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Accounts Receivable Risk Control in Small and Medium-Sized Enterprises: A Case Study of Manufacturing Industry

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Abstract: With intensifying market competition and growing supply chain complexity, accounts receivable risks have become a critical factor affecting the survival and development of small and medium-sized manufacturing enterprises (SMEs). This paper analyzes the causes, types, and impacts of accounts receivable risks in manufacturing SMEs based on their management characteristics and regulatory frameworks such as the newly revised "Regulations on Ensuring Payment to Small and Medium-sized Enterprises". A comprehensive risk control system covering pre-emptive prevention, real-time monitoring, and post-event resolution is established. Practical implementation strategies are proposed through case studies, offering actionable guidance for SMEs to optimize accounts receivable management, reduce bad debt risks, and enhance capital turnover efficiency.

Keywords: Manufacturing Industry; SMEs; Accounts Receivable; Risk Management; Cash Flow

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1.Introduction

As the backbone of the national economy, the healthy development of manufacturing is crucial for economic stability and industrial security. Small and medium-sized enterprises (SMEs) constitute a significant portion of this sector, forming vital components of industrial and supply chains. However, in recent years, compounded by complex domestic and international economic conditions, accounts receivable defaults have become increasingly prevalent, making accounts receivable risks a major challenge for SMEs. According to data from the National Bureau of Statistics, as of April 2025, accounts receivable at large-scale industrial enterprises reached 25.86 trillion yuan, marking a 9.7% year-on-year increase. The average collection period for these receivables rose by 4.0 days to 70.3 days. For resource-constrained SMEs in manufacturing, this "chronic hemorrhage" poses critical risks—— with escalating financial chain ruptures. Cases of forced production cuts, wage arrears, and even bankruptcy have become all too common[1].

The continuous expansion of accounts receivable and extended payment cycles not only intensify corporate cash flow pressures but also create a vicious cycle of "chain defaults" through multi-tiered industrial chain transmission, severely undermining market credit systems and transactional order. Particularly in manufacturing sectors where transactions involve large sums, prolonged terms, and complex processes, effective accounts receivable risk management becomes paramount. A prime example from the construction machinery industry demonstrates that over-reliance on credit sales can lead to massive receivables, adversely affecting corporate liquidity and potentially triggering critical operational risks. Therefore,

strengthening accounts receivable risk control for SMEs in manufacturing is vital—not just for individual enterprise survival, but for maintaining stable operations across entire industrial chains.

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Table 1: Main risk types and impacts of accounts receivable in manufacturing industry

Risk type	Key performance	Impact on business
default risk	The customer is overdue on payment	Slow capital return, tight working capital
The bad debt risk	Accounts receivable cannot be collected	Direct loss of assets, decline in profitability
Cash flow risk	Working capital is being occupied in large quantities	Insufficient capacity to pay and increased financing costs
Risk of implicit default	Change the payment term indefinitely	Difficulties in safeguarding rights and increased management costs

2.Analysis of Causes for Accounts Receivable Risks in Manufacturing

1.）The formation of accounts receivable risks in manufacturing involves both external environmental factors and internal management issues. Externally, intensified market competition compels small and medium-sized enterprises (SMEs) to accept more lenient credit terms to secure orders. Economic downturn pressures strain supply chain participants, reducing their payment capacity. Meanwhile, an imperfect legal framework minimizes the cost of default penalties for delayed payments. Internally, SMEs in manufacturing face common challenges: 1). The primary risk source stems from inadequate customer credit evaluation. Many companies prioritize business expansion over systematic assessment of partners' financial health and reputation, leading to partnerships with high-risk clients. Driven by order-driven operations, manufacturers often focus excessively on production delivery while neglecting customer credit screening processes[3].

2.）The legal risks stemming from contractual loopholes are equally significant. Issues such as ambiguous payment cycle stipulations and unclear definitions of breach liabilities often leave companies in a passive position during disputes. Recently, a trading company faced malicious payment delays by its client for 18 months due to the contract's failure to specify penalty clauses for delayed payments.

3.）The imperfect debt collection mechanism exacerbates financial pressure. The absence of standardized accounts tracking systems and information disconnect between finance departments and business teams result in delayed collection opportunities. Traditional reliance on Excel ledgers and manual statistics creates disconnections between accounts receivable/payable information and business contracts, project progress, and frequent issues like unclear project alignment for collections and confusion between old and new accounts receivable/payable.

