

AN EMPIRICAL STUDY ON ACCOUNT RECEIVABLES & ACCOUNT PAYABLES MANAGEMENT AT COMPOSITE INVESTMENTS PVT LTD, BANGALORE

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Abstract

Working capital plays an important role in determining the financial strengths and weakness of a company. The project is entitled to “An Empirical Study on Account Receivables & Account Payables management at Composite Investments Pvt Ltd, Bangalore”. The main objective of the study is to analyse financial performance of the Composite Investments Pvt Ltd. Judgement sampling is considered and the sample size of the report is 5 financial years. Data collected is secondary data (balance sheet and profit and loss account) and analyzed using SPSS, by ratio analysis, trend analysis to understand the financial position of the company. It is found that there is a decrease in current liabilities and increase in the current assets over the considered financial years. The suggestions reveal that the company has to strongly focus on reducing working capital strategies that will make the company more profitable. The company has a bright future and can achieve the overall objectives of the company if it concentrates more on its working capital and short-term investments.

Keywords: working capital, ratio analysis, utilization of assets.

Introduction

The securities market is the collective name for the many exchanges and other places where public businesses' stock is bought, sold, and issued. Institutionalized formal exchanges (whether physical or electronic) or over-the-counter (OTC) markets that operate under a specified set of rules are used to facilitate these financial operations. Those stock markets are part of the larger stock market. One or more exchanges may make up the securities market in a particular nation or area. Two of the most significant stock markets in India are the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Together with numerous additional exchanges operating inside the country, these key national exchanges make up the exchange.

Composite Investments Pvt Ltd firm was established in 2016 and is based at #30/1 S.J Towers, 3rdFloor, Mission Road. It is a GST-enabled business and is registered with the Securities and Exchange Board of India (SEBI).

Review of literature

- 1) Asiedu, M., Nazirou, S., Mousa, D., Sabrina, S. and Rosemary, A. (2021)

Analysis of Working Capital Sources on Firm Innovation, and Labor Productivity Within the Industrial Sector of the Democratic Republic of the Congo. Utilizing the 2013 Enterprise Survey Database, this exploration distinguishes the significant wellsprings of working capital for 529 manufacturing enterprises in the DR Congo and analyses how they relate to innovation activities and labour productivity. Our research shows that the majority of DR Congoese manufacturing companies rely on outside financing sources for their innovative efforts. We further demonstrate the impact of an accessible line of credit on productivity as a transmission channel for corporate innovation. Generally speaking, successful businesses depend on investments from outside sources to support their innovation efforts.

2) Mohammed Ibrahim (Accounting Department, Jadara University)(2021)

Effective working capital management is the process of planning and controlling a company's current assets and current liabilities to ensure that short-term commitments are met and that no unnecessary investments are made in the company's resources. The focus of this investigation is on the connection between the effective administration of working capital and the monetary consequences of openly recorded modern organizations on the Amman Stock Exchange. Time series data and information from 2010-2018 were utilised to draw conclusions and reach the study's goal.

3) Upreti, D. and Venkata, V. (2021) Working Capital Management Strategies in Nepalese Institutional School.

A company's fortunes may rise or fall on the strength of its working capital. It is the core of the company and its source of vitality. The purpose of this research was to analyse the methods used by institutional schools in Nepal's Central Development Region to manage their operating capital. From 2008-2009 to 2017-2018, we utilised a structured questionnaire and data gathered from the annual reports of a random sample of Nepalese institutional schools to examine the effectiveness of their approaches to working capital management.

4) Kafeel, Ali, J., Ud Din, M., Waris, A., Tahir, M., & Khan, S. (2020) Working Capital Management and Firms' Profitability: Dynamic Panel Data Analysis of Manufactured Firms.

This paper investigations the effect of capital administration on assembling firms' productivity execution from 2007 to 2018 through the use of various models, including ordinary least squares (OLS), static models like fixed and random effects, and dynamic models like the Generalized Moments Method (GMM) and the Generalized System Moments Method (SGMM). Performance is evaluated in terms of profitability through return on assets, and the impact of working capital management is established with explanatory variables including inventory conversion cycle (ICP), receivables collection period (RCP), payment deferral period (PDP), and cash conversion cycle (CCC). The rate of return (ROA) is the dependent variable. Since the System GMM model is the most efficient system estimator and yields the most convincing findings, it is the only one presented here.

