
CHAPTER - IV

FINANCIAL MANAGEMENT OF
SMALL SCALE INDUSTRIES IN
KARWAR TOWN

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C H A P T E R - I V

FINANCIAL MANAGEMENT OF SMALL SCALE INDUSTRIES

IN KARWAR TOWN

4.1 INTRODUCTION

Small Scale Industries procure Finance from different sources. The Finance so arranged has to be properly utilised. Management of finance is as an important area of management as production or sales or personnel management. It requires the attention of manager just as production or sale requires his attention.

Financial Management involves-

- (1) Procurement of Finance from various sources,
- (2) Use of finance.
- (3) Framing a suitable dividend Policy.

Financial Management involves the undertaking of following functions-

- (1) Forecasting and Planning of financial requirements.
- (2) Finding the source of finance.
- (3) Keeping the cost of finance to the minimum.
- (4) Safeguarding the investment.
- (5) Proper use of available finance.
- (6) Framing a dividend Policy.
- (7) Administering, Controlling and recting the financial transactions.

The risk involved in an investment and the return from such investment are to be properly balanced. Money has time value. Therefore the time when an amount is received becomes very important. The main objective of the business unit is maximisation of wealth which should be remembered while taking financial decisions. It is also necessary to assure liquidity so that the payments are made on time. Thus financial planning and its execution has an important place in the successful running of a business unit.

For the purpose of better financial management many financial tools are available. Trend Analysis, Accounting Ratios, Funds Flow and Cash Flow Statements, Financial Planning and Budgeting, Profit Planning and such other tools and techniques can be used to manage the finance. In a large business unit financial management is looked after by a separate department headed by experts. But in a small scale Industrial Unit the proprietor himself has to look after finance because the unit is so small that it cannot appoint experts.

4.2 FINANCIAL MANAGEMENT OF SMALL SCALE INDUSTRIES

IN KARWAR TOWN

The survey conducted in Karwar Town reveals that the small scale industrialists have not given sufficient importance to Finance & Management.

T A B L E : 4.1

Showing Financial Management of Small Scale Industries in Karwar Town
 Number of Units: 30.

	Sole Proprietorship.	Partnership firm.	Joint stock company.	Co-Op. Society.	Total
Total Units:	24	4	1	1	30

(1) A list of sources of Finance:

	Units	Percentage	Units	Percentage	Units	Percentage	Units	Percentage
Made-	-	-	1	3.33	-	-	1	3.33
Not made-	24	80	4	13.33	1	3.33	29	96.67

(2) A Financial Plan-

Made-	-	-	1	3.33	-	-	1	3.33
Not made-	24	80	4	13.33	1	3.33	29	96.67

(3) Get Finance from -

i) Easiest source-	20	66.67	2	6.67	-	-	22	73.33
ii) Cheapest source-	4	13.33	2	6.67	1	3.33	8	20.67

(4) Repayment of Loan-

1) Arrangement : Made	-	-	1	3.33	-	-	1	3.33
2) Not made	24	80	4	13.33	1	3.33	29	96.67

T A B L E : 4.1

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 Units:Percentage :Units:Percentage :Units:Percentage : Units :Perce
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(5) Funds Flow & Cash									
Flow state- ment.-									
i) Prepared	-	-	1	3.33	-	-	1	3.33	3.33
ii) Not prepared	24	80	4	13.33	-	1	3.33	29	96.67

(6) Payment of Taxes									
1) Arrangement Made-	-	-	1	3.33	-	-	1	3.33	3.33
2) Not made	24	80	4	13.33	-	1	3.33	29	96.67

Source: Field Survey.

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TABLE : 4.2

Showing the assistance received in management of
Finance of Small Scale Industries in Karwar Town.

Number of Units: 30

	Number of Units.	: Percentage : to total.
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1. Assistance Received		
from Specialists-	5	16.67
2. Assistance Received		
from Financial		
Institutions-	5	16.67
3. Assistance Received from		
Friends & Relatives-	4	13.33
4. Self management without		
assistance from any		
other person-	16	53.33
	-----	-----
Total :-	30	100.00
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Source : Field Survey.

Table 4.1 reveals that out of 30 units, 29 units do not prepare a list of resources or financial plan. It also reveals that 29 out of 30 units do not make any prior arrangement of repayment of loan, and to pay taxes. It reveals that 29 out of 30 units do not prepare funds flow statement or cash flows statement. Thus it is found that 29 units out of 30 units i.e. 96.67 percent of them do not make use of any financial tools for their financial management.

The table also reveals that only joint stock company prepares financial plan and makes use of funds flow statement. Thus it is revealed that only in joint stock company form of organisation the financial tools are being used.

