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WORKING CAPITAL MANAGEMENT WITH REFERENCE TO SHRI SAMARTH ICE, CHIKHALI, PUNE 411062

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Abstract:-Working capital management is concerned with the problems arise in attempting to manage the current assets, the current liabilities and the inter relationship that exist between them. The term current assets refers to those assets which in ordinary course of business can be, or, will be, turned in to cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, account receivable and inventory. Current liabilities ware whose liabilities which intended at their inception to be paid in ordinary course of business, within a year, out of the current assets or earnings of the concern the basic current liabilities are account payable, bank overdraft, and outstanding expenses. The goal of working capital management is to manage the firm's current assets and current liabilities in such way that the satisfactory level of working capital is mentioned. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of the safety.

Management is an art of anticipating and preparing for risks, uncertainties and overcoming obstacles. An essential precondition for sound and consistent assets management is establishing the sound and consistent assets management policies covering fixed as well as current assets. In modern financial management, efficient allocation of funds has a great scope, in finance and profit planning, for the most effective utilization of enterprise resources, the fixed and current assets have to be combined in optimum proportions.

Keywords: Working capital management ,Current liabilities ,satisfactory.

INTRODUCTION

Working capital in simple terms means the amount of funds that a company requires for financing its day-to-day operations. Finance manager should develop sound techniques of managing current assets.

Working Capital is the key difference between the long terms financial management and short term financial management in terms of the timing of cash.

Long term finance involves the cash flow over the extended period of time i.e. 5 to 15 years, while short term financial decisions involve cash flow within a year or within operating cycle. Working capital management is a short term financial management. Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities & the Inter relationship that exists between them. The current assets refer to those assets which can be easily converted into cash in ordinary course of Business, without disrupting the operations of the firm.

NEED FOR WORKING CAPITAL:

The need for working capital gross or current assets cannot be over emphasize. As already observed, the objective of financial decision making is to maximize the shareholders wealth. To achieve this, it is necessary to generate sufficient profits can be earned will naturally depend upon the magnitude of the sales among other things but sales cannot convert into cash. There is a need for working capital in the form of current assets to deal with the problem arising out of lack of immediate realization of cash against goods sold. Therefore sufficient working capital is necessary to sustain sales activity

Working capital is needed for following purpose:

•For the purpose of raw material components and spares.
•To pay wages and salaries
•To ensure day to day expenses and overload costs such as office expenses. Working capital is needed by the business to:

Pay supplies and other creditors

•Pay employees
•Pay for stock
•To meet selling costs as packing, advertising etc.
•To provide credit facilities to the customers.
•To maintain the raw material, work in progress, stores and spares and finished goods.
•The object of any business is to earn profit. The main factor affecting the profit is the magnitude of sales of the business. But the sales cannot be converted into cash immediately. There is a time lag between the sales of goods and realization of cash there is a need of Working capital in the form of current assets and to fill up this time lag. Technically this is called operating cycle or Working capital cycle.

OBJECTIVES OF WORKING CAPITAL:

Study of the working capital management is important because unless the working capital is managed effectively, monitored efficiently planed properly and reviewed periodically at regular intervals to remove bottlenecks if any the company cannot earn profits and increase its turnover. With this primary objective of the study, the following further objectives are framed for a depth analysis.

•The important objectives of working capital are as follows:
•To support satisfactorily, the investment in fixed assets and to ensure smooth functioning of business operations.
•To provide necessary outlay for investments, as well as provide liquidity to business.
•To help in contributing to the efficiency of operations in a company.
•To help in controlling technical insolvency.
•To ensure the maintenance of creditworthiness with the outside world.
•To represent a margin of safety to the short term creditors.
•To help the firm to take advantage of purchase discounts and to face confidently the favorable changes in business operations

THEORETICAL BACKGROUND:-

Working capital management is concerned with the problems arise in attempting to manage the current assets, the current liabilities and the inter relationship that exist between them. The term current assets refers to those assets which in ordinary course of business can be, or, will be, turned in to cash within one year without undergoing a diminution in value and without disrupting the operation of the firm. The major current assets are cash, marketable securities, account receivable and inventory. Current liabilities ware whose liabilities which intended at their inception to be paid in ordinary course of business, within a year, out of the current assets or earnings of the concern the basic current liabilities are account payable, bank overdraft, and outstanding expenses. The goal of working capital management is to manage the firm's current assets and current liabilities in such way that the satisfactory level of working capital is mentioned. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of the safety.