5) Working Capital Management and Firms' Profitability: Evidence from Quoted Firms on the Nigerian Stock Exchange (2019) Olaoye, F., Adekanbi, J., & Oluwadare, O.

Companies' inability to make appropriate short-term investments in each market area has, over time, led to either too much or too little working capital, reducing their profitability. The purpose of this article is to provide an empirical evaluation of the relationship between working capital management and corporate profitability for firms trading on the Nigerian Stock Exchange (NSE). This correlation was estimated using a panel data technique with multiple regression estimates using a sample of 10 listed businesses that were evenly distributed during the time span 2008-2017.

6) Cheng, X. (2019) The Impact of Economic Policy Uncertainty on the Efficiency of Corporate Working Capital Management—The Evidence from China.

Regulatory efforts in the realm of economic policy have increased in frequency with the new stage of China's economic growth. While government action to modify and reconstruct the pattern of economic growth via policy regulation has some positive effects, the vulnerability achieved by the arrangement significantly affects private area venture and activity.

- 7) Manufacturing Sector in Palestine: Working Capital Management, Liquidity, and Profitability," by Awad and F. Jayya (2013).

Working capital management, liquidity, and profitability are studied in an effort to better understand their interdependent nature. Panel data from 2007-2012 for 11 PEX-listed manufacturers are analysed using a two-stage Engle-Granger procedure that includes unit root tests, co-integration analysis, and an error correction model. There is a one-way causal link between liquidity and profitability, and a two-way connect between working capital administration and productivity, as shown by the information.

- 8) Dong, H., and J.-T. Su (2010), "The Relationship between Working Capital Management and Profitability."

The study aims to clarify the interdependent nature of working capital management, liquidity, and profitability. The panel data set consists of 11 manufacturing firms listed on the PEX between 2007 and 2012, and is analysed using unit root tests, correlation analysis, and the two-stage Engle-Granger technique with an error correction model. Based on the data, we know that working capital management emphatically affects productivity and that liquidity adversely affects benefit. Managers should focus on working capital efficiency to create cash and profits for their businesses, the study says after attempting to analyse the direction long term link between gross operating profit, cash conversion cycle, and current ratio.

- 9) Thachappilly G (2009) Management of Operating Capital: Working capital, often known as "conversion cycle cash" or "days sales outstanding," is the money a business needs to keep operating while it waits to receive payment for goods and services from consumers. In order to keep production running smoothly, it is necessary to stock up on raw materials and operational supplies. Payroll, wages, and other overhead costs should be eligible for the industry-standard credit period.

- 10) Samiloglu F and Demirgunes K (2008), Researchers looked at how effective management of working capital impacted bottom line results. With this objective in mind, we took a sample of firms trading on the Istanbul Stock Exchange (ISE) and analysed their cash conversion cycle in great detail to look for statistically significant correlations between profitability and cycle components.

Research Design

Statement of Problem

Money is necessary for two things in every firm. Both are necessary for normal business functioning; one is for setting up the organization, the other for running the show. It requires a certain amount of regular operating funds to keep it afloat and allow it to satisfy its regular financial commitments. Due to the lag time in receiving payment from customers, businesses need working capital.

Effective and efficient working capital management of a firm has a great election in a company's profitability, liquidity, and structural health without adequate amount of its business operation. Because working capital is concerned with the management problem of current assets and current liabilities and the interrelationship that arises between them.

Therefore, this study aims to examine the working capital position of Composite Investments Pvt Ltd professionals to meet their short-term goals. And also to study how effectively the firm manages its working capital.

Need for the Study

Since there is often some lag time between making an item and receiving payment for it, working capital management is a must. It's a big boon to the company's ability to keep its profit, risk, and cash flow under check.

