

## Accounts Receivable Management: The Role, Implementation, and Challenges of Increasing Corporate Financial Leverage

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### ABSTRACT

Billing management is an important component of a company's financial strategy because it directly impacts the company's financial health and the continuity of its business operations. Leverage is one of the important concepts in the world of finance that measures the extent to which a company uses funding sources from loans (debt) compared to its own capital (equity) to finance its operational and investment activities, through indexed journals with selection criteria in the form of topic relevance, year of publication (maximum of the last five years), and has gone through a review process, aiming to present in-depth and reliable insights into the role, implementation, and challenges in increasing the company's financial leverage. Billing management and financial leverage are two important components in corporate financial management that are interconnected, billing management includes collection strategies, creditworthiness evaluations, and billing supervision to maintain the company's liquidity and profits, the relationship between the two can be seen from the influence of billing management on the company's cash flow and liquidity, which in determining the company's ability to pay off its debt obligations, the relationship between accounting management and financial leverage is reciprocal

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## **INTRODUCTION**

Accounts receivable management is an important component of a company's financial strategy because it directly impacts the company's financial health and the continuity of its business operations. When managed professionally, accounts receivable can provide various benefits, such as increasing ( Cash Flow ), strengthening liquidity, and driving long-term profitability growth. In addition, efficient management can increase financial leverage, allowing companies to access better funding sources and optimize their capital structure. Optimal accounts receivable management is an important aspect of a company's operations, especially in relation to maintaining good customer relationships ( Customer Relationship Management, CRM ). In practice, companies must find the right balance between the two interrelated interests. A holistic and integrated approach is needed to create a sustainable accounts receivable management system. By combining relationship and risk management, companies can minimize potential losses and maximize customer value in the long term. In addition, implementing technology and data analysis can help companies make more accurate decisions regarding credit policies. Ultimately, effective accounts receivable management contributes to financial stability without sacrificing profitability or customer relationships (Dari & Saputra, 2022) .

Leverage is an important concept in the world of finance that measures the extent to which a company uses funding sources from loans (debt) compared to its own capital (equity) to finance its operational and investment activities. In simple terms, leverage shows the proportion between debt and equity in a company's capital structure. A high level of leverage indicates that the company relies more on debt financing, while low leverage indicates that the company prioritizes the use of its own capital (Faldiansyah et al., 2020) . The use of leverage has a significant impact on the company's financial performance. In situations where the company is experiencing growth, leverage can be an effective tool to increase profits. By utilizing debt, companies can expand their operations, purchase new assets, or develop businesses without having to spend large amounts of their own capital. This allows companies to achieve faster growth while maximizing Return on Equity (ROE) for shareholders. However, behind the potential benefits, leverage also carries a number of risks that should not be ignored. The higher the level of leverage, the greater the financial burden that must be borne by the company, including interest payments and principal. If the company's income is insufficient to cover these obligations, the company may experience financial difficulties and even risk bankruptcy. In addition, high leverage can also reduce the company's financial flexibility because cash flow that should be used for business development is instead allocated to pay debts.

The use of leverage can increase the potential profit for shareholders. For example, by utilizing debt, companies are able to expand investment in projects that are expected to provide higher profits than their borrowing costs. The ideal level of leverage must consider the balance between the possible benefits of using debt and the financial risks that may arise (Putri & Yuliafitri, 2024)

## LITERATURE REVIEW

According to (Safitri, 2021), accounts receivable management is defined as a series of strategic steps to manage a company's claims or bills to other parties, whether individuals, business actors, or debtors. This activity includes planning, monitoring, and managing receivables arising from credit sales transactions. Receivables are classified as current assets because they are collection rights that are expected to be converted into cash within a certain period. Efficient accounts receivable management is crucial to maintaining the company's liquidity, reducing the risk of bad debts, and ensuring smooth operational cash flow. In this way, the company can optimize revenue while reducing the possibility of losses due to collection problems.

leverage strategy is defined as a series of policies and steps implemented by an entity, whether a company, non-profit organization, or individual to optimize the management of financial resources in order to achieve planned financial targets (Khomsiyah et al., 2021) . This concept includes various elements, such as funding, investment allocation, risk management, and dividend distribution policies. Financial leverage strategy serves as a foundation in managing all financial activities of a business, including the selection of funding sources (eg equity or loans), working capital management, investment fund placement, dividend policy determination, and financial risk control.