WHAT IS WORKING CAPITAL?

Working capital refers to the investment by the company in short terms assets such as cash, marketable securities. Net current assets or networking capital refers to the current assets less current liabilities.

Working Capital = Current Assets - Current Liabilities

DEFINITIONS OF WORKING CAPITAL-

According to C.W. Gestenbergh-

"Working Capital is ordinarily defined as the excess of the current assets over current liabilities".

According to Lawrence. J. Gitmen:

"The most common definition of working Capital is the difference of the firm's current assets and current liabilities."

Definition of working Capital management:-

"Working Capital management involves the relationship between a firm's short-term assets and its short-term liabilities. The goal of working Capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working Capital involves managing inventories, accounts receivable and payable, and cash."

TYPES OF WORKING CAPITAL:

•Gross Working Capital:- gross Working capital refers to the amount which the company has invested into the current assets; current assets includes cash, stock, debtors ,or anything which can be converted into cash immediately. Total of all current assets of a business firm. A current asset is that which can be converted into cash within an accounting year or an operating cycle.
•Net Working Capital: - Net Working capital refers to the difference between the current assets and current liabilities. Current liabilities include trade creditors, bills payable, outstanding expenses or any debt which company has to pay within a year. Net working Capital is the excess of current assets over current Liabilities.
Net working Capital = Current assets – Current liabilities
•Permanent working Capital: - Permanent working capital is the minimum amount of current assets which is needed to conduct a business even during the dullest season of the year. It is the amount of funds required to produce the goods and services which are necessary to satisfy demand at a particular point. It represents the current assets which are requiring in a continuous basis over the entire year.
•Temporary Working Capital: - It represents the additional assets which are required at different times during the operating year- additional inventory, extra cash et. It is temporarily invested in current assets. It is particularly suited to business of a seasonal or cyclical nature.
•Balance Sheet Working Capital: - The Balance sheet working capital is one which is calculated from the items appearing in the profit and loss account. It shows the real flow of money or value at a particular time.
•Negative Working Capital: - Negative working capital emerges when current liabilities exceeds current assets.

The following diagram shows permanent and temporary working capital:

Both kinds of working capital i.e. permanent and temporary are necessary to facilitate production and sales through the operating cycle.

COMPONENTS

1.Main components of working Capital are as follows:

Cash – Cash is the most liquid and important component of working Capital. Holding cash involves cash in the sense that the present worth of cash held for a year is less than the value of cash on today. During inflationary situations as exist today the cost of holding includes the deterioration in the value of the cash due to inflation. Cash, therefore, results in enhanced liquidity, but lower profitability.

2.Marketable Securities – Though marketable securities provides a such lower yield that the firm's operation assets. They serve two useful functions. Firstly, they act as a substitute for cash, and secondly, are used as temporary investment. Where these securities are held in lieu of the cash balance, they act as a substitute for transactional or precautionary balances. Normally, these aren't used as speculative balances, but only as a guard against the possible shortage of bank credit.

3.Account Receivable - Though accounts receivables are a vikfi investment of any business organization, little analytical work as been done to determine credit policies.

Maintaining account receivable has its cost implications in that the firm's monetary resources are tied up. This is of greater significance in the inflationary economy, because of the depreciation in the value of money.