Operating efficiency is the primary focus of working capital management. Maintaining seamless operations is essential to the success of any business, and good working capital management may boost profits and growth.

Objectives of study

1. To analyze the effect of current assets and the current liabilities.
2. To analyze a growth of current assets.
3. To study the factor of sales.
4. To ensure a smooth operating cycle of the business

Research methodology

The study's approach is the criterion for its success. If the investigation isn't conducted in a certain way, the results will be invalid. This research endeavour relied heavily on in-depth interviews with the accounts manager and a thorough examination of the preceding five years' worth of annual reports.

Data Collection Method

Secondary data: The company's financial sheet is used to compile secondary data. Books, websites, journal articles, internal documents, yearly reports, etc., published by or for the government.

- Annual Report of the company
- Financial statements

Tools for Analysis

It is possible for a financial analyst to use the following methods while analyzing financial statements. In the world of finance, they are often known as "methods."

- Ratio analysis
- Trend analysis
- Anova

DATA ANALYSIS AND INTERPRETATION

Table 1: Balance sheets of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.

Particulars	2021	2020	2019	2018	2017
I. Assists					
1) Non-currents assets					

Property, Plant and Equipment	563.30	560.21	549.17	547.2	543.17
Total non-currents assets	563.30	560.21	549.17	547.2	543.17
2) Current Assets					
Inventories	95.05	80.02	70.94	72.12	68.42
Financial assets					
Trade Receivables	30.02	28.74	25.62	24.04	22.80
Cash and Cash Equivalents	15.61	13.72	11.00	12.02	11.4
Bank balance other than cash & Cash Equivalents	90.61	83.32	81.97	72.12	68.42
Total currents assets	231.49	205.8	189.53	180.3	171.02
Total assets	794.79	766.01	738.70	727.5	714.19
II. Equity and Liabilities					
A. Equity					
Equity share Capital	13.28	13.28	13.28	13.28	13.28
Other Equity	580.21	569.23	565.48	555.23	549.64
Total Equity	593.49	582.51	578.76	568.51	562.92
B. Liability					
1. Non-current Liability					
Deferred Tax Liabilities	70.23	68.45	66.60	62.61	61.05
Provisions	4.23	3.95	3.00	3.5	2.95
Total Non-current Liabilities	74.46	72.4	69.60	66.11	64
2. Current Liabilities					
Financial Liabilities					
Trade payables	2.39	9.75	7.00	0.86	0.69
Other current Liabilities	26.10	23.70	23.45	21.75	20.05
Provisions	98.35	77.65	59.89	70.27	66.53
Total current Liabilities	126.84	111.1	90.34	92.88	87.27
Total Equity and Liabilities	794.79	766.01	738.7	727.5	714.19

Table 2: Table showing current assets and current liabilities of Composite Investments Pvt Ltd For the year from March 2017 to March 2021.

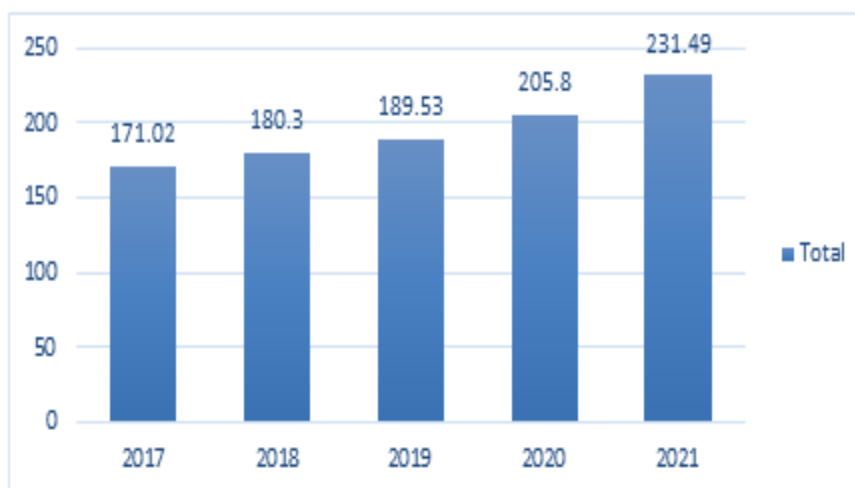
Particulars	2021	2020	2019	2018	2017
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1) Current Assets					
Inventories	95.05	80.02	70.94	72.12	68.42
Trade Receivables	30.02	28.74	25.62	24.04	22.80
Cash and Cash Equivalents	15.61	13.72	11.00	12.02	11.4
Bank balance other than cash & Cash Equivalents	90.61	83.32	81.97	72.12	68.42
Total currents assets	231.49	205.8	189.53	180.3	171.02
2. Current Liabilities					
Financial Liabilities					
Trade payables	2.39	9.75	7.00	0.86	0.69
Other current Liabilities	26.10	23.70	23.45	21.75	20.05
Provisions	98.35	77.65	59.89	70.27	66.53
Total current Liabilities	126.84	111.1	90.34	92.88	87.27