4.）Furthermore, the widespread misuse of non-cash payment methods has become a key factor in artificially prolonging payment cycles. Large corporations frequently pressure small and medium-sized enterprises (SMEs) to adopt non-cash instruments like commercial drafts under the guise of "streamlining settlement processes." This practice not only subjects businesses to high discount costs but also creates a vicious cycle where companies hold bills in their hands while struggling to secure financing.

3.Policy and regulatory environment analysis

In recent years, the Chinese government has prioritized addressing accounts receivable defaults for SMEs, intensifying

regulatory efforts through a series of policy measures. These initiatives have provided robust support for risk management in SMEs 'accounts receivable. The revised "Regulations on Ensuring Payment of Accounts to Small and Medium-sized Enterprises" (hereinafter referred to as the "Regulations"), officially promulgated in March 2025, will take effect on June 1, 2025. The updated regulations introduce new provisions to standardize payment practices and strengthen accountability mechanisms, effectively safeguarding SMEs' financial stability.

3.1 Core content of Regulations on Guaranteeing Payment of Small and Medium Enterprises

The newly revised Regulations establish a dedicated chapter titled "Payment Clauses", introducing amendments in three key areas: 1. Payment Deadlines Clarification: Defines payment deadlines for government agencies, public institutions, and large enterprises, requiring major corporations to settle payments within 60 days after delivery of goods, construction projects, or services. Where contractual terms conflict, the latest industry standards or established practices shall prevail, but payment deadlines must be clearly defined and enforced. 2. Non-cash Payment Mechanisms: Prohibits forcing SMEs to accept commercial drafts or electronic accounts receivable certificates as payment methods, while preventing such instruments from being used to artificially extend payment cycles. 3. Disputed Payment Obligations: Requires timely settlement of undisputed payments in transactions between government entities, public institutions, large enterprises, and SMEs, provided that disputed portions do not affect other obligations. The Regulations also enhance oversight through mandatory reporting systems, interview mechanisms, and detailed restrictive measures. Addressing critical SME concerns—including difficulties in claim verification, rights confirmation, debt recovery, appeals, and penalties—the provisions demonstrate targeted regulatory solutions.

3.2 Supply chain finance policy support

In addition to the Regulation, in June 2025, six departments including the People's Bank of China jointly issued the "Notice on Regulating Supply Chain Finance Business and Guiding Supply Chain Information Service Institutions to Better Serve SME Financing," effective from June 15,2025. This notice aims to standardize supply chain finance operations, enhance the quality and efficiency of financial services for the real economy, and reduce capital occupation and payment arrears for SMEs. The notice requires core enterprises in supply chains to promptly pay SMEs, reasonably share supply chain financing costs, refrain from exploiting their dominant position to delay payments or improperly increase SME accounts receivable, avoid imposing unreasonable payment terms, and prevent the misuse of non-cash payment methods to extend payment periods. Additionally, it specifies that the payment period for electronic accounts receivable certificates should generally be within six months, with a maximum duration of one year. Furthermore, the "Promotion Law of Private Economy of the People's Republic of China," implemented on May 20, clearly stipulates legal obligations for state organs, public institutions, and state-owned enterprises to timely pay private economic organizations, as well as large enterprises to promptly settle payments to small and medium-sized private economic entities. These provisions establish legal constraints and curb corporate payment arrears through statutory enforcement[4].

Table2 : The impact of major policies and regulations on accounts receivable management

policies and regulations, laws and regulations	When it was implemented	Core provisions	The significance of enterprise management
Regulations on the Payment of Small and Medium Enterprises (Revised)	1June 2025	Make it clear that payment is made within 60 days and non-cash payments are prohibited	Strengthen the collection rights of small and medium-sized enterprises, shorten the account period
Notice on Regulating Supply Chain Finance Business	15 June 2025	Standardize the business of electronic certificate of accounts receivable	Prevent disguised extension of payment terms and promote financing
Law of the People's Republic of China on Promotion of Private Economy	20 May 2025	Clear payment liability and consequences of violation	Enhance the legal binding force and increase the cost of default

These policies and regulations have formed a multi-level, comprehensive safeguard system, providing legal weapons and policy tools for the accounts receivable risk management of small and medium-sized manufacturing enterprises. Chinese enterprises, especially those in the manufacturing sector, should fully utilize these policies to enhance their own risk resistance capabilities.

