

Chapter-4

Analysis and Interpretation

Chapter 4

Analysis and interpretation

4.1 Introduction:

Working capital is the life blood of every business concern. It is a test of short term solvency as well as profitability. By analyzing the working capital also know the trends that are taking place since the past years. The analysis enables to test the efficiency with the short term funds use employed in the concern. Management of any concern become successful in deciding trend taking corrective in action whenever necessary with the help of working capital analysis.

For analyzing the working capital of Menon and Menon Ltd. Following two techniques have been used-

- a) Ratio Analysis
- b) Fund Flow statement

4.2 Working capital statement

Working capital means current assets minus current liabilities

$$\text{Working capital} = \text{Current assets} - \text{Current liabilities}$$

If the current assets are more than current liabilities it is called Positive working capital it shows as

$$\text{Positive working capital} = \text{current Assets} > \text{current liabilities}$$

If the current liability is more than current assets it is called as "Negative working capital" it should be indicate that.

$$\text{Negative working capital} = \text{Current assets} < \text{Current liabilities}$$

4.3 Year wise analysis of working Capital statements of Company

Table No.4.1

Working capital statement (For the year 2003-04)

(Rs. in lakhs)

Particular	Rs.
A) Current Assets	
i) Cash in hand and Bank	16.99
ii) Inventory	427.31
iii) Advances	111.61
iv) Sundry Debtors	366.45
Total of (A)	922.36
B) Current Liabilities	
1) Sundry Creditors	922.93
1) Provisions	289.50
Total of (B)	1212.43
Working capital = (A-B)	(-)290.07

Sources: Annual Report of the company

Analysis-

The above Table 4.1 indicates the information of current assets and current liabilities for the year 2003-04. The current assets of the company was Rs. 922.36 lakhs and the current liabilities were Rs. 1212.43 lakhs means current liabilities having higher values than current assets. The net working capital was Rs.(-) 290.07 lakhs and it was negative working capital.

Table No. 4.2
Working Capital Statement (For the year 2004-05)

(Rs. in lakhs)

Particular	Rs.
A) Current Assets	
i) Cash in hand and Bank	21.62
ii) Inventory	478.92
iii) Advances	221.10
iv) Sundry Debtors	336.59
Total of (A)	1058.23
B) Current Liabilities	
1) Sundry Creditors	889.67
2) Provision	347.30
Total of (B)	1236.97
Working capital = (A-B)	(-)178.74

Sources: Annual Report of the company.

Analysis

From Table No.4.2 it was clear that for the year 2004-05 company had more current assets at stood at Rs. 1058.23 lakhs than current liabilities at Rs. 1236.97 lakhs.

Thus there was net working capital Rs.(-)178.74 lakhs and which was Negative working capital.

Table No.4.3
Working Capital Statement (For the year 2005-06)

(Rs. in lakhs)

Particular	Rs.
A) Current Assets	
i) Cash in hand and Bank	60.79
ii) Inventory	661.69
iii) Advances	297.53
iv) Sundry Debtors	639.08
Total of (A)	1659.09
B) Current Liabilities	
1) Sundry Creditors	889.67
2) Provisions	383.10
Total of (B)	1272.77
Working capital = (A-B)	386.32

Sources: Annual Report of the company

Analysis:

From the table No. 4.3 it was analyzed that in the year 2005-06 company had current assets at Rs. 1659.09 lakhs and current liability at Rs.1272.77 lakhs it means that current assets was more than current liabilities.

Working capital in this year was Rs. 386.32 lakhs.

Table No.4.4
Working Capital Statement (For the year 2006-07)
 (Rs. in lakhs)

Particular	Rs.
A) Current Assets	
i) Cash in hand and Bank	172.87
ii) Inventory	817.11
iii) Advances	319.33
iv) Sundry Debtors	996.78
Total of (A)	2306.09
B) Current Liabilities	
1) Sundry Creditors	1210.42
2) Provision	430.91
Total of (B)	1641.33
Working capital = (A-B)	664.76

Sources: Annual Report of the company

Analysis:

The Table No. 4.4 indicates that, the current assets of the company was excess than current liabilities. In the year 2006-07 the current assets was Rs. 230.609 lakhs and current liabilities was Rs. 1641.33 lakhs.

On the other hand working capital of the company was Rs. 664.76 lakhs it indicates positive sign of working capital & effective use of working capital.

