CHAPTER : VII :

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7.1 SUMMARY AND CONCLUSIONS

Existing working capital system in Shri. D.S.S.K. Ltd. :

The factory operates both fixed and variable working capital. The variable working capital is obtained from the apex bank on hypothecation, pledge and special clean cash credit basis, and fixed working capital by issuing share capital.

CURRENT ASSETS :

The factory maintains its cash balance efficiently. The factory has been able to get the required finance through the relisation of its stock-in-trade, The stores and tools occupy a major portion of the current assets.

Stock-in-trade occupies a substantial portion of the current assets. This is under the entire control of the central government. From time to time the government gives the permission to release it on levy and freesale basis.

Prepaid expenses form a small portion of the current assets. Taking into account, the volume of operation the factory has, the amount of prepaid expenses is not large. But advances against material purchases have been increasing.

The current assets show a downward trend from 1982–1983 to 1985–1986. The reduction in the current assets has not brought about a similar reduction in the current liabilities.

CURRENT LIABILITIES :

The sundry creditors show a decreasing trend over these years. The factory depends on short term loans to finance its current assets. The bills payable have been increasing during these years due to the high stock-in-trade. The accrued expenses increased over the years. The factory has been able to delay the payment which does not involve any extra burden in the form of interest.

The increasing trend of interest payable on deposits shows that the factory has been able to get large amount of deposits from members and non members. Thus its depositors have shown great devotion and admiration to the cooperative movement. These deposits form an ideal source of raising funds as the rate of interest is only 9% p.a.

The factory has acquired the short term loans to finance its working capital needs. During the years of increased production and stock-in-trade the factory acquired more short term loans.

The purchase tax payable on sugarcane has been due to the state government and the factory clears it in instalments.

The current liabilities during these years increased without bringing a similar increase in the current assets. This resulted in an adverse working capital position. This was due to the continuous run of net losses and provision of funds for the expansion of the sugar unit and commencement of the byproducts units.

NET WORKING CAPITAL :

The factory had a positive net working capital only in 1980-81 and 1981-1982. The provision of investment allowance and continuous net losses incurred by the factory during these years resulted in the negative net working capital.

FINANCIAL STATEMENT RATIO ANALYSIS :

This indicates that the factory has not been able to meet its current liabilities out of its current assets and quick liabilities out of its quick assets. The slow inventory turnover has been due to the government restrictions on the release of sugar. The factory has a satisfactory receivables turnover ratio and its average collection period is desirable.

The higher current assets to net sales ratio reflects the time consumed in the release of sugar by the government. Since sugar is generally released on readycash basis, the receivables do not account a large proportion even during the years of increased sales. The payables form a small portion with regard to the purchases made. Ability to get extended credit facility is a hallmark of modern business.

FUNDS FLOW STATEMENT :

The factory has received moderate funds from its operations. It has initiated expansion programmes and commencement of byproducts units-paper and distillery. The factory does not utilise the full installed capacity of these byproducts units. The working capital has contributed a considerable sum as a source of funds. The factory has not resorted to extrashare capital and largely depended on its internal resources to initiate its expansion programmes and start the byproducts units.

The factory utilises the installed capacity of sugar unit and even its average performance has been 113% of its installed capacity. The average recovery percentage of the factory has been at the highest level over these years and in 1980-1981 with a recovery percentage of 12.26% it stood first in India. The total losses percentage has been kept at the lowest by the factory. The factory has shown tremendous appetite for growth and expansion.

SUGGESTIONS :

In the light of the above summary and conclusions the following suggestions would be made and these may help to improve the working capital management of the factory.

1. The investment in stores and tools may be minimised by inventory management and inventory control technique.

2. Collection of deposits from the members and non members may be stepped up, considering the low interest @ 9% p.a.

3. The factory may scrutinise its increased working capital requirements in the light of its expanded business operation i.e. from 1250 metric tonnes to 2500 tonnes, introduction of the by products units, paper and distillery - and ever-increasing inflationary pressures.

4. The installed capacity of the byproducts units may be fully utilised to have a desirable return on investment.

5. As the volume of operations has goneup the factory may meet its increase in fixed working capital needs through long term sources.

6. The introduction of various financial statement ratio analysis may help the factory to ascertain its financial performance

from time to time.

7. The operation of funds flow statement may help the factory to have an insight into the financial operations i.e. sources and application of funds.