4.Risk management and control strategy of manufacturing accounts receivable

In view of the characteristics and causes of accounts receivable risks in the manufacturing industry, combined with the latest policy environment, small and medium-sized enterprises in the manufacturing industry should build a whole-process and systematic risk control system, covering three links of pre-emptive prevention, in-process control and post-handling, so as to effectively reduce bad debt risks and improve the efficiency of capital use.

4.1 Proactive Prevention Mechanisms

Proactive prevention serves as the first line of defense in accounts receivable risk management, aiming to reduce the probability of risks at their source. Small and medium-sized manufacturing enterprises should establish the following preventive mechanisms: Establish a customer credit evaluation system: Companies should maintain comprehensive customer credit profiles and conduct credit ratings based on financial status, historical payment records, and industry reputation. For instance, an electronic component supplier implemented an automated credit rating system through a risk control platform, reducing the average payment cycle from 90 days to 45 days. For customers with lower credit ratings, measures such as advance payments, shortened payment terms, or transaction rejection may be adopted. Improve contract management systems: Before signing contracts, carefully review terms to ensure clear and unambiguous provisions regarding payment conditions, payment cycles, and liability for breach. Special attention should be paid to avoiding hidden risk clauses like “back-to-back clauses” that require third-party payments as payment conditions. Contracts must explicitly specify penalty interest rates for overdue payments. According to the Regulations, overdue interest rates must not be lower than the one-year Loan Prime Rate (LPR) at the time of contract execution. If no agreement exists, a daily interest rate of 0.05% (approximately 18.25% annual) shall apply. Develop reasonable credit policies: Formulate differentiated credit policies based on customer credit ratings and transaction history. Provide moderately lenient credit terms for high-quality clients while requiring advance payments or guarantees for riskier customers. An electronic components enterprise successfully reduced the DSO (days of receivables turnover) from 75 days to 43 days by setting the account period and advance payment ratio according to the annual purchase amount of customers through dynamic account period strategy.

4.2 In-process control mechanisms

The system monitors the entire accounts receivable lifecycle to promptly identify and address anomalies, preventing risk escalation. Key measures include: 1) Age analysis and early warning: Establishing an aging analysis framework for accounts receivable, conducting regular classification and risk assessments. Hubei Liantou’s proprietary accounts receivable management system automatically identifies overdue payments through predefined rules, calculates delinquency days, generates risk lists and aging reports, achieving 95% real-time alert accuracy. This intelligent system enables proactive risk detection and timely collection actions. 2) Enhanced tracking: Implementing standardized processes with automatic reminders before payment deadlines and scheduled follow-ups post-overdue. A fast-moving consumer goods company achieved a 40% improvement in overdue payment recovery rates through this system. Manufacturing enterprises can implement tiered tracking mechanisms: sales personnel handle overdue amounts within 7 days, finance departments intervene after 15 days, and legal teams manage cases exceeding 30 days. 3) Strengthened collaboration and performance metrics: Linking accounts receivable management to departmental performance incentives encourages staff to prioritize client creditworthiness and repayment prospects during order processing. Improved communication between finance and sales departments ensures seamless information flow. After integrating the system, a logistics company successfully alerted five partners about potential cash flow crises, preventing losses exceeding 10 million yuan.

4.3 Post-incident handling mechanism

When the accounts receivable are overdue or face the risk of bad debts, active and effective disposal measures should be taken to minimize losses：

Implement a tiered collection process: Tailor measures to overdue duration and amount. Initial steps may include friendly reminders via phone or email; formal collection letters for mid-term cases; and professional agency involvement or legal action for advanced stages. Throughout the process, maintain proper documentation of evidence to prepare for potential litigation.