Table No.4.5
Working Capital Statement (For the year 2007-08)

(Rs. In lakhs)

Particular	Rs.
A) Current Assets	
i) Cash in hand and Bank	43.22
ii) Inventory	783.28
iii) Advances	365.81
iv) Sundry Debtors	1410.77
Total of (A)	2603.08
B) Current Liabilities	
1) Sundry Creditors	1322.56
2) Provisions	568.78
Total of (B)	1891.34
Working capital = (A-B)	711.74

Sources: Annual Report of the company

Analysis :

From the above Table No. 4.4 it was seen that current assets of the company was Rs. 2633.08 lakhs and current liabilities was Rs. 1891.34 lakhs means there was current assets was more than current liabilities and working capital indicates the positive sign which was Rs. 711.74 lakhs.

Table 4.6**Year wise working capital (Rs.in lakhs)**

Year	Working capital
2003-04	-290.07
2004-05	-178.74
2005-06	386.32
2006-07	664.76
2007-08	711.74

From Table No.4.6 it was concluded that there was negative working capital in 2003-04 and 2004-05 from 2005-06 it become positive and was increasing to Rs. 711.74 lakhs by end of the year 2007-08.

4.4 Ratio Analysis:**a) Current Ratio:**

Table No.4.7 was indicating the information of current assets and current liabilities for the period 2003-04 to 2007-08. The current Assets of Menon & Menon company was increasing trend in every year. The current Assets of company in the year 2003-04 were Rs. 922.36 lakhs. While in the year 2007-08, it was Rs. 2603.08 lakhs. On the other hand current liabilities of the company was also showing variable position as current Assets. The current liabilities include only sundry creditors and short term loan. The current liability in the year 2003-04 was Rs. 1212.43 lakhs while it was Rs. 1891.34 lakhs in the year 2007-08.

It was further analyzed that company has a negative sign for two years and for last three years it shows that positive signs of working capital.

Formula

Current Ratio-

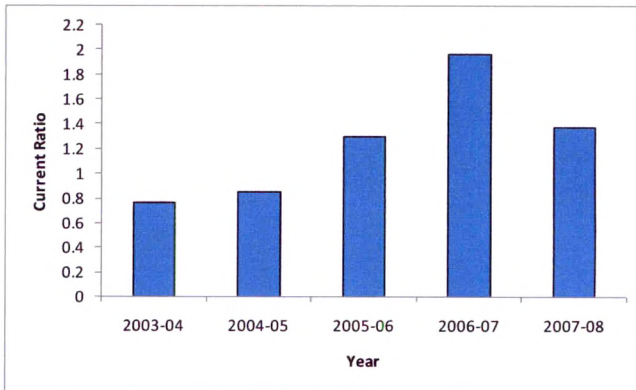
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table No.4.7**Current Ratio (Rs. in lakhs)**

Particular	2003-04	2004-05	2005-06	2006-07	2007-08
Current Assets	922.36	1058.23	1659.09	1306.09	4603.08
Current Liabilities	1212.43	1236.97	1272.77	664.67	1891.34
Current Ratio	0.76:1	0.85:1	1.30:1	1.96:1	1.37:1

From Table No.4.7 it was analyzed that the company was not having a standard current Ratio in any of the year mentioned above. Infact in the year 2003-04 current liabilities are more than current assets therefore it shows negative sing.

Current Ratio indicates that, the company has no ability to repay or to meet the current liabilities or short term commitment promptly.



b) Acid Test Ratio

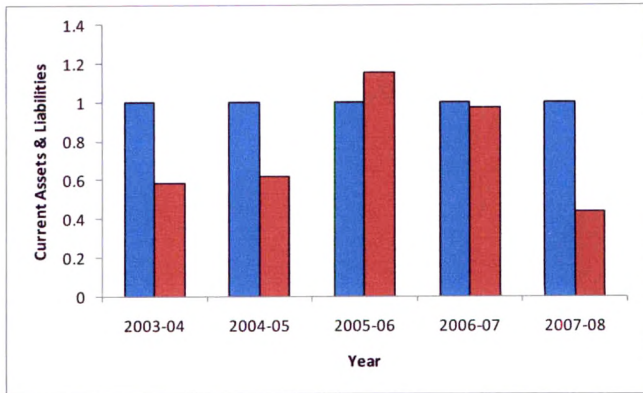
Formula

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Quick Liabilities}}$$

Table 4.8**Acid Test Ratio(Rs.in lakhs)**

Particular	2003-04	2004-05	2005-06	2006-07	2007-08
A) Quick Assets					
1) Cash in hand and at Bank	169.93	216.21	607.91	172.87	432.29
2) Sundry Debtors	366.45	336.59	639.08	996.78	147.07
TOTAL	536.38	552.30	1247.00	1169.65	579.36
B) Quick Liabilities					
1) Creditor	922.93	889.64	4801.16	1210.42	1312.56
2) Short term loans					
TOTAL	922.93	889.64	4801.16	1210.42	1312.56
C) Quick Ratio					
1) Quick Assets	536.38	552.30	1247.00	1169.65	579.36
2) Quick Liability	922.93	889.64	4801.16	1210.42	1312.56
Quick Ratio	0.58:1	0.62;1	1.50:1	0.97:1	0.44:1

As per the Industrial norms the Quick Ratio was 1;1 to maintains the liquidity position of the company. The quick ratio in the year 2003-04 was 0.58:1 while it was 0.44:1 in the year 2007-08 which was in increasing trend. It was observed that company having satisfactory or sound position.