According to (Muda et al., 2020) , strategies for increasing financial leverage include formulating financial goals for both the short and long term, including increasing revenue, profit, cost efficiency, and realizing targeted returns . A company's financial planning needs to be aligned with the strategic vision of the business, market dynamics, economic conditions, and risk tolerance and investor expectations. External factors such as market competition, monetary policy, and global uncertainty also influence the preparation of financial strategies. With this, companies need to conduct periodic evaluations and adjust financial plans to remain relevant and competitive.

Leverage or debt ratio is a concept in the world of finance that measures how much a company uses borrowed funds to finance its operations or investments, compared to using its own capital (Sulaeman, 2021) . Leverage shows the comparison between the amount of debt or financial obligations of a company and the equity of shareholders. In simple terms, leverage describes the level of dependence of a company on funding from loans in carrying out its business activities. If the leverage level is high, it means that the company relies more on debt than on its own capital, while low leverage indicates the opposite. This leverage concept can be used as a consideration, because the risk caused by the use of corporate debt will be an additional risk that will be borne by investors. "The higher the leverage, the greater the financial risk and vice versa". We because it will later cause the company to be too focused on completing its debt obligations. (Faiqoh & Harto, 2024)

## **METHODOLOGY**

This research methodology uses Systematic Literature Review (SLR) to evaluate and examine the relationship between receivables management in increasing financial leverage (Ibrahim, 2023). The initial stage of the study involved formulating specific research questions, focusing on receivables control techniques and their impact on the company's financial leverage. Then, a literature search was conducted through indexed journals with selection criteria in the form of topic relevance, year of publication (maximum of the last five years), and having gone through a review process. The next stage is filtering articles based on title, abstract, and complete content to ensure compliance with the research theme. Data was then taken from selected sources, including the definition of receivables management, processing of receivables management, and findings related to increasing financial leverage in companies. This study aims to present an in-depth and reliable review of the role, implementation, and challenges in increasing the company's financial leverage.

## **RESULTS AND DISCUSSION**

### **The Role of Receivables Management in Corporate Financial Leverage**

#### **1. Increasing Liquidity**

Liquidity is one of the fundamental aspects in assessing the financial health of a company, especially related to its ability to meet short-term obligations. In more detail, liquidity reflects the extent to which a company can convert its current assets into cash or cash equivalents quickly and efficiently to pay off debts that are due soon. The level of liquidity of a company is generally assessed through certain financial ratios, such as current ratio, quick ratio, and cash ratio, which compares current assets to short-term liabilities. The higher this ratio, the greater the company's ability to cover its financial obligations without experiencing difficulties. Good liquidity indicates that the company has effective working capital management, so it can avoid the risk of default or dependence on external funding.

According to research (Hendriani et al, 2021), the z-score value of a company is influenced by its liquidity ratio level. The higher the liquidity, the greater the impact on the increase in the z-score. Thus, an increase in the z-score indicates that the company is in a stable condition, minimizing financial risk, distress or inability to meet certain financial criteria.

#### **2. Supporting Profitability**

Profitability is one of the most important indicators in assessing a company's financial performance. Basically, profitability describes the extent to which a company is able to obtain net profit from its operational activities (Apriliyani & Kartika, 2021). Net operating profit is calculated by subtracting total sales revenue from products or services from all operating costs, including production costs, labor, overhead, and administration. The higher the level of profitability, the better the company's ability to generate income after covering all costs, which ultimately provides attractive returns for investors.

In addition to being a measure of financial performance, profitability also reflects the competitiveness and growth prospects of a company in the industry. Companies with high profitability are generally more attractive to investors

because they demonstrate the ability to generate profits sustainably. Stable profitability also strengthens the company's financial position, allowing for greater allocation of funds for innovation, market expansion, and development of new regional businesses. Thus, profitability is not just a short-term business goal, but also the main foundation for the company's sustainability and growth in the long term ( Goh et al. , 2022).

