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CONTENTS

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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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ROLE OF WORKING CAPITAL FINANCING IN SMOOTH RUNNING OF A BUSINESS: AN EVALUATIVE STUDY

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ABSTRACT

Working capital is the money needed to fund the normal, day to day operations of the business. Working capital is how much in liquid assets that a company has on hand. Working capital is needed to pay for planned and unexpected expenses, meet the short-term obligations of the business, and to build the business. Working capital is the life blood and nerve centre of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully with out a sufficient amount of working capital Working capital shows strength of business in short period of time. If a company have some amount in the form of working capital, it means Company have liquid assets, with this money company can face every crises position in market. If Company has sufficient working capital, Company can easily pay off the creditors and create his reputation in market. But if a company has zero working capital and then company can not pay creditors in emergency time and either company becomes bankrupt or takes loan at higher rate of interest. New businesses and small firms often find themselves in working capital crunches. Without adequate working capital, they cannot build inventory or purchase raw materials. Every business needs some amount of working capital for smooth running of the business. The need of working capital arises due to the time gap between production and realization of cash from sales. Again, both excess as well as short working capital positions are very bad for every business. The analysis of working capital can be conducted through a number of devices, such as ratio analysis, funds flow analysis, and budgeting.

KEYWORDS

working capital, finance.

INTRODUCTION

Funds required for a business can be classified as long-term purposes and short-term purposes. Long-term funds are required to create production facilities through purchase of fixed assets and investment in these assets which are blocked on a fixed basis called fixed capital. Such as, purchase of Plant and machinery, land and building furniture, etc. Short – term funds are also needed for the purchase of raw materials, payment of wages of workers and other day to day expenditures. These funds are known as working capital. Working capital is the money needed to fund the normal, day to day operations of the business. Working capital is how much in liquid assets that a company has on hand. Working capital is needed to pay for planned and unexpected expenses, meet the short-term obligations of the business, and to build the business. In other word, working capital represents that part of the firm's capital which is required for financing current assets such as cash, debtors, inventories, etc. Working capital is the life blood and nerve centre of a business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of a business. No business can run successfully with out a sufficient amount of working capital Working capital shows strength of business in short period of time. If a company have some amount in the form of working capital, it means Company have liquid assets, with this money company can face every crises position in market.

OBJECTIVES OF THE STUDY

The study aims at:

1. Discussing the conceptual aspect of 'Working Capital;
2. Highlighting the classification of working capitals;
3. Critically analyzing about the importance and significance of working capital for smooth running of a business.
4. Discussing the working capital analysis or measuring the working capital
5. Making concluding remarks.

METHODOLOGY

The study on 'Role of Working Capital financing in smooth running of a business: An evaluative study' is based on secondary sources of data. The main sources of data are different books, journals, and newspapers. This apart, the related websites have also been searched for having information/data.

Concept of Working Capital: There are two concept of working capital -

a. Balance Sheet Concept and
b. Operating Cycle Concept

Balance Sheet Concept: According to the Balance Sheet concept of working capital may be two types –

1. Gross Working capital and
2. Net Working capital

Gross Working capital: Gross working capital is the sum total of all current assets i.e., the capital invested in total current assets of the business concern. Current asset means the asset which in the ordinary course of business can be converted in to cash with in a short period of time. Such as cash in hand, bank balances, debtors, bills receivables, inventories etc. Therefore,