4.Inventory – Inventories represent a substantial amount of a firm's current assets. Management of inventories should be efficiently carried out so that this investment doesn't become too large, as it would result in blocked Capital which could put to productive use elsewhere. On the other hand, having too small an inventory could result in loss of sale or loss of customer goodwill. An optimum level of inventory should therefore be maintained WORKING CAPITAL CYCLE Working Capital cycle indicates the length of time between a firms's paying for materials entering into stock and receiving the cash from sale of finished goods. In a manufacturing firm, the duration of time required to complete the sequence of events is called operating cycle.

In case of a manufacturing company, the operating cycle is the length of time necessary to complete the following cycle of events: -

1)Conversion of cash into raw materials
2)Conversion of raw materials into work-in-progress
3)Conversion of work-in-progress into finished goods
4)Conversion of finished goods into accounts receivable
5)Conversion of accounts receivable into cash

SOURCES OF FINANCING WORKING CAPITAL:

Current assets are those assets, which unlike fixed assets change their forms rapidly. Due to this, they need to be financed through short-term funds. Short term funds are called the current liabilities.

The following are the major sources of raising short term funds:

•Suppliers credit:

At times, business gets raw material on credit from suppliers. The cost of the raw material is paid after some time, i.e. upon completion of the credit period. Thus, without having an outflow of cash the business is in a position to use raw material and continue the activities. The credit given by the supplier's of raw material is for a short period and is considered current liabilities. These funds should be used for creating current assets like stock of raw material, work-in-progress, finished goods etc.

•Bank loan:

This is a major source for raising short term funds. Banks extend loans to businesses to help them create necessary current assets so as to achieve the required business level. The loans are available for creating the following current assets:

•Stock of raw materials
•Stock of work-in-progress
•Stock of finished foods
•Debtors

Banks give short term loans against these assets, keeping some security margin. The advances given by banks against current assets are short-term in nature and banks have considered doing so. Thus bank give loans for creation of current assets are also current liabilities.

•Promoters fund:

It is advisable to finance a portion of current assets from the promoter's fund. They are long term funds and therefore do not require immediate repayment. These funds increase the liquidity of the business.

Sources of additional working capital include the following:

•Existing cash reserves
•Profits (when you secure it as cash)
•Payables (credit from suppliers)

•New equity or loans from shareholders
•Bank overdrafts or lines of credit • Term loans

WORKING CAPITAL CYCLE

The operating cycle consists of Three Phases,

•PHASE 1

Acquisition of resources such as Raw Material, Labor, Power and Fuel etc.

•PHASE 2

Manufacture of the product, which includes conversion of raw material into work in progress and work in progress into finished goods.

•PHASE 3

1.CURRENT ASSETS:

- inventory
- Raw materials
- Work in progress
- Finished goods

These represent the finished products read for sale in the market.

- Debtors
- Cash and Bank balances
- Prepaid Expenses
- Loans and Advances
- Investments

2.CURRENT LIABILITIES

Current liabilities represent that part of obligations, which the firm has to clear to the outside parties in a short period, generally within a year. These liabilities comprise the following:

- Creditors
- Bank Overdrafts
- Short Term Loans

GOAL OF WORKING CAPITAL MANAGEMENT:-

Working Capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them.

The term current assets refer to those assets which is the ordinary course of business can be converted into cash within one year. Major current assets are cash, marketable securities, accounts receivable and inventory.

Current liabilities are those liabilities, which are intended, at their inception, to be paid in the ordinary course of business within a year, out of the current assets or earnings of the concern. Current liabilities are accounts payable, bills payable, bank overdraft, and outstanding expenses. Working Capital is that portion of firm's assets which is financed by long-term funds.

Interaction between current assets and current liabilities is the main theme of the theory of working Capital management.

Goal of working Capital management is to manage the firm's current assets and liabilities in such a way so that a satisfactory level of working Capital is maintained.

The second important segment of working Capital management is deciding the optimum level of investment in various current assets. There are three important current assets cash, accounts receivables and inventory.

PROFILE OF THE ORGANISATION

Name of organization: - SHRI SAMARTH ICE.

