A Study Of Working Capital Management In Gail (India) Ltd., Through Schedule Of Changes In Working Capital Followed By Fund Flow Statement

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Abstract:-
A well designed and implemented working capital management is expected to contribute positively to the creation of a firm’s value. “Working Capital” is the capital invested in different items of current assets needed for the business, viz, debtors, cash, loans and advances, inventory to third parties. Those current assets are essential for smooth business operations and proper utilization of fixed assets. Shortage of working capital leads to lower capacity utilization, lower turnover and hence lower profits. The firm should maintain the sufficient level of working capital.

The study concentrates on schedule of changes in working capital followed by fund flow statement. It was found that Gail (India) Ltd. should improve the level of working capital which was not satisfactory.

Key words:- Working Capital Management, current assets, fund flow statement.

JEL Code – G3, G12

Introduction:-
The purpose of measuring trading performance, operational efficiency, profitability and financial position of a concern revealed by trading, profit and loss account and balance sheet. These financial statements are prepared to find out the gross profit or gross loss, net profit or net loss and financial soundness of a company as a whole for a particular period of time. The analysis of financial statements helps to the management by providing additional information in a meaningful manner.

Meaning of fund:-
The term ‘fund’ refers to cash, to cash equivalents or to working capital and all financial resources which are used in business..

In a broader meaning the word ‘fund’ refers to working capital. The working capital indicates the difference between current assets and current liabilities. We can divide the term working capital into two parts:-

1. Gross working capital and
2. Net working capital.

Gross working capital represents total of all current assets. net working capital refers to excess of current assets over current liabilities.

Meaning of flow of funds –
In other words, we can say that any increase or decrease in working capital when the transactions takes place is known as “flow of funds”.

If the components of working capital results in increase of the fund, it is known as inflow of fund or sources of fund. Similarly, if the components of working capital effects...
in decreasing the financial position it is treated as outflow of fund.

No flow of funds –

Some transactions may not make any movement or changes in the fund position. Such transactions are involved within the business concern. Like, the transactions which involves both between current assets and current liabilities or between non-current assets and non-current liabilities and hence do not result in the flow of funds. Example conversion of shares into debentures.

Statement of changes in Financial Position –

It is a statement prepared on the basis of all financial resources, i.e., assets, liabilities and capital. Normally, this statement is attempt to measure changes in both current and non-current accounts.

Components of flow of funds –

In order to analyze the sources and application of funds, it is essential to know the meaning and components of flow of funds. It can be understood by the following terms –

1. Current Assets– The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm.

2. Non-Current Assets– This class of asset include those of tangible and intangible assets having a specific value and which are not consumed during the course of business and trade but provide the means for producing saleable goods or providing services.

3. Current Liabilities– The term current liabilities are those liabilities which are intended, at their inception, to be paid in the ordinary course of business, within a year, out of the current assets or earnings of the concern.

4. Non Current Liabilities– Any amount owing by the business which are payable over a longer period time, i.e., after a year are known as Non Current Liabilities.

5. Provision for Taxation– Provision for taxation may be treated as a current liability or an appropriation of profit.

6. Proposed Dividend– Like provision for taxation, it is also treated as a current liability and non-current liability, when dividend may be considered as being declared.

7. Provisions against Current Assets and Current Liabilities– Provision for bad and doubtful debts, provision for loss on inventories, provision for discount on creditors and provision made against investment etc., are made during the year, they may be treated separately as current assets or current liabilities.

Fund flow statement– This statement is prepared on the basis of ‘Working Capital’ concept of funds. It helps to measure the different sources of funds and application of funds from transactions involved during the course of business.

Fund flow analysis involves the following important three statements such as–

1. Funds from operations
2. Statement of changes in working capital
3. Fund flow statement

1. Fund from operation is to be determined on the basis of profit and loss account in the true sense, it does not reflect the exact flow of funds caused by business operations.
2. Statement of changes in working capital- It is also treated as statement of changes in working capital.

3. Fund flow statement In other words, this statement is prepared with the help of the changes in non-current assets and non-current liabilities of balance sheet.

Research Methodology-

The primary aim of this paper is to investigate the management of working capital through schedule of changes in working capital followed by fund flow statement.

1. **Type of Study**- The study carried out here is basically analytical in nature. This type of study relies on data which is already available.