Acid Test Ratio**c) Inventory Turnover Ratio****Table 4.9**

showing Inventory Turnover Ratio (Rs. In lakhs)

Particular	2003-04	2004-05	2005-06	2006-07	2007-08
Opening stock	288.33	369.82	364.17	486.42	591.96
+ closing stock	369.82	364.17	486.42	591.96	502.37
TOTAL	658.65	734.00	850.59	1078.38	1094.33
Average Inventory	658.65	734.00	850.59	1078.38	1094.33
	2	2	2	2	2
	=329.32	=367.00	=425.29	=539.19	=547.16
Inventory Ratio					
=Net Sales	3770.59	2795.70	4507.73	6785.45	=9209.58,
Average Inventory	329.32	367.00	425.29	539.19	547.16
Ratio	11.44	7.62	10.60	12.58	16.83
	11 Times	8 Times	10 Times	13 Times	17Times

(Note: Average Inventory means the average of Inventory held at beginning and at the end of the year)

Table No.4.9 shows inventory turnover Ratio. It was observed that inventory ratio is 11 times as well as 17 times more in the year 2003-04 and 2007-08. In year 2004-05 the inventory ratio was 8 times and step by step increase in that occur like 10 times and 13 times in year 2005-06 and year 2006-07 respectively.

d) Debtors Turnover ratio

$$\text{Debtor Turnover Ratio} = \frac{\text{Net Sales}}{\text{Debtors}}$$

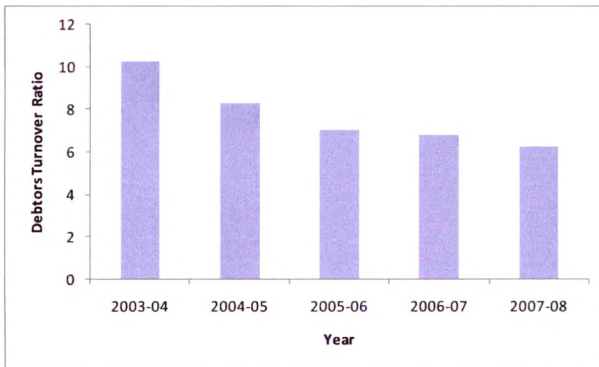
Table 4.10

Debtors Turnover Ratio (Rs. in lakhs)

Particular	2003-04	2004-05	2005-06	2006-07	2007-08
Debtors Turnover Ratio					
Net Sales	3770.59	2795.70	4507.73	6785.45	9209.58
Debtors	366.45	336.39	639.08	996.78	1470.77
Ratio	10.29	8.31	7.05	6.81	6.26

The above table shows Debtors Turnover Ratio in time. It was analyzed that the Debtors were collected satisfactorily from 2003-04 to 2007-08 in the year 2003-04 ratio is 10.29 times and it is 6.26 in the year 2007-08. It was the good indication of progressive development.

Debtors Turnover Ratio



4.5 Average Collection Period

Formula-

$$\text{Average Collection Period} = \frac{\text{No. of Day's}}{\text{Debtors}}$$

Table 4.11

Average collection period

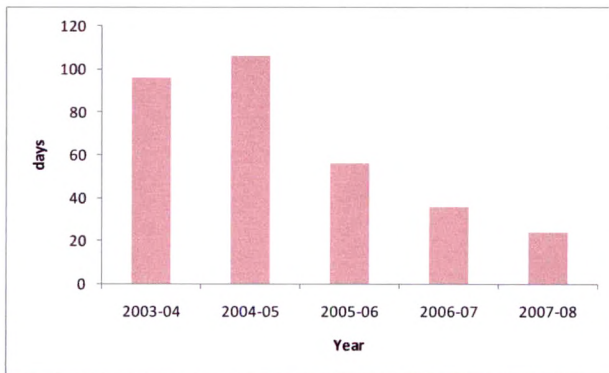
(Rs. In lakhs)

Particular	2003-04	2004-05	2005-06	2006-07	2007-08
Avg. Collection period					
No.of Days	360	360	360	360	360
Debtors	366.45	336.59	639.08	996.78	1470.77
=	98 days	106 days	56 days	36 days	24 days

Note :

- 1) Number of working days is assumed to be 360
- 2) Average collection period represents the uncollected Debtors & no. of days sales

The Table No. 4.11 shows that the average collection period in days in respect of company for the year 2003-2004 to 2007-2008. The average collection period was showing desirable performance over a period of study.