Table 3: Table showing current assets of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.

Year	Current assets
2017	171.02
2018	180.3
2019	189.53
2020	205.8
2021	231.49

Graph 1: Graph showing current assets of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.



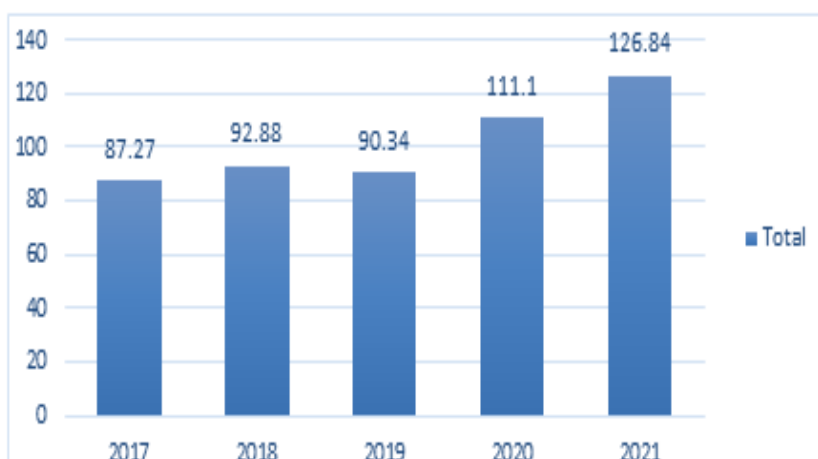
Inference

The company's current assets have been increasing tremendously year by year from 171.02 in 2017. In 2019 the current Assets of company is 189.53 and in the year 2021 it increases to 231.49.

Table 4: Table showing current liabilities of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.

Year	Current Liabilities
2017	87.27
2018	92.88
2019	90.34
2020	111.1
2021	126.84

Graph 2: Graph showing current liabilities of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.



Inference:

The current liabilities of company have fluctuations in 2017 it is 87.27. In 2018 it is 92.88 but in year 2019 it again decreases to 90.34. In year 2021 it is 126.84.

Ratio analysis and interpretation

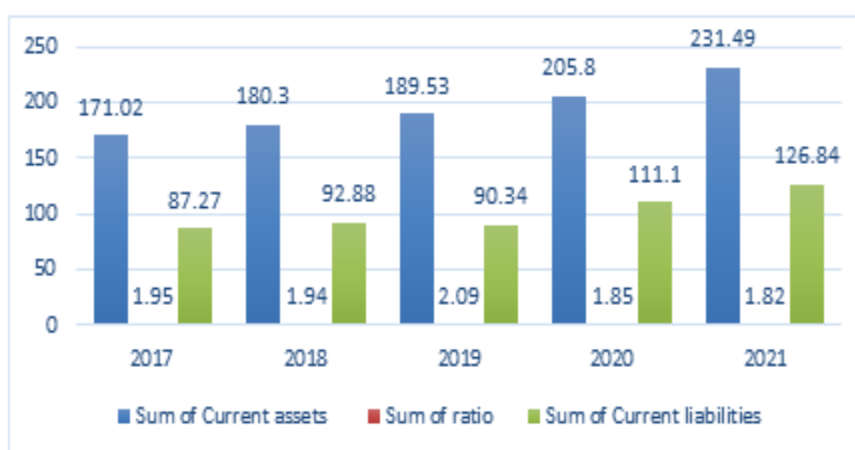
CURRENT RATIO = current Assets/ current liabilities

Table 5: Table Showing Current Ratio.

