

A STUDY ON WORKING CAPITAL MANAGEMENT AT AUDITOR OFFICE, SALEM

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Abstract—This is a study conducted to focus on the short term financial management or working capital management. Working capital refers to that part of the firm's capital which required for financing short term current asset. Adequate amount of working capital is required by the firm in the form of different activities to continue uninterrupted and to tackle problems that may arise. Financial viability structure and utilization of working capital in the company is analyzed. The study is mainly based on the secondary data. Ratios and statement of changes in working capital are the tools used for the study. The interpretations are summarized and suggestions are provided based on it.

INTRODUCTION

Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations. 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 in the 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 operation of the firm.

NEEDS FOR THE STUDY

Working capital is needed till a firm gets cash on sale of finished products. It depends on two factors:

Manufacturing cycle i.e. time required for converting the raw material in to finished product.

Credit policy i.e. credit period given to Customers and credit period allowed by creditors.

STATEMENT OF THE PROBLEM

This project deals with the study about Working Capital Management. The working capital management is very important term. It involves the study of day-to-day affairs of the company. The motive behind the study is to develop an understanding about the working capital management in the running business organization and to help the company in developing the efficient working capital management. Therefore, it helps in future planning and control decisions.

OBJECTIVES OF THE STUDY

To analyze the effective utilization of working capital

To evaluate the performance of receivables and cash

To study the structure of working capital

To study the sources of working capital finance

To study need of working capital requirement in organization

SCOPE OF THE STUDY

The study of working capital management is purely based on secondary data and all the information is available within the company itself in the form of records. To get proper understanding of this concept, I have done the study of the balance sheets, profit and loss A/C. So, scope of the study is limited up to the availability of official records and information provided by the finance department. The study is supposed to be related to the period of last three years.

The main scope of the study was to put into practical the theoretical aspect of the study into real lifework experience.

LIMITATIONS OF THE STUDY

The study is restricted for a period of five years only commencing from 2016- 2020. So it shows limited period data is considered.

As the financial information is confidential, they do not want to share accurate data or information.

Study duration is very short.

REVIEW OF LITERATURE

Rafuse studied that suppliers were not interested in interest, rather they wanted their money. His more suggestions was that improvement of working capital by delaying payment to creditors was an inefficient and ultimately damaging practice, both to its practitioners and to the economy as a whole. He suggested that those seeking concentrated working capital reduction strategies should focus on stock reduction.

Eljelly analyzed that liquidity management involves planning and controlling of current assets and current liabilities so that it can eliminate the risk of inability to meet short-term obligations and avoids much investment in these assets. Current ratio, regression analysis and correlation have been used to measure the result. The study found that the cash conversion cycle was of utmost important as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have a major effect on profitability at the industry level. It was clear that there was an adverse relationship between profits of the firm and liquidity position indicators such as current ratio and cash gap in the Saudi sample examined.

Padach analyzed that management practices are expected to assist managers in identifying zones where they might require improvement in the financial performance of their operation. The results provided owner-managers with information relating to the basic financial management practices used by their peers and their peers attitudes toward the selected practices. The working capital requirements of an organization change over times as does its internal cash generation rate.

Raheman and Naser examined the working capital management and profitability position of Pakistani firms. An example of 94 Pakistani firms recognized on Karachi Stock Exchange for a period of 6 years from 1999 to 2004. The results indicated that there is an adverse relationship between variables of working capital management and profitability.

RESEARCH METHODOLOGY

RESEARCH DESIGN

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It constitutes the blueprint for the collection, measurement and analysis of data. The design adopted in the study is both descriptive and analytical done at branch level.

METHODOLOGY OF THE STUDY

Research methodology describes about the research objectives, design and methodology adopted to conduct the study. The data collected can be either primary or secondary.

SOURCES OF DATA:-

PRIMARY DATA

Primary data is collected from secondary source.

SECONDARY DATA

Secondary data means data that are already available i.e., they refer to data which has already been collected and analysed by someone else. The secondary data for the study was collected from book, company websites, magazines and other sources.

PERIOD OF STUDY

Period of study is 5 years 2015-2016, 2016-2017, 2017-2018, 2018-2019, and 2019-2020.

