

# A Study on Working Capital Management

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## ABSTRACT

Working capital is regarded as the “lifeblood of business”. Every business needs funds for two needs - long term funds which are required to create production facilities through purchase of fixed assets, like plant machinery, land, building etc. and short term funds for the purchase of raw materials, payment of wages and other day to day expense etc. These funds are also known as working capital or circulating capital or short-term capital. Working capital needs are generally financed through outside sources.

Working capital is one of the important measures of a firm’s efficiency and represents the total liquid assets available with a firm. It reflects a firm’s ability to meet day-to-day operating expenses and also acts as an indicator of a firm’s short-term financial health. So a firm has to plan the effective utilization of its working capital in order to maintain equilibrium between liquidity and profitability of the business.

**KEYWORDS:** Working capital, assets, efficiency, profitability, liquidity position

## INTRODUCTION

Working capital is defined as the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities. Working capital is a life blood and controlling nerve center of a various business aspects and working capital determines the health and growth of an Organization. Any firm, from time to time employs it’s short-term assets as nicely as short term financing sources to hold out it’s day to day business. It is management of assets as well as liabilities which is described as operational money management. Working capital kept in the form of the

1. Inventory [raw material, work-in-progress and finished goods]
2. Debtors
3. Creditors

The capital which is needed for the regular operation of a business or the cash required for conducting of the business is called “**working capital**”. Cash required for the business to meet day to day operations, for financing the conversion of raw materials into finished goods, which the company sells for payment. working capital management is concerned with the problem that arises in attempting to manage the current asset, current liabilities, and the inter-relationship that exist between them.

In simple words working capital can be defined as liquidity ratio that measures a company’s ability to pay off its current liabilities with its current assets. The working capital management is to manage the firm’s current assets and current liabilities in such a ways that a satisfactory level of working capital is maintained.

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Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to the best effect. A company’s working capital is made up of its current assets minus its current liabilities.

The primary purpose of working capital management is to enable the company to maintain sufficient cash flow to meet its short-term operating costs and short-term obligations.

### Need of the study:

This study helps in understanding working capital management at MGM Springs PVT.LTD. The study has been conducted for gaining practical knowledge about working capital management & activities of M.G.M. Springs pvt. Ltd.

### Scope of the study:

The study on “working capital management” is confined to MGM Springs pvt LTD, Anantapuramu. The study period covers 5 years of data i.e. from 2014-15 to 2018-19. The basic scope of the study is to understand and determine the techniques and procedure of working capital management adopted by MGM Springs pvt Ltd.

### Objectives of the study:

To study the changes in working capital of MGM springs PVT.LTD.

To know the liquidity position of the MGM Springs PVT.LTD.

To study the operating efficiency of MGM Springs PVT.LTD

**Research methodology:**

The study is based on secondary data. The secondary data was collected from annual reports of the company and the company websites.

Website: [www.mgmsprings.com](http://www.mgmsprings.com)

**Limitations of the study;**

The study is limited to MGM springs PVT. Ltd. Bellary Road, Anantapuram. The study is limited to time period of five years i.e. from 2014-15 to 2018-19. The study on working capital management in M. G. M. Springs pvt, ltd. has some of the limitation that are discussed in the below

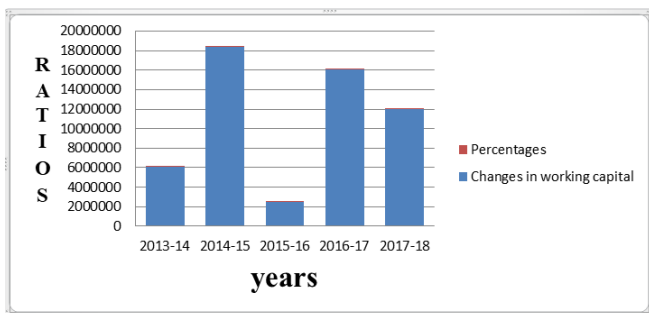
1. The project is just a brief working capital management .it is not exhaustive.
2. The research conducted on the basics of secondary data, so it not exhaustive.

**Data Analysis and Interpretation:**

**Table: Statement showing changes in working capital:**

Years	Changes in working capital	Percentage
2014-15	6136179	19
2015-16	18395926	35
2016-17	2509808	11
2017-18	16079502	66
2018-19	12020578	40

**Graph: Figure showing changes in working capital**



**Changes in working capital**

**Hypothesis:**

H0=There is no significant difference between the current liabilities and current assets.

H1=There is significant difference between the current liabilities and current assets.

Years	current liabilities(X)	current assets(Y)	XY	X <sup>2</sup>
2014-15	580	726	421080	336400
2015-16	414	656	271584	171396
2016-17	653	100	65300	426409
2017-18	557	107	59599	310249
2018-19	699	133	92967	488601
	$\Sigma X=2903$	$\Sigma Y=1722$	$\Sigma XY=910530$	$\Sigma X^2=1733055$
			$r =$	-0.624840864

From the value of  $r= 0.62$ , we can accept the null hypothesis and reject the alternative hypothesis at the significant level  $\alpha=0.05$ .such that there will be significant difference between the current liabilities and current assets.

**Overall interpretation & Findings:**

The net working capital is decreased Rs.6136179 for the year 2014-2015, due to increase in creditors. The net working capital is increased Rs.18395926 in the year 2014-15 due to decrease in current liabilities. The net working capital is increased Rs.2509808 in the year 2015-16 due to increase in Cash, bank balance and debtors. The net working capital is increased Rs.12020578 in the year 2017-18 due to increase in inventory and decrease in current liabilities.

The standard ratio of quick ratio is 1:1.The quick ratio is in fluctuating trend. The highest quick ratio is 1.14 in the year 2017-18 due to decrease in creditors. The lowest quick ratio is 0.55 in the year 2014-15 due to decrease in cash and debtors. Inventory turnover ratio for the years has a stable trend over the years. The highest inventory turnover ratio is 10.0 in the year 2015-16 due to increase in cost of goods sold.

**Suggestions:**

Inventory turnover ratio has declining year by year. It is suggested to company to increase inventory level. Debtor's turnover ratio has been showing fluctuating trend. so it is suggested to the company that it should have proper control on the credit sales.

The company should take steps to increase the current assets so as to meet the short term obligations. The company has to maintain more cash in its accounts to meet their required liabilities immediately.

**Conclusion:**

The liquidity position of the MGM springs PVT itd., is good. It can be concluded that the working capital management efficiency has been fluctuating every year. It needs to be increased further for effective utilization of current assets.

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