

CHAPTER 5

CONCLUSIONS AND SUGGESTIONS

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CHAPTER 5

CONCLUSIONS AND SUGGESTIONS

The present study brings out the following conclusions and suggestions on various aspects. However, the conclusions are based on the study and information so far available.

5.1 CONCLUSIONS :

The conclusions are drawn in the form of positive and negative points in the existing system of information and reporting to management.

Positive points are those which are favourable to the company i.e. The Kolhapur Steel Ltd., Kolhapur. The points which help the company to operate proper control over the working capital as well as over the entire operations of the company are termed as positive points.

On the other hand, negative points are those which require some improvement. The points if properly taken care of will still improve the existing system are termed as negative points.

The Positive and Negative points are as follows :-

5.1.1 POSITIVE POINTS :

1. Budgetary Control :-

The functional budgets are fixed at the beginning of the year on the basis of last year performance, market conditions and other allied factors. The same budgets are observed throughout the year.

2. Executive Meeting :-

This is the best policy of the company to have a meeting named as 'Executive Meeting', on the preceding day of the Board

Meeting, i.e. on Friday. This meeting is held on every Friday. In this meeting the entire operations are reviewed, problems are solved and future actions are planned.

Because of this policy it becomes easy for the Director to report the Board on the very next day, in respect of the performance.

3. Planning and Control of Working Capital :-

For planning the Working Capital -

- a) Functional budgets are prepared.
- b) Budgeted Profit and Loss Account is prepared.
- c) Then it is assessed as per Table 3.5.

For control of Working Capital all the control techniques which are discussed in Chapter 3.2.3 are used.

The weekly information supplied in the report to the Director and the General Manager regarding Purchases, Payments, Creditors' balance, Sales, Recovery, Debtors' balance as well as Inventory value of Stores and Spares, W-I-P, Finished goods etc. are nothing but the controlling norms of Working capital.

Apart from this, the consumption variances of 'A' Class items are also supplied in the report. As the above report is given every week it seems that there is proper Planning and Control of Working Capital.

4. Daily Bank Position :-

The information about daily bank balances helps to keep the terms of payment as well as to maintain the Working Capital at optimum level.

5. Monthly Reconciliation Report :-

Monthly reconciliation report of Costing and Financial Profit and Loss Account is submitted to the top Management. This statement indicates the validity of costing records, progress of the company and the required steps to be taken to achieve the budgeted goals.

6. Internal Audit Report :-

It is the best policy of the company that the Internal Auditor directly reports to the top Management. His report gives comments on the operations of the company.

In addition to the Internal audit he also reports on the ratio analysis on the Interim Financial accounts.

7. Targets and Norms :-

The targets of production, sales, order booking, recovery and payments are decided. The norms of consumption and rejection are fixed. Actuals against the targets and norms are measured and compared every week.

This system helps to get maximum return on investment and to convert raw material into cash as early as possible.

8. Weighment of Consumeable materials :-

The weighment of valuable i.e. 'A' Class consumeable materials such as Graphite Electrodes, Ferro Silicon, Ferro Manganese, Ferro Moly etc., is done before consumption. This helps to make proper use of available material and to maintain the quality of the products.

9. Material Losses Report :-

Loss of materials such as Scrap, spoilage, wastage, defective etc. is reported daily to the top Management.

Apart from this efficiency, in-efficiency and the utilisation of plant capacity is observed daily by the General Manager.

10. Purchase Procedure :-

Some major items of purchase are finalised by the Purchase Committee consisting of the General Manager, Dy. Managers, Finance and Materials.

Rest of the purchasing is centralised in Materials Officer who is promoted as Dy. Manager (Materials). Purchases are made according to the pre-determined production targets.

This helps to decide the required quantity of purchases in advance and gives time to complete the formalities of purchase. This means that no Working Capital is blocked up unnecessarily or the position of 'Out of Stock' of any material may not take place.

11. Sales Report :-

Weekly sales budget is fixed. Sales are made on the basis of both Cash and Credit. Product-wise daily sales report is given to the Director and weekly sales report is given to the Executives. This helps to take necessary steps to reach the target.