4.6 Average Credit days-

Formula =

Creditors

Credit Turnover Ratio = ----- x 360

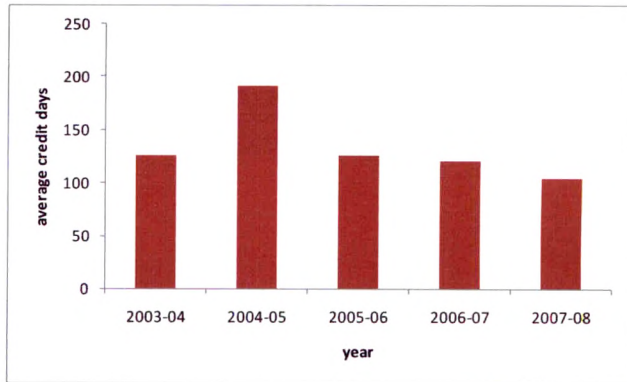
Purchases

Table 4.12

Average credit Day's (Rs. In lakhs)

Particular	2003-04	2004-05	2005-06	2006-07	2007-08
Credit turnover					
Ratio creditor	456.73	884.16	549.03	789.61	900.04
-----	1313.61	904.41	1579.72	2341.78	3096.06
x360	X360	X360	X360	X360	X360
Purchases					
Days=	125 Days	192 Days	125 Days	121 Days	105 Day's

The above table shows the average credit period for paying the debts by the company. The analysis indicates a desirable average of company. In the year 2003-04. It was 125 days and 105 days in the year 2007-08. This is an indication of normal repayment of the creditors and continuous available of credit facility.



4.7 Analysis of Change in Working capital**Table 4.13****Statement showing changing in working capital (Rs. In lakhs)**

Particular	2003-04	2004-05	Increased	Decreased
Current Assets (A)				
i) Cash in hand and at Bank	16.99	21.62	4.63	
ii) Inventory	427.31	478.92	511.11	
iii) Advances	111.61	221.70	110.09	
iv) Sundry Debtors	366.45	336.59		
Total of (A)	923.36	1058.33		29.86
Current Liabilities (B) creditors				
Provisions	289.50	347.30	57.80	
Total of (B)	1212.43	1246.97		
Working Capital (A-B)	-290.07	-188.64		
Increased in working capital	101.43			101.43
TOTAL	290.07	29.007	189.09	189.09

Sources: Annual Reports of the company

Interpretation- The above table shows the changes in working capital. It has been observed that in the year 2003-04 current assets was Rs. 922.36 lakhs and current liabilities was Rs.1212.43 lakhs. It reflects negative working capital Rs. 290.07 lakhs.

On the other hand in the year 2004-05 current Assets were Rs. 1058.33 lakhs and current liability was Rs. 1246.97 lakhs. During the year current assets exceeded than current liabilities and this year also it reflecting negative working capital of Rs. 188.64 lakhs. Finally from the total analysis it should be observed that the statement shows “decreased working capital” by Rs. 101.43 lakhs.

Table 4.14**Statement showing changes in Working Capital (Rs. In lakhs)**

Particular	2004-05	2005-06	Increased	Decreased
Current Assets (A)				
i) Cash in hand and at Bank	21.62	60.79	39.17	
ii) Inventories	478.92	661.69	182.77	
iii) Advances	221.70	297.53	75.83	
iv) Sundry Debtors	336.59	639.08	302.49	
Total of (A)	1058.83	1659.09		
Current Liabilities (B) creditors				
Provision	347.30	383.10		36.03
Total of (B)	1246.97	1184.23		
Working Capital (A-B)	188.64	386.32		
Increased in working capital	198.91			198.91
TOTAL	474.83	474.83	426.49	426.49

Interpretation

The above table shows the changes in working capital. It has been observed that in the year 2004-05. Current Assets were Rs. 1058.33 lakhs and current liabilities were Rs. 1246.97 lakhs. It reflects positive working capital Rs. 198.91 lakhs means company successfully meet the current liabilities.

On the other hand in the year 2005-06 current assets were Rs. 188.44 lakhs and current assets were Rs. 1659.09 lakhs and current liabilities were Rs.1184.26 lakhs. During the year current assets exceeded than current liabilities & It reflects positive working capital of Rs.474.83 lakhs.

Finally the statement shows, the net working capital condition is in increasing trend and it increasing Rs. 198.51 lakhs it shows positive working capital.

