shown the writer the actual picture of doing business. An exception is far riskier and brings more damages to the payable team than a rush check. Not only consuming additional time for seeing through the documents, but an exception also related to accounting dilemmas will influence the company books and financial system.

To be more detailed, when receiving a document for a rush check request, the process will turn into manual check as they are rarely produced by the computer system. Following that, when approving an exceptional case, the accountant has to make modifications to the whole accounting system, which completely requires the payable staff to stay highly focused to the data for not making any mistake. Noticeably, the information which is entered into the system must be appropriate and complied with accounting standards. In fact, the stage of manually changing the available data on the system may lead to severe consequence such as wrong numbers or system turndown due to inconsistent information flow. On top of that, one of the most common but severe faults is duplicating the payments.

5.1.3 Solutions

According to the book Account payable: a guide to running an efficient department, Mary. S. Schaeffer suggests four approaches when dealing with a request for rush check and exception. The purpose of these four techniques is to alleviate the problem and simultaneously cut down the intervene from the colleagues.

First and foremost, Mary believes that giving questions is the most moderate way when working with relevant colleagues. The accountant quickly discusses with the staff some general information about the request. By an art of communication, the questions will indicate the level of emergence of the rush check. Undoubtedly, some rush check can be absolutely processed within the normal channel but still meets the deadline without affecting the efficiency of the operation. Moreover, a professional and experienced accountant can evaluate the situation and find way to make negotiations with the co-worker about the ability to put the request through normal process.

Second, if the number of requests comes in large scale, the team would need to find the reason for this type of phenomenon. Frequently, when similar mistake or problem happens with remarkably numerous requests from the staffs, it implies that most of the community at workplace is in lack of information about the processes and the requirements. Mary recommends the payable team moves on with the education approach.

Education at work means giving out information and notice through different means of internal communications. At the basic level, writing detailed memos in term of workflow, realistic time frames as well as essential things-to-remember and sending emails to the workers of the company is the first step to raise awareness. Moreover, in large corporation, meetings should be held periodically among payable crew and managers from other departments for the purpose of both exchanging feedback on the procedure and spreading the idea of new applied policies or regulations. Especially, some companies usually hire lots of new employees after their recruitment period, it is highly recommended to systematically organize orientation class for all new on-board colleagues about all crucial information when working with payable department. By these suggested activities, it can be assured that the employees are well prepared with comprehensive knowledge about things-to-do and things-not-to-do.

However, no ones can guarantee that all the employees will give attention and effort to accomplish what they have to do before coming to finance department. Ironically, some people may have a stereotype that the payable team take full responsibility for handling all dilemmas related to their department. That is the reason why when problems arise with the reimbursement or receiving the payback from the company, these kinds of people ruthlessly ask for rush check or exception from payable team as they mostly blame the team for their fault.

In this case, the writer of the book Account payable: a guide to running an efficient department frankly believes that a refusal is the most appropriate response to those irrational demands. A refusal is not totally equivalent to saying No. Instead, a refusal will reach out when the accountant has already made for themselves comparison between accepting a rush check and company financial risks. Undoubtedly, this sense of action might get the employee from payable team into argument with both head of the department and requestor. However, when no moderate solution is agreed among colleagues, the accountant should take a stand to emphasize on his or her perspective of following the right policy for the overall benefit of the business.

The last approach will be applied in the scenario that all the effort from the payable team does not result in expected consequence. The accountant is suggested to approve with the working style of their partners. Nevertheless, in some circumstances, the team also need to give review and self-assessment on the working process. The world keeps evolving every minute with a dramatic explosion of information technology. Always keep up with the new techniques that can facilitate the team to handle work task faster, more accurate, more efficient is a necessary part of dealing with problems. The procedure should need to be modified and goes iterating all the time until it is the most effective version to all staffs from different departments.

5.2 Duplicate payment

5.2.1 Types of duplicate erroneous payment

According to the Managing Accounts Payable benchmarking survey prepared by IOMA in 2003, it is revealed that only one-fifth of the respondents believe that the number of times they made erroneous payment to vendor only accounts for one percent of the number of payments they have to deal with.