Year	Current assets	Current liabilities	ratio
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2021	231.49	126.84	1.82
2020	205.8	111.1	1.85
2019	189.53	90.34	2.09
2018	180.3	92.88	1.94
2017	171.02	87.27	1.95

Graph 3: Graph showing current ratio of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.



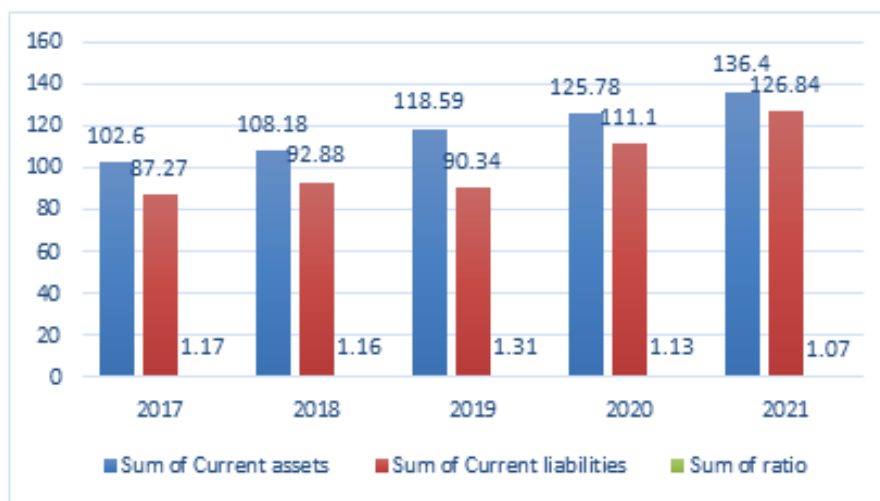
Inference

The chart shows that the current ratio has risen to 2.09 in 2019. During the year 2021, the current ratio has grown by 1.82. In 2018, there was a 1.94-point rise in the current ratio. As 2020 comes to a close, the present ratio will have grown by 1.85. In 2017, the current ratio grew by 1.95 points. This indicates that the company has mobilized the funds effectively.

Table 6: Table Showing Quick ratio of Composite Investments Pvt Ltd for the year from March 2017 to March 2021.

Year	Current assets – inventory	Current liabilities	ratio
2021	136.4	126.84	1.07
2020	125.78	111.1	1.13
2019	118.59	90.34	1.31
2018	108.18	92.88	1.16
2017	102.6	87.27	1.17

Graph 4: Graph Showing Quick ratio of Composite Investments Pvt Ltd for the year from march 2017 to march 2021.



Inference

Based on the data in the table, we can estimate that the liquid ratio in 2021 was 1.07. Throughout 2017, there was a 1.17-point decline in the liquid ratio. In 2018, there was a 1.16-point drop in the liquid ratio. In 2020, we saw a 1.13 point drop in the liquid ratio. Liquidity has been decreasing at a 1.31 percentage point per year rate this year.

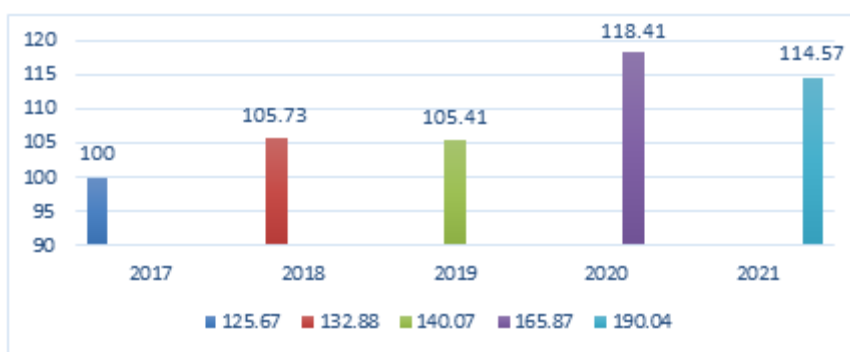
Trend Analysis

TREND PERCENTAGE OF NET SALES

Table 7: Table Showing Trend Percentage of Net Sales.

