

Analysis of Accounts Receivable Issues at Vanke Co., Ltd.

Suyue Jiang ^{1,*}

¹ Beijing City University, Beijing 100000, China

*** Correspondence:**

Suyue Jiang

fairy9168@qq.com

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Abstract

Amidst the increasingly competitive real estate industry and the complex and ever-changing market environment, accounts receivable management has become a critical factor affecting corporate liquidity, financial stability, and sustainable development. As a leading enterprise in China's real estate sector, the accounts receivable management status of Vanke Co., Ltd. holds significant industry representativeness. Based on Vanke's financial data from 2019 to 2023, this paper analyzes its current accounts receivable management situation from dimensions such as accounts receivable turnover ratio, turnover days, proportion of receivables, and bad debt provisions. It reveals issues including continuous growth in accounts receivable, increasing bad debt risks, extended collection periods, insufficient internal controls, inadequate customer credit management, and inefficient collection mechanisms. In response to these problems, this paper proposes measures such as strengthening customer credit management, improving sales contract systems, clarifying collection responsibilities, enhancing the accounts receivable turnover ratio, and reinforcing internal controls and risk early warning mechanisms. The aim is to provide references for Vanke to optimize its accounts receivable management and reduce financial risks, while also offering insights for the accounts receivable management practices of other enterprises in the real estate industry.

Keywords: Accounts Receivable Management; Real Estate Enterprises; Financial Risk Control

1. Introduction

Amidst deepening macroeconomic regulation and the real estate industry entering a period of profound adjustment, market competition has intensified, and corporate profit margins have continued to narrow (Hill et al., 2010; Kestens et al., 2012). Accounts receivable management has become a core issue affecting cash flow security, financial risk prevention, and the sustainable development of real estate enterprises (Altman & Hotchkiss, 2022). As an industry leader, Vanke Co., Ltd., with its extensive market presence and substantial operational scale, has seen its accounts receivable evolve in line with industry trends (Bragg, 2018; Gentry et al., 2015). This

evolution reflects both the expansion of its market share and the common management challenges faced by the sector. In recent years, issues such as a continuous decline in Vanke's accounts receivable turnover rate, extended collection periods, and an increased risk of bad debts have not only affected the efficiency of capital utilization but also posed potential threats to its financial stability (Demers & Joos, 2012; Petersen & Rajan, 2010). Given Vanke's benchmark position in the industry, there is significant research value in examining both its practical experiences and existing challenges in accounts receivable management. Based on Vanke's financial statement data from 2019 to 2023, this paper systematically analyzes the current state and core problems of its accounts receivable management. Targeted optimization strategies are proposed, aiming to provide practical references for Vanke to enhance its accounts receivable management and mitigate financial risks. Furthermore, it offers valuable insights for other real estate enterprises facing similar challenges, thereby supporting the stable and healthy development of the industry as a whole.

2. Introduction to China Vanke Co., Ltd.

2.1. Company Overview

Founded in 1984 and headquartered in Shenzhen, Guangdong Province, China Vanke Co., Ltd. is one of the leading enterprises in China's real estate industry. With property development as its core business, the company also operates in multiple sectors, including property services, commercial operations, long-term rental apartments, logistics, and warehousing. It boasts numerous high-quality projects across the country, committed to delivering premium living and lifestyle services.

2.2. Market Position

Vanke holds a prominent position in China's real estate market. With its strong brand influence, exceptional product quality, and superior services, the company has gained widespread market recognition and a positive reputation. Vanke consistently ranks at the top in various authoritative industry evaluations, such as the "Top 500 Chinese Enterprises" and "Top 100 Service-Oriented Chinese Private Enterprises."

2.3. Financial Status

Vanke maintains sound financial health and follows a prudent financial strategy. According to the latest data (as of June 20, 2024), Vanke's A-share (stock code: 000002) closed at RMB 7.48, while its H-share (stock code: 02202) closed at HKD 5.150. Additionally, the company has demonstrated strong performance in debt servicing. For example, in June 2024, Vanke fully repaid its upcoming debt obligations totaling USD 612.6 million, showcasing its robust financial position and excellent debt repayment capabilities.

2.4. Social Responsibility

As a national leader in the real estate sector, Vanke adheres to the philosophy of "Quality Products, Quality Services," consistently upholding its social responsibility and pursuit of social

value. Through persistent efforts, the company has continuously improved its products and services. In recent years, to better meet people's housing needs, Vanke has leveraged its strengths in property development and services. Centered on enhancing people's quality of life, the company has gradually expanded into areas such as education and tourism, bringing tangible convenience to the lives of the general public.