> “The remaining 80 percent reported an average error rate of 1.91 percent. Of those, 70 percent of the payments were reissued. The same question was asked regarding T&Es. In this case, 25 percent indicated less than 1 percent, and the other 75 percent averaged 1.32 percent. In this case, half the payments were reissued. These are serious numbers.” (Schaeffer 2004, 68)

This figure slightly demonstrates two opinions. First, the question has touched and mentioned a quite sensitive dilemmas like age or weight so that only few participants are willing to admit the full extent of their payment errors. Second, the given number from the responses is just the tip of an iceberg which is the only errors managers know about. Obviously, they cannot report the overpayments and duplicate payments they are not aware of.

With Mary, she divides erroneous payments into five main types. The first type is duplicate payments when the accountant mostly draws a blank to check the company history of transaction and doubly make the same payment to the vendor. The second type is paying incorrect amount such as making a transaction of 1000 instead of 100 upon on the invoice whilst the third type consists of all the payment for unnecessary costs likes freight or insurance. The fourth type for wrong payments takes place when the staff from payable team is lack of information and get ambiguous about the discounts given by the creditors. Therefore, they make full payment without the notice of the benefits the company gains from the stakeholders. Particularly, the last type of is related to fraudulent payments which are personally intentional payment for self-benefit implemented by the accountant.

However, no one can deny the fact large business faces with up with hundreds of invoices from vendors every day. Even the professionals cannot be flawless without making any mistake under the pressure of workload. Therefore, as can be seen from some company’s policy, a set of tolerance levels is internally composed between the managers and workers so that both sides don not take much burden when working. Apparently, the tolerance levels will imply which discrepancies will be ignored and vendor invoices can be paid. With small medium sized business, the acceptable quantum can stand at few dollars based on the invoices while big corporations calculate by the percentage of the face value of the invoice up to a certain amount.

Clearly, this approach is still controversial as predictable negative consequences can be forecasted. From the hypothesis view, overpaid a small amount on an invoice will not jeopardize the business. Nevertheless, when it comes to the scenario that a company receives many small invoices from the same vendor, the amounts can quickly add up. Another way these amounts accumulate is when the vendor passes along charges that it is supposed to pay. This often happens with freight and insurance charges.

5.2.2 Solutions

From Mary's perspective, she may take every single step from the general to most sophisticated level for getting all the problem in control. The strategy equally requires the involvement from both sides: low-tech solutions and high-tech solutions. To be more specific, the low-tech solutions refer to the management of paperwork dilemmas. In the meantime, high-tech solutions aim at applying and installing technology to the process of controlling.

Within the low-tech solutions, the writer of the mentioned book believes that focusing on the vendor file will be the key to manage all the transactions. Hence, mastering the vendor file by adding updated information and deleting out of date data would do the manager a favor of having all needed information at hand. Subsequently, it is highly recommended that all the payment should be made in accordance with the original invoices and strict rules must be established for handling invoices with invoice number. Regarding the involved documents, Mary emphasizes on completing any purchase order with detailed information before being sent to the supplier or vendor. With any invoice that is paid, recognition for the canceling of that invoice must be made and got endorsement from the department manager. Aside from those internal contribution, the monthly external auditor review can be an important source for controlling and management.

Within the high-tech solution, the aim of this type of activities is to create management backing for all the manipulations from every staff towards the company imbursement. As being called, the offer from Mary implies that all the document and activities can be traced back through electronical system. First, the enterprise is advised to receive as many invoices as possible electronically, which demonstrates the participation of e-invoice initiatives. When having the e-invoice, the business is required to gain a simple program that can check the match between invoice number and the amount for not filling wrong the amount when making payment. A feedback and comment from the external audit team is also relatively valuable to the department as they can point out the weakness in the procedure. All in all, it can be concluded from Mary's high-tech solution that the all the company is required to establish an electronical system that will store and well control the data.

Above all the solutions, we are all fully conscious that the deep-rooted origin of this dilemma can only be solved by the professionality of the employee. Only when the employee is sufficiently trained and prepared with adequate professional knowledge, the system can be effectively utilized. Therefore, it is tremendously crucial for the manager to listen to opinions and consultation from the employee as they are the one who directly work with the system and have working experience.