Table 4.15**Statement showing changes in working capital. (Rs. In lakhs)**

Particular	2005-06	2006-07	Increased	Decreased
Current Assets (A)				
i) Cash in hand and at Bank	60.79	172.87	112.08	
ii) Inventory	661.69	817.11	155.41	
iii) Advances	29753	319.33	21.90	
iv) Sundry Debtors	639.08	996.78	357.70	
Total of (A)	1659.09	2306.10		
Current Liability (B) creditors	801.16	1210.42		409.26
Provision	433.84	508.48		73.64
Total of (B)	1235.00	1718.90		
Working Capital (A-B)	423.10	587.20		
Increased in working capital	164.10			164.10
TOTAL	587.10	587.10	647.10	647.10

Interpretation

The study of above table the changes in working capital it has been observed that in the year 2005-06 current assets were Rs. 1659.09 lakhs and current liability were Rs. 1235.00 lakhs It reflects positive working capital of Rs.423.10 lakhs means company having ability to meet the current liability from available current assets.

On the other hand in the year 2006-07. Current assets were Rs. 2306.10 lakhs and current liability were Rs. 1718.90 lakhs. During the year also current assets are more than current liability and it shows the positive working capital of Rs. 581.20 lakhs

Finally the statement shows the positive working capital condition by Rs.164.10 lakhs.

Table 4.16**Statement showing changes in working capital (Rs. In lakhs)**

Particular	2006-07	2007-08	Increased	Decreased
Current Assets (A)				
i) Cash in hand and at Bank	172.87	43.22		129.65
ii) Inventory	817.11	783.28		38.83
iii) Advances	319.33	365.81	99.69	
iv) Sundry Debtors	996.96	1470.77	473.81	
Total of (A)	230.627	2663.08		
Current Liability (B) creditors				
Provisions	1210.42	1312.56		102.14
	508.48	568.78		60.30
Total of (B)	1718.90	1881.34		
Working Capital (A-B)	587.37	781.74		
Increased in working capital	194.37			194.37
TOTAL	781.74	781.74	520.29	520.29

Interpretation-

From the analysis of above table shows the changes in working capital. It has been observed that in the year 2006-07. Current assets were Rs. 2306.27 lakhs and current liability were Rs. 1718.90 lakhs. It reflects positive working capital of Rs. 587.37 lakhs.

On the other hand in the year 2007-08 current assets were Rs. 2663.00 lakhs and current liability were Rs. 1881.34 lakhs. During the year current assets exceeded than current working capital of Rs. 781.74 lakhs.

Finally the statement shows the increasing working capital by Rs. 194.37 lakhs.

4.8 Fund flow Statements**Table 4.17****Fund flow statement (2003-2004)**

(Rs. In lakhs)

Sources	Rs.	Application	Rs.
Increased in share capital		Purchases of Fixed assets	134.08
Increased in Deposit	18.36	Increased in Fixed Assets	598.43
Sales of Fixed Assets	279.21	Repaid other liabilities	586.96
Dividend Received	578.20	Increased in short term advances	109.09
Decreased in working capital	101.43		
Fund from business operation	451.36		
TOTAL	1428.56	TOTAL	1428.56

Sources: Annual reports of the company

Table 4.18**Fund flow statement (2004-2005)**

(Rs. In lakhs)

Sources	Rs.	Application	Rs.
		Purchases of Fixed assets	20748
Increased in Deposit	639.87	Increased in Fixed Assets	450.69
Sales of Fixed Assets	281.05	Repaid other liabilities	155.37
Dividend Received	511.01	Increased in short term advances	758.27
Decreased in working capital	198.91		
Fund from business operation	108.52		
TOTAL	1571.81	TOTAL	1571.81

Sources: Annual reports of the company

Table 4.19**Fund flow statement (2005-2006 to 2006-2007) (Rs. In lakhs)**

Sources	Rs.	Application	Rs.
Increased in share capital	-	Purchases of Fixed assets	
Increased in Deposit	544.09	Increased in Fixed Assets	
Dividend Received	319.70	Repaid other liability	
Decreased in working capital	164.10	Increased in short term advances	217.97
		Funds lost in operation	809.52
TOTAL	1027.89	TOTAL	1027.89

Sources: Annual reports of the company

Table 4.20**Fund flow statement (2006-2007) (Rs. In lakhs)**

Sources	Rs.	Application	Rs.
Increased in Deposit	962.70	Purchases of Fixed assets	961.74
Dividend Received	516.52	Increased in Fixed assets	404.54
		Repaid other liability	849.80
Fund from business operation	1669.81	Increased in short term advances	464.81
		Increased in working capital	144.37
TOTAL	2805.26	TOTAL	2805.26

Sources: Annual reports of the company

4.9 Sources And application of Funds

a) Share Capital:

Issue of share capital is a sources of fund as it constitutes, inflow of fund the following table shows the detail.