TOOLS USED FOR STUDY

The statistical used for this study are ratio analysis, bar diagram, comparative balance sheet, current trend.

STATISTICAL TOOL

The statistical tool used is trend analysis.

FINDING OF THE STUDY

The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.164cr during year 2016 - 2017.

The end result of the statement of changes in working capital after comparing all the increases and decreases is the net decrease in the amount of working capital is 44.7cr during year 2017-2018.

The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.227cr during year 2018-2019

The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.97.40cr during year 2019-2020

From the above table and chart inferred that, Current Assets are fluctuating, whereas Current Liabilities are decreasing from Rs.810.8 crores to Rs.728.00 crores.

From the above table and chart its identified that, Working Capital is decreasing year by year but it has risen to Rs.1673.30 crores during the year 2017.

The chart shows that current ratio in 2016 is 2.83, in 2017 it is 3.37 and in 2018 it is 2.47 and in 2019 it is 2.52 and in 2020 it is 2.86. From the above table and chart it's identified that, Quick Ratio shows a fluctuation between 2016 to 2020

From the above table and chart it's identified that, Absolute liquid Ratio shows a fluctuation between 0.74 and 0.65.

The chart shows that debt-equity ratio in 2016 it is 1.365, in 2017 it is decrease to 1.324 and in 2018 again it is decrease to 0.224 and in 2019 it is again increased to 4.66 and again it is decrease to 1.16.

Assets-equity ratio is increasing steadily from 2016-2020

Gross profit Ratio shows a fluctuation between 1.78 and 1.22.

Net profit Ratio shows a fluctuation, in 2018 it was increased and in 2020 it was reduced.

From the above table and chart it's identified that, Proprietary Ratio shows a fluctuation between 0.02 and 0.07.

The chart shows that debtor turnover ratio in 2016 it is 3.58, in 2017 it is decrease to 2.21 and in 2018 again it is increase to 2.86 and in 2019 it is again decrease to 1.66 and in 2020 it is again increase to 2.68.

The chart shows that working capital turnover ratio in 2016 it is 1.56, in 2017 against is to 1.56, and in 2018, against is increase to 1.97 and in 2019 it is decreased 1.9 and in 2020 it is 1.46.

The chart shows that inventory turnover ratio in 2016 it is 1.96, in 2017 it is increase to 1.70 and in 2018 again it is increase to 1.74 and in 2019 it is again decreased 1.45 and 2020 it is again decreased 1.41cr.

The chart shows that Fixed-asset turnover ratio in 2016 it is 1.62, in 2017 it is decrease to 1.50 and in 2018 again it is increase and reached to 1.75 and in 2019 it is decreased 1.11 and in 2020 it is again reached 1.62.

A Study on Working Capital Management at Auditor Office, Salem

The chart shows that current asset turnover ratio in 2016 it is 1.01, in 2017 it is 1.10, and in 2018 it is increase to 1.14 and in 2019 it is 1.14 and in 2020 it is 0.95. Analysis of current assets turnover ratio reveals that it is increasing during 2018 and a decreasing in the 2020.

From the above table and chart it's identified that, Capital Turnover Ratio shows a fluctuation between 0.23 and 0.11.

From the above table, we can observe the stock turnover ratio between 2016-2020. It fluctuating from 2.11 to 1.18.

SUGGESTION

The company should concentrate on the current ratio by utilizing current asset for productive purpose in order to achieve the standard ratio.

The company should take necessary steps to make use of the quick asset for the development of the company and should balance with the standard ratio.

Current assets turnover ratio is fluctuating. It's not good for company so in order to increase the current assets turnover ratio a company need to increase its sales.

Gross profit ratio is not stable. So in order to increase the gross profit the company wants to increase the production.

The working capital turnover ratio is decreasing year by year. It is not good for the society so in order to increase the working capital turnover the company needs to increase its sales.

The company should convert finished goods into sales to improve inventory management of company.

CONCLUSION

The study conducted on working capital management on at auditor office gives a view of assessing the performance of working capital management of the society by analyzing the financial data with the help of ratio analysis. During the period of study, there were a few up and downs in the working capital and ratio analysis it will affect the operations of the society but it is observed that the overall financial position is good.

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