

Interaction of Accounts Receivable and Accounts Payable and Managing Them

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Abstract: The ability to enter into credit and receivable relationships helps develop business and the economy as a whole. For the company, this is a chance to increase production capacity and increase sales. Accounts receivable is the debt of counterparties to your company. It can be recovered in court, since according to all accounting rules, receivables must be reflected in accounting and recorded in the contract. This article discusses issues about the ratio of accounts receivable and accounts payable, sources of their formation, how to overcome problems and how to keep records and manage these indicators.

Keywords: Debtor, creditor, receivables, payables, indicator, relationship, advance payment, financial obligations, enterprise, repayment of obligations, capacity.

Business constantly interacts with third parties - banks, buyers, utilities, suppliers. As a result of this relationship, the parties have financial obligations. All of them are taken into consideration in accounting.

A review of an accounting system, of which records are a fundamental component, is necessary given the current state of economic relations. The state of an organization's accounting receivables is crucial for businesses of all sizes and types of ownership. The degree of organization and effectiveness of the process for accounting receivables purchasers, customers, and other organizations and individuals plays a significant role in problem solving and guaranteeing the smooth functioning of the business. These days, the economy is facing a serious problem with the development of amounts receivable, which in turn leads to the emergence of bad and questionable debts and exacerbates the non-payment situation. All of this causes money to be taken out of the business's sales, which lowers its solvency and liquidity and lowers production volumes. The lack of a theoretical elaboration of the question of essence, the assessments and classifications of receivables, the imprecise method of displaying debt counterparty information in the accounting system, and the inconsistencies in the requirements of financial reporting and national and international accounting standards are the main causes of this situation. Entities should pay closer attention to the status of receivables and create new forms and techniques for accounting and control in light of the ongoing changes in applicable law. The business maintains relationships with counterparties, that is, with external partners. They may be creditors or debtors, depending on which party has financial obligations. Moreover, in these relations, the debtor does not exist without the creditor; they are always connected.

- The debtor is the person who has financial obligations to the lender. Unfulfilled financial obligations are called accounts receivable. In relation to the company, a debtor is a buyer who has already received a product or service, but has not paid the invoice. If we consider

the internal counterparties of the enterprise, then the debtor may be an employee who has already received an advance payment, but has not yet fulfilled his work obligations.

- A creditor is a lender, the one who is owed money. The creditor can be a legal or natural person, as well as the state. Creditors for a company can be banks, extra-budgetary funds, suppliers of raw materials, as well as its own employees who have not been paid.

The company acts as a debtor or creditor with different counterparties. And the business is simultaneously in several credit and receivable relationships.

Here we discuss about situations in which work with accounts payable and receivable appears:

- ✓ the buyer or organization does not have the money to pay off the bill, but over time they will appear;
- ✓ the manufacturer does not have the required volume of goods in its warehouse, so it will ship within the specified time;
- ✓ the repayment of obligations is affected by bureaucratic or legal difficulties, due to which the time for payment or provision of services is extended.

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Accounts receivable is the debt of counterparties to your company. It can be recovered in court, since according to all accounting rules, receivables must be reflected in accounting and recorded in the contract.

Accounts receivable can be generated from companies and individuals.

Let's look at examples of how receivables can be formed:

- The company provides a service, and the consumer undertakes to pay the bill within a month. During this period, the amount of debt is considered a receivable.
- The organization and the counterparty enter into a three-month futures contract. The company undertakes to provide the goods after 3 months at a pre-agreed price. Obligations under futures contracts are also included in accounts receivable.
- The company paid salaries to full-time employees and outsourced employees in advance. Until they complete the required period, the advance amount will be considered a receivable.
- The organization filled out the tax return incorrectly, causing the amount of tax paid to be higher. The Federal Tax Service confirmed the overpayment. Its amount before return will be recorded in accounts receivable. In this case, the debtor is the state.

Accounts payable are the organization's debts to the state, counterparties, and its own employees. It can be fixed and consist only of the debt body, or variable if interest is added to the principal amount. In the second case, the lender not only returns his funds, but also receives additional profit from interest.

Let's consider situations in which a company develops accounts payable:

- ✓ The organization purchased raw materials or goods, but did not pay for them.
- ✓ The company took out a loan from a bank to develop its business.
- ✓ The company did not pay salaries to employees.
- ✓ The company has issued bonds and has obligations to security holders.
- ✓ There are several types of debt based on the state of fulfillment of obligations:
- ✓ Standard. The buyer undertakes to pay the invoice within 3 months, and this period has not yet passed.

- ✓ Overdue, when the contract expires. In such a case, as a rule, the contract specifies the conditions for calculating fines and penalties.
- ✓ Doubtful. If the debtor does not attempt to change the terms of the agreement, does not pay the debt even in parts, then the creditor has the right to file a lawsuit.
- ✓ Hopeless. Sometimes the legal process does not bring results. For example, the debtor is declared bankrupt. In this case, the uncollectible receivable is written off.

How to keep records of accounts payable and accounts receivable.

All debts must be reflected in accounting. An account has been created specifically for credit-debtor relations. But also in parallel, the data is entered into another account, which reflects financial relations with customers.

An important point: the amounts of receivables are taken into account when calculating profits, provided that the company has already fulfilled all its obligations. That is, in fact, the money has not yet been received, but it is considered profit.

Sometimes a receivable becomes uncollectible. The company has already come to terms with the fact that it will not wait for payment: the courts have either been lost or have shown the financial insolvency of the counterparty. But the debt still hangs on the accounts.

How to manage accounts payable and receivable

We explained how accounts receivable differ from accounts payable, but we have not yet told you what to do with them. The first thing you need to know is that having a creditor is normal for a company. If an organization wants to operate only with its own working capital, then the company's growth will be slow. Such a business simply cannot develop at the same level as its competitors.

What is debt inventory

This event is carried out to confirm that obligations are correctly reflected in the debt management program. The company needs to analyze the calculations before submitting annual reports to the control authorities, during reorganization/liquidation, to adjust the amount of the reserve for doubtful debts. If disagreements are identified with counterparties, a reconciliation is carried out for the required period. During the inventory, the amount of doubtful and/or bad debts is clarified, a reserve is formed, and information on receivables already written off on the balance sheet is checked.

Working with debtors

Preventive work is being carried out in this direction. Its essence consists of analyzing contractual terms, calculating the repayment period of debts, checking the fulfillment of the payment schedule, and clarifying the correctness of payments and shipments. If necessary, a reconciliation with the counterparty is carried out, and informational reminder letters about the payment date are sent. Unscrupulous partners are subject to claims. The turnover process can be simplified with the help of an arrears control program. Segmentation is carried out in the context of individual counterparties, contracts, by terms and types of delay.

Solvency check

It is possible that the creditor is not repaying the debt because bankruptcy has been filed. In this case, you need to have time to get into the register of creditors. To exclude such situations, you need to verify the buyer's solvency. Information about bankruptcy can be found in the federal register or in the file of arbitration cases. Information on liquidation and reorganization is provided by the special tax service "Transparent Business".

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