2. **Type of Data used** - The methodology involved for data collection was mainly through secondary data and was obtained from the company’s annual report and from the company’s website. The balance sheet and the profit and loss account for the last three years (from 2010-11 to 2012-13) were the source based on which forecasting was done which was from the company’s archives.

Extreme care was taken in collecting the data from the annual reports (financial statements) and only relevant data was taken for the analysis based on.

3. **Sources of Data**- The source of data has been taken from company’s balance sheet and profit and loss account over a period of (2010-11, 2011-12 and 2012-13) three years.

4. **Tools and Techniques used for analysis**- To find out the efficiency of working capital management schedule of changes in working capital followed by fund flow statement has been used.

Method adopted for working capital analysis-

1. Schedule of changes in working capital
2. Fund flow statement

**Objectives of the study**

1. To analyze the movement of funds between the dates of two balance sheets in study period of 2010-11 to 2013-14.
2. To study and prepare fund flow statement

**Analysis for working capital management**

**Table 1**

*Schedule or Statement of changes in working capital*  
(Rs. in Crores)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year</th>
<th>Effect of change in working capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010-11</td>
<td>2011-12</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>1058.61</td>
<td>1725.65</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>2102.25</td>
<td>2269.13</td>
</tr>
<tr>
<td>Cash &amp; Bank</td>
<td>2584.35</td>
<td>1446.22</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>12.86</td>
<td>215.40</td>
</tr>
<tr>
<td>Loans and Advances</td>
<td>6558.69</td>
<td>6159.65</td>
</tr>
</tbody>
</table>
Interpretation-

In the above table, it is seen that during the year 2010-11 and 2011-12 there was a net decrease in working capital of Rs. 700.75.

It indicates an inadequacy of working capital in Gail (India) Ltd.

This is because of

1. Increase in current assets such as Inventories by Rs. 667.04, Sundry Debtors by Rs. 166.88, Other current assets by Rs. 202.54 and in current investment by Rs. 139.31. And Decrease in cash and Bank balances by Rs. 1138.13 and in loans and advances by Rs. 399.04.

2. Decrease in current liabilities such as trade payables by Rs. 146.36 and provisions by Rs. 192.99.

Table 2
Statement in Changes of Working capital

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year</th>
<th>Effect of change in working capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011-12</td>
<td>2012-13</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>1725.65</td>
<td>1897.78</td>
</tr>
<tr>
<td>Sundry Debtors</td>
<td>2269.13</td>
<td>2767.23</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Cash &amp; Bank</td>
<td>1446.22</td>
<td>3064.62</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>215.40</td>
<td>91.21</td>
</tr>
<tr>
<td>Loans and Advances</td>
<td>6159.65</td>
<td>3104.39</td>
</tr>
<tr>
<td>Current Investments</td>
<td>139.31</td>
<td>253.59</td>
</tr>
<tr>
<td><strong>(A) Total of Current Assets</strong></td>
<td><strong>11955.36</strong></td>
<td><strong>11178.82</strong></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>5687.72</td>
<td>5555.33</td>
</tr>
<tr>
<td>Provisions</td>
<td>4423.35</td>
<td>4605.42</td>
</tr>
<tr>
<td><strong>(B) Total of Current Liabilities</strong></td>
<td><strong>10111.07</strong></td>
<td><strong>10160.75</strong></td>
</tr>
<tr>
<td>Networking Capital (A-B)</td>
<td>1844.29</td>
<td>1018.07</td>
</tr>
<tr>
<td>Net decrease in Working Capital</td>
<td>826.22</td>
<td>826.22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1844.29</td>
<td>1844.29</td>
</tr>
</tbody>
</table>

*Source: Compiled from the Annual reports of Gail (India) Ltd.*

**Interpretation:**

In the above table, it is seen that during the year 2011-12 and 2012-13 there was a net decrease in working capital of Rs. 826.22.