Address of organization: - NEAR PARVATI COMPLEX, MHATRE VASTI,

CHIKHALI, PUNE-411062

Email: - shrisamarthice@gmail.com

VISION AND MISSION STATEMENTS OF THE ORGANIZATION:-

VISSION:-

❖ Committed to bringing premium quality products to all dairy, restaurants, other market.
❖ To be the most established Retail ice cube in the different area, region of Pune & Nearby area.

MISSION:-

- To achieve this we will energies our people with a positive culture that rewards innovations, breeds initiatives & encourages intelligent risk taking.
- Low cost of manufacture, Highly profitable growth.
- Though a continuous improvement of process focused on

1.Total quality
2.Resources production
3.Cost effectiveness

OUTLINE OF THE PROBLEM

The following problem is faced by the firm in management of working capital:

1)The company's Accounts Receivables was not that liquid or was not being converted to cash quickly.
2)What are the optimal amounts of cash, accounts receivable and inventories that a firm should choose to maintain?
3)What is the most economical way to finance these working capital investments?
4)The study is also beneficial to employees and offers motivation by showing how actively they are contributing for company's growth.

RESEARCH METHODOLOGY

MEANING OF RESEARCH:

Research in common parlance refers to a search for knowledge The Advanced Learner's Dictionary of Current English lays down the meaning of research as "a Careful investigation or inquiry especially through search for new facts in any Branch of knowledge. "Research as a scientific and systematic search for pertinent Information on a specific topic". In fact, research is an art of scientific Investigation. Research is an academic activity and as such the term should be used in a technical sense. According to Clifford Woody research comprises defining and Redefining problems, formulating hypothesis or suggested solutions; Collecting, organizing and evaluating date; making deductions and Reaching conclusion; and at least carefully testing the conclusions to determine whether they fit the formulating hypothesis. According to Phillip Kotler, it is a systematic design, collection, Analysis of data and relevant to a specific marketing situation facing the company.

According to American marketing association, it is the function which links the customer and the marketer through information Used to identify and public to the marketer through information used to identify and define marketing opportunity and the problems; generate, redefine action; monitor marketing action; monitor marketing performance and improve Understanding of marketing as a process.

PRIMARY DATA:

Are those which are collected afresh and for the first time, and thus happen to the original in character. The primary data are to be originally collected.

It is expensive, and time consuming, but is more focused than secondary data. There are many ways to collect primary data:

- Observation
- Interview
- Surveys
- Case study
- Diaries

In my research the primary data was collected through the following ways

- Talking with the employees of the department.
- Getting information by observations e.g. in manufacturing processes.
- Discussion with the head of the department.

SECONDARY DATA:

This data available because they were collected for some other purpose this may include existing company's information, data of other organization including govt.
sources and syndicate data source such as consumer purchase panel.

There are many methods of secondary data collection and the main methods include:

- Books
- Records
- Biographies
- Newspapers
- Internet

In my research the secondary data was collected through following ways:

- Annual Reports of the company.
- Office manuals of the department.
- Magazines, Reports in the company.
- Policy documents of various departments.

OBJECTIVES OF THE STUDY:

Every study emerges to achieve certain objectives. The main objective of carrying out this objective is to know and gain practical knowledge and to know the organizational working culture.

Following are the objectives to carry out this research-

1.To study the concept of Working Capital.
2.To analyse the financial position.
3.To analyze the current assets and current liabilities of the organization
4.To suggest ways for better management and control of working capital at the concern.
5.To Study the present financial position & working capital management.

SIGNIFICANCE OF THE STUDY:

- The study of working capital management is important to determine the total money required to carry out the operational activity of any organization smoothly.
- The study helps to know in advance what the operational requirement of any organization.
- The working capital meets the short term financial requirement of the enterprise. If enterprises do not have enough working capital, the business can hardly prosper and survive.
- The success of any firm depends ultimately on its ability to generate cash receipts in excess of cash disbursement.
- After studying the working capital needs, organization keeps with it enough money to meet its day to day expenses and other uncertainties and becomes ready to meet any future contingencies.