Especially with the duplicate payment problem, Beverly Brando, of Business Strategies Inc. builds up a 3-phase procedure that will prevent the accountant from committing the similar fraud. The first phase is grouping information about vendor in 3 three main sectors: invoice number, amount, invoice date. By having the information systematically, the accounts payable manager can review again to further identify duplicates.

To be more specific, a manual review of these reports will clearly reveal the payments which ought to be put into investigation for the duplicate payment. While this research is being done, collect all backup information for purpose of finding the reason of duplicate payment. The second phase is implemented when the duplicate payment is gone through analyzed. The double check on these payments is still recommended for not having confuse over a load of invoice. Moving the last phase, most of the company will be reckless in maintain their master vendor file after a period of utilization. The same company could be included several times under slightly different names. This is one of the leading causes of duplicate payments. The action of updating the master vendor files frequently is always a vital part of restraining from duplicating payment.

5.3 Paying when the original invoice is not available

Virtually all accounts payable professionals would like to institute a policy of never paying from anything but an original invoice. However, realistically speaking, this is not possible as invoices do get lost or mutilated and the employees cannot use over their working time to find the original version of this document. Predictably, the consequence of this action with large portion may totally results in duplicate or even fraudulent payment.

From Mary’s findings, in a recent Managing Accounts Payable Benchmarking Survey, respondents were asked whether payments at their company were made without the original invoice or receipt. The responses were divided almost right down the middle, with a slight majority (51.5 percent) indicating they made payments from copies.

Undoubtedly, a copy of the original invoice is a useful backup plan for the situation of missing or mutilation. However, having more documents in use requires the worker with essential skill when storing files and handling paperwork. For a common sense, all the original invoices will be scanned or made to have a copy for backing purpose when received according to the company policy. As might be expected, any payment from the copy of original should be put in tight control for ensuring the payment will not happen twice when the original finds its way down to accounts payable department. Usually, only with a slight carelessness of the accountant, the original will be paid even though the same payment is paid with the duplicate file. Thus, a “copy” or “duplicate” file must be sufficiently stamped and marked when payment is made.

In addition, in the scenario that the original invoice suddenly appears after being announced missing and the copy version is already paid but wrongly booked in the accounting system with faulty amounts. The situation of duplicate payment might still occur if the payable staff do not perform the checking procedure meticulously. Additionally, if the payment was mailed to a lockbox, the vendor may have received it but not updated its records to their statement. With some uncareful vendors, they might give back complaints about late payment but they actually have it available in their bank account. For these mentioned problems, there three well-known techniques that are applied for ensuring a second payment will not be happen. Manually, the employee can use the engine to do a search routine for a triple match among vendor, amount and invoice number.

For the higher level of guarantee, an approval for payments made without original invoice is composed for the endorsement from senior-level manager. Regarding the invoice with long overdue, company will have its own policy regulating the measures for long overdue invoices.

From Mary’s perspective, a company cannot get rid of any invoices from the supplier and vendor despite missing or mutilation of the original copy. Yet, the accountant is required to perform the disbursement accordingly to the company policy and laws of economic. Payment from a copy is also forced to go through sufficient procedures for the being legitimate and valid.

6 Research

6.1 Conducting research

Considering the nature of the purpose, the writer determines that qualitative method is the most pertinent approach for the chosen topic. While the theory and knowledge will be gathered from academic materials, actual information about Ernst and Young will be collected through questionnaire and interview. All of finance department’s staffs will participate in the process of providing their opinion and experience when working at the company. Not only by having discussion with finance staffs, the knowledge and data is also collected from the experience of the writer when having the period of being internee for the account payable team. In term of the number of participants, there are nine staffs from finance department will join the research. In specific, four employees including the team manager from receivable team as well as three employees including the team manager from payable team are the participants who will be given the questionnaire. The interview part will be carried out with the chief financial officer and the chief accountant.

Within the questionnaire, a form of questions will be created to send to all the members in two team: receivable and payable through personal email. The question will cover the function of each team and the detailed description of their job task. In addition, the questions also aim at collecting the staff's opinion on the efficiency of the current management system and their suggestion. The response from the online form will be collected after one week.