The table reveals that while arranging finance 22 units of 30 units or 73.33 percent of them get finance from easiest source. The remaining 8 units or 26.67 percent of them want finance from the cheapest source.

The table 4.2 reveals that 16 out of 30 units or 53.33 percent of them manage their finance without the assistance of any other person. Five out of 30 units or 16.67 percent of them receive assistance from Specialists and a similar number of them receive assistance from Financial Institutions. Four out of 30 units or 13.33 percent receive assistance in managing their finance from friends and relatives.

4.3 CREDIT PURCHASES AND SALES

Credit purchases and sales play an important role in Financial Management. Credit Sales affect the availability of ready cash. The cash receipts are postponed until the debtor makes payment. Credit Sales involve the efforts to be made for collection of Cash and have a fear of bad debts. Credit purchases, on the other hand, provide additional finance though only for a short period until creditors are paid back.

TABLE 4.3

Showing Credit Purchases and Credit Sales Practices of Small Scale Industries in Karwar Town.

Number of Units : 30.

	: Number of : units.	: Percentage to : total.
I. <u>Purchases</u> :		
(A) Credit Purchases		
(Credit upto 1 month)		
(i) Upto 25% of total purchases.	3	10
(ii) Between 25 & 50% of total purchases.	8	26.67
(iii) Between 50 & 75% of total purchases-	3	10
(iv) Above 75% of total purchase	-	-
TOTAL :	14	46.67
(B) Only Cash purchases-	16	53.33
total:	30	100.00

<u>II- Sales</u>	: Number of : units	: Percentage : to total
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(A) Credit Sales:		
(i) Upto 25% of total sales-	5	16.67
(ii) Upto 25 to 50% total sales-	7	23.33
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TOTAL :-	12	40.00
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(B) Cash Sales only-	18	60.00
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TOTAL :-	30	100.00

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Source : Field Survey.

Table 4.3 reveals that out of 30 units, 16 units or 53.33 percent of them do not make use of credit facility. They make only cash purchases. Three out of 30 units or 10 percent of them purchase upto 25 percent of their requirements on credit. Maximum number of units i.e. 8 out of 30 have 25 percent to 50 percent of their total purchases on credit.

The table reveals that 18, out of 30 units or 60 percent of them sell only for cash. Seven out of 30 units or 23.33 percent of the units have credit sales between 25 to 50 percent.

The table reveals that more than 50 percent of small scale units do not make credit purchases. Only 3 units out of 30 units purchaser more than 50 percent of their requirements on credit basis. It

TABLE : 4.4

Showing ploughing Back of Profits by Small Scale Industries in Karwar Town.

Number of Units : 30

	: Number of : Units.	: Percentage : to total.
(1) Reserves are created-		
(i) From 1 to 9% of profit-	5	16.67
(ii) From 10% to 15% profit-	5	16.67
Total :-	10	33.33
(2) Reserves are not created-		
(i) On account of lack of profit-	5	16.67
(ii) On account of insufficient profits-	7	23.33
(iii) On account of lack of knowledge.	8	26.67
Total:-	20	66.67
Grand Total:-	30	100.00

Source : Field Survey.

is revealed that small scale units do not depend on credit.

The table reveals that while selling also more than 50 percent of the units sell strictly for cash. This helps them in maintaining liquidity.

4.4 PLOUGHING BACK OF PROFITS

Ploughing back of profits or creating reserve is another source of finance. Setting aside a part of the profit and reinvesting it in business increases own capital in the business unit and to that extent it not only makes a business unit financially strong but also eliminates the dependence on borrowing to some extent. As the reserves increase it also increases borrowing capacity of a business unit.

Table 4.4 reveals that only ten out of 30 units or 33 percent of the units create reserve out of their profits. It is also revealed that Five units or 16.67 percent of the units do not create reserve on account of lack of profits. Seven out of 30 units or 23.33 percent of the units have insufficient profits and hence do not create reserve. Eight units or 26.67 percent of the units, though have sufficient profits do not create reserve.

The table reveals that majority of the Small Scale units do not create reserve.

TABLE : 4.5

Showing Ploughing Back of Profits of Small Scale Industries in Karwar Town

Number of Units : 30

	1.	2.	3.	4.	5.	6.	7.	8.	9.
	Reserve created		Total	Reserve not created on		Total		Grand	
	From 1% to 9%	From 10% to 15%		Lack of profit	Insufficient knowledge	Lack of profit			
(1) Agro Based	1	-	1	1	2	-	3	4	
(2) Forest Based	1	1	2	-	-	3	3	5	
(3) Food Processing	-	-	-	1	2	-	3	3	
(4) Engineering-	2	3	5	1	1	5	7	12	
(5) Construction-	1	-	1	1	1	-	2	3	
(6) Miscellaneous-	-	1	1	1	1	-	2	3	
TOTAL :-	5	5	10	5	7	8	20	30	

Source : Field Survey.