This is because of

1. Increase in current assets such as Inventories by Rs. 172.13, Sundry Debtors by Rs. 498.10, Cash and Bank balances by Rs. 1618.40 and in current investment by Rs. 114.28.
2. And Decrease in other current assets by Rs. 124.19 and in loans and advances by Rs. 3055.26.
3. Increase in trade payables by Rs. 132.39 and decrease in provisions by Rs. 182.07.
### Table 3

**Fund flow statement (2010-11 and 2011-12)**

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Reserves and Surplus</td>
<td>3699.31</td>
<td>Additions in Tangible Fixed Assets</td>
<td>4112.35</td>
</tr>
<tr>
<td>Increase in Secured Loans</td>
<td>748.43</td>
<td>Additions in Intangible Fixed Assets</td>
<td>82.71</td>
</tr>
<tr>
<td>Increase in Unsecured Loans</td>
<td>1688.43</td>
<td>Capital Work in Progress</td>
<td>3871.31</td>
</tr>
<tr>
<td>Increase in Minority Interest</td>
<td>434.80</td>
<td>Long term Loans and Advances</td>
<td>9454.70</td>
</tr>
<tr>
<td>Non Current Liabilities</td>
<td>11908.69</td>
<td>Additions in Other Non Current Assets</td>
<td>1199.86</td>
</tr>
<tr>
<td>Deferred Tax Liabilities</td>
<td>149.87</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Non-current Investment</td>
<td>91350</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease in Working Capital</td>
<td>700.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19421.68</td>
<td></td>
<td>19421.68</td>
</tr>
</tbody>
</table>

*Source: Compiled from the Annual reports of Gail (India) Ltd.*

From the above Table no. 3 it is cleared that the liabilities of the company has been increased. Similarly, the company has invested their funds in Long term Assets also. Instead of Creating Current Assets more company has started investing in the Long term type of Assets.

### Table 4

**Fund flow statement (2011-12 and 2012-13)**

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Reserves and Surplus</td>
<td>388.48</td>
<td>Additions in Tangible Fixed Assets</td>
<td>3721.93</td>
</tr>
<tr>
<td>Increase in Minority Interest</td>
<td>474.63</td>
<td>Additions in Intangible Fixed Assets</td>
<td>424.21</td>
</tr>
<tr>
<td>Deffered Tax Liabilities</td>
<td>561.50</td>
<td>Capital Work in Progress</td>
<td>3867.98</td>
</tr>
<tr>
<td>Sale of Investment</td>
<td>144.82</td>
<td>Long term Loans and Advances</td>
<td>1473.93</td>
</tr>
<tr>
<td>Other Non Current Liabilities</td>
<td>3785.17</td>
<td>Additions in Other Non Current Assets</td>
<td>185.77</td>
</tr>
<tr>
<td>Decrease in Working Capital</td>
<td>826.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9673.82</td>
<td></td>
<td>9673.82</td>
</tr>
</tbody>
</table>

*Source: Compiled from the Annual reports of Gail (India) Ltd.*
Interpretation-

It has been seen in the table no. 4 that again a company has increased its non current assets by investing funds in it. Inspite of this company has increased the external liabilities as compared to the non-current liabilities. In other words, a decrease in working capital shows that short term funds are applied towards long term needs.

Findings and Suggestions-

1. Working capital of Gail (India) Ltd., was decreasing and sharing little bit positivity.
2. It has been seen that in both of the statement changes of working capital showed a decrease in working capital.
3. As per table-1, both cash and bank balances and loans and advances decreased by Rs. 1138.13 and Rs. 399.04 respectively.
4. Inventories as per table-1, increased by Rs. 667.04, it indicates that company was not able to sale its products timely.
5. Debtors, as per table-1 also indicate that company has provided credit facility.
6. As per table no. 2, inventories are increase by Rs. 172.13. Again company should make plans for sell out the inventories.
7. Redemptions were made of Rs. 132.39 as far as creditors are concerned.
8. It was observed that major source of liquidity problem is the mismatch between current payments and current receipt from the comparison of fund flow statement of (Gail) India Ltd.
9. The upward and downward trend in current assets and current liabilities affects the working capital position.

Suggestions-

1. The Gail (India) Ltd., should wake plans and policies for increasing the working capital.
2. Though, the current assets are just above the current liabilities or in other words, both current assets and current liabilities are neck to neck. So company should try to reduce its liabilities and similarly increase the current assets.
3. As far as fund flow statement are concerned, the Gail (India) Ltd., should try to invest in current assets to increase the working capital.
4. For increasing the working capital the company should apply long term funds towards other current assets.

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