Within the interview, a private appointment will be arranged with the chief financial officer and the chief accountant. There are two reasons for doing interview with the two executives of finance department. Firstly, being the managers, the daily workload is quite huge so that an interview can be a solution for saving time. For the preciseness of the information transmission, the interview will be requested for recording beforehand with the two managers. Second, during the interview, the interviewer can improvise with the question when receiving the response from the attendees for deeper understanding.

6.2 Limitations of research

During the procedure of collecting response from both questionnaire and interview channel, there are two large limitations that cause the findings lack in information.

The first limitation is regarding the anxiety of leaking internal information. With most of the staff, the ambiguity in differentiating which type of information can be publicly shared demotivates them from participating in the research. Therefore, persuading them to answer the online form is the most difficult stage as they are afraid of sharing any information regarding the business. Simultaneously, a related problem comes when the response from the staffs is quite insufficient with the information.

The second obstacle is in term of the confidentiality of the provided information. When doing interview with the managers, lots of essential data cannot be collected as the executives believe that piece of information is confidential. According to the chief financial officer, any features that relates to financial ratios or internal procedure is prohibited to be mentioned based on the company code of ethics. As a result, the two executives hardly disclose any information about ratios or specification of Ernst and Young. This harshness might make the finding for the third research question becomes incomplete due to the inadequacy in information.

7 Findings

7.1 What are the functions of account receivable team and account payable team and their correlation?

7.1.1 Functions of each team

It is unquestionable that the nature of business will determine the quantity of headcounts for each sub-team in finance department. With the small medium sized company or company with solo product or service line, the demand for human resource is not tremendous. However, with large corporation which operates in multiarea, the administrative workload for each product or service line is quite huge, which needs to be solely managed by one accountant. In term of Ernst and Young Vietnam, the company is in operation with three main service lines. In addition, Vietnam is chosen to locate the headquarter office for the Indochina area, which implies that the Vietnam team take full authority for the management of three Indochina countries including Vietnam, Laos and Cambodia.

Regarding the account receivable crew, the team consists of three core members and one head manager. Each position has distinct scope of work so that the working pace is not similar among same team members. While two staffs will perform the billing process for service line, the third person focus on checking and doing reconciliation of the receivable account on banking system. In detail, one member oversees making billing note for tax service line, the other will work for audit service line. The remaining accountant takes the burden of control the account receivable by directly contacting and clearing receivables with customer. The most important part of the third staff is delivering and confirming the precise number of receivables in the quarterly and annual financial report. The manager of the team will be the reviewer and give endorsement for the report submitted by the staff members.

In term of account payable team, the workload is divided into three different parts. One member is responsible for handling internal expense. This type of expense come mainly from consumption for the employee on business trip which is called staff periderm. One member takes care of the payables with external expense such as paying for vendors and supplier. The third member is also the manager of payable team who will ultimately check all the disbursements from the bank account. The manager also plays the role of making plans for all the payment and keep track with the account payable in order to ensure appropriate cashflow of the company.

7.1.2 Correlation of two teams

Apparently, the receivable and the account work independently with each other for most of companies. However, with large corporations that do business with various field, service lines can cooperate and work together to support a project for the same client. The cooperation is legally considered as a commercial activity as one service line hire the other line to implement a part of the project. This type of relationship creates receivables and payables within the similar company.

At Ernst and Young, the connection among three primary service lines is rigid as the scope of work is mainly related to auditing and accounting. Therefore, it is undeniable that the situation that the client of this service line is the other service line. Consequently, this phenomenon demands the cooperation of receivable account and payable account team. Undoubtedly, the receivable accountant will need to work closely with the payable accountant to inform the fee that is still unpaid from a particular service line. Simultaneously, the payable staff takes account for checking the data and figure on the system so that there is no difference between two accounts on the balance sheet. On a weekly basic, two accountants from two teams will sit together to make comparison of their financial statement and reconcile all the differences in the report. By this process, the finance department can take control of both receivable and payable account correctly without missing any section.