Year	NET SALES(Rs in Lakhs)	TREND %
2017	125.67	100
2018	132.88	105.73
2019	140.07	105.41
2020	165.87	118.41
2021	190.04	114.57

Graph 5: Graph Showing Trend Percentage of Net Sales.



Inference:

Using the results of the preceding trend analysis, we can deduce that 2017 will serve as the baseline year. Net sales have been increased during the year 2019 Net sales is 140.07 was 105.41 Its increases in trend compared 4 years.

TREND PERCENTAGE OF NET PROFIT

Table 8: Table Showing Trend Percentage of Net Profit.

Year	NET PROFIT (Rs in Lakhs)	TREND %
2017	15.25	100
2018	15.99	104.85
2019	18.20	113.82
2020	23.22	127.58
2021	38	163.65

Graph 6: Graph Showing Trend Percentage of Net Profit.



Inference:

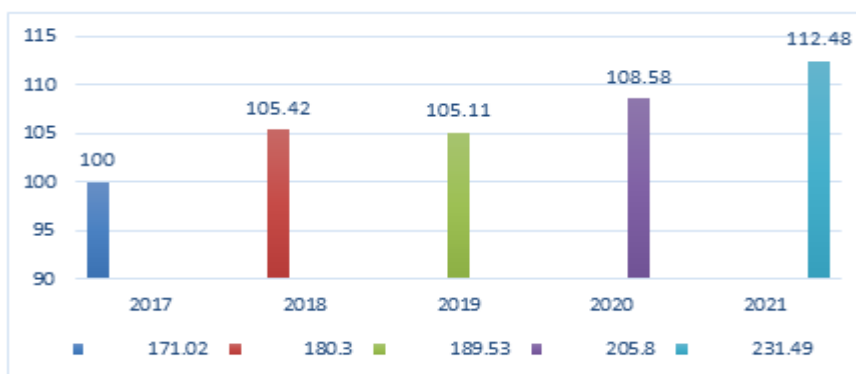
Based on the results of the preceding trend analysis, we may assume that 2017 will serve as the baseline year. The 2019 net profit is up to \$18.20 after an increase in the year. On a percentage basis, it has been on an upward trend toward 113.82.

TRENDING PROPORTION OF CURRENT ASSETS

Table 9: Table Demonstrating the Proportion of Current Assets.

Year	CURRENT ASSETS (Rs in Lakhs)	TREND %
2017	171.02	100
2018	180.3	105.42
2019	189.53	105.11
2020	205.8	108.58
2021	231.49	112.48

Graph 7: Graph Demonstrating the Proportion Of Current Assets.



Inference:

This is assumed as 2017 as a starting point from the trend analysis shown above. Increases in both net profit and current assets in 2019 amount to a total of 189.53. On 105.11, the trend has been rising.

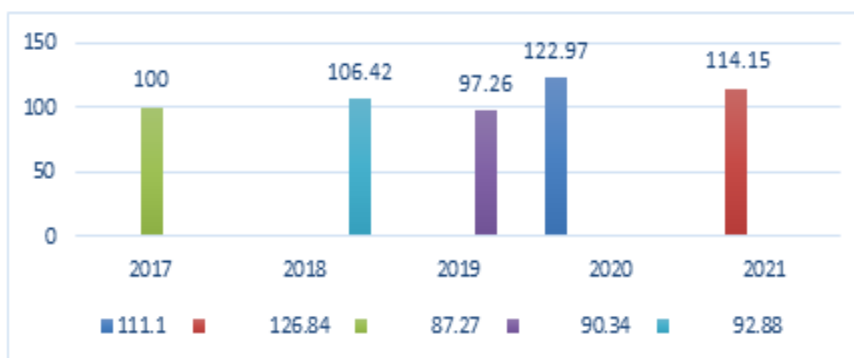
TREND PERCENTAGE OF CURRENT LIABILITIES

Table 10: Table Demonstrating the Portion of Current Liabilities.