### 3. Supporting Financial Leverage

leverage refers to the use of fixed-cost sources of funds, such as debt, to increase a company's profit potential. However, the use of leverage also carries risks, including increased interest expenses and potential liquidity problems if not managed effectively. The leverage mechanism works through several stages. First, the company obtains funding from external sources in the form of debt at a fixed cost. Second, the funds are invested in projects that are expected to provide a higher rate of return than the cost of debt. Third, the difference between the rate of return and the cost of debt will increase shareholder wealth. This process is known as the leverage effect ( Leverage Effect ) which can increase returns of Equity (ROE) significantly (Irsan & Ramadona).

### **Implementation of Receivables Management**

#### 1. Determination Strategy Policy Credit

In an increasingly competitive business world competitive and dynamic , determination policy credit No only just instrument administration , but rather become an integral part of financial strategy company For control risk and optimize liquidity . Credit policy includes a series of important decisions such as credit terms, limits on the amount of credit granted, payment requirements, and determining the debtor's eligibility standards.

Research by Damayanty & Lasiyono (2022) confirms that implementation 5C principle ( Character, Capacity , Capital, Collaborator , Condition ) in evaluation credit in a way significant help minimize the occurrence of bad debts, and improving the quality of what is delivered to customers. In other words, the policies designed based on analysis strong risk capable be the initial filter to potential default .

An effective credit policy is not static. Instead, it needs to be reviewed periodically to stay relevant to market conditions, economic trends, and the latest regulations. As Salsabilla & Syafina (2024) point out in their study of Telkom in Indonesia, the use of IT-based receivables management systems, such as automated bill tracking and customer behavior analysis. Thus, it greatly helps companies in strengthening internal controls, improving customer compliance, and maintaining healthy cash flows. Implementation This digital system also improves taking decision more data- driven decision marking accurate and efficient .

#### 2. Effective Billing

Collection is a crucial stage in the receivables cycle that should not be ignored. When the collection procedure is carried out reactively, unsystematically, and with minimal documentation, the ratio of bad debts will increase drastically. Research by Fitria et al. (2019) at PT. Citra Elektronik shows that a weak collection system and lack of efficiency in collection procedures

contribute greatly to the fluctuation of bad debts from year to year. Therefore, companies must build a proactive collection system, such as sending automatic bills via email and SMS, providing warning letters, scheduling periodic collection visits, and a fine mechanism for late payments.

Candy & Calystania's (2023) research approach in his research at PT. Panca Success Pratama , through weekly SOA ( Statement of Account ) reporting , grouping debtor based on risk payment and strengthening incentive communication with customers was able to reduce non-current receivables from 27.5% to 14.3% in just three months. This show that a structured and data - driven billing strategy is capable of speed up turnaround receivables and reduce formation credit problematic .

### 3. Management risk in management receivables

Risk receivables not collectible or known as bad debt, is one of the risk the biggest in cycle corporate finance , because it directly affects profit and current asset structure. As stated in Nathanael's research (2021), even though a company already has optimal credit procedures, external factors such as macroeconomic conditions and customer behavior remain the main determinants of the emergence of bad debts. With that , approach management risk must done since beginning , start from strict customer selection , monitoring of receivables due, and implementation of an accounting system based on PSAK (Financial Accounting Standards Statement ) for reserves for doubtful accounts.

Not only that , Anggraeni et al. (2023) in studies they to non-profit organization INKINDO shows that lack of system recapitulation receivables and weaknesses internal control also enlarge risk receivables not collectible sourced from contribution members . This condition confirms that both profit and non-profit organizations need a strict internal control system and consistent monitoring of receivables.

So from that , management good receivables No only impact on control risk , but also has an impact big to the level of liquidity and profitability of the company. When the turnover of receivables is fast, the available cash will increase, so that the company has the flexibility to pay miracles, invest, or cover operational costs. According to Sutrisno (in Nathanael, 2021), effective receivables management is characterized by an increase in annual receivables turnover and the achievement of repayment targets in accordance with company regulations. This then has a positive impact on net profit margins and operational efficiency.