3. Analysis of Accounts Receivable Issues at China Vanke Co., Ltd.

3.1. Current Situation

3.1.1. Analysis of Vanke's Accounts Receivable Turnover Ratio and Turnover Days

Both the accounts receivable turnover ratio and the current asset turnover ratio reflect a company's operational efficiency (Jorion, 2020).. Through these ratios, we can understand the changes in the company's capital utilization, thereby indicating whether the company utilizes resources efficiently and manages capital circulation effectively. The speed of capital turnover is closely related to profitability and liquidity. The faster the capital turnover, the stronger the ability to repay debt (Ng et al., 2011).

Table 1. Accounts Receivable Turnover, Current Asset Turnover, and Turnover Days

Year	Accounts Receivable Turnover (times)	Current Asset Turnover (times)	Accounts Receivable Turnover Days (days)
2019	205.8576	0.2691	1.7488
2020	168.3011	0.2807	2.1390
2021	117.0622	0.2877	3.0753
2022	82.2708	0.3342	4.3758
2023	62.9449	0.3631	5.7193

According to Table 1, Vanke Company's accounts receivable turnover ratio has been consistently declining, while the accounts receivable turnover days have been continuously increasing. This indicates that the company's current collection period for accounts receivable is lengthening, and the effectiveness of accounts receivable management is deteriorating (Gentry et al., 2015).

The current asset turnover ratio is also one of the important indicators for measuring a company's operational efficiency. Its calculation formula is: Operating Revenue / Average Current Assets. Within a certain period, the turnover frequency of current assets is related to the effectiveness of their utilization. A higher value indicates better utilization efficiency. Vanke's current asset turnover ratio shows an overall increasing trend, rising from 0.26 to 0.36. This

suggests that the company is recovering funds in a timely manner and should reduce its investment in current assets, which could, to some extent, enhance the company's profitability.

3.1.2. Analysis of Accounts Receivable Proportion

Accounts receivable are part of Vanke Company's managed current assets and represent a critical aspect of daily operational management. Their quality significantly impacts the changes in the company's cash flow. However, due to the influence of Vanke's accounts receivable management system, the company has long overlooked the relationship between accounts receivable and the total current assets. The proportion of accounts receivable has remained at a constant level, which should be addressed and improved by the company, as shown in the table below (Caglayan & Xu, 2016).

Table 2. Proportion of Accounts Receivable to Current Assets of Vanke Company

Year	Net Accounts Receivable (¥ billion)	Total Current Assets (¥ billion)	Proportion
2019	19.88	14000	14.29%
2020	29.92	15500	19.35%
2021	47.44	16000	29.38%
2022	75.05	14200	52.82%
2023	72.94	11500	63.48%

Based on the analysis of the proportion of accounts receivable to total current assets of Vanke Company, it can be observed that the company's total current assets first increased and then decreased in recent years. From 2019 to 2023, the proportion of accounts receivable to total current assets of Vanke Company increased significantly. This has ensured sufficient cash flow supply for the company, reduced financial risks, improved its debt repayment capacity, and thereby facilitated the resolution of capital turnover issues.

3.1.3. Analysis of Allowance for Bad Debts on Accounts Receivable

From Table 3, it is evident that from 2019 to 2023, the provision for bad debts of Vanke Company's accounts receivable shows a declining probability of recovery as the aging period increases, with many receivables failing to be collected in a timely manner (Demers, E. R., & Joos, P. 2012). For Vanke Company, during this period, the management of accounts receivable has focused more on quantity control, without placing sufficient emphasis on credit review and risk identification. This has resulted in an excessive amount of overdue accounts receivable, posing significant risks to the company's development.

Table 3. Allowance for Bad Debts and Aging of Accounts Receivable (Unit: Ten Thousand Yuan)

Year	Within Year (Inclusive)	1 to 3 Years (Inclusive)	Over 3 Years	Allowance for Bad Debts	Total
2019	133,009.94	54,509.61	18,592.46	7,304.43	198,807.57
2020	230,454.05	53,944.77	264,177.65	11,574.14	299,242.33
2021	380,857.80	74,179.90	43,350.81	24,028.80	474,359.70
2022	660,570.55	80,615.94	45,435.01	36,152.28	750,469.21
2023	606,760.53	127,554.15	56,042.90	60,994.74	729,362.84

In 2019, Vanke's accounts receivable within one year accounted for 67.17% of the total accounts receivable. In 2020, this proportion increased to 76.92%, followed by 80.17% in 2021, 88.02% in 2022, and 83.13% in 2023. Receivables with a term of within one year are highly likely to be recovered within the year, resulting in a low probability of bad debts. However, it is clear that the proportion of overdue accounts receivable at Vanke has been rising year by year. A significant portion of these receivables cannot be collected in a timely manner, which may lead to financial difficulties for the company and hinder its operational activities (Altman et al., 2022).