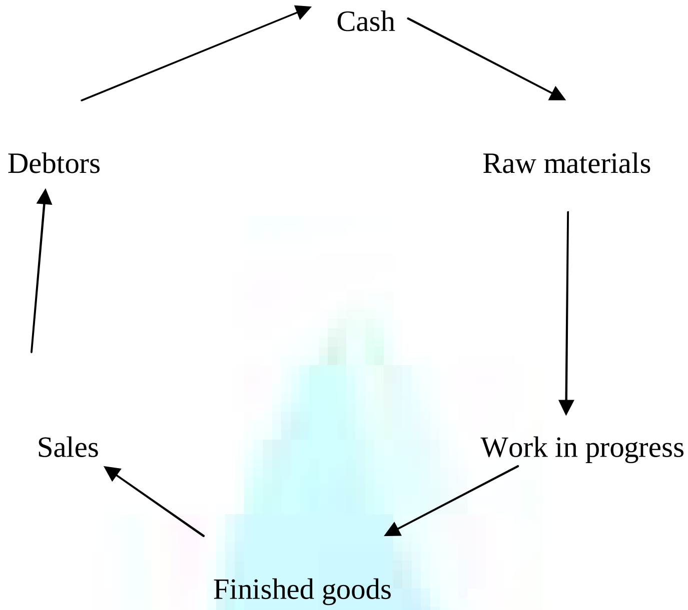
Gross Working Capital = Total Current Assets

Net Working capital: Net working capital is the excess of current assets over current liabilities. Current liabilities are the liabilities which are to be paid within a short period of time normally one year out the current assets or the income of the business. Such as bills payable, sundry creditors, bank overdraft, etc.

Net Working capital = Current Assets – Current Liabilities.

Operating Cycle Concept: This concept is based upon working capital cycle of a firm. The cycle starts with the purchase of raw materials and ends with the realization of cash from the sale of finished goods after conversion the raw materials in to finished goods through work- in-progress. Longer the period of cycle requires the large amount of working capital.

WORKING CAPITAL CYCLE



The gross operating cycle = Raw Material Conversion Period + WIP Conversion Period + Finished Goods Conversion Period + Receivables Conversion Period.
Net Operating Cycle Period = Gross Operating Cycle Period – Payable Deferral Period

WORKING CAPITAL: CLASSIFICATION

Working capital can be classified on the basis of concept and on the basis of time. On the basis of concept working capital is classified as gross working capital and net working capital. On the basis of time, working capital may be two types' viz permanent or fixed working capital and Temporary or variable working capital.

Permanent or Fixed Working Capital

In any business, there is always a minimum amount of working capital which is required to carry out its normal business operations like to maintain a minimum level of raw materials, WIP, finished goods and cash balance. This minimum level of working capital is called Permanent or Fixed Working Capital. Fixed working capital may also classify as *Regular Working Capital and Reserve Working Capital*.

Regular Working Capital: Regular working capital is the amount which is required to ensure circulation of current assets from cash to inventories, from inventories to receivables and from receivables to cash and so on.

Reserve Working Capital: Reserve working capital is the excess amount of requirement of regular working capital which may be provided for contingencies that may arise due to strikes, rise in prices, depression, etc.

Temporary or Variable working capital

Temporary or variable working capital is the amount of working capital which is required to meet seasonal demands and some special contingencies. This working capital can be further sub divided as seasonal working capital and special working capital.

Seasonal Working Capital: The working capital required to meet the seasonal needs of the enterprise is called seasonal working capital. Most products are affluent to seasonal demands and a manufacturer working for profit can not but meet this additional demand. This problem is more complicated by the fact the most of the raw materials (especially when they are agriculture based) are available only at certain seasons of the year, e.g., cotton, jute, sugarcane. Thus a manufacturer will need seasonal working capital either for stocking raw materials or for holding the finished goods until the season of demand arrives.

Special Working Capital: Special working capital is required to meet special exigencies such as launching of extensive marketing campaigns for conducting research, etc. The need for such a mind of capital arises during very strange situations caused by floods, droughts and other natural calamities which destroy current assets. A similar situation is found in the event of rising prices of commodities. Yet another situation arises when a concern has to undertake an extensive marketing campaign in order to overcome the severe competition or to introduce a new product to the market. All these are unusual situations and hence require special fund called special working capital.