Table No. 4.21**Share Capital (Rs. In lakhs)**

Year	Share Capital	Increased	Decreased
2003-04	1037.30	-	-
2004-05	1037.30	-	-
2005-06	1037.30	-	-
2006-07	2000.00	962.70	-
2007-08	2000.00	962.70	-

Sources: Annual reports of the company

Analysis :

In the year 2003-04 share capital of the company at Rs. 1037.30 lakhs and the share capital remains same for the year 2004-05 and 2005-06

In the year 2006-07 and 2007-08 share capital issued at Rs. 2000.00 lakhs means it was increased by Rs. 962.70 lakhs.

b) Deposits:

Deposit is also one of the sources to increased the fund of the company. The following table shows the deposit of the company.

Table No. 4.22

Deposit (Rs. In lakhs)

Year	Deposit	Increased	Decreased
2003-04	7321.74	18.36	-
2004-05	7340.10	639.87	-
2005-06	1373.881	544.09	-
2006-07	6814.790	618.93	-

Sources: Annual Reports of the company

Analysis :

In the year, 2004-05 Deposit of the company was Rs. 7,32,174. The amount of Deposit is increased by Rs. 1,836 in the year 2004-05.

In 2005-06 the amount of Deposit is Rs. 7,34,010 and it is increased by Rs. 63,987 means it is good sources of fund. The amount of deposits is continuously goes on increasing trend it will be increased by Rs. 54,409 in the year 2006-07 and in the year 2007-08 it will be increased by Rs. 61,893.

c) Fixed Assets :

When any fixed assets like land and building, plants and machinery, furniture and sold it generates funds and become a sources of funds or it is called inflow of fund on the other hand when any fixed assets are purchased and cash is going to outside the company is called outflow of fund from the business or application of funds.

Table No. 4.23**Fixed Assets (Rs. In Thousand)**

Year	Purchase of fixed assets	Sales of fixed assets
2003-04	13,408	27,921
2004-05	45,069	28,105
2005-06	56,172	-
2006-07	96,174	-

Sources : Annual Report

Analysis :

The above table shows purchase and sale of fixed assets of company. Every year company sold the fixed assets after considering depreciation.

From the above table it should be analyzed that. In the year 2004-05 company purchased fixed assets at Rs. 13,408 It was application of funds when company sales the fixed assets at Rs. 27,921 it had treated as source of fund. In the year 2005-06 company purchase assets at Rs. 45,069 and sale the assets Rs. 28,105 means application of fund was more than sources of fund.

In the year 2006-07 as 2007-08 company purchase assets Rs. 56,172 and Rs. 96,174 respectively means there is outflow of fund.

d) Dividend Received :

Dividend received is one of the sources of fund company received the dividend in every year it shows by following table.

Table No. 4.24**Dividend Received (Rs. in Thousands)**

Year	Dividend received (Rs.)
2003-04	57,820
2004-05	51,101
2005-06	31,970
2006-07	51,652

Sources: Annual Report of the company

Analysis :

Company received the dividend in every year. In the year 2004-05 dividend received was Rs. 57,820 and in 2005-06 at Rs. 51,101 means the rate was goes on decreasing. In the year 2006-07 and 2007-08 company received dividend were Rs. 31,970 and Rs. 51,652 respectively dividend received is the source of fund and help to increase the fund.

e) Increased or decreased working capital

If the working capital increased during the current period as compared to the previous period It means that there has been not a release of fund from working capital and it shows continuous to be application of funds and when working capital goes on decreasing there has been a release of fund from working capital and it continuous to be source of fund. The following Table shows details.

Table No. 4.25
Statement of changes in working capital

Year	Increased in working capital	Decreased in working capital
2003-04	-	29,007
2004-05	-	17,874
2005-06	38,632	-
2006-07	66,476	-
2007-08	71,174	-

Sources : Annual Reports of the company

Analysis :

Working capital was continuously goes increasing in every year. In the year 2004-05 and 2005-06 which was Rs. 16,872 and Rs. 51,174 respectively means there was application of fund.

In the year 2006-07 and 2007-08 it was Rs. 32,642 and Rs. 25,486 respectively means total working capital was going to increasing there is utilization of working capital effectively there was application of fund.

f) Other liabilities:

Other liabilities were considered application of fund of the company following table shows other liability.

Table No. 4.26
Other Liability (Rs. In Thousand)

Year	Other liability
2003-04	58,696
2004-05	15,537
2005-06	16,868
2006-07	82,980

Sources : Annual Reports of company

Analysis :

Table No.4-26 shows the repayment of other liability of company. Other liability is treated as application of fund, other liability means this liability is different from current liability like payment to other trust, society etc. so it was the outflow of fund.

g) Loans and advances

Loans and advances was increased over the study period. Which was shows application of funds. The following table shows the detail.