Accounts receivable with terms exceeding one year occupy a considerable proportion at Vanke, leading to the conclusion that the company's management and control of accounts receivable are problematic. Overdue accounts receivable can have several negative impacts on the company: first, reduction of operational funds. Overdue receivables reduce the funds available for normal business operations, forcing the company to borrow more and incur unnecessary interest expenses, thereby increasing its operational burden. Second, slower capital turnover. The slower recovery of accounts receivable leads to a decrease in capital turnover efficiency. In the short term, the company may struggle to pay its own debts, potentially leading to a chain of unpaid debts and creating a vicious cycle that disrupts normal operations. Last, advance payment of taxes. When the amount of accounts receivable is substantial, the company is obligated to pay taxes on these receivables even before they are collected. This forces the company to advance tax payments on behalf of buyers, adding to its financial burden. Furthermore, as accounts receivable continue to grow, the company's revenue may not align proportionately with its sales, further exacerbating difficulties in capital turnover.

3.2. Issues

3.2.1. Continuous Growth in Accounts Receivable Amount and Declining Liquidity

In recent years, Vanke Group's operating revenue has continued to grow. However, the amount of accounts receivable has also been rising steadily. This is primarily due to intense market competition, which has compelled the company to adopt credit-based sales to expand market

share and maintain competitiveness (Petersen et al., 2010). Nevertheless, as the accounts receivable amount continues to increase, the company's liquidity has gradually declined, accompanied by rising financial risks. Specifically, while Vanke Group's accounts receivable turnover ratio has remained stable in recent years, it remains relatively low compared to other industry leaders. This indicates shortcomings in the speed and rate of accounts receivable recovery, leading to increased capital occupation costs and adversely affecting the company's capital utilization efficiency (Kestens et al., 2012).

3.2.2. Increased Bad Debt Risk, Impacting Financial Condition

Due to market volatility and changes in customer credit conditions, Vanke Group's accounts receivable face the risk of bad debts. These bad debts may result in the company being unable to recover part or all of the amounts owed, thereby negatively impacting its financial condition (Bragg, 2018). Specifically, Vanke Group's bad debt losses have shown an upward trend in recent years, primarily because some customers have been unable to repay their debts on time due to poor operations or changes in the market environment. These bad debts not only increase the company's financial costs but may also affect its credit rating and financing capabilities.

3.2.3. Extended Collection Cycles, Increasing Capital Occupation Costs

Vanke Group's accounts receivable collection cycle is relatively long, mainly due to differences in settlement methods and contract terms with customers. Some customers may require extended periods to complete processes such as inspection and settlement, preventing the timely recovery of accounts receivable. Additionally, some customers may delay payments, further prolonging the collection cycle. These factors increase the company's capital occupation costs and reduce its capital utilization efficiency (Hill et al., 2010). To address this, Vanke Group needs to strengthen communication and coordination with customers, optimize settlement methods and contract terms, shorten the collection cycle, and reduce capital occupation costs.

3.2.4. Insufficient Internal Controls, Existence of Management Gaps

In terms of accounts receivable management, Vanke Group's internal controls may be inadequate. For example, approval processes may not be stringent enough, leading to the approval of non-compliant transactions; customer information may be incomplete, hindering accurate assessment of customer credit conditions; and collection mechanisms may be ineffective, resulting in delayed recovery of accounts receivable. These management gaps may expose the company to greater financial risks (Jorion, 2020). To address this issue, Vanke Group needs to strengthen internal control systems, improve approval processes and customer information management, and enhance the effectiveness of collection mechanisms.

3.2.5. Inadequate Customer Credit Management, Increasing Bad Debt Risk

In the area of customer credit management, Vanke Group may have shortcomings. If the company fails to accurately assess customers' credit conditions and engages in transactions with customers of poor credit, the risk of bad debts will increase (Ng et al., 2011). To mitigate this risk, Vanke Group needs to strengthen the evaluation and management of customer credit. Specifically, the company can establish customer credit files to collect and analyze customer credit information;

implement a credit rating system to evaluate customers' creditworthiness; and develop transaction strategies and risk prevention measures tailored to customers of different credit levels. By implementing these measures, Vanke Group can reduce the risks associated with transacting with customers of poor credit and improve the quality of accounts receivable.

3.2.6. Lack of Effective Collection Mechanisms, Affecting Recovery Speed and Rate

Vanke Group may lack effective collection mechanisms. If the company does not have robust collection strategies and methods, the speed and rate of accounts receivable recovery will be adversely affected (Bragg, 2018). To improve collection effectiveness, Vanke Group can establish a dedicated collection team or engage third-party collection agencies; develop tailored collection strategies and methods for customers with different levels of overdue payments; and strengthen communication and negotiation with customers to seek mutually acceptable solutions. By implementing these measures, Vanke Group can enhance the speed and rate of accounts receivable recovery and reduce the risk of bad debts.