Year	CURRENT LIABILITIES (Rs in Lakhs)	TREND %
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2017	87.27	100
2018	92.88	106.42
2019	90.34	97.26
2020	111.1	122.97
2021	126.84	114.15

Graph 8: Graph Demonstrating the Portion of Current Liabilities.



Inference:

Using the results of the preceding trend analysis, we may deduce that 2017 was the starting point for our investigation. In the year 2021, current liabilities grew by 126.84. On a % trend basis, it is up from 114.15 to 114.25.

ANOVA TEST

Checking the Composite Investments Pvt Ltd' financial health by comparing their present assets and liabilities.

Analysis of Variance (ANOVA) is a statistical technique used to compare groups of data and find out how dissimilar they are. In 1918, Ronald Fisher came up with a statistical test that has been widely used ever since. In a nutshell, ANOVA tests for the existence of significant differences in means across three or more sets of groups.

Year	Current assets	Current liabilities	Ratio
	(Rs in Lakhs)	(Rs in Lakhs)	
2021	231.49	126.84	1.82
2020	205.8	111.1	1.85
2019	189.53	90.34	2.09
2018	180.3	92.88	1.94
2017	171.02	87.27	1.95

Anova: Single Factor				
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SUMMARY				
Groups	Count	Sum	Average	Variance
Column 1	5	978.14	195.628	566.8099
Column 2	5	508.43	101.686	283.8614

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	22062.75	1	22062.75	51.87139	9.23E-05	5.317655
Within Groups	3402.685	8	425.3356			
Total	25465.43	9				

Findings

1. The company's present assets have been increasing over the last several years.
2. The company's present capabilities have been shown to be erratic,
3. As time goes on, the firm's current ratio improved.
4. The company's liquidity ratio is shown to fluctuate on an annual basis, which is a weakness.
5. There is some variation in the company's absolute liquid ratio.
6. The company's working capital turnover ratio is higher than it was a year ago
7. The company's debtor turnover ratio has improved.
8. The company's ratio of net profit to total revenue has been growing each year.
9. The company's annual net revenues have been growing as well.
10. Despite some recent setbacks, the firm is in a healthy position and has a solid financial foundation on which to build for the future,

Suggestions

1. Due to the investment analyst's incompetence, the firm has no viable alternative means of generating revenue. As a result, the business should work to enhance its investment selections in order to increase its earnings from other sources.
2. Lots of marketing upon the products of the company is very essential to expand its market strength and to withstand the competition.
3. Expansion of production units across the country will help the company to grow higher and higher.
4. The corporation might strive to strengthen its liquidity in the near term by decreasing its current liabilities or raising its highly liquid current assets.
5. The company has to increase its current assets and quick assets adequately.

6. Because of the company's limited financial resources, it must maintain adequate product inventories in order to boost sales.
7. The firm may increase its liquidity by implementing a well-planned strategy for the recovery of debt, including a sound credit policy, an accurate evaluation of the creditworthiness of its debtors, and stringent collection methods.
8. The Company has to plan efficiency to reduce excessive usage of outsiders fund in financing the asset of the company,
9. The company's existing obligations may be paid in the future if sufficient investments are made using the proceeds from sales,
10. The bank and cash position have to be maintained adequately even in future which helps the company to meet short term commitments, maintain balanced working capital and smooth running of business.

Conclusion

When we analyze the financial statements of Composite Investments Pvt Ltd, it shows that the company is having good amount of profit. The standard cost comparison of the factory however shows that cost is increasing at slow pace over the tear. It's important for the whole company to concentrate on the working capital process. The results of a research on the management of working capital demonstrate that the use of several statements of working capital aids decision making in areas such as costing, cost control transparency, and the prompt implementation of corrective action. The importance of effective working capital management in achieving financial success is also highlighted by the research findings.

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