

CHAPTER - I
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I N T R O D U C T I O N

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- A. Introduction
- B. Objectives
- C. Methodology
- D. Limitation of the study
- E. Writing of the Research Report

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A. INTRODUCTION

Working capital management is an important decision making area of financial management of an enterprise. It requires understanding of :-

- i) how to raise and allocate financial resources,
- ii) how to relate short-term investments and financial decisions to the overall objectives of the firm and
- iii) how to relate short-term financial decisions to certain longer-term financial decisions¹.

The need for working capital to run the day-to-day business activities cannot be overemphasised. We will hardly find a business firm which does not require any amount of working capital. Indeed, firms differ in their requirements of the working capital.

We know that firms aim at maximising the wealth of shareholders. In its endeavour to maximise shareholder's wealth the firm should run sufficient return from its operations. Earning a steady amount of profit requires successful sales activity. The firm has to invest enough funds in current assets for the success of the sales activity. Current assets are needed because sales do not convert into cash instantaneously. There is always an operating cycle involved in the conversion of sales into cash. Differences in divisibility as well as in durability of economic life are the essential features that distinguish current from fixed assets.²

Adequacy of working capital in the life blood and controlling nerve centre of the business. The principal advantage of having sufficient amount of working capital are as follows.

- 1) Adequacy of working capital is a must for maintaining solvency and smooth production.
- 2) It creates feeling of security and confidence.
- 3) Creation of sound good will.
- 4) Steady work for the employees and efficiency in the production.
- 5) Easy availability of cash discounts and other concessional facilities.
- 6) Easy loan from banks.
- 7) Facility of off season purchasing.
- 8) Periods of off season purchasing.
- 9) Quick and steady returns to the investors.
- 10) General rise in management moral without sufficient.

Working capital organisation cannot run smoothly thus, it is the life blood and controlling near centre of business. The adequacy of working capital contribute a lot in rising the credit standing better forms on goods purchased. Cash discount on purchases, favourable rules of interest on bank loans etc. The advantages of any favourable opportunity either on purchases of raw material or to execute special orders or to wait for better market position. To meet day-to-day requirement of any organisation

it is only possible with adequate working capital. It creates great psychological environment to improve all round efficiency of the business and create self confidence among the workers. During the period of slump the demand of working capital shoot up a huge amount of inventories and bad debts is locked up.

B. OBJECTIVES OF THE STUDY

Working capital just like the ~~heart~~ of the business. If it becomes with the business can hardly prosper, and survive sooner or later it will topple-down. It is an index of the solvency of the concern.

The following are the main objectives of the study.

- 1) To study and assess the adequacy of working capital.
- 2) To find out the methods of operating cash.
- 3) To study the pattern and methods of inventory management.
- 4) To examine the debtors management.
- 5) To study the short-term solvency of the company of the concern.
- 6) To study trends in working capital.
- 7) To assess the current assets utilisation.
- 8) To examine the planning of working capital.
- 9) To study the fund flow and cash flow analysis.

C. METHODOLOGY

Case study has been developed essentially as a problem solving technique and also as a suggestive device for improvements in various dimensions of the case under examination. Case study

it not only helps in investigating and finding solutions to some of the problems facing the firm but may also go a long way in suggesting improvements in the present functioning or operations of that particular firm. Thus, case study method is more intensive in nature. The field of study is comparatively limited but has more of depth in it. It aims at studying everything about something, rather than something about everything as in the case of statistical method.

According to P.V.Young "A comprehensive study of a social unit, be that unit, a person, a group, a social institution, a district or a community is called a case study". According to Goods and Hatt, "It is an approach which views any social unit as a whole. It is a way of organising social data so as to preserve the unitary character of the social object being studied".³

The case study is thus a form of qualitative analysis involving the very careful and complete observation of a person, a situation or an institution. Case study approach is also flexible in character as a researcher has complete independence in approaching the problem from any angle that he considers as desirable and approach.

Advantages of Case Study

The main advantage of case study approach are :

- (a) It produce new ideas and fresh suggestions.
- (b) It helps in formulating a sound hypothesis.
- (c) It may also help in exploring new areas of research.⁴

According to the above discussions and advantages of case study, a case study method is used for A Study of Working Capital Management of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad. Case study method has been adopted for this study. The data have been collected as follows for the study.

- (a) The primary data have been collected with personal discussions with related officers of the company.
- (b) Secondary data have been collected from Account Books, Stock Register, Trading profit and Loss account, Balance sheet and Annual reports of the factory.

For the study of working capital management of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad, following ratios are calculated.

- 1) Current Ratio
- 2) Acid-Test-Ratio
- 3) Inventory Turnover Ratio
- 4) Debtors Turnover Ratio
- 5) Creditors Turnover Ratio

D. LIMITATION OF THE STUDY

A case study method is adopted for working capital management. This study is related to five year i.e. 1979-80 to 1983-84.

The principal disadvantages of the study is that it becomes futile for those cases where already intensive investigations have been made and the problems properly identified. As such this

approach has only limited application in the domain of research. Moreover this approach is based upon the publishing report. Most often case studies are based on observations recorded from persons having knowledge of about the case under study and to what an extent will these observations be accurate depends upon how sharp the respondent's memory has been.

This study is completely based on the published data and conclusions are drawn accordingly.

The present analysis of working capital confines itself to the desirable level of working capital and excludes the cost aspect of working capital. This study does not attempt to work out the cost of working capital.

E. WRITING THE RESEARCH REPORT

Research report is final stage of writing of research work, A Study of Working Capital Management of Sahyadri Sahakari Sakhar Karkhana Ltd; Yeshwant Nagar, Karad.

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