12. Price Fixation :-

The prices of Ingots are depending upon the market conditions. The prices of Castings are fixed as per the norms given by the management, which are decided on the basis of "Marginal Costing".

This helps the Management to take correct decision.

13. Labour Report :-

Labour turnover and accidents are reported as and when take place. Labour absenteeism and over-time are reported daily. Apart from this the review of over-time is taken every week which helps to control the cost of production.

14. Inventory Control :-

Centralised Stores department, use of levels of Stock and perpetual Inventory control system indicate proper Inventory Control System.

This helps to keep the inventory and in turn the Working Capital at optimum level.

15. Variance Report :-

The weekly report to the Director and the General Manager gives sufficient variances. It includes variances of the items of entire Profit and Loss Account. It shows controllable variances i.e. the variances of variable cost and non-controllable i.e. the variances of fixed cost.

The second part of the same report gives departmentwise materials variances and rate variances of 'A' Class items.

This is the best form and system of Planning and Control of Working Capital.

16. Debtors' Position :-

The Debtors' position is supplied to the Director twice in a month. This Debtors' list indicates outstanding dues, both Area-wise and Age-wise. The list is then handed over to Sales department for follow-up and collection.

This system helps to make fast recovery.

17. Creditors' Position :-

The Creditors' position is supplied to the Director during the first week of every month. The Creditors' list shows the Age-wise due payments.

This helps the Management to fix the Payment Policy wisely and to make use of Credit allowed by the Suppliers as a source of Working Capital.

5.1.2 NEGATIVE POINTS :

1. Departmental Authorisation :-

The Organisation Chart of the Company indicates that there is no proper division of departmental authorisation.

Controlling of more than One department by the same person is not suitable to the Company, because -

a) Mis-management may take place wherever possible.

b) Fair recording and reporting is not possible.

c) A single person can not give due attention to the departments under control.

2. Graphic Presentation :-

The Graphic presentation, which is the most important media of information is neglected. It is said that, 'A picture is worth 10,000 words'.

The graphs of monthly position of production, sales, inventory, stock of finished goods and W-I-P, debtors' and creditors', profitability etc. if used in the Cabins of the Director, General Manager as well as in the Board Room, it will show at a glance the Performance of the Company.

3. Inter-departmental Changes :-

Wherever possible, the persons working in one department may be transferred to another department. This would help the management to get proper and correct information. It avoids collusion between two or more persons.

4. Labour Productivity Reports :-

Labour is an important part of cost of production. But the labour productivity reports are not received by the management.

Improvement in productivity results ultimately in the improvement of the Performance of the company.

5. Weighment Of Raw Material :-

The weighment of raw material i.e. Scrap, which constitutes about 40% of total cost of production is neglected. The Scrap is charged into Furnace on estimated basis.

This makes difficult to arrive at the exact cost of production.

6. Requisition Book :-

At present the duplicate requisition books are returned to Stores department by the concerned departments in order to obtain the new Requisition Book, as such both the Original and Carbon copy remain with the Stores.

This system is not good as it gives chances to adjust the issued materials. Therefore, the management may not get proper information about issue and ultimately the consumption of materials.

7. Ratio Analysis :-

Ratio analysis is supplied by the Internal Auditors . But instead of waiting for the internal auditors' report, the Accounts department may supply the same information.

This will help the management to know the position without delay.

8. Funds Flow Statement :-

This statement is one of the techniques of controlling Working

Capital. But at present the statement is rarely used.

The statement should be used atleast monthly or quarterly to know whether the funds are used properly as planned.

9. Form and Contents of the Reports :-

Allmost all the Reports require some changes in their headings. The required changes are as follows -

a) The recipient of the Report should be indicated on the top of the Report.

b) The Reports should be headed in such a way that they should show the frequency, form and contents.

c) The Weekly Reports submitted to the Director and the General Manager - the first part of the Report - shows Profit and Loss Account. Therefore, it is necessary to replace the word 'EXPENSES' by 'PROFIT AND LOSS ACCOUNT' or by 'PROFITABILITY'.

The Cumulative column of the same Report should give the details product-wise.

10. Levels of Stock :-

At present due consideration to the levels of Stock is not given. Therefore, there is the possibility of either over-stocking of a particular item or out-of-stock position of another item.