IMPORTANCE OR SIGNIFICANCES OF WORKING CAPITAL

Some time, if creditors demand their money from company, at this time company's high working capital saves company from this situation. You know that selling of current assets is easy in small period of time but Company can not sell their fixed assets with in small period of time. So, if Company has sufficient working capital, Company can easily pay off the creditors and create his reputation in market. But if a company has zero working capital and then company can not pay creditors in emergency time and either company becomes bankrupt or takes loan at higher rate of Interest. In both condition, it is very dangerous and always Company's Account Manager tries to keep some amount of working capital for creating goodwill in market.
Positive working capital enables also to pay day to day expenses like wages, salaries, overheads and other operating expenses. Because sufficient working capital can not only pay maturity liabilities but also outstanding liabilities without any more delay.
One of the advantages of the positive working capital is that company can do every risky work without any tension of self security.
The advantages of working capital or adequate working capital may be enumerated as below: -

1. **Cash Discount**

If a proper cash balance is maintained, the business can avail the advantage of cash discount by paying cash for the purchase of raw materials and merchandise. It will result in reducing the cost of production.

2. **It creates a Feeling of Security and Confidence**

The proprietor or officials or management of a concern are quite carefree, if they have proper working capital arrangements because they need not worry for the payment of business expenditure or creditors. Adequate working capital creates a sense of security, confidence and loyalty, not only throughout the business itself, but also among its customers, creditors and business associates.

3. **'Must' for Maintaining Solvency and Continuing Production**

In order to maintain the solvency of the business, it is but essential that the sufficient amount t of fund is available to make all the payments in time as and when they are due. Without ample working capital, production will suffer, particularly in the era of cut throat competition, and a business can never flourish in the absence of adequate working capital.

4. **Sound Goodwill and Debt Capacity**

It is common experience of all prudent businessmen that promptness of payment in business creates goodwill and increases the debt of the capacity of the business. A firm can raise funds from the market, purchase goods on credit and borrow short-term funds from bank, etc. If the investor and borrowers are confident that they will get their due interest and payment of principal in time, they will be highly interested to invest.

5. **Easy Loans from the Banks**

An adequate working capital i.e. excess of current assets over current liabilities helps the company to borrow unsecured loans from the bank because the excess provides a good security to the unsecured loans, Banks favor in granting seasonal loans, if business has a good credit standing and trade reputation.

6. **Distribution of Dividend**

If company is short of working capital, it cannot distribute the good dividend to its shareholders in spite of sufficient profits. Profits are to be retained in the business to make up the deficiency of working capital. On the other contrary, if working capital is sufficient, ample dividend can be declared and distributed. It increases the market value of shares.

7. **Exploitation of Good Opportunity**

In case of adequacy of capital in a concern, good opportunities can be exploited e.g., company may make off-season purchases resulting in substantial savings or it can fetch big supply orders resulting in good profits.

8. **Meeting Unseen Contingency**

Depression shoots the demand of working capital because sock piling of finished goods become necessary. Certain other unseen contingencies e.g., financial crisis due to heavy losses, business oscillations, etc. can easily be overcome, if company maintains adequate working capital.

9. **High Morale**

The provision of adequate working capital improves the morale of the executive because they have an environment of certainty, security and confidence, which is a great psychological, factor in improving the overall efficiency of the business and of the person who is at the hell of fairs in the company.

10. **Increased Production Efficiency**

A continuous supply of raw material, research programme, innovations and technical development and expansion programmes can successfully be carried out if adequate working capital is maintained in the business. It will increase the production efficiency, which will, in turn increases the efficiency and morale of the employees and lower costs and create image among the community.

11. **Regular supply of raw materials**

Sufficient working capital of a firm ensures regular supply of raw materials which is helpful in continuous flow of production.

12. **Regular payment of salaries, wages and other day to day commitments**

Sufficient working capital can make regular payment of salaries, wages and other day to day commitments which increases efficiency of workers, reduces wastages and costs and increases production and profits.

13. **Ability to face crisis**

Adequate working capital enables a concern to face business crisis in emergencies such as depression because during such period, generally, there is much pressure on working capital.

Utilizing working capital financing is not a bad idea, and is implemented by many major corporations. Not only does it protects a company from disruption of events in unexpected circumstances, but also allows revisions and expansions when a business decides a new strategy could be of benefit. Working capital financing gives a business strength, flexibility, and stability. That's why so many smart business owners today choose to have capital financing working for them.

