

# ***CHAPTER – V***

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## ***CONCLUSION AND SUGGESTIONS***

- Conclusion
- Suggestions

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### **CONCLUSION & SUGGESTIONS**

#### **5.1 Conclusion :**

The following conclusions are arrived at based on the analysis of the data and the information available from the factory.

##### **1. Current Assets :**

The factory maintains its cash and bank balance 1% to 2% of total current assets except 2005-06 and 2007-08. It means the factory maintains its cash and bank balance uniformly and efficiently. The factory has been able to get the required finance through the realization of its inventory. Sundry debtors, loans and advances, stores and tools inventory and stock in trade occupy a major portion of the current assets.

##### **2. Current Liabilities :**

Sundry creditors have increasing trend over the years. But the interest payable showing decreasing trend over the years, this shows that factory has paid a interest in time. The factory has acquired the short term loans to finance its working capital needs. Because factories maximum amount of working capital blocked in stocks, advances and stores and spares. Government liabilities shows increasing position over the year, it means government dues are not payable in these year.

### **3. Net Working Capital :**

By analyzing the records of the factory it was observed that there was variation in the net working capital for various years. The factory had a positive net working capital in all year except in 2004-05. The negative net working capital is due to increased sundry creditors and other current liabilities, accumulated losses incurred by the factory.

### **4. Financial Statement Ratio Analysis :**

- 1 In the ratio analysis of the factory the current ratio is not satisfactory as compared to 2:1 standard ratio which is desirable This ratio is much below the standard ratio. This is mainly because of decrease in current assets as well as increase in current liabilities, this shows that the unhealthy solvency position.
2. The quick ratio is also not satisfactory as compared to 1:1 standard ratio. This ratio also much below the standard quick ratio. This is mainly because of increase in current liabilities and major portion in current assets i.e., stock in trade. This shows that the factory has not been able to meet its quick obligations.
3. Inventory turnover ratio shows decreasing trend over the year. The reason for decrease was due to increase in the inventory held. Hence it is affected the production as well as sales activities. It also affected the working capital of the factory. This slow inventory turnover was due to government restrictions on the release of sugar.

4. Collection period of the factory is changing during the year. The average collection period ratio shows that the factory in general allows not more than 30 days credit to customers, this indicates controlled credit facilities.
5. The average payment period of the factory was increasing over the year. In the year 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 it was 391, 526, 391, 501 and 662 respectively. In all we conclude that the company is enjoying good credit facilities from the suppliers.
6. On an average the current assets occupied a significant portion in the total assets of the factory. Therefore, it plays a very significant role in the operations of the factory.
7. Creditors and short term loans occupies a major position in the composition of total liabilities which is an indication of depending upon creditors for financing current assets.

## 5.2 Suggestions :

- a) In the light of the above summary and conclusions the following suggestions can be made and these may help to improve the present working capital management of the factory.
- b) One of the important aspects of working capital is the investment in the inventory. Unnecessary high amount of the working capital is blocked up in the inventory. So it can be suggested to adopt some specific inventory control technique.
- c) The company has to follow the policy of maintain strong cash position with minimum term of credit.
- d) The factory should pay more attention to current assets and double it to its current liabilities if possible.
- e) Loans should be repaid as early as possible.
- f) Reduction of unnecessary expenses such as management expenses etc, when the unnecessary expenses are avoided, then it is possible to get higher financial help from others by showing higher profitability.
- g) Staff training programmes are required in the area of financial management practices.

- h) They should adopt new technology in factory.
- i) Factory should take pains to increase the share holders / members. This would help in the increasing the inflow of sugar cane to the factory. and also help to increase capital.
- j) Factory has incurred operating losses in few years. This shows operating inefficiency on account of excess expenditures. This has resulted in negative working capital. Overall production cost has gone up considerably which requires immediate control and attention.
- k) Stores and spares as shown in the balance-sheet as a stock, are large in amount. Better management of inventory of spares would help in reduction in the investment of spares. This will reduce the burden on investment in spares and stores to great extent.
- l) The installed capacity of the by products units may be fully utilized to have a desirable return on investment.
- m) As the volume of operations has gone up the factory may meet its increase in fixed working capital needs through long term sources.
- n) The introduction of various financial statement ratio analysis may help the factory to ascertain its financial performance from time to time.

- o) The factory should try to maintain the current and quick ratio as per the standard norms. It can be maintained either by increasing current assets or by decreasing current liabilities. For example increase in cash in hand, distillery receivables and decrease in factory liability and interest payable etc.