

Enterprise Accounts Receivable Internal Control Problems and Countermeasures: Take Zoomlion for Example

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Abstract: Accounts receivable plays a pivotal role that cannot be ignored among many assets. In China, the credit management system is not perfect, which makes the management of accounts receivable of listed companies unsatisfactory. The main problems include the lack of risk awareness of the upper leaders, the unreasonable establishment of departments, the mismatch of power and responsibility between departments, and the imperfect supervision system. After studying the basic theory of accounts receivable internal control, this paper investigates the current situation of accounts receivable management of Zoomlion, analyzes the problems that may exist in the internal control of accounts receivable of the company and puts forward the feasible countermeasures. The results of the research may provide reference for listed companies in related industries including the Zoomlion.

1. Introduction

China's machinery and equipment manufacturing industry is facing a highly market-oriented competition environment in recent years. How to improve the operation quality of assets has become an important strategic goal for medium and large enterprises in China. In order to improve their competitiveness, many enterprises are constantly expanding their production capacity, which may lead to the problem of excess production capacity and mismatching with market demand. Many enterprises still regard increasing sales as their future development direction. In order to increase sales revenue and seize market share, these enterprises increasingly use credit sales to sell goods. Thus credit sales have gradually become the main settlement method of business transactions, which leads to more and more accounts receivable. However, if improperly used, credit sales will have various adverse effects on enterprises, which may lead to bad debts. This will not only increase the cost of accounts receivable management, but also make the capital turnover of enterprises become difficult, and even may lead to the bankruptcy of enterprises. Accounts receivable management is one of the important contents of the daily management of enterprises. It is of great significance to the direction of business development and the level of business management. In the face of increasingly fierce competition in the market environment, only when enterprises deal with the problem of accounts receivable, can they achieve healthy and stable development. Therefore, medium and large enterprises should constantly strengthen financial management, improve accounts receivable management, prevent and control the unlimited growth of accounts receivable in advance, reduce the proportion of accounts receivable to the capital, and control accounts receivable within the scope of the enterprise itself can bear.

Under the current market environment, internal control is an important means for enterprises to strengthen internal management and avoid risks. It is a risk response mechanism established within an organization. Sales is one of the important businesses in the production and operation of enterprises. It involves the withdrawal of enterprise funds and plays an important role in enhancing the core competitiveness of enterprises. It is an important factor influencing whether enterprises can achieve long-term and sustainable development in the current market environment. The sales

business of an enterprise directly affects the operating efficiency and effect of the enterprise, and is the ultimate embodiment of the enterprise's pursuit of profit maximization. Under the current market economy conditions, every enterprise in the market will face the challenge of improving the internal control of sales business and avoiding the possible risks of sales business on the premise of guaranteeing profits.

2. Analysis of the Current Situation of Internal Control of Accounts Receivable of Zoomlion

Since the world financial crisis, the world's economic development has lost its vitality, and China's internal economic development has been declining. In order to form their own powerful forces, the competition situation among listed companies becomes more and more severe[1]. At the same time, the production of the domestic construction machinery industry shows a downward trend, which also reflects that the production of the industry has reached saturation, as well as the situation of a great decline in product demand. The recession of the market economy and the decline of the overall demand for construction machinery products make the production of domestic enterprises drop sharply. Among them, Zoomlion's construction machinery sales volume and annual operating profit margin are exceptionally "good-looking". After a further review of Zoomlion's financial statements, it is found that in 2019 the turnover rate of Zoomlion's accounts receivable is 58.66%. Moreover, its accounts receivable increased from 22944.1735 million yuan at the beginning of the year to 25403.953 million yuan at the end of the year, a year-on-year increase of 10.72%. And there is no clear indication that accounts receivable can be collected soon thereafter.

It is obvious that the company's top managers do not realize the role internal control of accounts receivable plays, and do not develop a reasonable internal control system, giving the sales department free rein, which makes the sales staff look for ways to improve their performance in order to get high commission and endlessly use credit sales to fight for their clients [2, 3]. However, these accounts receivable formed by credit sales do not form income before repaid, nor do they form actual profits, but only book profits. If accounts receivable are at risk, the company's profits are bound to be reduced. The profits of the company are not real before the accounts receivable are repaid[4]. Therefore, senior managers should pay more attention to the internal control of accounts receivable, in order to reflect the company's most real profit level.