3.3. Recommendations and Countermeasures

3.3.1. Strengthen Customer Credit Management and Optimize Credit Policies

To mitigate bad debt risk, Vanke Group should enhance customer credit management and refine its credit policies (Petersen et al., 2010). Specifically, the company can establish comprehensive customer credit profiles, conduct regular assessments of customers' creditworthiness, and formulate corresponding credit policies based on evaluation outcomes. For clients with strong credit standing, credit terms may be appropriately relaxed, while stricter policies—such as requiring higher down payments or shortening payment periods—should be applied to customers with weaker credit. Additionally, strengthening communication and collaboration with clients to stay informed about their operational status and repayment willingness will help ensure timely recovery of accounts receivable.

3.3.2. Improve Sales Contract Management and Standardize Contract Signing Procedures

Sales contracts form the basis for accounts receivable generation. To reduce associated risks, Vanke Group should refine its sales contract management system and standardize contract signing procedures. This includes clearly stipulating payment methods, payment timelines, and liability for breach of contract within agreements to ensure their legality and enforceability. Furthermore, enhancing training for sales personnel to raise their risk awareness during contract negotiations will help ensure thoroughness and compliance with contract terms. In cases of disputed clauses, timely communication and negotiation with clients should be pursued to avoid unnecessary conflicts (Caglayan et al., 2016).

3.3.3. Clarify Responsibility for Accounts Receivable Collection and Strengthen Collection Efforts

To improve the efficiency of accounts receivable recovery, Vanke Group should clearly define collection responsibilities and intensify collection efforts (Gentry et al., 2015). This can be achieved by establishing an accountability system that assigns collection duties to specific departments and personnel, supported by corresponding performance evaluation and incentive

measures. Strengthening internal communication and coordination will also ensure collaborative efforts across departments in the collection process. For clients with prolonged overdue payments, legal measures may be employed to safeguard the company's legitimate rights and interests.

3.3.4. Increase Accounts Receivable Turnover Ratio and Optimize Capital Structure

To enhance the accounts receivable turnover ratio, Vanke Group can adopt the following measures: Strengthen tracking and management of accounts receivable to stay updated on recovery progress. Formulate reasonable credit policies and sales strategies to prevent excessive accumulation of receivables. Enhance collaboration with financial institutions and utilize financial instruments to accelerate receivables recovery. Optimize financial management processes to improve capital utilization efficiency (Hill et al., 2010). By implementing these measures, the company can effectively reduce the cost of capital tied up in receivables and enhance overall capital efficiency.

3.3.5. Strengthen Internal Controls and Risk Management, Improve Risk Early Warning Mechanisms

To mitigate risks associated with accounts receivable, Vanke Group should reinforce internal controls and risk management while refining its risk early warning mechanisms (Jorion, 2020). This includes establishing a robust internal control system to ensure compliance and effectiveness across all business operations. Additionally, the company should enhance risk assessment and management of accounts receivable to promptly identify and address potential issues. Strengthening risk awareness training for employees will further improve their ability to recognize and prevent risks. By improving early warning mechanisms, the company can respond more effectively to market changes and risk challenges, ensuring steady and sustainable development.

5. Case Summary

As a leading enterprise in the real estate industry, Vanke Group's accounts receivable management case provides valuable experience and insights for the sector.

With the continuous expansion of its current business operations, Vanke Group's total accounts receivable have also increased. While this growth reflects the company's expanding market share, it also presents challenges related to capital occupation and collection pressure. To address these challenges, Vanke Group has implemented a series of measures to strengthen accounts receivable management.

First, Vanke Group places great emphasis on customer credit management. It has established a comprehensive customer credit profile system and an evaluation mechanism to accurately assess customers' repayment capabilities and risk levels (Petersen et al., 2010). Additionally, the company has standardized its sales contract management system to ensure that contract terms are clear and legally sound, providing a legal foundation for the recovery of accounts receivable. Second, Vanke Group has clearly defined responsibilities for accounts receivable collection and established an effective collection mechanism (Gentry et al., 2015). The company has set up a

dedicated collection team that proactively follows up with customers through regular communication and payment reminders, ensuring timely recovery of outstanding receivables and improving operational efficiency. Finally, Vanke Group focuses on enhancing its accounts receivable turnover ratio (Hill et al., 2010). By optimizing financial management processes, strengthening internal controls, and improving risk management, the company has effectively reduced the cost of capital tied up in accounts receivable and increased capital utilization efficiency.

Vanke Group's accounts receivable management case demonstrates that measures such as strengthening customer credit management, standardizing contract management, clarifying collection responsibilities, and improving turnover rates are effective ways to reduce risks associated with accounts receivable and enhance capital utilization efficiency (Kestens et al., 2012; Bragg, 2018). This also offers significant reference value for other enterprises.

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The authors declare no conflict of interest.

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