Table 4.5 analysis the ploughing back of profit on the basis of type of industries. The table reveals that 5 out of 12 Engineering units or more than 40 per cent of them create reserve. Forest based industries come next with 40 percent of units i.e. two out of 5 units creating reserve. One out of 3 units or 33 percent of units create reserve in construction and miscellaneous industries. The table reveals that one out of 4 units or only 25 percent of units create reserves in agro based industries.

The table reveals that 5 out of 12 units or 42 percent of units in Engineering industry do not create reserve though they have sufficient profits because they have no knowledge of importance of creating reserve. In forest based industries 3 out of 5 or 60 percent of them do not create reserve for lack of knowledge. In agro based industries 1 out of 4 units or 25 percent of them do not create reserve on account of lack of profit and 2 out of 4 units or 50 percent of them do not create reserve on account of insufficient profits.

4.5 INVESTMENT PATTERN IN SMALL SCALE INDUSTRIES

IN KARWAR TOWN

The amount invested in fixed assets and current assets in industries show interesting trends. Table 4.6 reveals the investment in fixed assets by Small Scale

TABLE 4.6

Showing Investment in Fixed Assets in Small Scale Industries
in Karwar Town.

Number of Units: 30.

Year: 1986-87.

Industry	Number of Units.	Investment in fixed Assets.	Average investment (3-2)
1.	2.	3.	4.
		Rs.	Rs.
1. Agro Based	4	1,25,000/-	31,250/-
2. Forest Based	5	3,31,000/-	66,200/-
3. Food Processing	3	5,50,000/-	1,83,330/-
4. Engineering	12	20,14,000/-	1,67,830/-
5. Construction	3	1,98,000/-	66,000/-
6. Miscellaneous	3	1,06,000/-	35,330/-
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TOTAL :-	30	33,24,000/-	1,10,800/-

Source : Field survey.

Industries. It reveals that the highest average investment in fixed assets is in Food Processing Industry i.e. Rs. 1,83,330. The next highest average investment in Fixed assets is in Engineering industries i.e. Rs. 1,67,830. The average investment in Fixed assets is the lowest in Agro Based Industries i.e. Rs. 31,250/-.

The table also reveals that two industries namely Food Processing and Engineering have average investment in fixed assets higher than the overall average of all the industries i.e. Rs. 1,10,800. The remaining four industries have average investment in fixed assets which is lower than the overall average of all the industries.

The Table 4.7 reveals the investment in Current Assets in Small Scale Industries in Karwar Town. It reveals that the average investment in current assets is the highest in Forest based industries.

TABLE- 4.7

Showing Investment in Current Assets in Small Scale Industries in Karwar Town.

Number of Units : 30.

Year: 1986-87

Industry.	Number of Units.	Investment in Current Assets.	Average Investment (3-2)
1.	2.	3.	4.
1. Agro Based	4	1,35,000	33,750
2. Forest Based	5	4,65,000	93,000
3. Food Processing	3	1,37,000	45,667
4. Engineering	12	6,96,000	58,000
5. Construction	3	1,02,000	34,000
6. Miscellaneous	3	1,13,000	37,667
Total:-	30	1,64,000	54,933

The next highest overage investment in current assets is in engineering industry i.e. Rs. 58,000. The average investment in current assets is the lowest in Agro Based Industries i.e. Rs. 33,750.

The Table also reveals that two industries namely Forest based and Engineering have average investment in current assets which is higher than the overall average of all industries i.e. Rs. 54,933. The

remaining industries have average investment in current assets which is lower than the average of all industries.

TABLE- 4.8

Showing Investment in Fixed and Current Assets by Small Scale Industries in Karwar Town.

Number of Units : 30.