Although accounts receivable formed by credit sales can increase the current earnings of the enterprise, it will not bring the corresponding cash inflow to the enterprise when the sales occur and unintentionally reduces the cash flow at the disposal of the company. Therefore, the company should give full play to the role of internal control of accounts receivable, in order to reduce the probability of bad debts and increase the company's production and operation of cash flow[5].

3. Analysis of Internal Control of Zoomlion's Accounts Receivable

3.1. Weak Risk Consciousness of Manager

The shaping of a company's core values depends on the consciousness of the management layer [6]. The management layer of Zoomlion does not pay corresponding attention to the internal control of accounts receivable and does not notice the huge role that the internal control of accounts receivable can play in the operation process of the company. They only want to improve the profit of the company, but do not care about the potential danger of this way. Although the increase of accounts receivable can increase the income of the company, its profit is not real, because accounts receivable only forms the book profit and does not bring the increase of cash. When the construction machinery Industry has reached saturation, the growth rate of Zoomlion's accounts receivable is still high, which reflects that the senior management layer of Zoomlion simply considers the income on the book as the real income of the company and ignores the possible bad debt losses. As a result, the uncertainty of full recovery of accounts receivable will increase. Instead of increasing corporate profits and making the company develop healthily and stably, it will make

the company fall into a very serious financial risk. Although excessive reliance on accounts receivable can far outperform other competitors in the same industry and form its own advantageous position, it will eventually make the company's accounts receivable greatly increase, make the recovery rate and the company's working capital decrease, and even make it impossible for the company to operate normally.

3.2. Unreasonable Allocation of Power and Responsibility of Departments

Zoomlion does not set up a special supervision department for accounts receivable, which leads to some problems in the process of accounts receivable collection. Due to the confusion of the responsibilities of each department, there is no effective management before, when and after the occurrence of accounts receivable, which has caused serious problems with the internal control of accounts receivable. At present, the company's finance department is responsible for collecting accounts receivable solely, including those that cannot be collected in time, which puts a significant amount of work on the financial staff. Because customers are generally managed by the sales department, the financial department does not have a good understanding of the specific business scope and operating conditions of customers, which makes the financial department unable to specify the number of days for collection of accounts receivable, let alone the collection of overdue accounts [7]. Therefore, it is very difficult for the financial department to accomplish its own tasks. In addition, the distribution of rights and responsibilities of the company is unreasonable. The company should distribute tasks according to the responsibilities of each department. However, the sales department of Zoomlion not only sells a large number of goods on credit, but also privately decides the amount of credit sales and gives certain price discounts to customers. In order to improve their own performance, the sales department increases the sales volume rapidly, which undoubtedly increases the burden of the financial department to collect accounts receivable. The sales department is not only responsible for signing orders with customers but also for selling goods. Before the occurrence of sales behavior, the sales department does not communicate with the credit department about the customers' information, making the credit management department useless.

3.3. Lack of Collection System for Accounts Receivable

When the receivables are not collected in time after the occurrence of sales business, Zoomlion does not take effective collection measures to customers in time [8]. The company's financial personnel do not regularly update the progress of accounts receivable, nor do they regularly analyze the company's accounts receivable and make an aging analysis sheet. Therefore, they cannot timely understand the changes of customers' specific business conditions and credit conditions, unable to determine what strategies should be adopted to collect accounts receivable.

Zoomlion has a lot of inventory that ties up a lot of capital. It takes a certain amount of time for a company to turn over funds. The company often doesn't have a reasonable collection system. For example, employees in the finance department simply call and email customers before preparing financial statement in the end of the term. For those accounts receivable arising from credit sales, the company should adjust in a timely manner according to changes in customer credit status and operating conditions. Zoomlion does not collect overdue accounts on schedule, which has made customers have no sense of repayment and even intentionally default on accounts receivable, increasing the difficulty of recovery and directly affecting the funds needed for the daily operation of the company.

4. Measures to Solve the Problems of Internal Control of Accounts Receivable of Zoomlion

4.1. Strengthen the Risk Awareness of Manager

The managers of Zoomlion should start from themselves, face up to the internal control of accounts receivable, enhance the risk awareness of accounts receivable, and improve their own literacy and risk awareness of accounts receivable[9]. In addition, in order to collect receivables

efficiently, Zoomlion must change the company's salary system and employee promotion channels to help employees in various departments realize that they can't make irrational credit sales just to increase sales. The company should combine the quantity and quality of accounts receivable to assess the performance of employees. Sales is a vital part of business. Therefore, the company must pay attention to the sales business and should not allow its salespeople to make irrational credit sales to customers without conducting an investigation. The company can combine the sales volume with the aging of accounts receivable, and establish a series of reasonable and effective incentive mechanism and evaluation mechanism, so as to conduct effective performance evaluation on employees.