WORKING CAPITAL RATIOS:-

Working capital ratios indicate the ability of a business concern in meeting its current obligations as well as its efficiency in managing the current assets for generation of sales. These ratios are applied to evaluate the efficiency with which the firm manages and utilizes its current assets.

The main purposes of working capital ratio analysis are:

•To indicate working capital management performance; and to assist in identifying areas requiring closer management.

However, financial ratio analysis is valuable because it raises questions and indicates directions for more detailed investigation. The following ratios are of interest to those managing working capital:

CURRENT RATIO: -

The Current ratio attempts to measure the level of liquidity, that is, the level of safety provided by the excess of current assets over current liabilities. Current assets include cash, bank balance, short term investment, bills receivables, debtors, short term loans, inventories and pre-paid expenses.

Current liabilities include bank overdraft, trade creditors, bills payable, provision for taxation, expenses outstanding, unclaimed dividends, short term loans, Interest outstanding, advance payment received and portion of debt expected to mature within one year very high current ratio may not indicate a very favorable position because it means that excessive investment in current assets is made. This will result in decrease in profitability because of large funds blocked in working capital.

CURRENT RATIO GRAPH

The Current Ratio has been fluctuating. It was high during 2012 because Current Liability has not much increased as it increased in 2014. During 2014 the ratio was minimum because Current Liability has increased more as compared to proportionate increase in Current Assets. The current liabilities i.e. the short term borrowings, trade payables and short term provisions were there because of which the current liabilities was increased in 2014.The Company Current Ratio in 2012 is above Standard level i.e. 2:1

LEARNING THROUGH RESEARCH

FINDINGS:

•Debtors of the company were high; they were increasing year by year, so more funds were blocked in debtors. But now recovery is becomingFaster. 2011 To 2014.
•Through the research report how the working capital is plan and manage by the organization and the measurement of the performance of working capital of ratio analysis.
•Inventory turnover ratio is improving from 2011 to 2013, which means inventory is used in better way so it is good for the company.
•Standard current ratio is 2:1.after2012 it has Continuously increased
•The net profit ratio of firm fluctuating trend. It has decreased in the year 2014 because in this year the firm did not earn much profit as compared to the previous years due to tremendous increase in expenditure.The company is able to maintain sufficient amount of working capital at all the years.

CONCLUSION

The main objective of research was to study the working capital analysis of the company. Working capital of the company is of increasing nature and it increased in line with increased in turnover of the company. Working capital turnover ratio of the company is at satisfactory level.

The net working capital of the firm is satisfactory in each year, which indicates the SSI, has sufficient net working to meet the claim of creditors and day-today needs of the business. In this research the organization is doing well as per the sale and gross profit is concerned and net profit of the company has increased in year 2014. The debtors are collected earlier and it results in increasing in cash and due to early collection of debtors the company is able to pay the creditors in time.

SUGGESTIONS:

•It can be said that overall financial position of the company is normal but it is required to be improved from the point of view of profitability.
•Company should try to increase Volume based sales so as to stand in the competition.
•The company's huge amount is blocked in sundry debtors, so the company is suggested to decrease its debtors.
•The company is suggested to maintain the current year working capital turnover ratio not to over increase it.
•The company is suggested to decrease its direct and indirect expenses.

RECOMMENDATION:

The company is recommended to decrease its direct and indirect expenses, this will lead to increase its net profit and also increase in net profit ratio. The sales of the company in increasing with huge amount but the company is not able to increase its net profit with that proportion, due to which the company is not having enough cash to pay for the expenses, thus the company is recommended to increase its net profit.

The company can reduce its direct expenses by reducing the wastage of electricity, by shutting off lights whenever not in use and see for alternative transportation. The company can also reduce its indirect expenses by controlling unnecessary expenses on tea and refreshment and miscellaneous expenses.

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