According to Ms. Nguyen Thi Kieu Phuong, the Chief Finance Officer for Ernst and Young Indochina branch, both receivable account and payable account are strictly controlled by three level of management. This act of examination is not only included in organization's code of conduct but also complies with Vietnam law of commerce. In specific, the law of commerce related to accounting document has regulated that any document that involve in the process of changing the amount of business bank account must be advocated by at least two related officers who owns certain authority in the organization. Therefore, Ernst and Young Vietnam ensure two compulsory endorsers in the finance department are the CFO and the chief accountant.

7.2 What are the consequences of modifying the average collection period?

7.2.1 Receivable collecting procedure

The process of collecting receivable from one specific on-credit customer can only be commenced when the staffs in the receivable team are given with sufficient information about the deal. As mentioned in the previous section, the responsibility of receivable team is divided into three parts which completely comply with the three primary divisions of operation at Ernst and Young Vietnam. Hence, there is one receivable accountant for legal related service sector, one for consultancy service sector and another for the overall control regarding manual task from Dalian team. Despite working separately for most of the time, their scope of work has one thing in common: all the changes in term of receivables only happen in one receivable account in the balance sheet.

All in all, the main duty of each accountant is precisely assuring the correctness when performing their work task. Otherwise, any mistake occurring on the system will create unbalance to the account and waste a lot of time for double checking. In addition, all the payment from customer will come to only one same bank account. This will help the employee keep track with receivables efficiently without missing information or transaction.

In term of the partnership bank that Ernst and Young choose to become a business customer, it is determined by the chief finance officer to choose the Hong Kong and Shanghai banking corporation limited which is also known for HSBC for opening the company account. By request, the finance department of Ernst and Young are provided with two devices called token for the online login to the internet bank account. Only by using this device that the accountant can get access to the account of the company.

Back to the receivable collecting procedure, after having necessary information about the amount of revenue that needs to be collected, two billing accountants will commence to work on the system to create the billing note for the on-credit customer. This system is created for all Ernst and Young around the world to be utilized. Hence, the system contains data and figures of all the clients. The most crucial notice when doing billing requires the accountant with high preciseness and quick computer skill. As the billing note will be sent to the customer for notifying the liabilities, it is mandatory from the team regulation to always ensure the high level of correctness. Otherwise, when a faulty billing note is delivered to the customer, many problems will arise and this part will be discussed more specific in the following section.

After creating and sending out new billing note to the customer, the accountant takes the duty to check whether the receivable is recorded exactly on the general ledger system. Simultaneously, the accountant keeps following up with unpaid receivable. It is not uncommon that some customers cannot make the payment when it comes to the due date. In that situation, the employer will need to discuss with both the manager and the colleague from the in-charged service line. These meetings absolutely consume lots of effort and time from relevant parties so that most of the cases will be managed by adapting effective measurements from precedents or nearly similar cases. However, all the involved staffs always keep an Ernst and Younge on the process and reaction from the customer. All in all, the responsibility of receivable management does not solely belong to the Finance department. This procedure essentially demands for the rigid connection among all departments.

7.2.2 Average collection period problems and solutions

According to Ms. Truc Le, head manager of receivable team, the collection period varies for different customers. This element will be discussed and determined by the professional staffs who will be directly working with the clients. Therefore, the section of service payment period will be included in the contract between the company and our partner. Finance team will take the responsibility for keeping an Ernst and Younge on the payment from the customer for the reconciliation purpose. As a primary part of work task, when a project is fully completed for the client, it is the professional staff's duty to inform finance team about the upcoming revenue so that the receivable accountant can initiate the process of performing accounting task for this receivable amount. In addition, it is extremely crucial for the staff in receivable team to gain sufficient and precise information regarding the information of the client as well as the agreement between two parties.

From the interview, it is revealed that both the Chief Financial Officer and Head of receivable team observe a phenomenon that problems mostly arise with the given information from the service line staff. A common fault that frequently made by the staffs is the lateness in the submission of the contract. For various of confidentiality related reasons, the contract between the business and the client is rarely exposed outside the service line. From the perspective of the professional staffs, only the managing level have an authority to read the contract, which also implies that other employees are not allowed to be sent the document. There is no doubt that this way of working probably generates dispute among colleagues as the staffs tend to blame for each other of their procrastination.