4.2. Improve Departmental Setup and Achieve Reasonable Distribution of Rights and Responsibilities

In order to ensure a reasonable amount of receivables and reduce the bad debt risk of receivables, Zoomlion must improve the department setup and achieve a reasonable distribution of rights and responsibilities [10]. First, the company should clearly divide the responsibilities of each post and try to clarify the responsibilities of each post, so as to fulfill their duties. At the same time, there should be efficient cooperation between people in various positions. All departments of the company should work together to control accounts receivable. Among them, the credit management department should investigate customers before the sales behavior occurs, and check whether the customer has a bad record of payment arrears. At the same time, it is necessary to investigate customers' operation status through appropriate channels to determine whether the customer has solvency. After the systematic analysis of these information, the credit management department should make a report, so that the sales department can timely understand the customers' credit status. After getting the report from credit management department, the sales department should analyze and determine whether to make a credit sale to the customer and determine the size of the sales. This will make some customer groups pay attention to the importance of their credit status to a large extent. These measures should be particularly targeted at those customers who have had transaction records with the company, in order to prevent these customer groups from intentionally extending the repayment term on the grounds of the existence of interest relations, and reduces the turnover days of company's accounts receivable. Through the reasonable distribution of rights and responsibilities of the sales department and the credit management department, risks can be greatly avoided.

Second, after controlling the sales and credit management, the financial department plays a vital role. After making the decision to sell on credit to some customers, financial personnel must do a good job in accounting records to ensure the authenticity and effectiveness of these records. In addition, after the occurrence of credit sales, the financial department should always keep in touch with the sales department and pay close attention to customers' conditions to ensure that the accounts receivable can be fully collected. Zoomlion should also update the progress of receivables collection in a timely manner, so as to decide which method to adopt to collect receivables and whether to collect them from customers. The company shall also draw the proportion of bad debts according to the specific situation of customers and shall not adjust the proportion of bad debts at will, so as to increase the company's profits.

4.3. Improve the Receivables Collection System

First, when the accounts receivable are about to be due or have already been due, Zoomlion should remind customers in time so that customers can clarify their repayment responsibilities. The company should put certain repayment pressure on customers so as to prevent customers from intentionally delaying the accounts receivable. Second, the financial personnel of the enterprise must update the progress of accounts receivable in real time after the credit sale occurs, develop an aging chart and understand changes in the customers' condition so as to choose which method to use to collect various overdue accounts. The collection method of accounts receivable must be adjusted in time according to the customer's specific credit situation, operation situation and other conditions [11].

5. Conclusion

Zoomlion has many loopholes in the internal control of accounts receivable. In fact, half of the listed companies in China have problems in the internal control of accounts receivable. Because there is no perfect credit management system in China, the amount of receivables of listed companies increases year by year, and the risks are only increasing. The amount of accounts receivable is huge. In the field of internal control, many problems existing in China's listed companies are quite similar to Zoomlion, such as managers' lack of risk awareness, unclear division of responsibilities and authority, lack of collection system for accounts receivable, and no special supervision department set up for accounts receivable. In this paper, we hope to provide some suggestions for Zoomlion and provide some reference value for listed companies in China.

First of all, managers of listed companies should start from themselves. They should not only strengthen their awareness of the risk of accounts receivable, but also let junior employees have this awareness. Managers of listed companies should strengthen the training of employees' professional knowledge, perfect the company's incentive and assessment mechanism, improve the overall internal control environment of the company, and cultivate a good corporate culture.

Secondly, the company should establish a sales mechanism and a post responsibility system for the collection business, and clarify the responsibilities and rights of each department to make sure they do not exceed their duties. The company should also ensure that related positions are set up separately, such as sales positions, delivery positions and collection positions. Managers need to urge the staff in various positions to assume their responsibilities, and supervise and restrict each other.

Finally, the listed company should establish a complete supervision system of accounts receivable, so that all departments cooperate with each other, supervise each other, and play their own role, so as to find problems and solve them in time, and really curb the occurrence of risks from the source. At the same time, the listed company should adjust the internal control of accounts receivable at any time to adapt to the current situation. The internal control of accounts receivable is not the responsibility of any department or company leader. It needs to rely on all members' mutual cooperation and joint efforts to complete.

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