New businesses and small firms often find themselves in working capital crunches. Without adequate working capital, they cannot build inventory or purchase raw materials. As a result, the company cannot sell enough products to generate the profits needed to rectify this situation. This is extremely dangerous and can be destabilizing for the company or even cause it to collapse. The availability of credit or financing is therefore a key determinant in the likelihood and ability of a small firm in expanding and succeeding. To lessen problems for startup and pre existing businesses, some private lenders have created flexible working capital loan programs.

The layperson's understanding of a working capital is quite vague. In fact, few non-financial personnel will be able to give an accurate definition of working capital. The dictionary definition of working capital is the different between its current assets and current liabilities. Also known as net working capital, the working capital of a company ultimately reflects its ability to meet its obligations as they come due. It also infers the stability of a company. The amount of working capital a business has can strong influence the character and scope of the business. A capital loan working for you can make all the difference in whether your vision succeeds or not.

Although most businesses still require traditional collateral for a working capital loan, a new breed of innovative companies that has emerged can give new and pre existing businesses excellent working capital loan programs without requiring security.

With working capital, you know you can fulfill the needs of your business and your target market no matter what kind of unexpected situation happens. You and your business can rise to the challenges and changes of today's ever growing and rapidly evolving business world. Working capital finance plans allow your business to have the safety of the financial backing it needs.

Today you can get a great working capital finance plan without many of the challenges of yesterday's traditional lending procedures. Innovative new online lenders are offering unsecured business loan products. That means you can equip your business with working capital finance even if you don't have collateral. Today, there is no reason to leave your business in the open. Maximize the chances of starting and operating a lasting and successful business idea. You can protect it with a working capital finance plan.

DEFECT OF EXCESSIVE WORKING CAPITAL

A business concern should have neither excess working capital nor shortage of working capital. Both excess as well as short working capital positions are very bad for every business. Excessive working capital means idle of funds which earn no profit and hence the business cannot earn a proper rate of return on its investment. It may lead to unnecessary purchasing and accumulation of inventories causing more chances of theft, waste and losses. It may result into overall inefficiency in the organization.

WORKING CAPITAL ANALYSIS

Working capital is the life blood and nerve centre of a business. A going concern, usually, has a positive balance of working capital i.e., excess of current assets over current liabilities, but it may be negative i.e., excess of current liabilities over current assets. The analysis of working capital can be conducted through a number of devices, such as:

1. Ratio Analysis;
2. Funds Flow Analysis
3. Budgeting.

Ratio Analysis

A ratio is a simple arithmetical expression of the relationship of one number to another. A financial ratio is the relationship between two accounting figures expressed mathematically. It can also be expressed as percentage multiplying the ratio by 100. The technique of ratio analysis can be employed for measuring short-term liquidity or working capital position of a business. The following ratios may be analyzed for this purpose:

i. **Current Ratio:** Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as working capital ratio. It is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Or, Current Assets: Current Liabilities

ii. **Acid Test Ratio:** Acid test ratio can be calculated by dividing the total of the quick assets by total quick liabilities.

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Quick Liabilities}}$$

Here, Quick Assets = Total Current Assets – (Inventories +Prepaid Expenses)

Quick Liabilities = Total Current Liabilities – Bank Overdraft

iii. **Absolute Liquid Ratio:** Absolute Liquid Ratio can be calculated together with current ratio and acid test ratio so as to exclude even receivables from the current assets and find out the absolute liquid assets.

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Here, Absolute Liquid Assets = Cash & Bank Balance + Short-term securities.

iv. **Inventory Turnover Ratio:** Inventory Turnover Ratio can be calculated by dividing the cost of goods sold by the amount of average inventory at cost.

$$\text{Inventory Turnover ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory at Cost}}$$

$$\text{Here, Average Inventory} = \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

v. **Receivables Turnover ratio:** Receivables Turnover Ratio indicates the velocity of debt collection of firm. In simple words, it indicates the number of times average receivables are turned over during a year.

$$\text{Receivables Turnover Ratio} = \frac{\text{Net Credit annual sales}}{\text{Average Trade Debtors}} = \text{No. of Times.}$$