Leverage financial instruments flexibly: Actively explore accounts receivable financing channels such as factoring services and accounts receivable pledge financing to convert receivables into cash flow. According to the "Notice on Regulating Supply Chain Finance Business", commercial banks should enhance the quality and efficiency of accounts receivable financing services, supporting supply chain enterprises—especially SMEs—to obtain credit loans and pledge financing based on orders, inventory, warehouse receipts, and other movable assets and rights. Additionally, credit insurance can be utilized to transfer bad debt risks. When buyers go bankrupt or default for extended periods, insurance companies will compensate for accounts receivable losses according to agreed ratios.

Legal Rights Protection: Enterprises may fully exercise their rights under regulations such as the "Regulations" to report serious payment defaults to relevant authorities or even initiate legal proceedings. The Regulations stipulate that when policies for safeguarding SMEs' payment rights are inadequately implemented, progress is insufficient, or severe defaults occur, authorities may take measures including written inquiries, interviews, and official notifications. In cases involving severe default scenarios or significant negative social impacts, necessary restrictive measures may also be imposed on defaulting parties.

4.4 Empowerment through digital transformation

The application of digital tools can significantly enhance accounts receivable management efficiency, serving as a crucial direction for modern enterprises 'risk control. Manufacturing SMEs should consider implementing accounts receivable management systems to achieve digital and intelligent process optimization: Automated reconciliation and reminders: The system automatically generates statements to reduce manual errors while setting up automatic alerts to notify clients in advance. After implementing the digital system, a logistics company saw a 62% decrease in overdue payments and an 80% reduction in reconciliation time. Data integration and analysis: By consolidating customer data, transaction records, and payment information through the system, comprehensive data analysis is achieved to support management decisions. Hubei Liantou's accounts receivable management system has established a "meridian network" for payment information, enabling real-time synchronization between ledger management and financial processing. Risk prediction and visualization: AI and big data technologies predict customer default probabilities, with visual dashboards displaying account receivable status in real time. An electronic component supplier introduced a risk control platform, where automated alerts reduced overdue payments by 28%.

Table 3: Manufacturing accounts receivable whole process control strategy

Management stage	Core measures	Expected accomplishments
Preventive measures	Customer credit evaluation, contract review, credit policy formulation	Reduce bad debt risk and overdue ratio from the source
in-process control	Accountage analysis, early warning mechanism, departmental cooperation assessment	Detect and handle anomalies in time to prevent risks from expanding
Post-incident disposal	Graded collection, application of financial instruments, legal rights protection	Accelerate the recovery of funds and reduce bad debt losses
Digital transformation	Digital transformation	Improve management efficiency and strengthen risk early warning capacity

5.Case application

Risk control practice of a manufacturing enterprise In order to more specifically illustrate the implementation path and effect of accounts receivable risk control in small and medium-sized manufacturing enterprises, this part analyzes the successful experience of accounts receivable management based on the actual case of a manufacturing enterprise.

5.1 Case background

A specialized equipment manufacturer (hereinafter referred to as "Company A") specializes in industrial automation systems, serving clients across automotive, electronics, and home appliance industries. With rapid business expansion, the company has experienced continuous growth in accounts receivable, with an average payment collection period exceeding 90 days and a DSO (Days on Account) of 75 days – significantly higher than industry averages. Over 20% of receivables are overdue, exacerbating bad debt risks and intensifying cash flow pressures. Through comprehensive analysis, Company A identified critical weaknesses in its accounts receivable management: (1) Inadequate customer credit evaluation, resulting in neglect of qualification reviews for order acquisition; (2) Non-standard contract management with ambiguous payment terms and insufficient default clauses.

The collection mechanism is not perfect, the responsibilities of departments are unclear, and the collection is not timely; (4) the information is not transparent, the manual accounting is relied on, and the data lags behind seriously.