Year : 1986-87

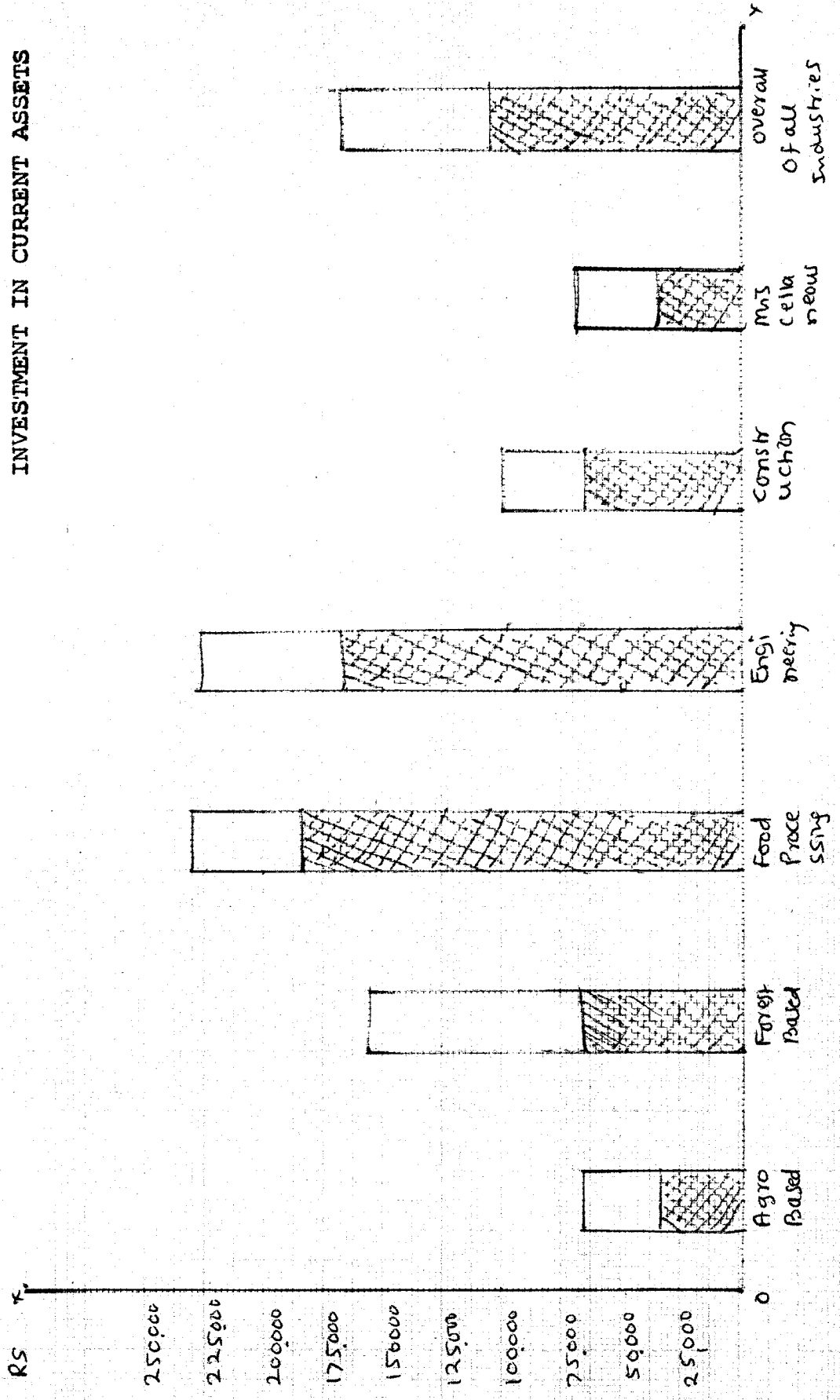
Industry	Average investment in Fixed Assets.	Average investment in current Assets.	Total average Investment (2+3)	% of Fixed Assets to total investment (2- 4)	% of Current Assets to investment 3-4
1.	2.	3.	4.	5.	6.
1. Agro Based	31,250	33,750	65,000	48	52
2. Forest Based	66,200	93,000	1,59,200	41.6	58.4
3. Food Processing	1,83,330	45,667	2,28,997	80	20
4. Engineering	1,67,830	58,000	2,25,830	74.3	25.7
5. Construction	66,000	34,000	1,00,000	66	34
6. Miscellaneous	35,330	37,667	72,997	48.4	51.6
Overall average	1,10,800	54,933	1,65,733	66.8	39.2

The Table 4.8 reveals the investment in Fixed and Current Assets by Small Scale Industries in Karwar Town. In Agro Based Industry investment in fixed and current assets is in the ratio of 48.52.

AVERAGE CAPITAL INVESTED IN FIXED AND CURRENT ASSETS (BASED ON TABLE 4.8)

INVESTMENT IN FIXED ASSETS

INVESTMENT IN CURRENT ASSETS



Thus investment in current assets is slightly more than investment in fixed assets. In Food Processing industry investment in Fixed assets is 4 times. The investment in current assets. In construction industry investment in Fixed assets is two times the investment in current assets. In Forest Based Industry and in Miscellaneous Industries the investment in current assets is more than the investment in Fixed assets. Overall position is that Investment in fixed assets is more than investment in current assets.

4.6 CONCLUSION

On the basis of survey conducted ,it is found that the financial management of Small Scale Industries is not satisfactory. They are having their dealings mostly on cash basis. Credit purchases as well as Sales are comparatively less. The ploughing back of profits also is not satisfactory. Their investment in fixed assets for exceed their investment in current assets.

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