This adversely affects the Working Capital.

11. Recovery :-

When the collection from Debtors' is made by Cheques, 2-3 days in case local cheques and 10-15 days in case of out station cheques will be passed to get realisation or in case of discounting the bank charges will have to be borne by the company, which is an additional expense.

Therefore, collection of Debtors' through Demand draft or Telegraphic transfer will help the company to make fast recovery.

12. Internal Audit :-

a) Active part of the Internal Auditor in finalisation of yearly Profit and Loss Account and Balance Sheet is necessary. But at present the finalisation is done by the Statutory Auditor only.

b) At present the Internal Auditor is not local. Therefore, it is either difficult or costly to contact him at any time.

c) Operation Audit is not in practice. Therefore, it is not possible for the Management to get reliable information about each and every operation of the company.

5.2 SUGGESTIONS :

The following suggestions may be of great use and value if The Kolhapur Steel Limited, Kolhapur tries to implement them wherever possible. This will definitely help the company to get proper information and still to improve the Performance.

1. Departmental Authorisation :-

It is observed that the Materials Officer is in-charge of Purchase and Stores, Accounts Officer is in-charge of Administration and Accounts, Maintenance Officer is in-charge of Mechanical and Electrical maintenance etc.

It is suggested that separate Officers should be appointed for Purchase, Stores, Administration, Accounts, Mechanical & Electrical maintenance etc. Their work should be delegated to them and they will be responsible for their work. It means clear cut delegation of authority and responsibility is required.

2. Graphic Presentation :-

It is observed that the Graphic presentation of information is neglected.

Therefore, it is suggested that the different types of Graphs for presenting information should be used at top level.

3. Inter-departmental Changes :-

It is observed that so many Staff members are working in the same department since longer period.

It is suggested that wherever possible the persons working in one department should be transferred to another department. Therefore, the interest of one Personnel in one department will be minimised, which will create good relation amongst the Staff.

4. Labour Productivity Reports :-

It is observed that due attention is not given to Labour productivity.

It is suggested that due attention should be given. Budgets should be fixed, actual productivity should be compared with the budgeted, and variances should be found out with reasons, which will help to take necessary action.

Normal, abnormal and idle time report should be prepared for every worker, which will help to improve the productivity.

5. Weighment Of Raw Material :-

It is observed that the weighment of raw material i.e. Scrap is neglected.

Therefore, it is suggested that the exact weighment of Scrap before consumption should be done. This will help to arrive at the exact cost of production.

6. Requisition Book :-

It is observed that at present the duplicate copy of Requisition is also returned by the concerned departments.

Therefore, it is suggested that the duplicate copy of the Requisition should be retained by the concerned departments for their reference.

7. Ratio Analysis :-

It is observed that due attention is not given to Ratio analysis.

It is suggested that the Accounts department should give the Ratio analysis as soon as possible.

Due to accounting ratios the Management will get accurate and correct information about short term liquidity, long term liquidity, operational efficiency, whether the working capital is sufficient, whether the capital employed is correctly utilised, collection period, collection policy, operating expenses etc. This enables the Management to implement the remedial steps immediately.

8. Funds Flow Statement :-

It is observed that at present the fund flow statement is rarely used.

It is suggested that the statement should be used to assure the proper flow of funds.

9. Form and Contents of the Reports :-

It is observed that the collected forms require some changes in their headings.

Therefore, it is suggested to make the required changes as explained in Chapter 5.1.2. (9).

10. Levels of Stock :-

It is observed that due consideration is not given to the Levels of Stocks.

Therefore, it is suggested that the Levels of Stock as well as ABC Analysis and perpetual Inventory System should be given due consideration. This will help the company to maintain the Stock of imported items as well as Working Capital to optimum level.

11. Recovery :-

It is observed that considerable time is passed between the receipts of cheques from Debtors and realisation of the same.

It is suggested that as far as possible early realisation should be assured by changing the Payment Term Policy.

12. Internal Audit :-

a) Active part of the Internal Auditor in finalisation of yearly Profit and Loss Account and Balance Sheet is must.

b) As far as possible the Internal Auditor should be local so as to approach him at any time.

c) Operation Audit should be introduced.