Table No. 4.27

Loans and Advances (Rs. In Thousand)

Year	Rs/-	Increased
2003-04	22,170	10,909
2004-05	29,753	
2005-06	31,933	
2006-07	36,581	

Sources : Annual Reports of the company

Analysis :

It was concluded that there was proper utilization of fund for loan and advances. It was given to the numbers and recovery from them, the loan and advances was continuously going to increasing from year 2004 to 2008 which was Rs. 22,170, Rs. 29,753, Rs. 31,933 and Rs. 36,581 respectively it was treated as application of fund.

h) Fund from business operation

Trading profit or the profit from the operation of the business is the most important and major sources of funds. Sales are the main sources of inflow of funds into the business as they increased current assets. At the same time fund outflow of business is essential for expenses and cost of goods sold. Thus the net effect of business operations

will be sources of funds. The inflow from sales exceed the flow for expenses and cost of goods sold or vice-versa as shown in Table no 4.28.

Table No.4.28

Fund From business Operation (Rs. In Thousand)

Year	Fund from business
2003-04	45,136
2004-05	10,852
2005-06	-
2006-07	1,66,981

Sources : Annual Reports of company

Analysis :

Fund from business operation in the year 2004 to 2008 was Rs. 45,136 Rs. 10,852, Rs. 1, 66,981 respectively. The company had to maintain its funds for growth in profitability. It was also observed that there was no effective earning capacity because of heavy cash included in its business operation.

4.10 Composition of working capital on Menon and Menon Ltd. and its interpretation.

Table 4.29
composition of working capital of Menon and Menon limited
(Rs. In lakhs)

Year	Cash in hand at bank	Inventory	Advances	Sundry debtors	Total A	Current liabilities creditors (B)	Provision	Total of (B)	Working Capital (A -B)
2002 - 2004	12.03	340.52	155.21	147.63	655.40	1248.52	259.45	1507.97	-852.56
2003-04	16.99	427.31	111.61	366.45	923.36	922.93	289.50	1212.43	-290.07
Increased/Decreased	4.96	76.79	-43.6	218.82		325.59	- 30.05		
2003 - 2005	16.99	427.31	111.61	366.45	923.36	922.93	289.50	1212.43	-290.07
2004-05	21.62	478.92	221.70	336.59	1058.33	899.67	347.30	1246.97	-188.64
Increased/Decreased	4.63	511.11	110.09		- 29.86	23.26	57.80		
2004 - 2006	21.62	478.92	221.70	336.59	1058.33	899.67	347.30	1246.97	188.64
2005-06	60.79	661.69	297.53	639.08	1659.09	801.16	383.10	1184.23	386.32
Increased/Decreased	39.17	182.77	75.83	302.49		98.51	-36.03		426.49
2005 - 2007	60.79	661.69	297.53	639.08	1659.09	801.16	383.10	1184.23	386.32
2006-07	172.87	817.11	319.33	996.78	2306.10	1210.42	508.48	1718.90	587.200
Increased/Decreased	112.08	155.41	21.90	357.70		-409.26	-73.64		
2006 - 2008	172.87	817.11	319.33	996.78	2306.10	1210.42	508.48	1718.90	587.37
2007-08	43.22	783.28	365.81	1470.77	2663.08	1312.56	568.78	1881.34	781.74
Increased/Decreased	-129.65	-38.83	99.69	473.81		-102.14	-60.30		

Sources: Annual Reports of company

Interpretation:

Table No. 4.30 shows composition of working capital of the Menon & Menon limited company from the year 2003 – 04 to 2007 -08 are as follows:

A] In the year 2002 -03 and 2003 -04 total current assets were Rs. 655.40 lakhs and Rs. 923.36 lakhs respectively and current liabilities were Rs. 1507.97 lakhs and Rs. 1212.43 lakhs, it means that the current liabilities were more than current assets. It was showed negative working capital and indicates short term solvency. Net working capital in the year 2002 -03 was Rs. -852.56 lakhs and in the year 2003 -04 Rs. -290.07 lakhs. As compared to net working capital every current asset and current liabilities including some proportion are as:

Table No 4.30
current assets (2002-04)

Particular	2002 -03	2003 -04
Cash	- 10 %	- 17 %
Inventory	- 3%	- 1 %
Advance	- 5 %	- 3 %
Sundry Debtors	- 6 %	- 1 %
creditors	- 2 %	- 1 %
provision	- 4 %	- 1 %

B] In the year 2003 -04 and 2004 – 05 the total current assets were Rs. 923.36 and Rs. 1508.83 respectively. therefore it was also shows the same condition that current liabilities were more than current assets and it shows negative working capital that is Rs – 190.07 and Rs. -188.64 lakhs for both years. It means that company unable to create working capital and unable to meet liabilities. Proportion of current assets and current liabilities compare to working capital are as follows:

Table No 4.31
current assests (2003-05)

Particular	2003 -04	2004 -05
Cash	- 17 %	- 9 %
Inventory	- 1 %	- 1 %
Advance	- 3 %	- 1 %
Sundry Debtors	- 1 %	- 1 %
creditors	- 1 %	- 2 %
provision	- 1 %	- 1 %

C] In the year 2004 -05 company indicated working capital was Rs. -188.64 due to current assets. In this year company was unable to create positive working capital but in the year 2005 – 06 total current liabilities were Rs. 1184.23 lakhs. It means that excess current assets than current liabilities shows positive working capital that is Rs. 386.32. In the year 2004 – 05 company having negative working capital and shows short term solvency. The net working capital including current assets and current liabilities and their proportion as compare to total working capital are as follows.

Table No 4.32
current assests (2004-06)

Particular	2004 -05	2005-06
Cash	- 9 %	60 %
Inventory	- 1 %	10 %
Advance	- 1 %	10 %
Sundry Debtors	- 1 %	60 %
creditors	- 2 %	4.8 %
Provision	- 1 %	10 %

From above Table it was observed that cash percentage in current assets are more and debtors' percentage is also more as compare to other assets for both years.

D] In the year 2005 – 06 and 2006 - 07 total current asset was Rs. 1659.09 lakhs and current liabilities were Rs. 1184.23 lakhs and Rs. 1718.90 respectively it means that there were excess of current assts than current liabilities it indicates Positive working capital at

Rs. 886.32 and 587.20 lakhs respectively therefore both the year company not only created positive working capital but able to meet current liabilities also. Following proportion of current assets and current liabilities are including in net working capital.

Table No 4.33
Current assets (2005-07)

Particular	2005-06	2006 -07
Cash	60 %	33.9 %
Inventory	10 %	0.7 %
Advance	10 %	2 %
Sundry Debtors	60 %	0.58 %
creditors	4.8 %	0.48 %
provision	10 %	1.15%

E] In the year 2006 – 07 and 2007 – 08 company had positive working capital of Rs. 587.20 lakhs and 781.74 lakhs respectively. It means that company was able to meet the current liabilities and it indicates positive sign of creating working capital. Following proportion of current assets and current liabilities including in Net Working Capital.

Table No 4.34
Current assets (2006-08)

Particular	2006 -07	2007-08
Cash	33.9 %	18 %
Inventory	0.7 %	1 %
Advance	2 %	2.13 %
Debtors	0.58 %	0.53 %
creditors	0.48 %	0.59 %
provision	1.15%	1.37 %

The following table shows the proportion of working capital and fixed capital as compared to total capital.

Table No. 4.35**Proportion of Working Capital and Fixed Capital.**

Year	Working Capital	(%)	Fixed Capital	(%)	Total Capital
2003-04	2,89,05,382	15	6,34,30,720	85	9,23,38,102
2004-05	1,78,13,150	10	8,80,71,503	90	10,58,84,603
2005-06	4,72,83,220	20	11,84,26,839	80	10,59,10,364
2006-07	4,74,83,220	25	16,41,34,341	75	23,06,10,364
2007-08	13,54,53,726	52	13,12,56,448	48	26,63,10,174

1. From the above table it was analyzed that, companies fixed working capital was more from the year 2003-04 to 2006-07 and increased year by year but, in the year 2007-08 working capital was 52% to total capital and fixed capital is 48%. It means it helps to company to effectively use of working capital.
2. Level of working capital was shown as shown in following Table.

Table No. 4.36**Changes in Working Capital**

Year	Increase in working capital	Decrease in working capital
2003-04	-	-290.07
2004-05	-	-188.64
2005-06	386.32	-
2006-07	587.20	-
2007-08	781.74	-

From the above table it was observed that from the year 2005-06 to 2007-08 working capital was increased it means that there has been not release of fund from working

capital it contains to be application of fund. From the year 2003-04 to 2007-08 it should be goes on decreasing and there was release of fund and continuous as sources of funds.

3 Expenses made by the company from the year 2003-04 to 2007-08 are as follows.

Table No. 4.37

Expenses made by Company for 2003-2008 (Rs in lakhs)

Year	Material expenses	Labor expenses	Administrative Expenses	Selling and distribution
2003-04	228.24	186.90	825.72	445.92
2004-05	167.00	572.60	655.00	304.57
2005-06	281.28	807.16	114.20	485.82
2006-07	453.06	117.76	973.20	910.11
2007-08	620.63	149.70	151.51	123.44

Source:Annual Report of Company

On comparison of total income expenditure of the company it was observed that the income expenditure of company was in lower level therefore it was observed that company makes profit every year. Total expenses of company were also seems low so that working capital of the company goes on increasing.