On the one side, the accountant cannot fulfill the billing note as provided information is not adequate or accurate. It is reasonable for them to request for the copy of the contract so that they can get all necessary figure for implementing billing process. On the other side, the professional staff consider an act of disclosing important documents such as business contracts as damage to the code of conduct. For that reason, they are always in the caution for exposing any business-related data.

Another pungent problem comes from the recklessness of both crews. In some circumstances during the busy season, the billing employee and staff from service lines loss consciousness of keeping track of payment from the customer. It is not until that either the managers recognize the deficit from the reports and bank balance. This type of fault is extremely dangerous for the business cashflow. However, finding solution for a mutual approach that all the divisions can apply is still controversial these days. At an overall glance, the two contradictory working styles at Ernst and Young Vietnam currently creates numerous disadvantages and conflicts in the process of collecting receivables.

Regarding the collection period, for the doubt that this element can be a competitive advantage of the company in comparison to the competitors, it is confirmed by both the head manager of receivable team and the chief financial officer that this aspect does not largely affect the client decision. According to the company strategy, all the paid service fee from customer should arrive at the Ernst and Young Vietnam bank account within one month starting from the date of completing providing service. As Ernst and Young is a large corporation, the driven clients are mainly large and medium-sized company with stable operation in the industry. Therefore, it is frequently accepted by most of Ernst and Young customers to disburse the payment in the period of 1 month. However, it goes without saying that due to the outbreak of Coronavirus pandemic, the economy drastically suffered from severe crisis with the liquidation of thousands of businesses. Apparently, Ernst and Young operation is also damaged when lots of its customer meet difficulties in financial health or even shutdown. As a result, the company has experienced a wave of procrastination in paying service fee from the customer.

7.3 How a company manage its payable account?

From the interview with Ms. Nguyen Thi Kieu Phuong, Chief financial officer of Ernst and Young Vietnam, it is revealed that the finance department makes assessment for the influence level of liability on the monthly basic. Moreover, with every quarter of the year, a meeting will be arranged by the board of director of Ernst and Young Vietnam with the aim of having an overview on the performance of the whole company. In specific, during the meeting, it is the duty of the finance department to give representation on the financial health of the company to the board of director. In addition, a compulsory document of a comprehensive report with detailed and sufficient information about the operation of each service line also needs to be ready in the quarterly meeting.

Apparently, the report must clearly indicate how well the company has been performing in three consecutive months. Particularly, the board of directors tremendously places their concentration to the side of payables and liability in the financial statement. As this factor directly influences the effectiveness of business cashflow, the report will include comparisons which demonstrate the proportion of the liability to the asset.

Within the quarterly financial report, the CFO of Ernst and Young Indochina considers two most important ratios used for assessing the size of payables are the debt-to-asset and the current ratio. The common point of these two indicators are the relations between liability and asset. The explanation for the emphasize on these two leverage ratios is because the managers would like to see how much capable of the firm to cover its financial obligation without the influence of the revenue. Therefore, by evaluating the proportion of asset verse liability, the executives of the corporation may easily catch up with the financial health of the company. Besides, a guarantee from the asset toward the payables will satisfy the anxiety of the boards when the corporation always has to deal with large number of dues from supplier and internal expenses.

Within the payable account, any reimbursement order will need the endorsement from three payable officers. On the weekly basis, reimbursement for both internal expense and costs from vendors will be made on Thursdays. Therefore, it is mandatory for the accountants from payable team to systematically review and represent the weekly report on all payments at the latest by Thursday morning. The report will be uploaded a particular file that only can be entered and opened by the administrative cadre. In this case, the endorsement crew consists of the head manager of payable team, the chief accountant and the CFO. In fact, due to the tremendous workload, the CFO transfers the right for monitoring these paperwork task to the chief accountant. Hence, the document only demand for the approval signatures from the team manager and the chief accountant. All in all, all the document for imbursement from the company bank account will need to get endorsement of two levels of manager level.

