

WORKING CAPITAL MANAGEMENT

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ABSTRACT

The study of working capital is major important to internal and external analysis because of its close relationship with day-to-day business. Management of working capital assumes added significance in the context of small-scale and medium sized industries in our country. Working capital management deals with management of each of the firms current assets in such a way that it maximizes the value of the firm.

INTRODUCTION

Working capital represent that part of business resources, this makes the business work and paves its way from year to year. In fact, there is no universally accepted definition of working capital, but the one most widely acceptable is the observation that working capital represent the excess of current assets over current liability. Financial analysts define “working capital as the sum total of current assets i.e., their focus is on gross working capital.” **STATEMENT OF THE PROBLEM**

The current liabilities exceeds current assets over a period of time so the management felt that it is highly essential an analysis on working capital. There by it is very evident from the industry financial that it has a problem in managing its operating capital.. There is a shortage on working capital at the time of bulk purchase. The study is performed in order to identify the problems and to provide some alternative solutions. It is helpful to the industries to rise up their financial position

WORKING CAPITAL

Working capital is significant in financial management due to the fact that it plays a vital role in keeping the wheel of the business running. Every business requires capital, without which it cannot be promoted. Investment decision is concerned with investment in current assets and fixed assets. There are two assets required to be financed by fixed capital and working capital.

Fixed capital required for establishment of a business, whereas working capital required utilizing fixed assets. Fixed assets cannot be utilized without current assets. It's just like a blood in the human body, without which there is no body. Working capital plays a key role in a business enterprise just as the role of heart in human body. It acts as grease to run the wheels of fixed assets. Its effective provision can ensure the success of a business while its inefficient management can lead not only to loss but also to the ultimate downfall of what otherwise might be considered as a promising concern.

NATURE OF WORKING CAPITAL

Working capital 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 refers to those assets which in ordinary course of business can be, or will be, converted into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm. The major current assets are cash, marketable securities, account 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.

CONCEPT OF WORKING CAPITAL

There are two commonly accepted concepts of working capital, the **Gross working capital** and the **Net working capital**. Of the two concepts of working capital, gross working capital refers to enterprise total current assets. Its refers to firms investments in short term assets such as cash, short term securities, accounts receivable and inventories. While the net working capital is given by the excess of current assets over the current liabilities. In fact, both the gross and the net concepts of working capital hold certain merit and for a researcher the choice depends upon his her purpose of enquiry.

$$\text{WORKING CAPITAL} = \text{CURRENT ASSEST} - \text{CURRENT LIABILITY}$$

Constituents of current assets

1. Cash in hand
2. Cash at bank
3. Sundry debtors
4. Short term loans and advances
5. Inventories of stock as:
 - a) Raw material
 - b) Work in progress
 - c) Stores and spares
 - d) Finished goods
6. Temporary investments surplus
7. Prepaid expenses
8. Accrued incomes
9. Marketable securities

Constituents of current liabilities

1. Accrued or outstanding expenses
2. Short term loans, advances and deposits
3. Dividends payables
4. Bank overdraft
5. Provisions for taxation
6. Bills payable
7. Sundry creditors

Classification of Working Capital

Gerstenberg has conveniently classified “The working capital into regular or permanent working capital and temporary or variable working capital. The variable working capital is again bifurcated into seasonal and special working capital.”

Permanent working capital

Permanent working capital is the minimum investment kept in the form of inventory of raw materials, work-in-process, finished goods, stores & spares, and book debts to facilitate uninterrupted operation in a firm. Though this investment is stable in short run, it certainly varies in long run depending upon the expansion programmes undertaken by a firm. It may increase or decrease over a period of time. The minimum level of current assets maintained in a firm is usually known as permanent or regular working capital.

Temporary working capital

A firm is required to maintain additional current assets temporarily over and above permanent working capital to satisfy cyclical demands. Any additional working capital apart from permanent working capital required to support the changing production and sales activities is referred to as temporary or variable working capital.

Advantages of Working Capital

- ❖ Continuous production
- ❖ Solvency and goodwill
- ❖ Easy loans
- ❖ Cash discount
- ❖ Regular payment of expenses
- ❖ Exploitation of market conditions
- ❖ Ability to face crisis

WORKING CAPITAL MANAGEMENT

Working capital refers to the excess of current assets over current liabilities. Working capital management is concerned with the administration of all current assets and current liabilities. The basic objective of working capital management is to manage the firm's current assets and current liabilities in such a way that satisfactory level of working capital is maintained. That is, the working capital is neither inadequate nor excessive. This is so because both inadequate as well as excessive working capital positions are bad for any business. Inadequate working capital may lead the firm to insolvency and excessive working capital means idle funds which earn no profit for the business. When a firm invests more in current assets, it increases liquidity, reduce, the risk and profitability. In other words, the goal of working capital management is to minimize the cost of working capital while maximizing firms profits. The reason is the opportunity cost of earnings from excess investment in current assets is lost.

NEEDS OF WORKING CAPITAL MANAGEMENT

How much importance role does working capital play in the life of a manufacturing enterprise can be realized from the fact that it generally constitutes 50 percentages to 70 percentages of its total assets. In services industries, such as, shipping and electricity, however, its percentage is low from 15 percentages to 30 percentages.

A business enterprise requires Working capital for the following reasons.

1. To meet the day-to-day requirements during the period operating cycle. In no business enterprise, production, sales and realization are instantaneous. There is always some time gap between these stages.
2. To make optimum use of plants and machinery for purpose of full capacity utilization, the output must be increased beyond the break-even point.

FACTORS AFFECTING WORKING CAPITAL MANAGEMENT

1. Nature of business
2. Size of business
3. Time consumed in manufacturing
4. Seasonal fluctuations
5. Speed of turnover
6. Level of taxes

IMPORTANCE OF THE STUDY

The study is emphasized by the fact that the manner of administration of current asset and current liabilities determined to a very large extent the success or failure of an industries. The efficient and effective management of working capital is of crucial importance for the success of an industry, which involves the management of the current assets and the current liabilities. The industries concern has therefore to optimize the use of available resources through the efficient and effective management of the current assets and current liabilities.

LIMITATION OF THE STUDY

1. The analysis and interpretation is based on the secondary data therefore the accuracy of the results need not be a confirmed one because it is human error.
2. The reliability of analysis depends upon the accounting methods followed by the industries policies which may not be reliable fully.
3. Due to time and cost constrains the researcher has chosen only ten years.
4. The study focused only working capital management.

CONCLUSION

Management of working capital is one of the essential components of financial management. The success and solvency position of any concern depends on how well its working capital is being managed. A prudent financial manager has to measure the working capital policy followed by the industries. Working capital continues to play an important role in the industrial development of country. There is every possibility that. Considering this the industries has high potential to improve its working capital capacity therefore in future the industries operational efficiency could improve.

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