5.2 Risk control implementation plan

To address these challenges, Company A implemented a comprehensive accounts receivable risk management reform by leveraging industry best practices: 1. Credit Management System: The company introduced a digital risk control platform with customer credit profiles and rating systems. Customers are classified into three tiers (A, B, C) based on financial data, payment history, and industry evaluations, each receiving tailored credit policies. Tier A premium clients enjoy 60-day payment terms with credit limits, Tier B standard clients receive 30-day terms requiring partial upfront payments, while Tier C high-risk clients must provide full prepayments or guarantees. After six months, the proportion of transactions with high-risk clients decreased by 15%, with average payment cycles shortened to 60 days. 2. Contract & Process Optimization: Company A revised standard contract templates to specify critical clauses including payment terms, billing cycles, and default penalties. A key clause explicitly states: "Payment obligations under this contract remain independent of any third-party agreements and are not contingent upon receiving prior payments," effectively eliminating risks associated with "back-to-back clauses." An AI-powered contract management system automatically extracts key terms and triggers reminders to ensure compliance. 3. Multi-Stage Collection Mechanism: The company established a three-phase collection process: 1) Automated payment reminders issued 3 days before due dates; 2) Phone follow-ups by sales representatives within 7 days of default; 3) Formal collection letters from finance departments for defaults exceeding 15 days, with escalation to legal teams for cases over 30 days overdue. Meanwhile, linking payment collection rates to sales team performance incentivizes business personnel to prioritize accounts receivable recovery. Fourth, implementing digital transformation. Company A has adopted an intelligent accounts receivable management system that achieves full-process digitalization from order placement to payment collection. The system automatically generates statements, aging analysis reports, and risk alerts, significantly enhancing operational efficiency. Through real-time dashboard visualization, management can monitor accounts receivable status and make timely decisions. Additionally, the system integrates with third-party databases to help monitor client operational anomalies and identify potential risks proactively.

5.3 Impact assessment of implementation

Through implementing comprehensive accounts receivable risk management measures, Company A has achieved significant improvements in its accounts receivable status: Improved capital efficiency: The accounts receivable turnover days decreased from 75 to 43 days, a reduction of 42.7% and approaching industry-leading levels. Reduced bad debt risk: The overdue accounts ratio dropped from over 20% to below 5%, with bad debt losses decreasing by 70%. Enhanced management efficiency: Accounts receivable reconciliation time was shortened by 80%, collection costs reduced by 50%, freeing up more resources for core operations. Improved cash flow: Net operating cash flow turned positive, effectively alleviating financial pressure and reducing financing needs. Company A's case demonstrates that small and medium-sized manufacturing enterprises can effectively mitigate bad debt risks, improve cash flow conditions, and enhance overall operational efficiency by establishing systematic accounts receivable risk control systems. Its successful experience provides valuable references for similar enterprises. 6. Conclusion and Outlook Accounts receivable risk management for small and medium-sized manufacturing enterprises is a systematic project involving multiple aspects of enterprise management,

requiring coordinated advancement across three dimensions: philosophy, systems, and technology. This paper analyzes the characteristics and causes of accounts receivable risks in manufacturing industries, combines them with the latest policy environment to construct a full-process risk control system, and validates its effectiveness through practical case studies. Research findings indicate that SMEs in the manufacturing sector should prioritize four key aspects for accounts receivable risk management: First, strengthen preventive measures by establishing scientific credit evaluation systems and contract management protocols to control risks at their source. Second, enhance real-time monitoring through aging analysis, early warning mechanisms, and interdepartmental collaboration to promptly identify and address risks. Third, employ diversified approaches including debt collection strategies, financial instruments, and legal actions to minimize bad debt losses. Finally, accelerate digital transformation to leverage technology-driven improvements in operational efficiency and risk forecasting capabilities. Notably, with the implementation of policies like the "Regulations on Ensuring Payment of Accounts Receivable by Small and Medium Enterprises," the legal framework protecting SMEs' accounts receivable rights has been continuously strengthened. Manufacturing SMEs should fully capitalize on these policy benefits to boost their risk resilience. Meanwhile, as supply chain finance regulations become more standardized, the accounts receivable financing environment will further optimize, providing SMEs with diversified funding solutions. Looking ahead, advancements in digital technologies will enable smarter and more precise accounts receivable management. Technologies such as big data, AI, and blockchain can help enterprises build efficient and transparent management systems. Blockchain enables full traceability of accounts receivable ownership and transactions, preventing tampering and disputes. AI models can predict customer default probabilities with greater accuracy, enabling more effective risk alerts. In summary, strengthening accounts receivable risk control is essential for the stable operations and sustainable development of manufacturing SMEs. By building a whole-process risk control system and making full use of policy support and digital technology, small and medium-sized manufacturing enterprises can effectively respond to the risks and challenges of accounts receivable, improve the efficiency of capital use, and lay a solid foundation for enterprises to win competitive advantages in the complex market environment.

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