On the other hand, if receivables pile up and become uncollectible, then in addition to reducing the value of the company's assets, it can also trigger serious short-term liquidity problems. Hutapea and Septriawan (2022) even take notes that receivables not collectible in a way significant influential negative to operational cash flow , and in term long potential cause company experience loss or even bankruptcy .

### **Challenges in Accounts Receivable Management**

#### 1. Bad Debt Risk

In the midst of increasingly competitive market dynamics, credit sales have become a strategic choice for many companies to expand market share and

build long-term relationships with customers. This business practice allows companies to reach a wider consumer segment, including those with limited liquidity but business potential. However, behind these benefits, there are financial risks that should not be ignored. The accumulation of bad debts can be a time bomb that threatens the company's financial health, ranging from disrupting operational cash flow, decreasing profitability ratios, to worsening overall financial performance. This challenge is increasingly complex when faced with unexpected macroeconomic fluctuations, which can significantly affect customers' ability to pay. Therefore, companies need to develop a comprehensive credit management system, starting from a strict customer selection process, establishing a prudent credit policy, to an effective collection mechanism. (Luthfia, 2025)

## 2. Late Payment

Delays in payments by debtors can have a significant impact on financial institutions and cooperatives, both financially and operationally, where financially, this disrupts the liquidity and cash flow of the institution, thus hampering the ability to meet short-term obligations or disrupting new project financing plans, while from an operational perspective, institutions must allocate additional resources for the collection process which includes sending reminders, collection calls, to layer visits, which not only increase administrative costs but also have the potential to damage relationships with customers, not to mention the risk of increasing NPLs (Non- Performing Loans). Loan ) which can lower the health assessment of the Institution by the supervisory authority and reduce investor and customer confidence, so that in the long term it can affect the stability and growth of the institution, especially if this delay occurs massively and systematically, it can disrupt the financial ecosystem as a whole, both at the micro and macro levels. (Amelia, 2024)

## 3. Regulatory Challenges of Receivables Management

Despite adopting the profit sharing concept, the calculation of Profit and Loss Sharing (PLS) in practice still follows the logic of the interest system, showing a mismatch between principles and implementation. In addition, the applicable capital and liquidity regulations are designed for conventional systems so that they are less relevant to profit-sharing-based business capital. Efficiency measurements also still refer to conventional standards that do not fully reflect the unique characteristics of profit-sharing financing. In addition, weak transparency in reporting receivables, both in value, risk, and status, will worsen the ambiguity and hinder effective supervision (Gultom et al., 2022).

### **Relationship between Accounts Receivable Management and Financial Leverage**

Accounts receivable management and financial leverage are closely related in a company's financial management. Efficiently managed collections can improve cash flow and minimize a company's dependence on loans, thereby reducing leverage. On the other hand, if debt is not managed well, a company may become increasingly dependent on external financing to support its operations, potentially increasing leverage. Companies with high leverage often manipulate earnings, including through accounts receivable management, in order to maintain their financial image in front of creditors and investors.

There is an interesting phenomenon in companies with high leverage , where they often engage in earnings management practices ( Earnings Management ) to maintain financial image. One common method used is through receivables management, for example by accelerating or delaying revenue recognition so that financial statements look better . This action aims to maintain the trust of creditors and investors, while avoiding violations of debt agreements ( Edeline , Tan, & Maiden, 2024).

## **CONCLUSIONS AND RECOMMENDATIONS**

Accounts receivable management plays a crucial role in maintaining a company's financial stability. Effective accounts receivable management plays a role in optimizing cash flow, reducing the risk of bad debts, and increasing liquidity, which ultimately contributes to increasing financial leverage. Its implementation includes various strategies such as assessing customer creditworthiness, determining clear payment terms, and monitoring receivables regularly. However, companies also face challenges such as late payments, risk of default, and high administrative costs, which can be overcome through the application of technology and data analysis.

Thus, the relationship between receivables management and financial leverage is reciprocal. Efficiently managed receivables not only serve as collateral for obtaining financing, but also accelerate the working capital cycle, giving the company room to invest or grow. Overall, strategic and measurable receivables management not only supports liquidity, but also plays an important role in increasing the company's financial leverage through risk management and utilization of funding opportunities.

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