From the experience of more than ten years working for Ernst and Young Vietnam, Ms. Phuong demonstrates that the finance department takes the responsibility to assure the company always has adequate preparation to payout all debts by using its asset. Therefore, this implies that the company sustains its asset value stands higher than its obligations. In the situation that it appears in the periodical financial report both leverage ratios have the value bigger than 1, the finance managers will need to be ready for the curiosity from the board for the detailed explanation.

During the interview, it is surprisingly disclosed by the CFO that Ernst and Young Vietnam since the establishment has continuously been successful in maintaining the liability at a stable rate which does not conquer the value of asset. Particularly, over the past few years, the rapid growth of data protection gives all the businesses great awareness and requirement in cyber security for their database. Understanding the market demand, in the last two years, a new service line is timely installed with the name Ernst and Young Cyber. The mission of Ernst and Young Cyber is to strategically gives the customer best solution for protecting their data source. In addition, they also deliberate consulting service for comprehensive knowledge of related laws and regulation.

Back to the last two years financial statement, the CFO spots a crucial fact that the liability of the Cyber branch is overweight its assets. The explanation for this figure is generally summarized with two main points. First, as this service line is relatively new to the Vietnam market and the customer, the revenue in beginning years definitely cannot cover all the expenses and costs. Moreover, from the annual financial report, for the specific character of the industry, training expenditure for employee accounts for largest proportion of the expense.

8 Conclusions

All in all, within any type of business, expenses and revenue are always two elements that catch the attention of both the board of directors and board of management. Therefore, managing the receivables and controlling the payables are deliberated to be the utmost crucial parts of the finance department. In the process of performing these tasks, there is no doubt that the workers will face up with different problems.

Within the receivable line, it is mostly agreed by the accountants that the procrastination in payments from the customer is the largest dilemma in the process of collecting unpaid service fee. Regarding the solution, most of the company determine to extend the receivable period together with mandatory requests for guarantee the payment from the customers. However, even with large corporation such as Ernst and Young, the phenomenon of client default is not abnormal and the company has to take the loss for not earning that amount of revenue. Therefore, to prevent the frequency of this circumstance, the process of evaluating the financial health as well as payment ability of the client is noticeably crucial. This stage yet is not in the capability of the receivable team but demands for the involvement of the service lines.

Within the payable line, the managers greatly focus on the proportion between company's obligations and the assets or revenue. The duty of the payable account manager is ensuring the company will not get into trouble with tremendous expenditures to the creditors. Similar to the receivable line, in the procedure of controlling this account, some particular problems may arise which requires the flexible problem-solving skills from the accountant.

At an overall glance, Ernst and Young Vietnam has been successfully managed its financial health throughout years despite severe influences from the wave of coronavirus pandemic. By quickly identify advantages and disadvantages of the current situation, the company has timely built up appropriate financial strategies for adapting the economy crisis. It cannot be denied that the organization still experience shortage and emerged issues. By the experience of having a 4-month internship at payable team, the author believes that the process of handling internal expenses at Ernst and Young Vietnam still contains lots of disputes.

As the matter of the fact that a worker needs to get two signatures for endorsement from the service line managers for business expense, there are both advantages and disadvantages for this policy. In term of advantage, the authentication of the claiming expense form is double verified so that the trustworthiness is maintained at the highest level. Simultaneously, these processes will cause for load of paper for printing out, which is not a sustainable action in this time being. Furthermore, it is also compulsory the company for the activity of saving and storing. In addition, the requirement of hand -writing signature can create negative precedent for imitation and cheating. Otherwise, numerous of claiming expense report stuck at the manager office door as they are in business trip or vacation. As the consequence, the employees have to wait for quite a long time until they can earn back the money they have to pay for the company in advance. Needless to say, these cases will demotivate and discourage the passion of the employee to their dedication.

All in all, when doing research for this topic, it comes to two idea for another research that should be carried on also at Finance department of Ernst and Young Vietnam. The first idea is in term of the fact that the retention rate of the employee at receivable team is relatively low compared to the payable team. During the time of working and discussing in the interview with the staffs, most of the opinions believe the workload and task responsibility is inappropriately organized, which creates lots of stress and burden for the employee. At the same time, the payable team is caused into trouble with controversy around its procedure. While being an internee for this team, it is noticeably received complaints from both external and internal staffs about the unnecessities in the reimbursement process. These complaints have been brought to numerous meetings but cannot be solved immediately due to many reasons. Therefore, these two problems are still in need for helping Ernst and Young build up effective and friendly working environment.