Here, Trade debtors = Sundry debtors + Bills Receivables and Accounts receivables

$$\text{Average Trade Debtors} = \frac{\text{Opening Trade debtors + Closing Trade Debtors}}{2}$$

vi. **Payables Turnover Ratio:** Payables Turnover Ratio can be calculated by dividing Net Credit Annual purchases by Average Trade creditors, i.e.

$$\text{Payables Turnover Ratio} = \frac{\text{Net Credit Annual Purchases}}{\text{Average Trade Creditors}} = \text{No. of Times}$$

$$\text{Average Trade Creditors} = \frac{\text{Opening Trade Creditors + Closing Trade creditors}}{2}$$

vii. **Working Capital Turnover Ratio:** Working Capital Turnover Ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turnover in the course of a year. This ratio measures the efficiency with which the working capital is being used by a firm.

$$\text{Working Capital turnover Ratio} = \frac{\text{Cost of Sales}}{\text{Average working Capital}}$$

Here, average Working Capital = (Opening Working Capital + Closing Working Capital)/2

FUNDS FLOW ANALYSIS

Financial statements do not give the complete financial information. These statements give the information of funds on a particular date. The purpose of preparation of fund flow statements is to know about from where funds are coming and where being invested. The funds flow statements is generally prepared from the data identifiable and profit and loss account and balance sheets. Fund flow statement is also called as sources and application of funds. It shows the detail of funds business received from sources and the amount of funds the business used for different purposes in the year. It discloses the funds at the end of one period of time to the end of another period of time. It provides the useful additional information, not covered by financial statements. The funds flow statement is prepared from data generally identifiable and profit and loss account, balance sheet and related notes. Te another important need of fund flow statement is that income statement and balance sheet does not provide full and needed information. A fund flow statement is a summary of a firm's inflow and outflow of funds. It tells us from where funds have come and where funds have gone. Thus, funds flows analysis consists of preparing scheduled of changes in working capital and statement of sources and application of funds. Here fund means working capital.

WORKING CAPITAL BUDGET

A budget is a financial or quantitative expression of business plans and policies to be pursued in the future period of time. Working capital budget, as a part of total budgeting process of the business, is prepared estimating future long-term and short-term working capital needs and the sources to finance them, and then comparing the budgeting figures with the actual performance for calculating variances, if any, so that corrective action may be taken in the future. Most capital budgeting decisions involve management of working capital and forecasting the requirement of the same. A firm that predicts sales increases its inventory, and sells this same inventory on credit, thus generating credit sales. All cash transactions determine the firm's liquidity and bring to light the firm's investment in cash and cash equivalents. So, it is evident that annual sales predictions are the key reference for estimating working capital requirements. In capital budgeting, working capital comes as part of initial outlay. Changes in working capital are added or subtracted, and are considered part of cash inflow or outflow, as the situation demands. The objective of working capital budget is to ensure availability of funds as when needed, and to ensure effective utilization of these resources. The successful implementation of working capital budget involves the preparing of separate budgets for various elements of working capital, such as, cash, inventories and receivables, etc.

CONCLUSION

Many organizations that are profitable on paper are forced to cease trading due to an inability to meet short-term debts when they fall due. In order to remain in business it is essential that an organisation successfully manages its working capital. Too often however, this is an area which is ignored. Working capital is fairly simple; it is the difference between an organization's current assets and its current liabilities. Of more importance is its function which is primarily to support the day-to-day financial operations of an organization, including the purchase of stock, the payment of salaries, wages and other business expenses, and the financing of credit sales. Every business needs some amount of working capital for smooth running of the business. The need of working capital arises due to the time gap between production and realization of cash from sales. If a firm has sufficient working capital, can easily to purchase of raw materials, components and spares, to pay wages and salaries to workers, to incur day to day expenses and over head costs, to meet the selling cost as packing, advertising etc. to provide credit facilities to the customers, to maintain the inventories of raw materials. WIP, stores, spares and finished stock. The business ultimately will run smoothly.

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