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Appendix 1: The question for Account Receivable staffs

1) What is your position in the receivable account team?
2) What is your scope of work? Can you please briefly describe responsibilities and duties when being in this position?
3) To perform your work task, what main connections and involvement do you need from both account receivable team and external departments?
4) Do you clearly know what other's member title position and their scope of work as well as responsibility?
5) Is there any connection among members in the account receivable team? If yes, please state in which situation that requires the cooperation of team members.
6) Does the division in the same team create any difference in account receivable bank account?
7) Can you clearly illustrate the stages in the procedure of collecting receivables?
8) According to the company policy, what is the normal account receivable periods?
9) Based on the reality, have you ever caused in the situation that there is a long gap from the moment of purchase till the revenue is received in the bank account?
10) If yes, how long can you give the customer to pay their debt to the company?
11) In the process of collecting receivable, is there any difficulties in working with clients?
12) If yes, can you please clearly state what types of harshness when caused into those cases?
13) Is there any company guideline of dealing with bad debts?
14) If yes, can you please clearly state that policy?
15) If no, what action will you make when encountering hard line receivables?

Appendix 2: The question for Account Receivable manager

1) What is your position in the receivable account team?
2) What is your scope of work? Can you please briefly describe responsibilities and duties when being in this position?
3) What is the approach of the company when coming to a postpone in collecting receivable?
4) Is there any company guideline of dealing with bad debts?
5) If yes, can you please clearly state that policy?
6) If no, with the title of your position, what is your chain of your reaction towards this situation?
7) Can longer account receivable periods be used as a competitive factor against other competitors?
8) If the receivable period is prolonged, is there any consequence influencing the financial health of the business. If yes, please clearly state.
9) What are the criteria when deciding whether to prolong the collection period or not?
10) How much time will be added in?
11) In case of delaying in collecting money from customer, what will happen to the account receivable in balance sheet?
12) In the process of working with cantankerous customer, is receivable team in need of assistance from service line which directly work with the customer?
13) What will happen if there are so many customers have difficulties in finance at the same time and need a longer collecting period?
14) In reality, have Ernst and Young Vietnam ever been in the situation of losing receivables as the client cannot afford to pay for their obligation?
15) Comparing the amount of receivables that cannot be collected with the revenue, which is the most acceptable rate?

Appendix 3: The question for Account Payable staffs

1) What is your position in the payable account team?
2) What is your scope of work? Can you please briefly describe responsibilities and duties when being in this position?
3) To perform your work task, what main connections and involvement do you need from both account payable team and external departments?
4) Do you clearly know what other's member title position and their scope of work as well as responsibility?
5) Is there any connection among members in the account payable team? If yes, please state in which situation that requires the cooperation of team members.
6) Does the division in the same team create any difference in account payable bank account?
7) For the payable management, what type of report is required to make for the summary of payable operations?
8) Who is in charge of checking the ultimate correctness of transaction from bank account to creditors?
9) During working, do you recognize any fraud or error it might have when making payment?
10) If yes, what are the problems and what is the source of those dilemmas?
11) What is your solution toward those difficulties?
12) Regarding the payable department, do you think is there any appropriate change should be made to prevent arising problem?

Appendix 4: The question for Account Payable manager

1) What is your position in the payable account team?
2) What is your scope of work? Can you please briefly describe responsibilities and duties when being in this position?
3) Being the manager for the payable account, which approach will you use to assess the scale of payables?
4) In the financial report, which ratio you will use to understand the health of payable account?
5) Which activities account for the largest proportion of expense?
6) In case of encountering fraud or wrong payments, what will you do to handle the situation?
7) Can you state what are main reasons for erroneous disbursement?
8) How strict the suppliers are with their periods and faulty transaction?
9) Who will be responsible for contacting the suppliers and creditors for handling the mistake?
10) Was there any time the company meet the situation of having too big account payable?
11) If yes, what measurements are taken to assess the seriousness of the dilemma?
12) What are the approaches of the company when having those problems?